

**REPORT  
OF THE  
AUDITOR-GENERAL  
FOR THE  
NATIONAL GOVERNMENT  
FOR THE  
YEAR 2018/2019**



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## Foreword

The Auditor-General is mandated by the Constitution of Kenya, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

Article 229 (7) of The Constitution requires the Auditor-General to audit and submit reports to Parliament or the relevant County Assembly within six (6) months after the end of the financial year. However, Section 81(4) of the Public Finance Management Act, 2012, reduces the timeline to three (3) months by giving entities leeway up to the end of September to prepare and submit financial statements for audit.

Further, an effective mechanism for follow up on implementation of audit recommendations is lacking and as such most audit queries recur in subsequent audit reports due to lack of adequate action. Section 204(1) (g) of the Public Finance Management Act, 2012 provides that the Cabinet Secretary for The National Treasury may apply sanctions to a national government entity that fails to address issues raised by the Auditor-General, to the satisfaction of the Auditor-General. However, lack of requisite sanctions has led to perennial failure by some Accounting Officers to adequately account for the management and use of public resources. It has also led to fiscal indiscipline including misallocations, wastage of resources and lack of value for money in implementation of projects, thereby affecting development programmes in various entities, which in turn threatens sustainability of service delivery to citizens. There is also lack of adequate preparation for audit by some Accounting Officers which is exhibited by lack of requisite supporting documents and in some cases reluctance to cooperate with the auditors during the audit process. A summary highlighting the key cross-cutting audit findings is submitted separately.

An effective and quality audit process ensures that the results of audit and the recommendations given are credible, relevant, reliable and value adding. This influences improved decision making and positive change which impacts the lives and livelihoods of citizens and other stakeholders. Provision of quality and effective audit services and confirmation of lawfulness and effectiveness of implemented programmes, requires comprehensive scrutiny and evaluation of documents. Most critical is the physical confirmations of the existence and utilization of projects or programs implemented throughout the country. This, therefore, requires an independent and well-resourced audit Office with guaranteed availability of

resources to enable efficient and effective execution of the audit cycle and optimal staffing to ensure continuous and sustainable audit operations.

The Office continues to seek support from Parliament and The National Treasury for enhancement of resources to enable it build technical capacity, expand its presence in the counties, widen the scope and comprehensiveness of audit and motivate staff. We continue to devolve our services closer to the people through creation and construction of regional offices to accommodate our staff in order to address the audit needs at the county level. We have so far constructed regional offices in Garissa, Kakamega and Eldoret, while construction works in Embu is ongoing as the Office strives to enhance its presence in the counties for efficient, effective and economic delivery of audit services. Plans for construction of our Headquarters in Nairobi have, however, been delayed due to lack of funding. The Office will continue to make appeals to Parliament and The National Treasury for resources to enable enhancement of accountability across government.

During the period under review, the Office of the Auditor-General made great strides in enhancing service delivery to the people of Kenya. The Office has enhanced partnerships with other Supreme Audit Institutions (SAIs), oversight institutions such as the Ethics and Anti-Corruption Commission (EACC), State Corporations Advisory Committee (SCAC) among other organizations, as we strive to increase the impact of audit through learning, knowledge sharing, innovation and collaboration.

This report is the compilation of National Government Ministries and State Departments including their respective Funds and Donor Funded Projects, popularly referred to as the Blue Book. A separate Report will be submitted for the forty-seven (47) county governments.

## **1.0 Introduction**

### **1.1 Constitutional Mandate of the Auditor-General**

The Auditor-General is mandated by the Constitution of Kenya, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include; the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

The Constitution requires the Auditor-General to audit and submit the audit reports of the public entities to Parliament and the relevant County Assemblies by 31<sup>st</sup> December, every year. In carrying out the mandate, the Auditor-General, is also required, under Article 229 (6) to assess and confirm whether the public entities have used the public resources entrusted to them lawfully and in an effective way.

Further, the objects and authority of the Auditor-General, as outlined in Article 249 of the Constitution, are: to protect the sovereignty of the people; to secure the observance by all State Organs of democratic values and principles; and to promote constitutionalism. The Auditor-General has also been given powers by the Constitution, under Article 252, to conduct investigations, conciliations, mediations and negotiations and to issue summons to witnesses for the purpose of investigations.

### **1.2 Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS)-Cash Basis, as prescribed by the Public Sector Accounting Standards Board (PSASB), and 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.

Management is also responsible for maintaining effective internal control environment necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for the assessment of the effectiveness of internal control, risk management and governance.

Further, Management is required to ensure that the activities, financial transactions and information reflected in the financial statements are in compliance with the law

and other relevant or applicable authorities, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how each entity 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **1.3 Auditor-General's Responsibility**

My responsibility is to conduct an audit of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and to issue an auditor's report. The audit report includes my opinion as provided by Section 48 of the Public Audit Act, 2015, and the report is submitted to Parliament in compliance with Article 229(7) of the Constitution.

In addition, Article 229(6) of the Constitution requires me to express a conclusion on whether or not, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the law and other authorities that govern them, and that public resources are applied in an effective way. I also consider the entities' control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems, in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

I am independent in accordance with Article 249(2) of the Constitution of Kenya and ISSAI 130 on the 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 public entities in the Republic of Kenya.

### **1.4 Reporting Structure**

The new reporting structure of my report address the reporting requirements of Article 229(6) of the Constitution of Kenya, which requires that an audit report shall confirm whether or not public money has been applied lawfully and in an effective way. Section 7(1) (a) of the Public Audit Act, 2015 also requires that I provide assurance on the effectiveness of internal controls, risk management and overall governance in national and county governments entities.

In addition, the International Standards of Supreme Audit Institutions (ISSAIs), require the incorporation of Key Audit Matters in the report on the financial statements, which are those matters that I determine in my professional judgment,

are of most significance in the audit of the financial statements as a whole, for the year under review. In order to address these requirements, my audit reports contain the following:

- i. **Report on Financial Statements**, in which I give an audit opinion on whether the financial statements present fairly, in all material respects the financial position and performance of the entity.
- ii. **Report on Lawfulness and Effectiveness in Use of Public Resources**, in which I give a conclusion on whether or not public money has been applied lawfully and in effective way.
- iii. **Report on Effectiveness of Internal Controls, Risk Management and Governance**, in which I give a conclusion on whether internal controls, risk management and overall governance were effective.
- iv. **Report on Other Legal and Regulatory Requirements** is included where applicable, especially for the entities that are registered under the Companies Act, 2015 and any other enabling legislation or authorities that require such disclosure.

## **1.5 Audit Opinions**

I have expressed different types of audit opinions based on the following criteria:

### **a) Unmodified/ Unqualified Opinion**

The books of accounts and underlying records agree with the financial statements and no material misstatements were found. The financial statements present fairly, in all material respects the operations of the entity. The financial statements with unqualified opinion are listed in Appendix A.

### **b) Qualified Opinion**

Financial transactions were recorded and are to a large extent in agreement with the underlying records, except for cases where I noted material misstatements or omissions in the financial statements. The issues though material, are not widespread or persistent. The financial statements with qualified opinion are listed in Appendix B.

### **c) Adverse Opinion**

The financial statements exhibit significant misstatements with the underlying accounting records. There is significant disagreement between the financial

statements and the underlying books of accounts and/or standards. These problems are widespread, persistent and require considerable interventions by the management to rectify. The financial statements with adverse opinion are listed in Appendix C.

**d) Disclaimer of Opinion**

The financial statements exhibit serious and significant misstatements that may arise from inadequate information, limitation of scope, inadequacy or lack of proper records such that I was not able to form an opinion on the financial operations. The financial statements with disclaimer of opinion are listed in Appendix D.

The key findings noted during the audit of the financial statements for the year ended 30 June, 2019 are highlighted in the ensuing pages.

# THE NATIONAL TREASURY-VOTE 1071

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1. Variance Between Financial Statements and IFMIS Balances

The financial statements presented for audit and the Integrated Financial Management Information Systems (IFMIS) Trial Balance presented in their support had variances as detailed below: -

Component	Financial Statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Bank Balances	2,248,780,788	116,580,445,030	(114,331,664,242)
Cash Balances	1,020,917	5,066,314	(4,045,397)
Accounts Receivable	899,585,508	902,182,669	(2,597,161)
Accounts Payable	80,200,064	173,301,104,441	(173,220,904,377)
Fund Balance b/fwd	2,056,688,154	(290,027,754,295)	292,084,442,449
Prior Year Adjustments	(32,282,003)	0	(32,282,003)

Further, the reported accounts payable balance of Kshs.80,200,064 includes returned payments under the development vote of Kshs.6,913,831. This differs with IFMIS report balances of Kshs.8,085,150 resulting to an unexplained variance of Kshs.1,171,319.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

#### 2. Compensation to Employees

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects compensation to employees of Kshs.2,524,328,336;(2018-Kshs.2,308,812,613). However, the IFMIS payroll report in support of the balance reflects an amount of Kshs.2,275,019,969 resulting to an unexplained variance of Kshs.249,308,367. Similarly, payment vouchers supporting the expenditure on compensation to employees reflects an amount of Kshs.2,287,104,986 resulting to a variance of Kshs.237,223,350. The variances between the three (3) sets of records have not been reconciled.

#### Other Matter

#### 3. Budgetary Control and Performance

The summary statement of appropriation- recurrent and development combined reflects final receipts budget and actual on comparative basis of

Kshs.64,865,387,441 and Kshs.56,209,005,073 respectively resulting to an underfunding of Kshs.8,656,382,368 or 13% of the approved budget. Of the underfunding, Kshs.6,508,245,168 and Kshs.2,148,137,200 relate to recurrent and development votes respectively. Further, of the realized budget receipts of Kshs.56,209,005,073 only Kshs.55,164,224,075 was absorbed resulting to an under absorption of Kshs.1,044,780,998.

The underfunding and failure to absorb the realized receipts affected the planned activities and projects which may have impacted negatively on service delivery for the citizens.

#### **4. Pending Bills**

Note 18.1 to the financial statements reflects pending bills amounting to Kshs.241,957,497; (2018-Kshs.563,474,303). The balance comprises of opening balance of Kshs.2,035,366 and bills incurred during the year of Kshs.239,922,131. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **5. Contracts for Renovation of the Treasury Building, Bima and Herufi House**

The National Treasury entered into a contract for rehabilitation, plumbing, drainage and sanitary appliances, amongst others, at the Treasury Building, Bima and Herufi Houses following tendering during the 2016/2017 financial year vide tender number TNT/012/2015-2016. The contract was awarded for a sum of Kshs.88,956,951 with the contractor taking possession of the site on 5 April, 2017. As at December, 2018 and more than one and half years later, no significant progress had been made due a number of reasons, amongst them, the need for the contractor to undertake additional works. This occasioned an additional contract to be awarded to the same contractor using direct procurement method. As at 22 May, 2019 two (2) years into the contract and after its expiry, progress was at 4.17% of the total contract works. The contractor has subsequently been granted multiple extension of time contracts but had not completed the renovation works as at the time of the audit. Available information indicates that three (3) other contracts were subsequently awarded to other contractors with total value of Kshs.90,644,783 and which are related to some of the works under the above initial contract. This could be indicative of duplicate awards. No explanation has been given on the subsequent awards and actions being taken against the first contractor to fully discharge the contract as per the contract terms.



Under the circumstances, it has not been possible to confirm if value for money will be realized from the four contracts valued at Kshs.179,621,734.

## **6. Consultancy Contracts**

On 12 September, 2016, The National Treasury contracted three (3) professional accounting firms for consultancy services on the preparation of financial reports of National Government entities, State Agencies and County Governments at total cost of Kshs.425,100,219. As at 30 June, 2019 a sum of Kshs.403,617,347 had been paid out to the three (3) firms from the contract price of Kshs.425,100,219. However, the audits of the National Government entities, State Agencies and County Governments financial statements for the financial years 2017/2018 and 2018/2019 reported numerous gaps on accounting, disclosures and presentation of financial statements.

Under the circumstances, it has not been possible to confirm whether value for money has been realized from the award of contract and payment totalling Kshs.425,100,219 for consultancy services to the three (3) professional firms.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

7. There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **NATIONAL EXCHEQUER ACCOUNT**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

8. There were no material issues noted during the audit of the financial statements of the National Exchequer Account.

#### **Other Matter**

## **9. Budget Control and Performance**

The statement of comparison of budget and actual performance reflects revised revenue estimates of Kshs.2,617,207,172,439 and total revenue collections of Kshs.2,497,637,419,575 resulting to an under collection of Kshs.127,337,194,547 or 5% of the budget. The statement also reflects budget realization on Exchequer transfers to National Government; Recurrent and Development Votes, County

Governments and Consolidated Fund Services of 97%, 88%, 98% and 96% of the budgets respectively. However, as reflected under Annex I to the financial statements: detailed analysis of transfers, four (4) Ministries, Departments and Agencies (MDAs) received transfers that were significantly low - ranging between 41% and 80% with some not receiving any funding under the development vote despite having budgets.

Consequently, service delivery to the citizens by the affected entities could have been negatively affected.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 10. Excess Exchequer Releases

Two (2) MDAs received Exchequer issues in excess of the approved budget as detailed out below:

<b>MDA</b>	<b>Approved Estimates (Kshs.)</b>	<b>Actual Issued (Kshs.)</b>	<b>Excess Amount (Kshs.)</b>
Salaries and Remuneration Commission (Recurrent)	483,196,637	512,506,930	29,310,293
State Department for Public Service and Youth (Development)	1,391,478,885	1,541,219,720	149,740,835

This is contrary to the provisions of Article 206 (2) (a) of the Constitution of Kenya which provides that money may be withdrawn from the Consolidated Fund only in accordance with an appropriation by an Act of Parliament. The National Exchequer Account Management was, therefore, in breach of the law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

11. There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **CONSOLIDATED FUND SERVICES - PUBLIC DEBT**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Adverse Opinion**

#### **12. Public Debt -Outstanding Balance**

The summary statement of public debt reflects an outstanding loan balance of Kshs.5,451,153,803,416; (2018-Kshs.4,801,416,851,482) representing an increase of Kshs.649,736,951,934 or (13.5%) of the public debt. The statement also reflects loan repayments of Kshs.1,648,856,675,693 during the year but does not expressly indicate the amount procured during the year. However, review of the opening and closing balances and adjusted for the repayments during the year results in borrowings of Kshs.2,298,593,627,627 which have not been supported.

Further, out of the twenty-four (24) loans sampled and reviewed, eleven (11) had total balances different from those reflected in the summary statement of public debt prepared by The National Treasury. The total variance between the two sets of records amounted to Kshs.95,241,461,497. The causes of the variances have not been explained.

Under the circumstances, the accuracy of the outstanding loan balance of Kshs.5,451,153,803,416 as at 30 June, 2019 could not be confirmed.

#### **13. Inaccuracies in the Cash and Cash Equivalents**

As disclosed in Note 5 to the financial statements, the statement of assets and liabilities reflects bank balances of Kshs.249,080,863 as at 30 June, 2019. On the other hand, the Trial Balance reflects bank balances of Kshs.1,064,098,739 resulting in a variance of Kshs 815,017,876 which has not been explained or reconciled. Further, the Board of Survey Report on the bank balance as at 30 June, 2019 was not availed for audit review.

Under the circumstances, the accuracy of the reported bank balances of Kshs.249,080,86 as at 30 June, 2019 could not be confirmed

### **Emphasis of Matter**

#### **14. Unauthorized Over-Expenditure - Finance Costs and Loan Interest**

The summary statement of appropriation reflects a final expenditure budget and actual on comparable basis of Kshs.848,303,865,142 and Kshs.826,202,867,839 respectively, resulting in under expenditure of Kshs.22,100,997,303 or 3% of the budget. However, detailed analysis of the individual expenditure items revealed

that an over-expenditure was incurred on Interest on Treasury Bonds (TB) and Foreign Borrowing (FB) of Kshs.50,247,591,640 and Kshs.76,011,232,922.

Although Management has explained that part of the over expenditure on interest on Treasury Bonds of Kshs.28,915,693,668 related to pending bills for the financial year 2017/2018, the amount had not been disclosed in the financial statements for that year. The over expenditure has not been authorized.

## **Other Matter**

### **15. Unresolved Prior Year Matters**

#### **15.1 Unsupported Balances**

As previously reported, the statement of assets and liabilities for the year ended 30 June, 2018 reflected a prior year adjustment balance of Kshs.27,251,420,599 which was not supported by a journal voucher or Notes to the financial statements. In addition, the general ledger under payments reflected a balance of Kshs.516,547,493,884 which included a credit balance of Kshs.1,244,520,000 under Debut International SVRNG Bond (USD 2.75 BN). The balance was not supported by any documentary evidence. Further, the ledger reflected expenditure for new loans and new administrative costs of Kshs.7,919,757,971 and Kshs.59,894,313,393 respectively but details of these payments were not provided.

Consequently, the accuracy and completeness of these balances could not be confirmed.

#### **15.2 Accuracy of the Financial Statements**

As reported in the previous year, a comparison of the statement of receipts and payments and the ledger for the year ended 30 June, 2018 reflected different accounts balances in respect to the same items as indicated:

<b>Item Description</b>	<b>Financial Statement Balance (Kshs.)</b>	<b>Ledger Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Interest Payments on Foreign Borrowings	84,357,487,111	84,725,600,971	368,113,860
Principal Repayment on Domestic Loans	111,700,845,296	294,836,376,343	183,135,531,047
CBK -Pre-1997 Loans	1,110,000,000	2,220,000,000	1,110,000,000
Repayment of Principal from Foreign Lending and On-Lending	141,532,524,729	141,360,882,966	171,641,763
Exchequer Releases	517,161,876,534	-	517,161,876,534

Management has however not provided any analysis and supporting documents to support the adjustments.

The accuracy of the balances reflected in the financial statements could therefore not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

16. There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

17. There were no material issues relating to effectiveness of internal controls, risk management and governance.

## REVENUE STATEMENTS (RECURRENT)

### REPORT ON THE REVENUE STATEMENTS

#### Basis for Qualified Opinion

#### 18. Cash Book Balance

##### 18.1 Unsupported Adjustments

During the year under review adjustments were made to the cash book on account of the long outstanding reconciling items as detailed out below: -

Reconciling Item	Amount (Kshs.)
Payments in bank not in cash book	15,723,735,928
Receipts in bank not in cash book	34,524,942,523
Receipts in cash book not in bank	16,240,834,531
Payments in cash book not in bank	605,746,618

However, the adjustments were unsupported by way of authorized journal entries.

## **18.2 Long Outstanding Reconciling Items**

The bank reconciliation statement in support of the cash book as at 30 June, 2019 reflects long outstanding receipts in bank statement but not recorded in cash book of Kshs.164,731,174 dating back to June, 2000. No satisfactory explanation has been rendered for failure to reconcile the items.

From the foregoing, it is not possible to confirm the accuracy and fair statement of the reported nil cash book balance as at 30 June, 2019.

## **19. Variance in Tax Receipts**

The statement of revenues and transfers reflects tax revenues receipts of Kshs.1,440,830,331,255. However, the Kenya Revenue Authority accountability statement for the period reflects tax income receipts transfers of Kshs.1,338,169,499,540 resulting to an unexplained net variance of Kshs.102,660,831,716.

No satisfactory explanations have been rendered for the discrepancies between the two sets of records.

Consequently, it is not possible to confirm the accuracy and completeness of the reported tax revenue receipts of Kshs.1,440,830,331,256 for the year ended 30 June, 2019.

## **20. Unsupported Non-Tax Revenues**

The statement of revenue and transfers reflects non-tax revenue receipts of Kshs.39,056,195,610; (2018-Kshs.39,440,753,231) comprising of fees on use of goods and services (PDL / traffic), social security contributions, property income, other receipts (miscellaneous), proceeds from domestic borrowings and proceeds from foreign grants. However, they were unsupported by way of detailed ledgers.

In the circumstances, the accuracy and completeness of the reported non-tax revenue receipts of Kshs.39,056,195,610 for the year ended 30 June, 2019 could not be confirmed.

## **21. Variances Between Revenue Statements and the General Ledger**

The statement of revenue and transfers reflects tax revenues receipts that were at variance with the ledgers presented in support as detailed out below: -

<b>Revenue Item</b>	<b>Revenue Statements (Kshs.)</b>	<b>General Ledger (Kshs.)</b>	<b>Variance (Kshs.)</b>
Taxes on Individuals (PAYE)	393,439,728,378	393,361,503,751	78,224,627
Corporation Tax	294,841,466,811	294,979,065,094	(137,598,283)
(Land Rent)	610,032,875	617,606,996	(7,574,121)
Vat on Domestic Goods/Services	230,775,544,313	234,058,961,044	(3,283,416,731)
Vat on Imports	183,367,863,463	182,586,223,952	781,639,511
Excise Duty	196,608,900,149	196,588,499,134	20,401,015
Custom Duties	106,874,931,944	107,701,825,385	(826,893,441)
Import Declaration Fees	24,196,727,815	24,182,047,020	14,680,795
Stamp Duty	10,115,135,308	10,213,854,991	(98,719,683)
<b>Total</b>	<b>1,440,830,331,055</b>	<b>1,444,289,587,367</b>	<b>(3,459,256,311)</b>

No explanations have been rendered for the variances.

Consequently, the accuracy and completeness of the reported tax revenue receipts of Kshs.1,440,830,331,055 for the year ended 30 June, 2019 could not be confirmed.

## **Other Matter**

### **22. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final proceeds from foreign grants (AMISOM) budget and actual on comparable basis of Kshs.6,500,000,000 and Kshs.575,433,441 respectively resulting to under collection of Kshs.5,924,566,559 or 91% of the budget. No satisfactory explanation has been rendered for the under collection and measures being put in place to avoid recurrence.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **23. Incomplete Reporting on Waivers/Exemptions**

The report on waivers/exemptions made available for audit review was incomplete and lacked crucial information such as names of the beneficiary, tax amount waived, reason(s) for the waiver and the applicable law for the waiver as required in law.

The National Treasury is in breach of the law to this extent.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

24. There were no material issues relating to effectiveness of internal controls, risk management and governance.

## REVENUE STATEMENTS (DEVELOPMENT)

### REPORT ON THE REVENUE STATEMENTS

#### Unqualified Opinion

25. There were no material issues noted during the audit of the development revenue statements.

#### Other Matter

#### 26. Budgetary Controls and Performance

The statement of comparative budget and actual amounts reflect final revenue budget and actual on comparable basis of Kshs.67,668,743,001 and Kshs.50,118,804,547 respectively resulting to under performance of Kshs.17,549,938,454 or 26% of the budget. Management has attributed the under collection to; requirement of the implementing units to exhaust funds released in the prior periods before accessing new disbursements, stringent conditions from the development partners on meeting AIA payments before accessing funding and partner delays in releasing no objection for projects not funded using Country systems.

Consequently, there was under funding of the planned development activities which may have impacted negatively on service delivery to the citizens.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

27. There were no material issues relating to lawfulness and effectiveness in use of public resources.



# REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

## Conclusion

- 28.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## REVENUE STATEMENTS - GOVERNMENT INVESTMENT AND PUBLIC ENTERPRISES

### REPORT ON THE REVENUE STATEMENTS

#### Basis for Adverse Opinion

#### 29. Accuracy of Schedule of Outstanding Loans

The summary schedule of outstanding loans reflects an outstanding loans balance of Kshs.809,988,920,916 as at 30 June, 2019. However, circularization of sample debtors for the loan balances revealed significant discrepancies between the reported book balances and the amounts confirmed as owing by the respective institutions as detailed below:

No	Entity	Balance as per Financial Statement (Kshs.)	Confirmed Balance (Kshs.)	Variance (Kshs.)
1	Kenya Civil Aviation Authority	1,710,514,701	2,343,070,698	632,555,997
2	South Nyanza Sugar Company Limited	199,027,420	794,628,045	595,600,625
3	Agro Chemical and Food Company Limited	2,846,884,000	9,351,809,235	6,504,925,235
4	Moi University	231,250,000	257,765,332	26,515,332
5	Kenya Utalii College	127,000,000	140,125,028	13,125,028
6	IDB Capital Ltd	1,555,675,500	212,979,779	1,342,695,721
7	Kenya Railways Corporation	473,210,691,342	435,466,126,847	37,744,564,496
8	Cooperative Bank	402,151,336	351,857,512	50,293,824
9	Water Resources Authority	362,612,300	372,705,009	(10,092,709)
10	Equity Bank	421,332,807	100,282,010	321,050,797
11	Industrial and Commercial Dev't Corp. (ICDC)	371,848,560	891,848,560	(520,000,000)
12	Kenyatta University	10,857,620,656	85,988,783	10,771,631,873
13	SMEP Bank	79,037,111	69,157,472	9,879,639
14	Northern Water Works Dev't Agency	5,389,000,000	2,757,697,547	2,631,302,453
15	Faulu Micro Finance Ltd	137,415,056	-	137,415,056

The discrepancies between the two sets of records was not explained or reconciled.

Under the circumstances, the accuracy of the reported outstanding loans balance of Kshs.809,988,920,916 as at 30 June, 2019 could not be confirmed.

## **Other Matter**

### **30. Unresolved Prior Year Matter**

#### **30.1 Dormant Loans**

Loans amounting to Kshs.84,284,132,909 representing 10.4% of the total loan portfolio of Kshs.809,988,920,916 as at 30 June, 2019 had no movement and as previously reported, have remained unpaid over a significant period of time casting doubts on their recoverability. The loan details are as tabulated below:

<b>No</b>	<b>Institution</b>	<b>Balance as at 30 June, 2019 (Kshs.)</b>
1	Coast Water Service Board	12,241,117,290
2	East African Sugar Industries Limited, Muhoroni	177,123,100
3	Halal Meat Products	27,701,420
4	Kenya Meat Commission	940,241,100
5	Kenya Urban Transport Various Towns	40,706,140
6	Lake Victoria North Water Services Board	7,593,445,499
7	Lake Victoria South Water Services Board	13,121,785,606
8	Miwani Outgrowers Mills Limited	6,600,000
9	Miwani Sugar Company (1989) Ltd	16,000,020
10	Miwani Sugar Mills Limited	78,088,180
11	Mumias Sugar Company Limited	3,000,000,000
12	National Irrigation Board	2,262,036,544
13	National Water Conservation and Pipeline Corporation	2,460,874,897
14	Tana Water Services Board	7,543,116,143
15	Tanathi Water Services Board	9,713,565,506
16	Water Resource Management	362,612,300
17	Agricultural Finance Corporation	475,119,163
18	Kenya Airways	24,224,000,000
	<b>Total</b>	<b>84,284,132,908</b>

No evidence of the measures taken by Management to recover the outstanding amounts was provided for audit.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **31. Supporting Documents and Management of Loan Portfolio**

As previously reported, Management has not been able to confirm its active role in the management of existing loan portfolio and issuance of new loans through annual work plans and periodic monitoring and evaluation reports. In the absence of budgets, annual work plans, assessment or evaluation and performance reports of the loaning portfolios, the propriety on the utilization of public funds could not be ascertained. There is also risk of non-servicing of the loans leading to continued write offs as bad debts which is a cost to the public.

#### **32. Long Outstanding Loans (Arrears)**

The statement of arrears of receipts reflects total amount in arrears of Kshs.39,165,038,029 as at 30 June, 2019 (2018-Kshs.37,606,213,925) representing an increment of Kshs.1,558,824,104 during the year under review. Management has attributed the default to the fact that most of the entities were experiencing financial difficulties. However, Management has not provided evidence of measures taken to obtain payments or reports to the Cabinet Secretary explaining specific difficulties experienced in collecting the debts as required under Regulation 64 of the Public Finance Management (National Government) Regulations, 2015.

Consequently, Management is in breach of the Regulations.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

- 33.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT OF KENYA

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Disclaimer of Opinion

#### 34. Presentation and Disclosure

The statement of outstanding obligations guaranteed by the Government of Kenya reflects outstanding balance of Kshs.152,317,825; (2018-Kshs.164,132,745) being Capital and Interest owed by Cereals and Sugar Finance Company. However, the Consolidated National Government Investment Report for the year 2018/2019, prepared by The National Treasury in accordance with Section 89 of the Public Finance Management Act, 2012, indicates that the total outstanding Government guaranteed debt stood at Kshs.159,405,000,000 as at 30 June, 2019 as shown below:

<b>Agency</b>	<b>Outstanding Government Guaranteed Debt as at 30 June, 2019 (Kshs.)</b>
Kenya Broadcasting Corporation (KBC)	357,000,000
Tana and Athi River Development Authority	279,000,000
East African Portland Cement PLC	346,000,000
Kenya Electricity Generating Company PLC	43,035,000,000
Kenya Ports Authority	34,061,000,000
Kenya Railways Corporation	4,603,000,000
Kenya Airways	76,724,000,000
<b>Total</b>	<b>159,405,000,000</b>

The total outstanding Government guaranteed debt of Kshs.159,405,000,000 does not include the balance of Kshs.152,317,825 reflected in the statement of outstanding obligations guaranteed by the Government of Kenya prepared and submitted for audit by The National Treasury, which is indicated as relating to Capital and Interest owed by Cereals and Sugar Finance Company. Further, the parent Ministries for the Agencies mentioned above did not prepare and submit for audit their respective statements of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2019. No explanations have been provided for the omissions.

Under the circumstances, the completeness and accuracy of the outstanding balance of Kshs.152,317,825 reflected in the statement of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2019 could not be ascertained.

### **35. Decrease in Guaranteed Obligations**

The statement indicates that obligations guaranteed decreased from Kshs.164,132,745 reported as at 30 June, 2018 to Kshs.152,317,825 as at 30 June, 2019. Although Note 2 to the financial statements explains the reasons for the decrease in balance, Management did not avail documentary evidence to support the explanation.

Consequently, the accuracy of the reported decrease of Kshs.11,814,920 could not be confirmed.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

- 36.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

- 37.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **CONSOLIDATED FUND SERVICES - SUBSCRIPTIONS TO INTERNATIONAL ORGANIZATIONS**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

- 38.** There were no material issues noted during the audit of the financial statements of the Fund

#### **Other Matter**

- 39. Dormancy of Consolidated Fund Services - Subscriptions to International Organizations**

The financial statements of the CFS- Subscriptions to International Organizations for 2016/17, 2017/18 and 2018/19 financial years reflects no activity for the three

years period. Although a budget of Kshs.500.000 has been allocated under CFS - Subscriptions to International Organizations every year, no activities have been reported during the three (3) years period. The relevance of the CFS-Subscriptions to International Organizations is, therefore, not clear especially in view the Public Finance Management Regulations (African Union (AU) and Other International Organizations Subscription Fund) Regulations, 2017 which established the AU and Other International Organizations Subscription Fund from which Kenya's contributions to AU and Other International Organizations should be paid from.

#### **40. Unresolved Prior Year Audit Matters**

The following prior year audit matters remained unresolved as at the end of the financial year:

##### **40.1 Comparison of Expenditure with the Appropriation Account**

As reported in 2017/2018 financial year, The National Treasury financial statements reflected payments as grants and transfers amounting to Kshs.1,069,476,595. Included in the amount were membership dues and subscriptions to unspecified international organizations totalling to Kshs.48,779,790 while the remaining balance of Kshs.1,020,696,805 was indicated to have been paid to four organizations as detailed out below: -

<b>Organization</b>	<b>Amount (Kshs.)</b>
Africa Capacity Building Foundation	42,333,304
Shelter Afrique	355,000,000
MEFMI	81,363,501
International Bank for Reconstruction and Development, IBRD	542,000,000
<b>Total</b>	<b>1,020,696,805</b>

There is a risk of duplicate payments of expenditure where The National Treasury makes payments without authenticating with organizations responsible for the payments and more specifically where payments are not adequately disclosed as is the case of Kshs.48,779,790. From the foregoing, The National Treasury has not drawn a distinction between subscriptions and grants and hence the pay points of CFS - Subscription to International Organizations and The National Treasury main account respectively.

##### **40.2 Unsupported Balances**

In the audit report of 2015/2016, the detailed statement of Kenya Government share subscriptions and capital contribution to international organizations under Note 5 of the financial statements had reflected local value of subscriptions totalling Kshs.51,403,651,783 against various amounts in foreign currencies as at 30 June, 2016. However, an independent circularization to twelve (12) reported

recipient organizations yielded only four (4) confirmations. Further, amounts confirmed by two (2) of the four (4) organizations differed significantly with the reported amounts as per The National Treasury records.

Further, subscription for 2014/15 amounting to Kshs.116,813,106,919 in respect of ten (10) organizations were restated to Kshs.49,750,957,607 and attributed to foreign exchange rate fluctuations. However, the huge discrepancies attributed to foreign exchange losses have not been explained.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

- 41.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE.**

### **Conclusion**

- 42.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **EAST AFRICA TOURIST VISA FEE COLLECTION ACCOUNT**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Disclaimer of Opinion**

#### **43. Inappropriate Financial Reporting Framework**

Section 81(3) of the Public Finance Management Act, 2012 requires an Accounting Officer to prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Public Sector Accounting Standards Board (PSASB). The Board has prescribed the Accrual Basis of accounting method for accounts that carry forward and do not surrender balances at the end of financial year with the following elements; the statement of financial position, statement of financial performance, statement of changes in net assets, statement of cash flows and comparative statement of budget and actual expenditure.

However, the financial statements presented for audit have been prepared in accordance with the Cash Basis of accounting method under the International Public Sector Accounting Standards (IPSAS) which comprise of; the statement of

assets and liabilities, statement of receipts and payments, statement of cash flows and comparative statement of budget and actual amounts.

In the circumstances, the financial statements as prepared and presented do not comply with the provisions of Section 81(3) of the Public Finance Management Act, 2012.

#### **44. Completeness of Statement of Budget Versus Actual Performance**

The statement of budget versus actual performance reflects receipts as a consolidated amount from East Africa Tourist Fee whereas the statement of receipts and payments disaggregates receipts into; receipts from sale of EATV stickers by Kenya, share of EATV revenue from partner states and foreign exchange gain. The Statement does not also disclose the budgeted transfers. Consequently, the statement of budget versus actual performance as prepared and presented is not IPSAS cash basis compliant.

#### **45. Poor Maintenance of Accounting Records and Supporting Documents**

The financial Statements prepared and presented for audit were not adequately supported with the underlying source documents including the Trial Balance, Ledgers and Visa Registers. Furthermore, the cashbook presented had no evidence of having been reviewed. No monthly bank reconciliation statements were prepared and board of survey reports were not carried out as part of the end of year procedures. The Joint verification report balances are at variance with those reported in the financial statements.

In absence of proper accounting records and supporting documents, no reliance can be placed on the financial statements as prepared and presented.

#### **46. Non-Compliance with the EATV MOU**

Article 7 of the MOU outlines the modalities for sharing out revenues raised on EATV fees amongst the partner states with ten percent (10%) being retained by each member country issuing the sticker for its administration costs, including accrued bank charges, and the remaining 90% to be shared equally among the three partner states each receiving 30%. The MOU also indicates the departments with the responsibilities to implement the MOU, the timeframe for effecting the transfers to the member states and further defines the amounts for administration costs or bank charges. However, the statement of receipts and payments reflects receipts from sale of EATV stickers by Kenya of Kshs.100,775,998 resulting to equitable share to the partner countries of Kshs.60,465,599. However, actual transfers total to the partner countries amounted to Kshs.66,574,248 resulting an overpayment of Kshs.6,108,649. Management has not provided the reasons for the overpayment.

In the circumstances, Management is in breach of the MOU.



#### **47. Limited Segregation of Duties**

The financial transactions for the Account were prepared and recorded by one officer. The officer solely undertook recordings in the cashbook and other books of original entry. Further, the officer was responsible for the preparation of financial statements and provision of supporting records and documents. Consequently, there is limited segregation of duties which makes the process susceptible to errors and manipulation.

#### **48. Unresolved Prior Year Audit Matters**

The following prior year audit matters remained unresolved as at 30 June, 2019: -

##### **48.1 Receipts from Issue of Stickers in Kenya**

As disclosed under Note 10.1 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2017 reflected receipts from issue of stickers by Kenya of Kshs.72,459,424. However, Management did not avail the Trial Balance, Ledgers, and the Register for Visa Stickers Register in support of the reported revenue. Further, there is no reconciliation between receipts issued out by the agencies and the reported revenue receipts.

A review of stickers under the custody of two revenue collecting agencies; Ministry of Foreign Affairs and the Directorate of Immigration and Registration of persons revealed that five thousand seven hundred and fifty (5,750) and five thousand and thirty-six (5,036) stickers were issued respectively. With each sticker selling at USD 100, the total receipts amounted to USD 1,078,600 or approximately Kshs.107,860,000.

From the foregoing, the accuracy and completeness of the reported receipts from issue of stickers by Kenya of Kshs.72,459,424 for the year ended 30 June, 2017 could not be confirmed.

##### **48.2 Non-Submission of Financial Statements**

As previously reported, the financial statements prepared and presented for audit for the year ended 30 June, 2016 had comparative balances for the year ended 30 June, 2015. However, the financial statements for the year ended 30 June, 2015 were not prepared and presented for audit. Consequently, the comparative balances were for an unaudited financial statement. A review of the East African Tourist Visa (EATV) Memorandum of Understanding (MOU) indicates that it was signed on 27 October, 2013 with the collection of fees commencing in the financial year ended 30 June, 2014. The first set of financial statements should have covered the year ended 30 June, 2014 and subsequently to 30 June, 2015.

Consequently, the accuracy of the unaudited comparative figures could not be established.

### **48.3 Non-Adherence to MOU Provisions on Sharing of Receipts**

As previously reported, the statements of receipts and payments reflected receipts from issue of stickers by Kenya of Kshs.70,883,521 for the year ended 30 June, 2016. However, the sharing out was not equitable as per the MOU which entitles the issuing party to retain 10% of the amount or Kshs.7,088,352 and the balance to be shared equally by the parties each receiving 30% or Kshs.21,265,056. Instead, each partner state received Kshs.15,934,153 which was an understatement by Kshs.5,330,903 as per the signed MOU. No satisfactory explanation has been provided for the breach of the agreement. Management has also not provided proof of remittance of its share of receipts of Kshs.28,353,408 to the Exchequer.

### **48.4 Discrepancies Between Financial Statements and Supporting Records**

As previously reported, a review of records in support of the financial statements revealed that The National Treasury maintains two EATV fee operating bank accounts, account number 1000227257 denominated in Kenya Shillings and account number 1000239026 denominated in US dollars. Review of the Kenya Shillings account revealed that Kshs.51,182,218 EATV fees collected and recorded in the cashbook during the year was omitted from the 2015/2016 financial statements.

Further, receipts from share of revenue from partner states, Uganda and Rwanda amounting to Kshs.16,236,859 and Kshs.16,818,866 respectively deposited in the Kenya shillings bank account was not reported in the financial statements for the year.

In addition, the Kenya Shillings cashbook reflected a closing balance of Kshs.39,898,521 as at 30 June, 2016 which was not incorporated in the financial statements. Further, the transfers made to the partner states from the Kenya Shillings bank account were omitted from the reported share of EATV revenue to partner states in the statement of receipts and payment.

Consequently, it has not been possible to confirm the accuracy and completeness of the financial statements as prepared and presented.

### **48.5 Accountability for EATV Stickers**

As previously reported, Article 6 of the MOU sets the modalities for issuance of the EATV stickers with the sticker issued to a tourist upon payment of USD100 or its equivalent in the local currency. The stickers issued to tourists are accountable documents and hence records of how they are procured, distributed and issued are critical for accountability. However, the management does not have in place registers of all stickers received from the partner states and issued out for the year.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

- 49.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

- 50.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **CONSOLIDATED FUND SERVICES (CFS) - SALARIES ALLOWANCES AND MISCELLANEOUS SERVICES**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Basis for Qualified Opinion**

##### **51. Unsupported Prior Year Adjustments**

As disclosed under Note 10 to the financial statements, the statement of assets and liabilities reflects a prior year adjustment of Kshs.158,249,113;(2018-Kshs.18,420,097). However, the disclosures are inadequate as they are not supported by way of an itemized breakdown of the adjustment.

Consequently, the accuracy of the prior year adjustment of Kshs.158,249,113 as at 30 June, 2019 could not be confirmed.

#### **Other Matter**

##### **52. Budgetary Provisions and Performance**

The summary statement of appropriation: recurrent and development combined reflects final miscellaneous services budget and actual on comparable basis of Kshs.128,000,000 and Nil respectively. As similarly reported in 2017/2018, the planned activities and programmes on the budgetary provision have not been disclosed.

### **53. Prior Year Issues**

The following prior year audit matters remained unresolved as at 30 June, 2019;

#### **53.1 Accuracy of the Financial Statements and Records**

A review of various balances reflected in the financial statements for the year ended 30 June, 2018 revealed that records maintained by Management reflected different balances though relating to the same items as highlighted below:

- i) The statement of receipts and payments reflected an expenditure of Kshs.2,685,214,290 under compensation of employees. The Trial Balance reflected a credit balance of Kshs.3,217,869,377 on the same item while the payroll and payment vouchers showed a total expenditure of Kshs.2,675,257,162. The differences between the three sets of records have not been reconciled.
- ii) An analysis of the 'off payroll' payments reflected an expenditure of Kshs.256,036,689 while the physical vouchers availed and examined for the period indicate a total expenditure of Kshs.254,479,596. An expenditure of Kshs.1,557,093 could not therefore be vouched or explained.
- iii) The expenditure on Teachers Service Commissioners as per the supporting schedules was Kshs.70,500,744 while the Ledger reflected a balance of Kshs.55,586,543 for the same period. The difference of Kshs.14,914,201 was not explained.
- iv) Examination of schedules supporting the expenditure for the Independent Electoral and Boundaries Commission in the statement of receipts and payments reflected a closing balance of Kshs.61,788,248 while the payroll reflected an amount of Kshs.51,679,730. The difference of Kshs.10,108,518 was not explained. In addition, the amount was not recorded in the Ledger and Trial Balance.
- v) Examination of payment vouchers revealed that an amount of Kshs.23,705,121 paid to two retired officers of the National Gender and Equality Commission (NGEC) was wrongly charged to the National Police Service Commission (NPSC) expenditure item. No adjustment has been made to correct the anomaly.
- vi) The ledger reflected an expenditure of Kshs.100,210,801 for the National Cohesion and Integration Commission while the payment vouchers examined indicates a total of Kshs.97,017,530. The difference of Kshs.3,193,271 was not explained or reconciled.
- vii) The Trial Balance provided for audit included balances which had not been identified as either debits or credits. Whereas the Trial Balance represents

a prima facie evidence on the accuracy of recording of all the transactions affecting an entity, it was difficult to establish whether the two sides of the Trial Balance balanced as at 30 June, 2018. The accuracy of the financial statements' figures cannot therefore be ascertained without confirming the balancing of the Trial Balance.

In absence of an accurate Trial Balance, the resultant financial statements could have been grossly misstated and may not have reflected a true and fair view of the operations of the Consolidated Fund Service - Salaries, Allowances and Miscellaneous Services for the year ended 30 June, 2018.

### **53.2 Unsupported Prior Year Adjustments**

The statement of assets and liabilities as at 30 June, 2018 reflected prior year adjustment of Kshs.18,420,097 (2017: Kshs.26,919,334) which was not supported. As reported similarly in the previous years' audit reports, Management has not explained the genesis for the adjustments or provided any records by way of journal vouchers or entries in the ledger. It appears Management may have used the 'prior year adjustments' as a way of balancing inaccuracies and inconsistencies in the financial records.

In absence of sufficient verifiable supporting documents and records, the authenticity of such adjustments in the financial statements cannot be ascertained.

### **53.3 Account Balances Not Recorded in Ledger**

The financial statements for the year 2016/2017 reflected balances of individual items that were not reflected in the ledger of the Consolidated Fund Services - Salaries, Allowances and Miscellaneous Services as indicated below; -

<b>Account</b>	<b>Amount (Kshs.)</b>
Exchequer Releases	3,905,744,684
Transfers from Other Government Entities	362,830,853
Other Receipts	18,420,097

The figures in the financial statements in respect to the specific items could not be authenticated.

### **53.4 Unsupported Restatement of Balances**

The financial statements for the year ended 30 June, 2016 reflected balance brought forward amounts under Fund balance, compensation of employees and accounts receivables of Kshs.8,566,405,035, Kshs.2,416,693,457 and nil which had been re-stated from Kshs.397,382,932, Kshs.2,418,352,317 and 8,663,621,032 respectively, reflected in the audited financial statements for 2014/2015. The statement of financial position also showed clearance of

outstanding items of Kshs.11,980,334. This has not been explained nor details of the adjustments provided.

Consequently, the accuracy of the balances reflected in the financial statements cannot be confirmed.

### **53.5 Unexplained Balance**

The statement of assets and liabilities as at 30 June, 2017 reflected a balance of Kshs.4,456,673 referred to as “difference”. Management has not explained what this amount related to. Further the item does not appear in the subsequent financial statements and there is no disclosure on how it was dealt with.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

- 54.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

- 55.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **CONSOLIDATED FUND SERVICES - PENSIONS AND GRATUITIES**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Adverse Opinion**

#### **56. Inaccuracies in the Financial Statements**

##### **56.1 Discrepancies Between the Financial Statements and the Ledger Balances**

The financial statements prepared and presented for audit had the following unexplained and unreconciled variances with the ledger as indicated below:

<b>Item</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>Ledger Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Military Gratuity Payments	2,365,015,733	2,580,880,386	(215,864,653)
Returned Pensions	341,468,825	438,896,156	(97,427,331)
Re-credited Cheques	121,791,362	390,937,784	(269,146,422)
Commutated Pension and Gratuities	22,808,826,537	25,095,813,221	(2,286,986,684)

The differences between the two sets of records have not been reconciled or explained.

## **56.2 Misstated Payment of Pensions Balances**

As disclosed in Note 13.3 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.66,917,302,195 under payment of pensions. However, this balance varies with the casted amount of Kshs.66,119,310,602 reflected in Note 13.3 to the financial statements, by Kshs. 797,991,593. Further, included in the military pensions payments of Kshs.4,658,469,029 is an amount of Kshs.132,892,687 which was paid in the financial year 2019/2020. In addition, payments of civil pensions amounting to Kshs.29,820,146,295 was not properly supported as the payrolls and payment vouchers reflected an expenditure of Kshs.30,271,871,789 and Kshs.26,586,806,355 respectively as at 30 June, 2019.

From the foregoing, the accuracy of the financial statements prepared and presented for audit for the year ended 30 June, 2019 could not be confirmed.

## **56.3 Comparative Balances Differing with Audited 2017/18 Balances**

The following comparative balances differed with the balances reflected in the audited 2017/18 financial statements:

<b>Statement</b>	<b>Component</b>	<b>Comparative Balance as Per 2018/2019 Financial Statements</b>	<b>Balance as Per the Certified 2017/18 Financial Statements</b>
Statement of Assets and Liabilities	Bank Balance	572,446,864	(572,446,864)
Statement of Assets and Liabilities	Net Financial Assets	4,633,699,481	(4,633,699,481)
Statement of Assets and Liabilities	Fund Balance b/f	3,876,911,341	(3,876,911,341)
Statement of Assets and Liabilities	Deficit for the period	756,788,140	(756,788,140)

<b>Statement</b>	<b>Component</b>	<b>Comparative Balance as Per 2018/2019 Financial Statements</b>	<b>Balance as Per the Certified 2017/18 Financial Statements</b>
Note 13.1	Exchequer Releases	63,170,121,740	62,413,333,600
Note 13.3	Civil gratuity	Nil	1,219,455,965

In addition, the statement of assets and liabilities reflects a fund balance brought forward of Kshs.4,037,848,812 while the audited 2017/18 financial statements reflected a closing balance of Kshs.4,633,699,481 resulting into an unexplained difference of Kshs.595,850,669.

### **57. Accuracy of the Financial Statements**

The statement of receipts and payments reflects balances of Kshs.1,706,000,086 and Kshs.1,270,867,275 under other receipts and other payments respectively. The balances are however, not reflected in the summary statements of appropriation.

In the circumstances, the accuracy of the financial statements as presented could not be confirmed.

### **58. Unbalanced Trial Balance**

The Trial Balance in support of the financial statements presented for audit reflects total debits and credits of Kshs.64,242,772,210 and Kshs.63,699,446,337 respectively resulting to an unreconciled variance of Kshs.543,325,873. Further, the Trial Balance includes items with balances that have not been incorporated in the financial statements as detailed below:

<b>Account</b>	<b>Description</b>	<b>Debit (Kshs.)</b>	<b>Credit (Kshs.)</b>
0-962-0900-2710102	Service and compassionate gratuities	15,267,436	
0-962-0901-2710102	Marriage gratuities	16,059,357	
0-962-0902-2710102	Civilian death gratuities	821,187,130	
9-808-0000-9910201	Provision for encumbrance		151,553,515
9-808-0000-9910201	Provision for encumbrance		18,709,786
9-808-0001-9910201	Provision for encumbrance	2,323,457,922	
9-808-0001-9910201	Provision for encumbrance	2,360,628	
9-808-0001-9910201	Provision for encumbrance		727,459
9-808-0001-9910201	Provision for encumbrance	543,325,873	



Consequently, it has not been possible to confirm the completeness and accuracy of the financial statements for the year ended 30 June, 2019 as prepared and presented.

## **59. Unsupported Expenditure**

The statement of receipts and payments for the year ended 30 June, 2019 reflects pension payments of Kshs.66,917,302,195. Included in this balance is Kshs.61,995,510 (2017/2018-Kshs 58,656,973) paid through the pension payroll to Asian and European Pensioners who retired due to Africanization of public sector after independence in 1963. However, no evidence was provided that the pensioners' personal files and life certificates were submitted before payments were effected as required by the Pension Department's internal controls.

Consequently, the propriety of the expenditure of Kshs.61,995,510 could not be confirmed.

## **60. Returned Pensions and Unsupported Accounts Payables**

As previously reported, the statement of assets and liabilities and as disclosed in Note 13.6 to the financial statements, reflects accounts payable of Kshs.4,183,043,979 (2018 - Kshs.4,061,252,617). Analysis of the figure revealed that Kshs.1,189,930,008 related to pensions payments returned during the year while Kshs.372,222,595 was paid back to pensioners on account of 2017 returns resulting in the net movement for the year of Kshs.817,707,413. However, detailed listing by individual pensioners in support of the accounts payables balance of Kshs.4,183,043,979 was not provided.

## **Other Matter**

### **61. Unresolved Prior Year Matter**

The following prior year audit matter remained unresolved as at 30 June, 2019:

#### **61.1 Unsupported Expenditure**

As previously reported, included in the pensions expenditure of Kshs.63,170,121,740 as at 30 June, 2018 is an amount of Kshs.20,294,340 paid to an international development company. Although Management explained that the payment was on account of pre- independence and post - independence pensioners who worked in Kenya and currently residing in the United Kingdom, the expenditure was not adequately supported by way of payrolls detailing out the beneficiaries.

Consequently, the propriety of the expenditure could not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

- 62.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 63.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## REVENUE STATEMENTS – PENSIONS DEPARTMENT

### REPORT ON THE REVENUE STATEMENTS

#### Basis for Qualified Opinion

**64. Discrepancies Between Budget Statement and the Printed Estimates**

The statement of comparison of budget and actual amounts reflects total budget of non-tax receipts of Kshs.309,398,233 being contribution by government employees to social welfare which differs from the 2018/2019 printed revenue estimates of Kshs.894,349,041 resulting to an unexplained and unreconciled variance of Kshs.584,950,808.

Consequently, the accuracy and completeness of the revenue statements could not be confirmed.

**65. Variance Between the Revenue Statement and Trial Balance Figures**

The statement of revenues and transfers reflects total non-tax receipts of Kshs.262,230,402; (2018 – Kshs.308,019,086) comprising of receipts from MDAs and other receipts of Kshs.262,091,309 and Kshs.211,093 respectively. However, the Trial Balance and revenue analysis availed for audit reflected a total of non-tax receipts balance of Kshs.270,789,739 resulting to an unexplained variance of Kshs.8,559,337.

In the circumstance, the accuracy and completeness of the reported total non-tax receipts balance of Kshs.262,230,402 cannot be ascertained.

## **66. Incomplete Progress Report on Follow Up of Auditor's Recommendations**

As reported in the 2017/18 audit report, there is an unresolved matter of an unexplained difference of Kshs.1,379,147 between the total revenue collected and transferred to the Exchequer and transfers of receipts reflected in the bank statement. In addition, the receiver of revenue failed to provide a budget of the estimated revenue collections. These issues have not been captured under progress on follow up of auditor's recommendation section of the financial statements.

In the circumstances, the financial statements have not been prepared in compliance with IPSAS.

### **Other Matter**

## **67. Under Collection of Receipts**

The statement of comparison of budget and actual amounts reflects total non-tax receipts budget of Kshs.309,398,233 compared to actual receipts of Kshs.262,019,303 resulting in an under collection of Kshs.47,378,924 or 15% of the budget. A significant proportion of the variance is attributed to the shortfall in 31% contribution receipts from the parastatals. This could be indicative of parastatals not remitting contributions in a timely manner.

## **68. Unresolved Prior Years Matters**

The following prior year matters remained unresolved as at 30 June, 2019:

### **68.1 Misstatement of Revenue Balance**

As reported in the 2017/18 financial year, the statement of revenue reflected total revenue collected and transferred to the Exchequer amounting to Kshs.308,019,086. However, the bank statements indicated the total receipts and transfers thereof to the Exchequer of Kshs.309,398,233 resulting to an unexplained difference of Kshs.1,379,147 as tabulated below:

<b>Sub-item</b>	<b>Revenue Statement Balance (Kshs.)</b>	<b>Bank Statement Balance (Kshs.)</b>	<b>Difference (Kshs.)</b>
31% Contributions	193,408,326.00	212,592,761.20	(19,184,435.20)
2% WCPS Contributions	71,886,557.05	60,077,565.85	11,808,991.20
Abatement	34,769,053.05	30,422,753.90	4,346,299.15
CAP Deductions	7,955,149.55	6,305,151.95	1,649,997.60
<b>Total</b>	<b>308,019,085.65</b>	<b>309,398,232.90</b>	<b>1,379,147.25</b>

Further, the total collection of Kshs.308,019,086 had been recorded under 31% contributions in the ledger as opposed to the respective sub item accounts

classification as reflected in the Notes to the Revenue Statements. The statement of revenue continues to be misstated and does not reflect a true and fair view of the operations of the Pensions Department.

## **68.2 Revenue Balances**

In the audit of the prior year's revenue statements, there were various classes of revenue reflected in the statements of revenue but the cashbook reflected different amounts as analyzed below:

<b>Revenue Class</b>	<b>Notes to the Revenue Statement (Kshs.)</b>	<b>Electronic Cashbook Balance (Kshs.)</b>
31% Contributions	356,715,202.00	0
2% WCPS	0	65,265,348.10
Abatement	0	49,072,014.90
Cap Deductions	0	2,403,645.05

Consequently, the accuracy of the balances in the statement of revenue could not be ascertained as there were no reconciliations in support of the discrepancies.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

- 69.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

- 70.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **DONOR FUNDED PROJECTS**

### **FINANCIAL SECTOR SUPPORT PROJECT IDA CREDIT NO. 5627-KE**

#### **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

- 71.** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **72. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.45,997,305 as at 30 June, 2019. Management has explained that the bills represented invoices locked out of procurement system before being paid. Although Management has committed to adhere to the Public Procurement and Asset Disposal Act, 2015, the Project is at risk of incurring additional costs in case of a legal dispute due to non-payment for services rendered.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**73.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

### **74. Lack of Internal Audit Services**

Section 73 of the Public Finance Management Act, 2012, requires all government entities to make appropriate arrangements for an internal audit function. Further, Sections 13 and 14 of the Project Appraisal Document (Finance and Markets Global Practice) provides for Internal Audit and the Audit Committee of The National Treasury to provide internal audit services and oversee the adequacy of internal control mechanisms over the Project. During the year under review, there is no evidence of the Project having been reviewed by The National Treasury internal audit function. Consequently, the Project management is in contravention of the Public Finance Management Act, 2012 and Project Appraisal Agreement.

## **GLOBAL FUND PROGRAM - TO ACCELERATE THE REDUCTION OF TB, LEPROSY AND LUNG DISEASE BURDEN THROUGH PROVISION OF PEOPLE CENTERED, UNIVERSALLY ACCESSIBLE, ACCEPTABLE AND AFFORDABLE QUALITY SERVICES IN KENYA (GRANT NO. KEN-T-TNT-1548)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

### **75. Non-Disclosure of Counterpart Contribution**

The statement of receipts and payments does not disclose the counterpart funding from The National Treasury. Further the Government of Kenya contribution for the

financial year and cumulatively cannot be established. The Project Management is in breach of paragraph 5.1 of the Grant Agreement which provides for a 15% counterpart contribution. The Project is also in breach of Section 72 (6) of the Public Finance Management Act, 2012, which requires the National Government to factor grants in the budgets with counterpart Funds being appropriated in accordance with the signed agreement.

Consequently, the accuracy and completeness of the reported receipts balance of Kshs.260,083,350 cannot be ascertained.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **76. Failure to Maintain Fixed Asset Register**

Contrary to the provisions of Section 139(1) and Section 143(1) of the Public Finance Management (National Government) Regulations, 2015, the Program did not maintain a fixed asset register and also did not disclose the balances in the financial statements under the summary of fixed assets section. This is despite the statement of receipts and payments indicating cumulative expenditure on non-financial assets of Kshs.250,473,804 as at 30 June, 2019.

To this extent, the Program Management is in breach of law.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

- 77.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIP PROJECT - IDA CREDIT NO. 5157-KE**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

- 78.** There were no material issues noted during the audit of the financial statements of the Project.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

- 79.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

#### **80. Lack of Internal Audit Services**

Contrary to the provisions of Section 16 of the Project Appraisal Document that requires the Project Implementation Unit to be audited by internal auditors seconded by The National Treasury, the Project was not subjected to an internal audit review during the year under review.

The Project is not in compliance with the signed financing agreement.

## **PUBLIC FINANCIAL MANAGEMENT REFORMS PROGRAM (CREDIT NO.6133-KE)**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Unqualified Opinion**

**81.** There were no material issues noted during the audit of the financial statements of the Program.

#### **Other Matter**

#### **82. Budget Control and Performance**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts of Kshs.258,458,458 against budgeted receipts of Kshs.1,172,265,090 resulting in a shortfall of Kshs.913,806,632 or 78% of the total budget. The shortfall was mainly recorded under transfer from Government entities where actual receipts amounted to Kshs.32,427,451 against the budgeted receipts of Kshs.901,265,090 resulting in a shortfall of Kshs.868,837,639 or 96% of the budgeted receipts. Further, actual expenditure for the year amounted to Kshs.951,062,733 against the actual receipts of Kshs.258,458,458 resulting to unfunded expenditure totalling Kshs.692,604,275, which was financed from the previous years' budget surplus.

As a result of the large budget deficit, the Program may not have implemented all programmes and work plans fully as approved in the budget thus delaying provision of services to the Kenyan citizens.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

- 83.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

#### **84. Human Capacity Shortfalls**

A review of the Program's organizational structure revealed that the positions of communication specialist, human resource specialist and legal specialist remained vacant during the financial year under review. The Program requires a well empowered and appropriately skilled Secretariat in all the areas spelt out in its staff establishment. Due to the human capacity shortfalls, the Program faces challenges in meeting its mandate, objectives and service delivery to the citizens. Officers holding positions in acting capacity may not have the necessary skills, competencies or motivation to achieve the desired goals of the Program.

## GLOBAL FUND PROGRAM – SCALING UP MALARIA CONTROL INTERVENTIONS FOR IMPACT GRANT NO. KEN-M-TNT

### REPORT ON THE FINANCIAL STATEMENTS

#### **Basis for Qualified Opinion**

#### **85. Non-Disclosure of Counterpart Contribution**

The statement of receipts and payments does not disclose the counterpart funding from The National Treasury. Further the Government of Kenya contribution for the financial year and cumulatively cannot be established. The Project Management is in breach of paragraph 5.1 of the Grant Agreement which provides for a 15% counterpart contribution. The project is also in breach of Section 72(6) of the Public Finance Management Act, 2012, which requires the National Government to factor grants in the budgets with counterpart Funds being appropriated in accordance with the signed agreement.

Consequently, the accuracy and completeness of the reported receipts balance of Kshs.3,910,591 cannot be ascertained.



## **86. Payment of Undisclosed Pending Bills**

The statement of receipts and payments reflects an expenditure of Kshs.3,077,582 incurred on purchase of goods and services during the year under review. However, information available indicate that the payments related to expenditure incurred in the prior year but had not been disclosed as pending bills in the 2017/2018 financial statements as required by International Public Sector Accounting Standards (Cash Basis) method of accounting. Consequently, the restatements necessary to incorporate the omitted disclosures in the financial statements has not been done.

Under the circumstances, the accuracy of the financial statements as at 30 June, 2019 cannot be confirmed.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

## **87. Failure to Maintain Fixed Asset Register**

Scrutiny of the procurement records reflect assets worth Kshs.10,500,852 that were procured during the first year of the project implementation. However, contrary to the provisions of Section 139(1) and Section 143(1) of the Public Finance Management (National Government) Regulations, 2015, the program did not maintain a fixed asset register and also did not disclose the balances in the financial statements under summary of fixed assets section.

The Program Management is in breach of law.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

- 88.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STUDY AND CAPACITY BUILDING FUND PROJECT (CREDIT NO. CKE 6015 01K)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

- 89.** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### **90. Non-compliance with the Public Procurement and Asset Disposal Act, 2015**

##### **90.1 Procurement of Individual Consultancy Services**

Contrary to the provisions of Section 124(1) and (2) of the Public Procurement and Asset Disposal Act, 2015, the Project Management single sourced and contracted for an amount of Kshs.3,135,000 for the provision of services of an individual consultant. The procurement of the consultant, who previously served in the line Ministry, was based on the bids submitted in 2012 instead of fresh bids as prescribed by the law.

##### **90.2 Procurement of Unplanned Assets**

During the year under review, instances of procurement made but not provided for in the procurement plan were noted contrary to Section 73 of the Public Procurement and Asset Disposal Act, 2015. The Project Management purchased office furniture and printer at its French Desk Support at the Resource Mobilization Department at a cost of Kshs.249,220.

Consequently, the Project Management was in breach of the Public Procurement and Asset Disposal Act, 2015.

#### **91. Lack of an Asset Register**

Contrary to Section 143(1) of the Public Finance Management (National Government) Regulations, 2015, the Project Management has not maintained an asset register for assets procured and owned. The risk of pilferage of the Project assets in absence of a register is high.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 92.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**TECHNICAL SUPPORT PROGRAMME AGREEMENT NO.  
KE/FED/2009/021421; NO. KE/FED/023-733 AND NO. KE/FED/037-  
941**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**93.** There were no material issues noted during the audit of the financial statements of the Programme.

**Emphasis of Matter**

**94. Unbudgeted Receipts and Expenditures**

The statement of comparative budget and actual amounts reflects nil receipts from proceeds of domestic and foreign grants (grant revenue) against estimated receipts of Kshs.30,000,000. The statement also reflects actual receipts of Kshs.26,457,440 from proceeds of domestic and foreign grants (grant A-I-A) against nil estimated receipts an indication of the project being funded without a budgetary provision. Similarly, payments of Kshs.3,392,021 were incurred on purchase of goods and services without an approved budget in place. Management has however, indicated that the supplementary budget reallocations were effected after the expenditure had been incurred.

My opinion in respect of this matter is not modified.

**Other Matter**

**95. Unresolved Prior Year Matters**

The following prior year matters remained unresolved as at 30 June, 2019:

**95.1 Co-operative Dormant Bank Accounts**

The Management continues to maintain two local currency Accounts No. 01141419783101 and No. 01141419783100 with Co-operative Bank with bank balances of Kshs.1,136,902 and Kshs.359 respectively as at 30 June, 2019. No deposits or withdrawals have been made for the last three financial years. The explanation that the balance of Kshs.1,136,902 on account No. 01141419783101 was insufficient to be paid back to the European Commission owing to ineligible expenditure was not supported by way of documentary evidence. No cashbooks are maintained for these accounts hence the accuracy of the cash and cash equivalents balance of Kshs.1,137,262 reflected in the financial statements could not be ascertained. The continued maintenance of the dormant account may expose the Programme Account to risk of loss of funds.

## **95.2 Non-disclosure of Pending Bills**

The statement of receipts and payments as at 30 June, 2018 reflected an expenditure of Kshs.48,832,274 under use of goods and services. Examination of records maintained by the Management revealed the expenditure related to a single payment to a vendor, which appeared to have been processed in June, 2017 during the 2016/2017 financial year, but the same had not been disclosed as a pending bill as at 30 June, 2017. Failure to disclose the expenditure as pending bills contravenes the Public Finance Management Regulations, 2015 and may expose the Programme to incurring ineligible expenditure.

## **95.3 Unsupported Transfer to the Donor**

During the prior year, the Programme transferred an amount of Kshs.13,257,502 to the European Commission without details. Further, no transmittal documentation or acknowledgement from the European Commission were availed for verification in support of the transaction.

In absence of sufficient and relevant supporting documents, it has not been possible to determine whether or not the amount in question was received or not.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

- 96.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

- 97.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CREDIT NO. 5526-KE)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

- 98.** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **99. Failure to Undertake Internal Audits on the Project**

Section 73 of Public Finance Management Act, 2012 requires all Government entities to make appropriate internal audit arrangements for the functions that are being undertaken by an entity. Further, Sections 13 and 14 of the Project Appraisal Document (PAD) on finance and markets global practice requires The National Treasury to provide internal audit services and to oversee the adequacy of internal control mechanisms on the project vide its internal audit and the audit committee functions respectively. However, during the year under review, Internal Audit Services were not rendered despite The National Treasury having a well-staffed Internal Audit department.

Consequently, the project is in breach of the law and Financing Agreement.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

- 100.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **MICRO FINANCE SECTOR SUPPORT CREDIT PROJECT (CREDIT NO. CKE 3004 01E AND CKE 6010 01E)**

## REPORT ON THE FINANCIAL STATEMENTS

### **Basis for Qualified Opinion**

#### **101. Amount Withdrawn but Unclaimed**

Part B of the Statement of Special (Designated) Account reconciliation for the Project reflects Euros.3,643,675 or Kshs.419,678,486 at the then exchange rate of 1 Euro at Kshs.115.18 as withdrawn, but unclaimed as at 30 June, 2019. This represents cumulative funds transfers to the local Project bank account but whose expenditure returns have not been submitted to The National Treasury by the close of the financial year. Furthermore, the amount has not been reported nor disclosed in the Project financial statements.

Consequently, the accuracy and completeness of the financial statements cannot be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 102. Failure to Close Project

As per Clause 10 of the financing agreement, the Project was to close on 31 October, 2010 but the closing date was later extended to 31 December, 2014. However, the Project Management is yet to formally prepare and submit the Project closure report. Consequently, the Project is in breach of the agreement with Agence Francaise Development (AFD) with its continued operation without a formal extension.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

103. There were no material issues relating to effectiveness of internal controls, risk management and governance.

## PROGRAMME FOR RURAL OUTREACH OF FINANCIAL INNOVATIONS AND TECHNOLOGIES (PROFIT) (IFAD LOAN NO. 814-KE AND GRANT NO. 1218KE)

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

104. There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

105. There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

106. There were no material issues relating to effectiveness of internal controls, risk management and governance.

**GLOBAL FUND PROGRAM – TO REDUCE MORBIDITY AND MORTALITY CAUSED BY MALARIA IN THE VARIOUS EPIDEMIOLOGICAL ZONES BY TWO THIRDS OF THE 2015 LEVEL BY 2020-GRANT AGREEMENT-KEN-M-TNT NO.1546**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**107.** There were no material issues noted during the audit of the financial statements of the Program.

**Emphasis of Matter**

**108. Non-disclosures of Counterpart Funds**

The statement of receipts and payments for the year ended 30 June, 2019 indicates that, as in the previous year, no funds were received by the Program from the Government of Kenya (GoK). However, Paragraph 6.3(2) of the Grant Agreement provides that the GoK shall provide counterpart funding equivalent to 20% of the Program's aggregate disbursements. With the Program's duration set to end in 2020, all its expected outputs and outcomes may not be attained if the GoK fails to contribute its portion of funding.

My opinion is not qualified in respect to this matter.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

**Conclusion**

**109.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

**Conclusion**

**110.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **GLOBAL FUND PROGRAM - TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT AND CARE PROJECT - GA NO. 1547**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis of Qualified Opinion**

#### **111. Non-Disclosure of Counterpart Contribution**

The statement of receipts and payments does not disclose the counterpart funding from The National Treasury. Further the Government of Kenya contribution for the financial year and cumulatively cannot be established. The Project Management is in breach of paragraph 5.1 of the Grant Agreement which provides for a 15% counterpart contribution. The Project Management is also in breach of Section 72(6) of the Public Finance Management Act, 2012, which requires the National Government to factor grants in the budgets with counterpart Funds being appropriated in accordance with the signed agreement.

Consequently, the accuracy and completeness of the reported receipts balance of Kshs.383,527,873 cannot be ascertained.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **112. Failure to Update the Fixed Asset Register**

Contrary to the provisions of Section 139(1) and Section 143(1) of the Public Finance Management (National Government) Regulations, 2015, the Project did not update the fixed asset register by way of disclosures under summary of fixed assets. The reported balance of Kshs.4,920,000 relates to balances brought forward only despite the Project having spent Kshs.1,424,507 on the acquisition of non-financial assets during the year.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**113.** There were no material issues relating to effectiveness of internal controls, risk management and governance



# **GLOBAL FUND PROGRAM - TO STEER THE COUNTRY TOWARDS ACHIEVEMENT OF TB MILLENNIUM DEVELOPMENT GOALS IN LINE WITH THE GLOBAL STOP TB STRATEGY (GRANT NO. KEN-T-TNT)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **114. Non-Disclosure of Counterpart Contribution**

The statement of receipts and payments does not disclose the counterpart funding from The National Treasury. Further the Government of Kenya contribution for the financial year and cumulatively cannot be established. The Program Management is in breach of paragraph 5.1 of the Grant Agreement which provides for a 15% counterpart contribution. The Program is also in breach of Section 72 (6) of the Public Finance Management Act, 2012, which requires the National Government to factor grants in the budgets with counterpart Funds being appropriated in accordance with the signed agreement.

Consequently, the accuracy and completeness of the reported receipts balance of Kshs.883,256,532 cannot be ascertained.

### **Other Matter**

#### **115. Delay in Construction of Warehouse**

On 13 March, 2018, the Program Management, entered into a contract for construction of a flammable goods store warehouse and an office block with an expected completion period of fifty-two (52) weeks and one hundred and thirty (130) weeks respectively. By the end of fifty-two (52) weeks, the construction of the warehouse was not complete and the project period was extended to 12 September, 2019. A physical verification carried out on 9 September, 2019 indicated a project completion status of approximately 50% even though the status report of August, 2019 indicated 59% completion. Discussions with Program Management indicated a new estimated completion date of March, 2020 an indication of 100% delay from the original estimated contract period. Under the circumstances, the Program may not realize its intended objectives and its value for money.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 116. Failure to Maintain Fixed Asset Register

Contrary to the provisions of Section 139(1) and Section 143(1) of the Public Finance Management (National Government) Regulations, 2015, the Program did not maintain a fixed asset register and also did not disclose the balances in the financial statements under the summary of fixed assets section. This is despite the statement of receipts and payments indicating cumulative expenditure on non-financial assets of Kshs.778,695,872 as of 30 June, 2019. To this extent, the Program Management is in breach of law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

117. There were no material issues relating to effectiveness of internal controls, risk management and governance.

## ADDITIONAL FINANCING FOR THE INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIP PROJECT - IDA CREDIT NO. 6121-KE

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

118. There were no material issues noted during the audit of the financial statements of the Project.

### Emphasis of Matter

#### 119. Underutilization of Budgeted Amounts

The comparative statement of budget and actual amounts reflects approved budget and actual on comparable basis of Kshs.50,000,000 and Kshs.1,711,170 respectively resulting in an under-expenditure of Kshs.48,288,830 or 97%. The management attributed the under expenditure to: -

- i. Suspension of the procurement of capacity building consultants to review the procurement method used;
- ii. Non-availability of Public Private Partnership (PPP) trainers for provision of the capacity building services; and

- iii. Delays in finalization of contract for disbursement linked verifications.

As a result of the delay in implementing the planned activities, the Project under-absorbed the budget.

Further, the Project special account maintained at the Central Bank of Kenya (CBK) reflects an opening bank account balance of EUR10,000,000 with an amount of EUR310,000 having been withdrawn during the year leaving a closing balance as at year end of EUR9,690,000 as unutilized.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

- 120.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND OVERALL GOVERNANCE

### Basis for Conclusion

#### **121. Lack of Internal Audit Services**

Contrary to the provisions of Section 16 of the Project Appraisal Document that requires the Project Implementation Unit to be audited by internal auditors seconded by The National Treasury, the Project was not subjected to an internal audit review during the year under review. To this extent, the Project is not in compliance with the signed financing agreement.

## **GLOBAL FUND PROGRAM- EXPANDING HIV PREVENTION, CARE AND TREATMENT SERVICES TO REACH UNIVERSAL ACCESS (80% COVERAGE) TO REDUCE BOTH INCIDENCE AND ASSOCIATED IMPACT PROJECT (GRANT NO. KEN-H-TNT)**

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### **122. Non-Disclosure of Counterpart Contribution**

The statement of receipts and payments does not disclose the counterpart funding from The National Treasury. Consequently, the accuracy and completeness of the reported receipts balance of Kshs.3,926,315,501 cannot be ascertained. Further, the Government of Kenya contribution for the financial year and cumulatively

cannot be established. The Project Management is in breach of paragraph 5.1 of the Grant Agreement which provides for a 15% counterpart contribution. The project is also in breach of Section 72 (6) of the Public Finance Management Act, 2012, which requires the National Government to factor grants in the budgets with counterpart Funds being appropriated in accordance with the signed agreement.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **123. Failure to Update the Fixed Asset Register**

Contrary to the provisions of Section 139(1) and Section 143(1) of the Public Finance Management (National Government) Regulations, 2015, the Management of the Program did not update the Fixed Asset Register. The summary of fixed assets under Annex 3 to the financial statements reflects a balance of Kshs.4,923,645 brought forward from the previous year. However, the statement of receipts and payments reflects an expenditure of Kshs.191,377,450 on non-financial assets incurred during the year under review. The assets acquired during the year are, therefore, not reflected in the summary of fixed assets. To this extent, the Management of the Program is in breach of law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**124.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCIES UNDER THE NATIONAL TREASURY**

### **EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (IDA CREDIT NO. 5638-KE) – KENYA REVENUE AUTHORITY**

## REPORT ON THE FINANCIAL STATEMENTS

### **Basis for Qualified Opinion**

#### **125. Non-Compliance with the Reporting Template**

The financial statements presented for audit did not comply with the annual reports and financial statements reporting template for Projects prescribed by the Public

Sector Accounting Standards Board of Kenya. The financial statements did not include Part 3 – “report of the independent auditors, Part 7 – “statement of comparative budget and actual amounts”, Part 9 – “other important disclosures” and Part 10 – “progress on follow up of auditor recommendations”. Further, Annex 1 -variance explanation on comparative budget and actual amounts, Annex 2 - analysis of pending bills, Annex 3 - summary of fixed assets register and other appendices specified in the reporting template were also not included. In the circumstances, the financial statements do not comply with International Public Sector Accounting Standards -1 on presentation of financial statements.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**126.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**127.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## EQUALISATION FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 128. Cash and Bank Balances

As disclosed under Note 3 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.2,283,426,949 under cash and cash equivalents. However, Note XIII to the financial statements discloses cash and bank balances of Kshs.3,759,753,043;(2018-Kshs.5,061,282,195) held by implementing institutions that were unutilised as at 30 June, 2019. However, the status and value of implemented projects as at 30 June, 2019 is not disclosed in the Notes to the financial statements, contrary to the provisions for preparing Fund accounts.

Consequently, Management did not adhere to the reporting framework.

## Emphasis of Matter

### 129. Low Absorption of Funds and Slow Implementation of Projects

The Equalisation Fund Information and Management Report indicates Fund entitlement of Kshs.32,555,888,665 over the last seven (7) years (2011/2012 – 2017/2018) based on 0.5% of most recent audited and approved revenues. However, only Kshs.12,400,000,000 or 38% of the entitlement had been appropriated and transferred to the Fund account contrary to the provisions of Article 204 of the Constitution of Kenya. Further, out of the appropriated and available funds of Kshs.12,400,000,000, only an amount of Kshs.10,116,573,051 or 82% has been disbursed to the implementing Ministries, Departments and Agencies (MDAs) to fund projects in the beneficiary Counties. However, only Kshs.6,479,068,908 or 64% of the disbursed amount had been spent as 30 June, 2019 leaving out a balance of Kshs.3,637,504,143. The expenditure translates to only 20% of the entitled appropriation funds to date of Kshs.32,555,888,66 despite seven (7) of the maximum period of twenty (20) years existence post the first disbursement to the Fund in 2011/2012. This is indicative of low funding and absorption which could slow down the implementation of the planned projects. Field visits to sample project implementation sites revealed that a significant number of projects had stalled due to huge pending bills despite the MDAs holding cash balances of Kshs.3,759,753,043 in their respective bank accounts inclusive of Kshs.122,248,900 held by the Fund secretariat.

From the foregoing, the Fund may not realise its intended objectives of providing basic services to the marginalised areas to achieve equality and equity in the provision of basic services with other regions.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 130. Project Implementation

Sixty-three (63) projects from nine (9) of the fourteen (14) implementing Counties were sampled for physical verification. The total budget allocation for the projects was Kshs.1,808,349,807. The verification revealed that the projects being implemented by various agencies were at different levels of completion as detailed below;

Sector	Project Count	Project Status		Disbursed Amounts (Kshs.)
		Complete	Incomplete	
Education	4	1	3*	63,000,000
Energy	1	1	-	1,000,000
Water and Irrigation	23	16	7	890,410,408

Sector	Project Count	Project Status		Disbursed Amounts (Kshs.)
		Complete	Incomplete	
Health	12	3	9	265,280,862
Roads	23	16	7	588,658,627
<b>Total</b>	<b>63</b>	<b>37</b>	<b>26</b>	<b>1,808,349,807</b>

\* Projects were yet to start

From the foregoing, it is not clear if and when the nine (9) Counties will realize value for money from the twenty-six (26) incomplete projects as at 30 June, 2019.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Basis for Conclusion

#### 131. Fund Governance Weaknesses

The Administrator of the Fund is also the Secretary to the Board with the responsibilities of planning for Board meetings, keeping records of the proceedings of the meetings, and performing such other duties as the Board may direct. During the year under review, no evidence of the Board having met in form of Board minutes were availed for audit review. Further, the Board administrative activities budget of Kshs.122,248,900 remained unutilised as at 30 June, 2019.

Consequently, oversight over the activities of the Fund may be inadequate and ineffective.

## CONTINGENCIES FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**132.** There were no material issues noted during the audit of the financial statements of the Fund.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### Conclusion

**133.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 134.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## PETROLEUM DEVELOPMENT LEVY FUND HOLDING ACCOUNT

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

- 135.** There were no material issues noted during the audit of the financial statements of the Fund.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### Conclusion

- 136.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 137.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## RAILWAY DEVELOPMENT LEVY FUND HOLDING ACCOUNT

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

##### **138. Discrepancies in Reported Receipts**

The statement of receipts and payments reflects total receipts of Kshs.21,613,544,290;(2018 – Kshs.20,693,095,047) and as disclosed under Note 10.2 to the financial statements. This differs with the total receipts as per the summary of budget versus actual performance figure of Kshs.5,815,007,463 resulting in an unexplained and unreconciled variance of Kshs.15,798,536,827.



Consequently, the accuracy of the reported receipts of Kshs.5,815,007,463 in the summary of budget versus actual performance cannot be confirmed.

## **Other Matter**

### **139. Budget Over Expenditure**

The summary of budget versus actual performance reflects an approved budget and actual expenditure of Kshs.24,718,591,835 and Kshs.31,999,674,958 resulting in an over expenditure of Kshs.7,281,083,123 or 29.5% of the budget. This is indicative of unauthorized spending and failure to adhere to the set budgetary controls. Management has not rendered satisfactory explanations for the spending without authorization.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**140.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**141.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **RURAL ENTERPRISE FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Adverse Opinion**

##### **142. Unbanked Cash**

As disclosed under Note 1 to the financial statements, the statement of assets and liabilities reflects bank balances totalling Kshs.3,348,895 which relates to balances brought forward from 2012/2013 and prior years. The balances comprise cash with District Commissioners on account of loans repaid, interest on loans and balances held in miscellaneous deposit accounts amounting to Kshs.1,951,921, Kshs.108,840 and Kshs.1,288,135 respectively. However, evidence to confirm actual existence of the balance of Kshs.3,348,895 was not provided. Further, the balance of Kshs.1,951,921 relating to District Commissioners (Loans Repaid)

included advances amounting to Kshs.207,344 in form of IOUs issued from the Fund to five (5) officers working at the District Commissioner's Office, Kisumu in 1997/1998. The IOUs had not been surrendered as at 30 June, 2019.

In the circumstances, the accuracy and validity of the reported bank balances of Kshs.3,348,895 could not be confirmed.

#### **143. Unreconciled Balances**

As was reported in the previous year, the statement of assets and liabilities for deposits as at 30 June, 2013 reflected a debit balance of Kshs.1,828,388 in respect of the Fund while the Fund account for the same year reflected a balance of Kshs.397,908,774. The significant difference of Kshs.396,080,387 between the two sets of records had not been reconciled or explained as at 30 June, 2019.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **144. Winding Up of the Fund**

As reported previously, the Fund was recommended for winding up through Legal Notice No. 97 dated 29 June, 2012 contained in a special issue of the Kenya Gazette Supplement, No. 119 of 14 September, 2012 upon which, any outstanding amounts in the Fund was to be paid into the Consolidated Fund. As at the time of finalizing this audit, the winding up process of the Fund was yet to be completed despite the legal notice.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**145.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**146.** There were no material issues noted during the audit of the financial statements of the Fund.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **147. Failure to Operationalize the Fund**

Section 4(a) and (b) of the Public Finance Management (National Government) Regulations, 2015, provides for the object and purpose of the Fund as provision of car loans facility to State and Public Officers of the National Government. Contrary to the provisions, the Fund Management has not undertaken the requisite activities since inception in 2015 to operationalize the Fund. Consequently, the Fund's allocation totalling Kshs.3,847,507,790 as at 30 June, 2019 continues to remain idle. Although management has indicated having commenced processing of loan applications, only four (4) requests valued at Kshs.17,320,000 had been processed but remained undisbursed as at 30 June, 2019.

The Fund is therefore, in breach of law and is not fulfilling the mandate for which it was established.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**148.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **GOVERNMENT CLEARING AGENCY**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Basis for Disclaimer of Opinion**

#### **149. Receipts from Government Agencies**

As disclosed under Note 1 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.2,174,171; (2018-53,586,330) under receipts from Government Agencies. However, the receipts have not been supported by way of ledgers and other primary source documents. The significant decrease in the receipts in comparison to the prior year has also not been explained. Further, the Agency has not maintained proper financial records as required under Section 68(2) of the Public Finance Management Act, 2012.

Consequently, the accuracy and completeness of the reported receipts from government agencies of Kshs.2,174,171 for the year ended 30 June, 2019 could not be confirmed.

#### **150. Long Outstanding Accounts Receivable**

The statement of assets and liabilities reflects a balance of Kshs.300,931,776;(2018-Kshs.300,931,776) under debtors-old account. There was no movement during the year casting doubt on recoverability of the debts. Further, the balance has not been supported by a detailed ledger indicating the debtors.

Consequently, the accuracy and the fair statement of the reported receivables debtors-old account balances of Kshs.300,931,776 as at 30 June, 2019 could not be ascertained.

#### **151. Cash and Cash Equivalents**

The statement of assets and liabilities reflects an amount of Kshs.2,174,171;(2018-Kshs.72,435,965) under bank balance. However, a bank balance of Kshs.27,351,785 held in the Agency's National Bank of Kenya Mombasa branch bank account No.01001007625100 has been excluded from the bank balance of Kshs.2,174,171 reflected in the financial statements.

Consequently, the accuracy and fair statement of the reported bank balance of Kshs.2,174,171 as at 30 June, 2019 could not be confirmed.

#### **152. Fund Balance**

As previously reported, the statement of assets and liabilities reflects a fund balance brought forward (old account) of Kshs.247,957,879;(2018-Kshs.247,957,879) which was not supported.

Consequently, the accuracy and validity of the reported fund balance brought forward (old account) of Kshs.247,957,879 as at 30 June, 2019 cannot be confirmed.

#### **153. Unreported Expenditure**

During the year under review, the Agency made a cash payment of Kshs.2,006,357 towards the repair and maintenance works of its Mombasa offices. However, there is no evidence of the amounts having been applied for the intended use as the roofs for some of the offices were leaking and in bad state. The payment has also not been incorporated in the financial statements prepared and presented for audit while the expenditure returns were not appropriately supported with some amounts having been posted into inappropriate accounts.

From the foregoing, the regularity of expenditure of Kshs.2,006,357 could not be confirmed.

#### **154. Failure to Execute Mandate**

The Agency's operations manual indicates that some of the functions of the Agency are receiving of clearance/shipping documents from Government Ministries, Departments and State Corporations; preparation and processing of the imports/exports, warehousing and transportation documents through customs, port authorities, shipping, transport, insurance agents - (underwriters) including banks and cargo surveillance agents among other services. Examinations of records of the Agency indicated that limited businesses of government agencies are cleared by the Agency as the bulk of the importation business is being undertaken by the private sector. No explanations have been rendered for failure to deliver on its mandate.

#### **155. Lack of Oversight**

The Agency has no Board of Directors to oversight the organization's operations. Further, the internal audit function that ought to check on governance, internal controls and risk management is not in place. In addition, there is no formal organizational structure thus compounding the weaknesses over its internal controls.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

- 156.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

- 157.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **TREASURY MAIN CLEARANCE FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified of Opinion**

##### **158. Long Outstanding Accounts Receivables – Debtors**

As reported previously, the statement of assets and liabilities reflects accounts receivables-debtors balance of Kshs.12,503,607,446 as at 30 June, 2019. The balance has been outstanding for a long period of time with no movement which is indicative of nil recoveries. Further, an amount of Kshs.2,332,170,394 of the debtor's balance has not been analyzed into the individual debtors and what it relates to. This is indicative of likely impairment, but the necessary adjustments to fairly state the balance by way of provisions for bad and doubtful debts have not been made.

Consequently, the recoverability of the long outstanding accounts receivables - debtors balance of Kshs.12,503,607,446 could not be confirmed.

##### **159. Unsupported Accounts Payables – Creditors**

As previously reported, the statement of assets and liabilities reflects accounts payables – creditors balance of Kshs.12,490,478,941 as at 30 June, 2019. However, detailed listings in support of the balances were not availed for audit review.

Consequently, the accuracy and completeness of the accounts payables - creditors balance of Kshs.12,490,478,941 as at 30 June, 2019 could not be ascertained.

##### **160. Unsupported Deficit Balance Brought Forward**

As reported previously, the statement of assets and liabilities reflects a net financial position (closing fund balance) of Kshs.13,128,505 which consists of a Fund balance and deficit brought forward of Kshs.14,000,000 and Kshs.871,495 respectively. However, the balances were not supported by any reconciliation.

Consequently, the accuracy of the closing Fund balance of Kshs.13,128,505 could not be confirmed.

#### **Other Matter**

##### **161. Prior Year Matter**

###### **161.1 Failure to Wind Up the Fund**

As reported previously, the Fund has been dormant for a significant duration. Pursuant to the recommendations of the Public Accounts Committee and

instructions of The National Treasury to wind up all dormant funds, the Fund continues to subsist. As at the time of finalizing this audit, the process was yet to be completed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**162.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**163.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA LOCAL LOANS SUPPORT FUND**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Basis for Disclaimer of Opinion**

#### **164. Unsupported Balances**

The financial statements presented for audit are unsupported by a trial balance and ledgers in support of the balances. In the circumstances it is not possible to ascertain the accuracy of the reported balances in the financial statements. Further, accrued interest yet to be received and investments at a cost of Kshs.71,595,406; (2018- Kshs.71,595,406) and Kshs.6,364,973; (2018- Kshs.10,410,373.50) respectively, have not been appropriately disclosed in the details in the Notes to the financial statements.

The accuracy of the balances cannot therefore be ascertained.

#### **165. Winding Up of the Fund**

As reported previously, the Fund is dormant in spite of the recommendations of the Public Accounts Committee and instructions of The National Treasury vide Treasury Circular No.15/2009 dated 7 August, 2009 which directed Accounting Officers to start the process of winding up all dormant Funds. As at the time of finalizing this audit, the winding up process was yet to be completed.

## **166. Failure to Redeem Stocks**

Similarly, as reported previously, stocks valued at Kshs.10,430,700 which were past their redemption date of 6 February, 2010 and cost Kshs.17,400 had not been redeemed. Although The National Treasury has explained that the stocks were redeemed some years back but erroneously accounted for as revenue, records to confirm the erroneous accounting for receipts and subsequent correction in the books of account have not been availed for audit review.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**167.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**168.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **PROVIDENT FUND ACCOUNT**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Adverse Opinion**

#### **169. Inaccuracies in the Financial Statements**

##### **169.1 Misstated Comparative Balances and Inconsistencies in Notes to the Financial Statements**

The statement of financial position reflects balances of Kshs.752,556,522 and Kshs.742,841,111 being the comparative balances for total financial assets and net assets respectively. However, the audited 2017/2018 financial statements reflected amounts of Kshs.815,305,312 and Kshs.805,590,201 respectively for the balances. Further, inconsistencies were also noted between the referenced notes for bank balances and other receivables as reflected in the statement of financial position and the actual notes to the financial statements.



In the circumstances, the financial statements are not in compliance with paragraph 53 of IPSAS 1 which requires comparative information to be disclosed in respect of the previous period for all amounts reported in the financial statements.

## 169.2 Variance Between the Trial Balance and the Financial Statements

The 2018/2019 Trial Balance submitted for audit revealed items and balances which were not reflected in the financial statements as indicated below:

<b>Account</b>	<b>Description</b>	<b>Dr. Amount (Kshs.)</b>	<b>Cr. Amount (Kshs.)</b>
4-867-0903-7310224	Interest on Investment Provident Fund	430,316,536	
4-867-0903-7310224	Interest on Investment Provident Fund		1,230,081,880
4-867-0903-7310227	Profit/ loss on Realization of Investment		7,163,992
4-867-0903-7310230	Interest Credit to Deposit	113,114	
4-867-0903-7310231	Accumulative Income & Expenditure A/C.		1,372,274
4-867-0903-7310235	Recovery of Interest due from GoK	1,448,783	1,448,783
4-867-0903-7310236	Annual Account		883,162
4-867-0903-7310237	Bonus paid to Depositors	1,296,168	
4-867-0903-7310238	Annuity payment (Charles Kombo- Agri.)	50,696	
	<b>Total</b>	<b>433,225,297</b>	<b>1,240,950,091</b>

No explanation was provided on what the items related to, and the reasons for exclusion in the financial statements.

Similarly, the following balances reflected in the financial statements were not traced to the Trial Balance:

<b>Item Description</b>	<b>Amount (Kshs.)</b>
Dividend Income	60,327,313
Other Receivables	6,176,372
Bank Balance	819,799,550
Other Pending Payables	9,715,111

Further, the Trial Balance presented for audit had its debits and credits not balancing at Kshs.482,912,920 and Kshs.2,122,512,019 respectively.

In the circumstances, the accuracy of the balances reflected in the financial statements could not be ascertained.

### **170. Doubtful Other Receivables**

As previously reported, and as disclosed in Note 11.4 to the financial statements, the statement of financial position reflects a balance of Kshs.9,972,598 under other receivables which comprised a cash deposit balance held at the insolvent Cereals and Sugar Corporation and dividends receivable from Kenya Power and Lighting Company (KPLC) of Kshs.3,796,226 and Kshs.6,176,372 respectively. However, Management did not provide any evidence of the measures put in place to recover the debts in full. The recoverability of the long outstanding receivables was therefore, in doubt.

### **171. Unsupported Payables Balance**

The statement of financial position reflects other pending payables balance of Kshs.9,715,111 (2018: Kshs.9,715,111) which as disclosed in Note 11.6 to the financial statements related to amounts due to National Government entities. However, as previously reported, Management has not supported the balances by way of a detailed listing and invoices indicating the specific entities to which the amounts are owed.

Consequently, it has not been possible to confirm the accuracy, validity and completeness of other pending payables balance of Kshs.9,715,111 as at 30 June, 2019.

### **Other Matter**

### **172. Budget Control and Performance**

The statement of comparison of budget and actual amounts does not reflect the approved budget amounts for revenue and expenditure. However, during the year under review, the Fund received revenue of Kshs.60,327,313 and had a nil expenditure. The explanatory note indicates that there was no budget despite the Fund having investments in Kenya Power and Lighting Company and East African Breweries Limited for which dividend income was expected.

From the foregoing, the statement of comparison of budget and actual amounts as presented is incomplete.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **173. Idle Resources**

As previously reported, the Fund has carried out minimal operations where only dividends from investments in KPLC and EABL are recorded. The Fund continued to accumulate idle bank balances which stood at Kshs.819,799,550 as at 30 June, 2019 contrary to the guiding principles for cash management which include

avoiding accumulation of idle balances as provided under Regulation 83 (2)(c) of the Public Finance Management Regulations, 2015 and Section 3(3) of Provident Fund Act, 2012 which provides that moneys paid into the Fund shall, so far as practicable, be invested in interest yielding securities. Alternatively, if the mandate of the Fund ceased or lapsed, the Fund ought to have been wound up and the assets reverted to the Government.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 174.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## EUROPEAN WIDOWS AND ORPHANS PENSION FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Adverse Opinion

#### 175. Inaccuracies in the Financial Statements

##### 175.1 Unreconciled Cash and Cash Equivalents Balances

As disclosed in Note 11.5 to the financial statements, the statement of financial position reflects an amount of Kshs.172,752,669; (2018-Kshs.172,853,169) under cash balances. However, the audited comparative figure reflects a balance of Kshs.175,505,995 resulting to an unexplained variance of Kshs.2,652,826. Consequently, the accuracy of the reported cash and cash equivalents balance of Kshs.172,752,669 as at 30 June, 2019 could not be confirmed.

##### 175.2 Unconfirmed Receivables

The statement of financial position reflects a receivables balance of Kshs.21,221,715; (2018-Kshs.21,221,715). The balance comprises of Kshs.16,900,000 owed by the Cereals and Sugar Finance Corporation and Kshs.4,321,715 ordinary dividends receivable from the Kenya Power and Lighting Company respectively. However, there has been no movement during the year under review indicative of likely impairment of the balance. No adjustments by way of provisions have been made to ensure fair statement of the receivables amount.

Consequently, the fair statement of the receivables balance of Kshs.21,221,715 as at 30 June, 2019 could not be confirmed.

#### **176. Unconfirmed Investments**

The statement of financial position further reflects an investments balance of Kshs.21,608,573 (2018-Kshs.21,608,573). However, proof of ownership and existence of the investments in shares of the Kenya Power and Lighting Company could not be confirmed as the share certificates were not availed for audit review.

In the circumstances, the existence and validity of the investments balance of Kshs.21,608,573 as at 30 June, 2019 could not be confirmed.

#### **177. Unexplained Adjustments**

As reported previously, the Fund adjusted its investments balance of Kshs.25,516,933 downwards in the financial year 2017/2018 by Kshs.3,908,360 for which no explanation has been provided. Further, the audited comparative accumulated surplus balance figure brought forward of Kshs.92,500,404 has been adjusted downwards to Kshs. 89,847,579 with no disclosures by way of Notes to the financial statements.

In the circumstances, the validity of the adjustments on the investment and Fund balances brought forward could not be confirmed.

#### **178. Unreconciled Ledgers and Trial Balance**

The balances in the financial statements are at variance with the Trial Balance. The Trial Balance debit and credit balances have variances totalling to Kshs.172,752,669. Further, the receivables balance of Kshs.21,221,715 has not been incorporated in the ledgers.

Consequently, the completeness and accuracy of the financial statement presented for audit could not be confirmed.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**179.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**180.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# ASIAN OFFICERS FAMILY PENSION FUND

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Adverse Opinion

#### 181. Accuracy of the Financial Statements

The Trial Balance prepared and presented for audit reflected some balances which were omitted from the financial statements as detailed below:

Account Description	Debit (Kshs.)	Credit (Kshs.)
Other Admin - Contributions A.O.F.P. F	81,932	
Pension Increase A.O.F.P. F	81,932	
Pension Payment (excluding pension increase)	-	1,023,072
Income and Expenditure Account	50,554	
Interest on Investments Asian	592,085,315	
Expenses of Management	10,613,702	
Appreciation/Depreciation Account	337,703	

Further, the Trial Balance reflected total debits and credits of Kshs.788,352,089 and Kshs.1,236,837,608 respectively resulting to a difference of Kshs.448,485,519. Although Management explained that the difference was as a result of failure by the system to capture Pay Master General items, no adjustments or reconciliation for the difference was provided for audit. In addition, other receipts in the statement of cashflows is referenced to Note 11.9 instead of Note11.10.

Consequently, the accuracy and fair statement of the financial statements could not be confirmed.

#### 182. Unsupported Balances

The statement of assets and liabilities reflects a receivables and cash equivalent balances of Kshs.20,491,730 and Kshs.448,485,519 respectively. However, Management has not supported the balances by way of detailed schedules.

Further, and as previously reported, included in the receivables balance is an amount of Kshs.15,200,000 relating to cash owed to the Fund by the defunct Cereals and Sugar Finance Corporation (CSFC) under winding up process. The balance is however unsupported by way of deposit certificates or other documentary evidence confirming the ownership.

In the circumstance, the accuracy and recoverability of the reported receivables balance of Kshs.20,491,730 and the accuracy of the cash equivalent balance of Kshs.448,485,519 could not be confirmed.

### **183. Wrong Presentation of Financial Statements**

Although the cover page states that the financial statements have been prepared in accordance with the Accrual Basis of accounting method under the International Public Sector Accounting Standards (IPSAS), there is a mix up on the elements. The financial statements contain the statement of assets and liabilities in place of the statement of financial position; and the statement of receipts and payments in place of the statement of financial performance.

In the circumstances, the financial statements as prepared and presented do not comply with the provisions of Section 81(3) of the Public Finance Management Act, 2012.

#### **Other Matter**

### **184. Incomplete Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts reflects total actual revenue and expenditure on comparable basis of Kshs.5,998 and Kshs.1,601,196 respectively. However, the budgeted revenue and expenditure is not reflected.

In the circumstances, the accuracy of the statement of comparison of budget and actual amounts, and the regularity of the expenditure incurred could not be confirmed.

### **185. Unresolved Prior Year Issues**

As disclosed in Note 12 to the financial statements on progress on follow up of auditor's recommendations, various prior year's audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year's audit issues.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**186.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**187.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **ASIATIC WIDOWS AND ORPHANS PENSION FUND**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**188.** There were no material issues noted during the audit of the financial statements of the Fund.

### **Emphasis of Matter**

#### **189. Failure to Wind Up the Fund**

As reported previously, the Fund has been dormant since June, 2002 since the death of the only surviving beneficiary. The Cabinet through memorandum dated 26 June, 2012 authorized the Attorney General, the Minister of State for Public Service and The National Treasury to commence the winding up process of the Fund. Subsequently, a task force was appointed by The National Treasury to wind up dormant funds in August, 2015, which prepared a draft legal notice for the de-gazettement of the Fund. As at the time of finalizing this audit, the process was yet to be completed.

My opinion is not qualified in respect of this matter.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**190.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**191.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **AFRICAN UNION AND OTHER INTERNATIONAL ORGANIZATIONS SUBSCRIPTION FUND**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Adverse of Opinion**

#### **192. Lack of Proper Books of Accounts**

The Fund did not maintain proper books of accounts including receipt vouchers, cash books, ledgers, and bank reconciliation statements. Further, the summary of budget versus actual performance reflects budgeted revenue estimates of Kshs.2,650,892,952 based on 10% of total estimated import declaration fee. However, supporting documents showing how the amount was arrived at were not availed for audit review. In addition, the statement did not indicate the estimated expenditure for the year contrary to Section 2 of the Appropriation Act, 2016.

Consequently, the validity, accuracy and completeness of the financial statements for the year ended 30 June, 2019 as prepared and presented for audit could not be established.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **193. Non-Payment of Government Subscription to African Union**

Regulation 4 of Public Finance Management (African Union and Other International Organizations Subscription Fund) Regulations, 2017 provides that the object and purpose of the Fund shall be to make Kenya's contribution to the African Union and other international organizations to which Kenya has a financial obligation. However, the Fund did not pay the Government of Kenya's contribution to the African Union and Other International Organizations in the financial year despite availability of substantial funds for the purpose.

Management is in breach of the law to this extent.

#### **194. Non-Operationalization of the Fund**

The secretariat necessary to operationalize the Fund had not been set up as at 30 June, 2019. This is contrary to Section 7(2) of the Public Finance Management (African Union and Other International Organisations Subscription Fund) Regulations, 2017. The Fund did not therefore, utilize the approved budget for the period.



## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **195. Limited Segregation of Duties**

Contrary to the provisions of Section 68 (1) (e) of the Public Finance Management Act, 2012 which requires accounting officers to ensure that all applicable accounting and financial controls and systems are followed, the financial transactions for the Fund were processed by one officer without segregation of duties. Consequently, internal controls were inadequate.

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## REPORT ON THE FINANCIAL STATEMENTS

### **Basis for Adverse Opinion**

#### **196. Unsupported District Suspense**

As disclosed in Note 11 to the financial statements, the statement of assets and liabilities as at 30 June, 2019 reflects accounts receivables balance of Kshs.45,758,389 which includes a district suspense figure of Kshs.45,008,684. The district suspense figure has been explained as the balance outstanding from Kshs.700,500,000 disbursed to various Regional Authorities in the financial year 2016/2017 for drought intervention measures out of which Kshs.655,691,316 had been converted to expenditure as at 30 June, 2019. However, a review of expenditure returns from the Regional Authorities showed that out of the total indicated as converted expenditure of Kshs.655,691,316 only Kshs.430,451,134 had relevant supporting documents, leaving unsupported balance of Kshs. 225,040,182.

Further, even though the funds disbursed in 2016/2017 financial year were to be utilized in the same year in accordance with the approved work plans that were used in disbursing the funds, the Regional Authorities have continued to utilize the funds for over three years without approvals of the activities being executed after the expiry of the execution work plan time lines.

Consequently, the accuracy and completeness of the accounts receivables balance of Kshs.45,758,389 as at 30 June, 2019 cannot be confirmed.

#### **197. Prior Year Adjustments**

As disclosed in Note 14 to the financial statements, the statement of assets and liabilities reflects prior year adjustments totalling Kshs.30,798,591. However, the adjustments have not been done in line with Paragraph 47(a) of the International Public Sector Accounting Standards (IPSAS) Number 3 which require restatement of all affected prior year balances in the financial statements unless it is impracticable to do so.

Consequently, the statement of assets and liabilities for the year ended 30 June, 2019 do not comply with International Public Sector Accounting Standard (Cash Basis).

#### **198. Variances Between Amount of Appropriations-In-Aid (AIA) Presented and Amount Collected**

As disclosed in Note 3 to the financial statements, the statement of receipts and payments, reflects a balance of Kshs.71,000,000 under other revenues, being Appropriations-In-Aid collected during the year. However, documents in support of other revenue earned, received, confirmed and reported in the financial

statements of the Kenya National Bureau of Statistics (KNBS) amounted to Kshs.279,195,885 against a budget of Kshs.71,000,000. The accounting treatment of the resultant variance of Kshs.208,195,885 has not been explained.

Under the circumstances, it has not been possible to confirm the accuracy of the other revenues balance of Kshs.71,000,000 reported in the financial statements as at 30 June, 2019.

## **199. Acquisition of Assets**

### **199.1 Unsupported Participants and Other Allowances on MTP III**

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.320,844,976 under acquisition of assets which includes an amount of Kshs.297,981,180 incurred under research, studies, project preparation, design and supervision. The latter balance includes an amount of Kshs.79,016,000 paid as imprest to various officers to facilitate forums in the Counties. The imprests were for the officer's daily subsistence allowances, hire of venue, transport reimbursement to the participants, accommodation allowances to participants in Counties, facilitation for report writing, facilitation for presenters, hire of LCD projectors and public address systems, stationery, security, fuel and other contingency expenses.

However, even though a listing indicating participants' signatures for monies received from the paying officers was produced, details of the venues for the meetings including how the venues were procured and paid for were not availed for audit verifications. In addition, no details on the basis of identification of the participating citizens was availed for audit verification and confirmation as the listing provided had no telephone contacts of the participants.

Consequently, the propriety and accuracy of this expenditure of Kshs.79,016,000 under acquisition of assets could not be confirmed.

### **199.2 Irregular Expenditure on Refurbishment of Buildings**

Further, the acquisition of assets figure of Kshs.320,844,976 as reported in the statement of receipts and payments includes an amount of Kshs.20,802,795 in respect of refurbishment of buildings. However, the latter balance includes incorrectly classified payments for internet totalling Kshs.20,000,000 from a supplier whose details of how they were identified and procured were not availed for audit verification. There was also no certificate of inspection and acceptance to show that the service was received as detailed in the contract. Additionally, included in the refurbishment expense is an amount of Kshs.478,885 in respect of payment for retention monies for which the contract under which it accrued and the opening balance was not provided.

### **199.3 Irregular Charging of Printing Expenses on Refurbishment of Buildings**

As disclosed under Note 9 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.320,844,976 under acquisition of assets which includes an amount of Kshs.297,981,180 incurred on research, studies, project preparation, design and supervision. The latter balance includes an amount of Kshs.28,354,504 paid to the Government Printer for printing 15,000 copies of the Third MTP III 2018-2022 and 28,000 copies of the 28 MTP III Sector Plans. No explanation has been provided for charging printing expenses under refurbishment of buildings.

Under the circumstances, the propriety and accuracy of the acquisition of asset figure of Kshs.320,844,976 could not be ascertained.

### **200. Use of Goods and Services - Communication Supplies and Services**

As disclosed on Note 5 to the financial statements, the statement of receipts and payments reflect a balance of Kshs.431,275,096 under use of goods and services which includes an amount of Kshs.15,034,290 incurred under communication supplies and services. Included in the communication supplies and service figure of Kshs.15,034,290 is an amount of Kshs.1,173,996 relating to purchase of eight (8) smart phones which were purchased at a cost above the approved limit of Kshs.30,000 each. Four (4) phones were procured at a cost of Kshs.159,999 each which was higher than the market survey figure of Kshs.119,999 and the other four (4) at a cost of Kshs.133,500 each while the market survey priced them at Kshs.95,000 each. As a result, the State Department incurred unwarranted expenditure of Kshs.314,000 on procurement of phones above the market price and unjustified expenditure of Kshs.933,996 due to exceeding the set limits of Kshs.30,000 per phone. Further, the communication, supplies and services figures include Kshs.3,653,841 in respect of procurement of internet services. However, documents in support of the method used to identify the supplier and the procurement process of the services were not availed for audit review.

Consequently, the communication supplies and service figure of Kshs.15,034,290 for the year ended 30 June, 2019 could not be ascertained.

### **201. Unresolved Prior Year Matters**

#### **201.1 Accuracy and Completeness of the Financial Statements**

##### **201.1.1 Accuracy of Financial Statements**

The Trial Balance as at 30 June, 2018 reflected balances against various account items which differed from corresponding balances reflected in the financial statements for the year then ended. The differences totalling Kshs.100,481,828,741 (under) and Kshs.8,910,155,414 (over) between the two sets of records have not been reconciled.

Further, grants and transfers to other Government entities for development in the financial statements stood at Kshs.36,725,628,366 while Note 6 to the financial statements casted to a total of Kshs.36,765,553,336 resulting to unexplained variance of Kshs.39,925,000 which clearly indicated that some receipts during the financial year were not captured in the accounting records and the financial statements contain a suspense account.

### **201.1.2 Unsupported Adjustments**

Management submitted for audit financial statements on 28 September, 2018 which was revised and another set of financial statements submitted on 27 February, 2019. However, the movements in the balances noted in some of the components as detailed below were not supported by any documentation or adjustment journals:

<b>Component</b>	<b>2<sup>nd</sup> Financial Statements (Kshs.)</b>	<b>Revised Financial Statements (Kshs.)</b>	<b>Variance (Kshs.)</b>
District Clearance Suspense	0	73,322,660	73,322,660
Prior Year Adjustments	(563,400,307)	(488,660,397)	(74,739,910)

Under the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2018 could not be confirmed.

## **201.2 Receipts**

### **201.2.1 Proceeds from Foreign Borrowing**

#### **201.2.1.1 Unsupported Advance Payment for Arror Multipurpose Dam Development Project**

The statement of receipts and payments reflected proceeds from foreign borrowings of Kshs.4,526,966,879 as at 30 June, 2018 which included an amount of Kshs.4,292,651,060 paid as advance payment to CMC Di Ravenna-Itinery JV as advance payment for Arror Multipurpose Dam Development project. However, the following observations were noted about this payment:

- i) The report on feasibility was submitted on 31 May, 2012. No Environmental Impact Assessment report was provided for audit review.
- ii) The advertisement requesting for proposals was made on 19 December, 2014 and 24 December, 2014 and closed on 18 March, 2015.
- iii) A second stage request for proposal (which was not in line with procurement regulations) with closure date of 30 October, 2015 under tender

No. KVDA/RFP/36/2014/2015 without appropriate budgetary provisions or a financier for the project.

- iv) The letter of bid was prepared on 26 October, 2015 and letter of acceptance by Kerio Valley Development Authority prepared on 14 December, 2015.
- v) Kerio Valley Development Authority signed a Memorandum of Understanding on 18 December, 2015 committing to exclusively contract the bidder as and when they obtained funding from some stated financiers. The memorandum had a validity period of eight months which then expired on 18 August, 2016. There was no evidence of extension provided for audit verification.
- vi) The credit/finance was obtained in 2017 and financing agreement for the loan signed on 18 April, 2017 amounting USD \$224,442,163.92 equivalent to Kshs.23,153,700,510 for a period of fifteen (15) years and a floating interest rate to be determined from time to time by the agent.
- vii) The contract awarding the works was signed on 5 April, 2017 seven months outside the validity period of the Memorandum of Understanding but no fresh bids were sought.
- viii) Advance claim certificate of USD 41,611,140.83 (representing 15% of the contract sum) equivalent to Kshs.4,292,651,060 which was used for payment was not dated, had not been recommended by the KVDA General Manager, Technical Services, and was not approved by the Chief Executive Officer- KVDA.
- ix) No evidence of the payee, the date of payment or the authority to pay was availed for audit examination.
- x) No evidence or correspondence to show that the payment was made to the contractor by the financier upon obtaining the necessary approvals or to ensure there was delivery and compliance with contract terms was availed.
- xi) An inspection carried out by the audit team on 5 April, 2019 revealed that;
  - a. Even though the advance payment was made through a memorandum payment voucher dated 7 December, 2017, no work had been done on the ground to cover the payment.
  - b. No compensation had been made for the affected community members.
  - c. Kenya Forest Service had not ceded the forest portion required for utilization in the dam construction.

- d. The agreement between the affected community and the Kerio Valley Development Authority had not been confirmed and therefore viability of the project is in doubt.

#### **201.2.1.2 Unsupported Payment for Sigor Wei Wei Integrated Development Project**

The statement of receipts and payments reflect proceeds from foreign borrowings of Kshs.4,526,966,879 which includes an amount of Kshs.234,315,819 made on behalf of Kerio Valley Development Authority in respect of Sigor Wei Wei Integrated Development Project. However, the following observations were noted about this payment:

- i) The financing agreement availed for audit was made on 28 January, 2007 and a further endorsement made on 18 September, 2009.
- ii) The project was having a lifespan of four years beginning 18 September, 2009 and had detailed deliverables for each phase of the project and therefore the agreement lapsed on 18 September, 2013.
- iii) The memorandum payment voucher for capturing the payment consultants were prepared by KVDA in July, 2017 which was more than three years outside agreement timelines for implementation.
- iv) No further endorsement of financing loan agreement was provided in support of the validity of expenditure being captured in the financial statement.
- v) Payments totalling Kshs.41,259,819 out of Kshs.234,315,819 did not have certificate of completion from the inspection and acceptance committees hence not adequately supported for payment.

#### **201.2.1.3 Unrecorded and Unsupported Retention Money**

The statement of receipts and payments reflected proceeds from foreign borrowings of Kshs.4,526,966,879 which excluded retentions totalling Kshs.11,472,805 in respect of payments to contractors and consultants for Sigor Wei Wei Integrated Development Project Phase III.

In consequence, the authenticity of proceeds from foreign borrowings and the propriety of the payments therefore amounting to Kshs.4,526,966,879 could not be confirmed.

#### **201.3 Other Revenues**

The statement of receipts and payments reflected other revenues of Kshs.294,587,507 being Appropriations-in-Aid collected in 2017/2018 financial year. However, the supporting documents availed to confirm other revenue earned, received, confirmed and reported in the financial statement of the

respective SAGAs amounted to Kshs.668,322,928 against a budget of Kshs.296,000,000. The accounting treatment of the amounts that are above the recorded balances has not been explained as analyzed below:

<b>SAGAs</b>	<b>Budgeted AIA (Kshs.)</b>	<b>Amount Collected (Kshs.)</b>
Kenya National Bureau of Statistics	71,000,000	288,345,947
Kerio Valley Development Authority	45,000,000	226,521,478
Tana & Athi Rivers Development Authority	157,000,000	130,222,079
Lake Basin Development Authority	21,500,000	18,365,424
Ewaso Ngiro South Development Authority	1,500,000	4,868,000
<b>Total</b>	<b>296,000,000</b>	<b>668,322,928</b>

Under the circumstances, it has not been possible to confirm the accuracy of the other revenue balance of Kshs.294,587,503 reported in the financial statements as at 30 June, 2018.

## **201.4 Use of Goods and Services**

### **201.4.1 Specialized Materials**

The statement of receipts and payments reflected a balance of Kshs.304,669,023 in respect of use of goods and services which included an amount of Kshs.16,613,364 in respect of specialized materials and supplies. The latter balance included payments totalling Kshs.7,778,730 made in respect of tuition fee expenses. No evidence was availed to support the approval of the over expenditure by the National Assembly contrary to Section 113(1) of the Public Finance Management (National Government) Regulations, 2015. This anomaly has not been satisfactorily explained.

Consequently, the accuracy and propriety of specialized materials expenditure of Kshs.16,613,364 as reflected on Note 5 of the financial statements could not be confirmed.

## **201.5 Grants and Transfers to Other Government Entities**

The statement of receipts and payments for the year ended 30 June, 2018 reflected transfers to other Government entities amounting to Kshs.40,336,190,128. However, there were differences amounting to Kshs.8,177,413,627 between the amounts reported as disbursed by the State Department for Planning and the amounts reflected in the financial statements of the respective SAGAS which is as detailed below:



<b>Entity</b>	<b>Amount Disbursed by the State Department (Kshs.)</b>	<b>Amount Received by Entity (Kshs.)</b>	<b>Difference Kshs.</b>
Kenya National Bureau of Statistics	2,628,666,648	2,410,805,540	217,861,108
National Constituency Development Fund	29,800,000,000	21,875,000,000	7,925,000,000
Lake Basin Development Authority	356,087,141	337,721,717	18,365,424
Ewaso Ngiro North Development Authority	268,379,281	333,222,674.00	(64,843,393)
Tana and Athi Rivers Development Authority	476,030,488	345,000,000	131,030,488
Ewaso Ngiro south Development Authority	522,366,291	572,366,291	(50,000,000)
<b>Sub-Total</b>	<b>34,051,529,849</b>	<b>25,874,116,222</b>	<b>8,177,413,627</b>

As a result, the accuracy of the grants and transfer figure of Kshs.40,336,190,128 for the year ended 30 June, 2018 could not be confirmed.

## **201.6 Acquisition of Assets**

### **201.6.1 Unsupported Construction of Civil Works**

The statement of receipts and payments for the year ended 30 June, 2018 reflected a balance of Kshs.1,169,062,004 under acquisition of assets which included an amount of Kshs.424,524,403 paid in respect of construction and civil works. However, documents availed in support of the amount showed the following;

- i) Payment of Kshs.109,406,979 related to billing in respect of a consultant's invoice for a feasibility study and design of a high grand falls dam along River Tana in Tana River County, dated 30 June, 2012 which purportedly had been outstanding ever since. The payments were made to an insurance company in respect of a claim settled to the consultant against a policy covering risk of nonpayment. However, no documentation was provided to show that the bill was actually outstanding as at the time of payment since the amount was not included in the pending bills for the financial year 2016/2017 and no documentation in support of inspection and acceptance of work done by consultant, if any, in respect of the contract dated 30 January, 2010.
- ii) Payment of Kshs.277,793,123 related to consultancy services for feasibility study and design for Lower Ewaso Ngiro South Multipurpose Dam contracted in May, 2012 and billed on 17 December, 2013. However, no documentation was provided to show the bill was actually outstanding as at the time of payment since the amount was not included in the pending bills

for the financial year 2016/2017 and no documentation was provided in support of inspection and acceptance of work done by the consultant, if any. In addition, the payment voucher provided in support of the payment had been voided and hence not valid for payment.

Consequently, the accuracy, validity and propriety of construction of civil works expenditure of Kshs.424,524,403 as reported in Note 9 of the financial statements cannot be confirmed.

### **201.7 Cash and Cash Equivalents - Bank Balance**

As disclosed in Note 10 A of the financial statements, the statement of assets and liabilities reflected a bank balance of Kshs.8,991,117 as at 30 June, 2018. However, a review of the bank reconciliation statement for the Central Bank of Kenya recurrent bank account No.100302216 had the following unsatisfactory issues:

- i) The reconciliation included cheques totalling Kshs.38,940,201 which had not been presented to the bank for payment as at the time of audit and which were more than six months old therefore, not payable.
- ii) Payments in cash book not in bank statement for the recurrent bank account included three payments totalling Kshs.24,495,961 paid on 26 June, 2018 which had been recorded twice in the cash book on 27 June, 2018, effectively understating the cash balance by a similar amount and overstating unidentified expenditure by the same.
- iii) Receipts in cash book not in bank statement for the recurrent bank balance included an unexplained reversal in the cash book of Kshs.2,747,896.

In view of the foregoing, it was not possible to confirm that the cash-and-cash equivalents balance of Kshs.8,991,117 was fairly stated as at 30 June, 2018.

### **201.8 Unsupported Prior Year Adjustments**

As disclosed in Note 14 to the financial statements, the statement of assets and liabilities reflected prior year adjustments totalling Kshs.488,660,397. However, justification for the prior year adjustments and the documentary evidence to support the figures have not been provided for audit verification. In addition, the prior year adjustments have not been done in line with the International Public Sector Accounting Standards which requires restatement of all affected prior year balances in the financial statements unless it is impracticable to do so.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2018 could not be ascertained.

### **201.9 Accounts Payable – Deposits and Retentions**

The statement of assets and Note 12 to the financial statements reflected a balance of Kshs.8,833,772 under accounts payables-deposits and retentions as at

30 June, 2018. However, a review of retention money outstanding at the close of 2016/2017 indicated that a contractor listed as having a retention balance of Kshs.4,857,9334 then, was not listed in the retention schedule for 2017/2018, yet no documentation was provided to show how retention money was paid.

Consequently, the completeness and accuracy of the deposit and retentions balance of Kshs.8,833,772 reported in the financial statements could not be confirmed.

## **Other Matter**

### **202. Unsupported Pending Bills**

Annex 1 to the financial statements reflects pending bills amounting to Kshs.22,517,023. As reported in the 2017/2018 financial year, the State Department for Planning had an outstanding pending bill amount of Kshs.340,632,037 as at 30 June, 2018 out of which Kshs. 22,517,023 remained outstanding as at 30 June, 2019. These bills have not been presented for payment as they lacked vital supporting documents such as purchase orders, delivery notes, inspection and acceptance certificates among others.

Failure to settle bills in the year they relate to distorts the financial statements for the subsequent years as they form a first charge of the budget provisions.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **203. Non-Compliance with Procurement Laws**

#### **203.1 Education Enhancement Centre Limited**

Procurement of rapporteur services for the annual National Monitoring and Evaluation week (M&E) in Mombasa from 11 to 17 November, 2018 cost Kshs.1,852,800 for the year ended 30 June, 2019. The procurement process was initiated in March, 2019 after the event had taken place. No satisfactory explanation has been provided for this anomaly.

#### **203.2 Purchase of Smart Phones**

Purchase of smart phones totalling Kshs.1,173,996 exceeded the approved limits of Kshs.30,000 for cash purchases. The phones were overpriced and the State Department had no policy on the purchase and issuance of the personal devices such as smart phones hence the existence and security of the same cannot be confirmed.

### **203.3 Purchase of ICT Equipment**

An examination of payment vouchers revealed that the State Department for Planning procured computer related equipment amounting to Kshs.6,982,000 in October, 2018. However, there was no authority from the State Department for ICT before the procurements were made as authority was sought on March, 2019 and granted in April, 2019. Hence the procurement was not authorized at the time of purchase. No explanation was given for this anomaly.

### **204. Irregular Award of Contracts**

#### **204.1 Provision and Maintenance of Fresh Cut Flowers**

Tender evaluation for provision and maintenance of fresh cut flowers was conducted on 14 September, 2018 and the committee awarded a florist (Second lowest bidder) to supply flowers to various offices at a cost of Kshs.1,068,000 per annum instead of awarding to the lowest bidder at Kshs.497,676 for a similar period, resulting to a loss of Kshs.570,324 of public funds.

#### **204.2 Provision of Professional Cleaning Services**

A company was awarded the tender for cleaning services at a total cost of Kshs.3,921,120 per annum without a clear award criterion. Although the evaluation committee recommended four firms to be subjected to further interrogations and interviews, proceedings of the interviews were not documented thus it was not possible to establish if the tender was fairly awarded.

### **205. Irregular Advance Payments**

During the year under audit, advance payments of Kshs.303,000, Kshs.441,075 and Kshs.653,520 for supply of flowers, newspapers and cleaning services were made. However, the goods were not delivered. No delivery notes were attached to these payments. No appropriate explanation was given for this anomaly.

### **206. Direct Procurement Expenditure**

The State Department for Planning procured air tickets from various service providers amounting to Kshs.21,296,171 through direct procurement contrary to Section 103 (2) of the Public Procurement and Asset Disposal Act, 2015. Further, the State Department also, procured 4000 copies of the 6<sup>th</sup> National Monitoring and Evaluation Week Report at Kshs.3,400,000 through direct procurement contrary to the requirements of Section 91 of the Public Procurement and Asset Disposal Act, 2015. No appropriate explanation has been provided for these anomalies.

Under the circumstances, the value for money for the above expenditure totalling Kshs.24,696,171 could not be confirmed.

## **207. Double Imprests**

Various staff received imprest advances amounting to Kshs.1,025,759 while still on other imprest, contrary to Section 93 (4)(b) of the Public Finance Management (National Government) Regulations, 2015. No satisfactory explanation has been provided for this anomaly.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**208.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR PLANNING**

### **DATA COLLECTION AND DATABASE DEVELOPMENT PROJECT (UNFPA KEN7P32A) – KENYA NATIONAL BUREAU OF STATISTICS**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**209.** There were no material issues noted during the audit of the financial statements of the Project.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Basis for Conclusion**

### **210. Lack of the Country Programme Agreement**

As reported in the 2017/2018 Audit Report and earlier years, Management did not provide the Country Programme Agreement between the Government of Kenya and United Nations Population Fund, UNFPA. Further, the Project remained dormant throughout the year with opening cash in bank balance of Kshs.2,170,918 and bank charges of Kshs.4,260 (2018 – Kshs.3,960) resulting to closing cash in bank balance of Kshs.2,166,658 as reflected in the statement of financial assets and liabilities as at 30 June, 2019.

Consequently, in absence of any activity, attainment of Project goals and objectives cannot be confirmed.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**211.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **COORDINATION OF POPULATION POLICY IMPLEMENTATION PROJECT (UNFPA CREDIT NO. KEN08POP) – NATIONAL COUNCIL FOR POPULATION AND DEVELOPMENT**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Basis for Qualified Opinion**

#### **212. Unreconciled Cash and Bank Balances**

The statement of financial assets and liabilities as at 30 June, 2019 reflects a cash and cash equivalents balance totalling Kshs.1,697,679 which includes Kshs.1,603,431 and Kshs.94,248 in respect to cash in bank at the Council's Head Office and cash on hand at five of its regional stations respectively. However, records at the stations in Mombasa, Kisumu, Eldoret, Machakos and Garissa reflected bank balances totaling Kshs.499,833 which sum was, however, not reconciled to the aggregate bank balance totalling Kshs.94,248 reflected at the Head Office against these stations.

No plausible explanation has been provided for the difference amounting to Kshs.405,585 between the two sets of records. As a result, the accuracy and completeness of the cash and bank balances totalling Kshs.1,697,679 reported in the statement of financial assets and liabilities as at 30 June, 2019 cannot be confirmed.

#### **213. Unauthorized and Inadequately Disclosed Goods and Services Expenditure**

The statement of receipts and payments for the year ended 30 June, 2019 reflects purchase of goods and services expenditure totalling Kshs.143,633 disclosed under Note 8.8 to the financial statements. However, the budget for the expenditure has not been made available for audit verification. As a result, it is not possible to confirm the regularity of the expenditure.

Further, Note 8.8 to the financial statements reflects opening and closing purchase of goods and services account balances totalling Kshs.24,781,975 and Kshs.351,361,672 respectively. However, the Note does not disclose the composite balances as at 30 June, 2018 as required by the International Public Sector Accounting Standards and the format prescribed for presentation of such information by the Public Sector Accounting Standards Board. Therefore, disclosure made on the previous year's balance totalling Kshs.24,781,975 is inadequate.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**214.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**215.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **MULTIPLE INDICATOR CLUSTER SURVEY PROJECT - UNICEF - KENYA NATIONAL BUREAU OF STATISTICS**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **216. Unsupported Purchase of Goods and Services**

As disclosed under Note 9 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.8,940,966 under purchase of goods and services. Included in this figure is Kshs.2,727,295 in respect of payments made to Government Administration Officers hired to assist in mapping verification exercises in four (4) Counties. However, the Management did not avail supporting documents for audit verification such as the official list indicating the name, location and identification numbers of the invited officers or the basis of determining the imprest details. Further, an amount of Kshs.1,088,280 was not utilized but was surrendered in cash, three (3) months after the conclusion of the exercise.

Consequently, the validity, accuracy and completeness of the purchase of goods and services expenditure of Kshs.8,940,966 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

## **Other Matter**

### **217. Unresolved Prior Year Issues**

During the current year audit review, it was established that the following issue raised during the 2017/2018 financial year audit remained unresolved: -

#### **2017.1 Unaccounted for Cash Equivalents**

The statement of financial assets and liabilities had indicated cash and cash equivalents balance of Kshs.2,511,405 as at 30 June, 2018. However, included in the balance was cash in project account of Kshs.1,876,334 which included cash receipts of Kshs.43,500 that have never been captured in the bank account since 2009. Review of this matter in the year 2017/2018 indicates that the matter has not been resolved.

#### **217.2 Mapping Verification Exercise**

Review of the work plan for November, 2016 to June, 2018 had indicated approved areas for mapping verification as Kakamega, Bungoma, Tana River, Garissa, Kilifi and Mombasa. However, it was revealed that, mapping verification was undertaken in the month of June, 2018 in the following areas; Kisumu, Kisii, Siaya, Kilifi, Nairobi, Kwale, Kericho, Tharaka Nithi, West Pokot, Nyeri and Makueni at a cost of Kshs.5,558,578. No Board or donor approvals justifying the changes, or a revised approved work plan, were provided for audit verification.

Further, a draft mapping report for Kisumu, Kisii and Siaya counties presented for audit review was not signed and no evidence existed that it had been discussed in the board and implemented. In addition, there was no indication that the implementation of the activities had been approved by the donor.

#### **217.3 Hiring the Services of National Government Officers**

The statement of receipts and payments for the year ended 30 June, 2018 had reflected purchase of goods and services balance of Kshs.6,464,177 which included a balance of Kshs.1,455,828 used to hire the services of National Government Officers who assisted in mapping verification. However, letters requesting the services of these officers, appointment letters and service contracts indicating the terms of engagement have not been made available for audit scrutiny hence the propriety on the utilization of Kshs.1,455,828 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## **Basis for Conclusion**

### **218. Compliance with the Reporting Template**

Whereas The National Treasury in conjunction with the Public Sector Accounting Standards Board of Kenya have issued the format of the reporting template for the Donor Funded Projects, the Management did not prepare the statement of



comparative budget and actuals correctly as provided. The statement does not include the adjustment or the supplementary budget column but instead reflects only the original budget and actual performance. The statement has also failed to separate the receipts and payments as provided and does not compare to the statement of receipts and payments. It has not disclosed the various items on receipts or of expenditure. In addition, Management did not include under Annexure I or any other, the explanation for material deviation between the budget and actual amounts contrary to the International Public Sector Accounting Standards, IPSAS 24.

The Management is therefore in breach of the law.

#### **219. Lack of Financing Agreement**

During the year under review, the Management did not provide the Financing Agreement and approved annual work plan between the Bureau and UNICEF in respect of the 2019 Kenya Population and Housing Census (KPHC) Enumeration Area (EA) map verification in four (4) Counties.

Consequently, the completeness and validity of the receipts of Kshs.6,911,720 and payments of Kshs.9,361,177 for the year ended 30 June, 2019 could not be confirmed.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**220.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - CENTRAL BANK OF KENYA ACCOUNT**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**221.** There were no material issues noted during the audit of the financial statements of the Fund.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**222.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**223.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **WOMEN ENTERPRISE FUND**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Basis for Qualified Opinion**

#### **224. Receivables from Exchange Transactions**

The statement of financial position as at 30 June, 2019 reflects a balance of Kshs.3,167,100,168 in respect of receivables from exchange transactions. Examination of records revealed the following anomalies:

##### **224.1 Non-Performing Loans to Financial Partners**

The balance of Kshs.3,167,100,168 in respect of receivables from exchange transactions includes non-performing loans totaling to Kshs.71,780,000 due from eight (8) financial intermediary partners. However, the Management has not made any provision for bad debts as recovery is doubtful.

##### **224.2 Doubtful Recovery of LPO Financing and CWEs Loans**

The receivables from exchange transactions balance of Kshs.3,167,100,168 further includes loans relating to LPO Financing of Kshs.8,130,960 which were due but not paid as at 30 June, 2019 while an amount of Kshs.732,649,283 was due from the Constituency Women Enterprise Scheme (CWEs) and had been outstanding for more than one year. The balance of Kshs.732,649,283 includes an amount of Kshs.50,370,500 which has remained dormant during the year under review.

Recoverability of these loans is doubtful since they had been in arrears beyond their respective repayment periods stipulated in the loan agreements and the 1% provision for bad debt is inadequate to cover potential defaulters contrary to the Women Enterprise Fund (WEF) Credit Policy and Guidelines.

### **224.3 Unsupported Receivable Balance**

The receivables from exchange transactions balance of Kshs.3,167,150,168 includes Pikipiki Loan Financing balance of Kshs.1,049,239 which has no detailed supporting analysis of the opening balance. The loan schedule provided shows the outstanding loan balance as at 30 June, 2018 of Kshs.949,500 which differs with the reported balance in the certified statements of Kshs.1,391,604. The variance has not been explained or reconciled. Further, the opening loans are indicated as having been issued on 30 June, 2018 and repayments done for thirteen (13) months in the year under review. This also has not been explained.

It has, therefore, not been possible to verify and confirm the accuracy and recoverability of the receivables from exchange transactions of Kshs.3,167,100,168 reflected in the financial statements as at 30 June, 2019.

### **225. Accuracy of the Cash and Cash Equivalents Balance**

As disclosed in Note 17 to the financial statements, the statement of financial position reflects cash and cash equivalents of Kshs.1,249,736,527 which includes an amount of Kshs.151,308,747 held under Mpesa Account. However, verification of the Mpesa balance disclosed that an amount of Kshs.6,235,982 under the Utility Account balance has been excluded in the total balance. Management has not given any explanation or reconciliation for the omission.

Under the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.1,249,736,527 as at 30 June, 2019 could not be confirmed.

### **226. Ineligible Rental Expense**

As disclosed in Note 14 to the financial statements, the statement of financial performance reflects a balance of Kshs.9,173,046 in respect of rental expenses. However, this expenditure includes an amount of Kshs.542,880 paid to the National Social Security Fund (NSSF) in two equal instalments on 21 January, 2019 and 18 April, 2019 for parking space. These payments were however, not made based on any valid lease agreement as the agreement in place was entered into on 1 January, 2017 and was valid for a period of twenty-four (24) months, thus rendering it invalid after 31 December, 2018.

Consequently, the validity of the rental expenses totalling Kshs.9,173,046 for the year ended 30 June, 2019 could not be confirmed.

### **Other Matter**

### **227. Unresolved Prior Year Matters**

In the audit report of the previous year, several paragraphs were raised based on various matters affecting the running of the Fund. The matters have remained unresolved and have not been deliberated on by the Public Accounts Committee.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 228. Un-Procedural Procurements

The statement of financial performance reflects an amount of Kshs.39,158,565 in respect of travel, conferences and accommodation. Examination of records revealed that the Fund procured conference services at a total cost of Kshs.3,588,780 for a two-days regional review meetings across the Country. The procurements were awarded without signed professional opinions from the Head of Procurement outlining the basis for recommendations for award as required by law.

Management is therefore in breach of the law.

#### 229. Employee Costs – Compliance with the Human Resource Policies

The statement of financial performance reflects an amount of Kshs.207,802,643 in respect of employee costs. This includes an expenditure on acting allowances amounting to Kshs.1,461,580 paid to ten (10) officers who were appointed on acting capacities during the year. The Officers, however acted for more than six months contrary to Public Service Commission (PSC) Human Resource Policies and Procedures Manual and Women Enterprise Fund Human Resource Policy. Further, acting allowances totalling Kshs.1,272,388 were paid to fourteen (14) ineligible staff who were not within the allowable Job Grades 2 to 5, that is eligible for acting allowance but were in Job Grades between 6 and 8 which is not eligible for acting allowance in line with Women Enterprise Fund Human Resource Policy.

The Management is therefore in breach of the law.

#### 230. Compliance with the Income Tax Regulations

As disclosed under Note 10 to the financial statements, the Fund incurred communication, electricity, water, and other supplies and services, expenditure amounting to Kshs.18,776,868 which includes staff airtime allowances amounting to Kshs.6,224,923 comprising of monies paid to staff on a monthly basis during the year. This amount was not, however, subjected to tax in line with the Income Tax Act and no explanation has been provided for the non-compliance.

Consequently, Management is in breach of the law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Basis for Conclusion

#### 231. Lack of a Functional Board of Directors

The term for the previous Board of Directors expired on 28 April, 2018 and the Fund operated throughout the year without a functional Board. This therefore,

meant that the stewardship of the Fund lacked strategic guidance while some of the decisions made by the Management lacked approvals which could lead to lack of checks and balances critical for proper corporate governance.

## **NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Disclaimer of Opinion**

#### **232. Presentation of Financial Statements**

##### **232.1 Noncompliance with the Public Sector Accounting Standards**

The financial statements prepared and submitted for audit are not consistent with the format prescribed by the Public Sector Accounting Standards Board and The National Treasury guidelines. The Corporate Governance Statement did not indicate the number of Board meetings held and details of meetings attendance by the Members of the Board during the year under review. Further, the Head of Finance did not disclose the ICPAK membership registration number as required by the Public Sector Accounting Standards Board. No justification has been provided for this deviation from the prescribed reporting format.

Consequently, the financial statements do not conform with the prescribed reporting format by the Public Sector Accounting Standards Board.

##### **232.2 Unexplained Adjustments to the Financial Statements**

The financial statements for the year ended 30 June, 2019 were submitted within the statutory deadline of 30 September, 2019. The financial statements were subsequently amended and revised. However, the adjustments processed between the first set of financial statements and the final revised set of financial statements were not supported with relevant documents to justify the amendments as summarized below:

<b>Component</b>	<b>Initial Financial Statements (Kshs.)</b>	<b>Revised Financial Statements (Kshs.)</b>	<b>Variance (Kshs.)</b>
Transfer to Other Government Units	1,967,866,141	1,969,632,174	1,766,033
Board of directors	12,966,690	16,826,925	3,860,235
Staff Costs	97,254,292	97,543,299	289,007
General Expenses	30,306,454	45,438,110	15,131,656
Emergencies to Counties	67,624,562	49,760,986	(17,863,576)
Gratuity	5,946,296	27,639,317	21,693,021

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

### **233. Inaccuracies in the Financial Statements**

#### **233.1 Cash and Cash Equivalents**

The statement of financial position and as analyzed in Note 17 shows cash and cash equivalents figure of Kshs.951,792,041. However, the statement of cash flows shows a cash and cash equivalents balance of Kshs.955,911,652, resulting to an unexplained and unreconciled variance of Kshs.4,119,611. The cash and cash equivalents balance also includes a current account balance of Kshs.14,583,071 which differs with the bank account reconciliation statement as at 30 June, 2019 of Kshs.14,820,864 by unexplained variance of Kshs. 237,793. Further, payments in bank statement not recorded in the cash book of Kshs.4,094,510 under the current account have not been explained with regard to the origin and nature, even though Management indicated that they were cheques made in June, 2018.

In addition, from the records in the custody of the Fund Management and Kisumu County Committee, NGAAF Office banked an amount of Kshs.23,793,901 into Chase Bank which was later placed under receivership. Although the Fund now has access to the Funds under IMB Bank through reactivation of the account, the amount of Kshs.23,793,901 has not been included in the cash balances or any form of receivables in the financial statements and no supporting documentation has been provided in support of this transaction.

Under the circumstances the accuracy, and existence of the cash and bank balance of Kshs.951,792,041 could not be confirmed.

#### **233.2 Staff Costs**

The statement of financial performance reflects an expenditure of Kshs.97,543,299 incurred on staff costs while data from the Human Resource Department and IPPD shows expenditures of Kshs.97,170,153.14 and Kshs.94,038,892 respectively as summarized below:

	<b>Financial Statements (Note 10) (Kshs.)</b>	<b>Human Resource Data (Kshs.)</b>	<b>IPPD Data (Kshs.)</b>
Staff Salaries and Wages	66,824,882	66,587,141.14	63,455,879.55
Travel Related Allowances	28,433,012	28,433,012	28,433,012
Extraneous Allowance	2,285,405	2,150,000	2,150,000
<b>Total</b>	<b>97,543,299</b>	<b>97,170,153.14</b>	<b>94,038,891.55</b>

The variances between the three sets of records has not been explained or reconciled. Further, included under staff costs balance of Kshs.97,543,299 is an

amount of Kshs.28,433,012 for travel expenses, out of which expenses amounting to Kshs.2,932,720 were not supported with relevant documents.

Consequently, the accuracy of the staff costs totalling Kshs.97,543,299 for the year ended 30 June, 2019 could not be confirmed.

### **233.3 Gratuity**

The statement of financial performance reflects a gratuity expense of Kshs.27,639,317 and the statement of financial position reflects a total gratuity liability and provision for gratuity totalling Kshs.26,912,978 which includes Kshs.3,637,853 tax on gratuity. Further, note 15 indicates the gratuity liability balance to be Kshs.5,004,038, while the composition adds up to Kshs.4,692,710 resulting to an unexplained variance of Kshs.311,328. It has also not been explained why the gratuity expense of Kshs.27,639,317 includes the amount of unremitted taxation of Kshs.3,637,853.

In addition, the gratuity expense of Kshs.27,639,317 includes gratuity for the Chief Executive Officer, forty-seven (47) County Coordinators, eleven (11) drivers, an Office Administrator and a Support Staff totalling Kshs.21,908,940 all of who are engaged on contracts and are entitled to gratuity at a rate of 31% on gross pay. However, the amount covers periods before the current financial year which would call for prior year adjustments or a restatement of prior year comparatives in line with International Public Sector Accounting Standard No.3.

### **233.4 Receivables - Outstanding Imprests**

Review of the imprest register and imprest warrants revealed that imprest amounting to Kshs.1,011,800 remained outstanding as at 30 June, 2019. However, this amount has not been reflected in the financial statements.

Consequently, the accuracy and validity of the outstanding imprests balance of Kshs.218,200 reflected in the financial statements could not be confirmed.

## **234. Transfers to Other Government Units**

### **234.1 Unsupported Balances**

The statement of financial performance and Note 8 reflects a balance of Kshs.1,969,632,174 for Transfers to Other Government Units that has not been supported by any form of documents. Further, no evidence from the Counties has been provided for audit verification including copies of relevant bank statements and confirmation of the amounts received by the County Committees from the Fund Secretariat and expenditures of the County Committees in the year under review. The forty-seven (47) County Committees did not submit any of the reports and records required by the regulations within the stipulated period after the closure of the financial year as stipulated in Section 11(7) of the PFM (NGAAF) Regulations.

## **234.2 Unsupported Disbursements to Counties**

Note 8 of the financial statements reflects disbursements to Counties totalling Kshs.2,253,547,922. However, the amount has not been confirmed by the various County Committees as having been received. Consequently, the accuracy of the disbursements balance of Kshs.2,253,547,922 could not be confirmed.

## **234.3 Irregular Reallocation of Funds**

- (i) In the year under review, Migori County was entitled to a total disbursement of Kshs.53,563,537 and out of which Kshs.10,712,707 representing twenty per cent (20%) was for Women Economic Empowerment (WEE) Projects. However, contrary to the PFM (NGAAF) Regulations, the Board approved reallocation in Migori County of Kshs.6,911,521 or about 65% of the funds allocated for WEE projects to Bursary and Scholarships in the second quarter. The reallocation exceeded the maximum limit of ten per cent (10%) of the funds allocated during the year and was for projects which were not in the same sector contrary to the Regulations.
- (ii) In Turkana County, for the fourth quarter, funds for value addition projects amounting to Kshs.2,450,000 were reallocated to other unrelated projects of vehicle maintenance - Kshs.500,000, fuel - Kshs.200,000, launch of sanitary towels expenses - Kshs.350,000, sensitization and mentorship program for students - Kshs.1,000,000 and committee allowances - Kshs.400,000 all which were not in the same sector.

Under the circumstances, the propriety and accuracy, of Transfers to Other Government Entities of Kshs.1,969,632,174 for the year ended 30 June, 2019 could not be confirmed.

## **235. Revenue from Non-Exchange Transactions – Receipts from Counties**

The statement of financial performance reflects an amount of Kshs.352,596,443 as receipts from Counties (unspent amounts in the financial year 2017/2018). However, the supporting Appendix IV to the financial statements has an amount of Kshs.137,705 whose details of the remitting County is not indicated. It is therefore not possible to verify the accuracy of the amount. In addition, the amount of Kshs.352,596,443 was presumably from thirty-six (36) Counties leaving out unknown balances held by the other eleven (11) Counties as at 1 July, 2018. Further, no documentation was provided to support the reported figures in form of cash books, bank statements and bank reconciliation statements.

Consequently, the accuracy and completeness of the amount due and received from the Counties could not be ascertained.

## **236. Unsupported Expenditure**

### **236.1 Repairs and Maintenance**

The statement of financial performance reflects an expenditure of Kshs.5,458,875 in respect of repairs and maintenance which includes advance payments totalling



to Kshs.2,000,000 paid upfront by the Fund during the year for maintenance and repairs of its motor vehicles contrary to the Public Procurement and Asset Disposal Act, 2015. Further, no signed contract documents for the provision of the services were submitted for audit review to show how the obligation for the advance payment was created.

In addition, the amounts have been expensed at the point of payment rather than at utilization and holding the amount as a prepayment. No statement of account has been provided to support how much of the Kshs.2,000,000 was used as at 30 June, 2019.

Under the circumstances, the repairs and maintenance balance of Kshs.5,458,875 for the year ended 30 June, 2019 could not be confirmed.

### **236.2 General Expenses-Rent**

The statement of financial performance reflects an expenditure of Kshs.45,438,110 in respect of general expenses which includes an amount of Kshs.4,938,700 relating to rent expenses. Documents held by Management show that during the year under review, the Fund paid Kshs.4,938,700 as rent for leased office space. However, no evidence has been provided to show that a formal lease agreement has been signed and registered with the Ministry of Land. While the Management formally took over the premises on 20 December, 2018, the partitioning works undertaken were completed on 4 November, 2019 and hence translating to a period of more than ten months when the Fund management paid rent for un-occupied premises amounting to Kshs.4,938,700.

### **236.3 Emergency to Counties**

In the year under review, Kshs.49,760,986 was disbursed for emergencies to Counties. However, disbursements totalling to Kshs.34,688,526 were not supported by relevant Board approvals as required by the PFM (NGAAF) Regulations and NGAAF Emergency Guidelines.

Further, the disbursements vouchers and supporting documents for disbursements amounting to Kshs.18,760,500, were not submitted for audit review. It was therefore not possible to confirm the accuracy and propriety of the emergency balance to Counties of Kshs.49,760,986 reported in the financial statements.

### **236.4 Printing, Advertising, Information Supply and Services**

The Fund engaged the State Department of Heritage for the production of a documentary at a cost of Kshs.6,287,700 and paid Kshs.3,772,620 as the 60% final payment and expenditure charged to printing, advertising, information supply and services. The balance of Kshs.2,515,080 which was explained to be the initial 40% payment as per the agreement has not been accounted for or supported.

Further, the Management has not availed the contract documents detailing the terms of engagement.

### **237. Monitoring and Evaluation Expenditure**

The statement of financial performance reflects an expenditure of Kshs.1,545,200 under Monitoring and Evaluation (M&E). The amount however does not agree with the detailed analysis at Note 13 of the financial statements that has a total expenditure balance of Kshs.26,254,647. The resultant variance of Kshs.24,709,447 has not been explained. Further, the M&E funds have been applied to activities not related to M&E including purchase of motor vehicle – Kshs.14,500,000, Board Members’ insurance – Kshs.352,905 and payment of NHIF (medical scheme) for the staff – Kshs.8,119,022 which amounts to unauthorized reallocation.

Also, and contrary to the Regulations, the Fund did not disburse any funds to the County Committees for monitoring and evaluation as required by the regulation but instead all the expenditures reported in the financial statements of Kshs.26,254,647 were actually incurred by the Fund Secretariat and the unspent allocations of Kshs.73,454,803 held in the Fund account. In addition, the Board has also not yet appointed the Monitoring and Evaluation officers for the secretariats of the County Committees as required by the PFM (NGAAF) Regulations.

Under the circumstances, the propriety and accuracy of M&E expenditure for the year ended 30 June, 2019 totalling to Kshs.1,545,200 could not be confirmed.

### **238. Emergency Reserves**

Included in the statement of financial performance is a balance of Kshs.49,760,986 under emergency disbursements to the Counties during the year under review. However, the amount of Kshs.49,760,986 disbursed to Counties during the year has not been supported by the requisitions approved by the Board of Directors as required and therefore it has not been possible to confirm the utilization or otherwise of these funds which should remain unallocated as emergency reserves.

In addition, the reports by the County Coordinators on the utilization or otherwise of the emergency reserve disbursements as required by the regulations were not submitted for audit review.

Consequently, the accuracy of the emergency reserve balance of Kshs.69,199,648 could not be confirmed.

### **239. Property, Plant and Equipment**

#### **239.1 Noncompliance with Disclosure**

The statement of financial position and as analyzed on note 19 of the financial statements reflects a balance of Kshs.178,305,138 for property, plant and

equipment as at 30 June, 2019 representing Motor Vehicles, Computers, Furniture and Fittings. However, the financial statements have not been prepared in line with IPSAS 17 in respect to property, plant and equipment which requires an entity to disclose for each class of asset recognized in the statements; the measurement bases for determining the carrying amounts, depreciation methods used, useful lives or depreciation rates used, accumulated depreciation at the beginning and end of the period, additions, reconciliation of the amount at the beginning and end of the period showing additions and disposals, revaluations, impairments, depreciation and net book value.

Consequently, the completeness and accuracy of the property, plant and equipment balance of Kshs.178,305,138 (and nil for financial year 2017/2018) as reflected in the financial statements could not be confirmed.

### **239.2 Fixed Assets Register**

No fixed assets register has been maintained by the Fund in support of the property, plant and equipment balance of Kshs.178,305,138. Under the circumstances, the accuracy, completeness, and existence of the Property, Plant and Equipment balance of Kshs.178,305,138 as reflected in the financial statements for the year ended 30 June, 2019 could not be confirmed.

### **239.3 Write-off of Motor Vehicle**

The Management procured a motor vehicle at a cost of Kshs.14,500,000 on 27 May, 2019 and the motor vehicle was registered in the Fund's name on 3 June, 2019. However, on 12 June, 2019 the vehicle was involved in a serious road accident along Mombasa Nairobi Road while on the way to Konza City. The Management has not availed any documents to show the nature of the Fund's activities at Konza City or board minute on such an activity. According to the accident inspection report by the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works dated 11 July, 2019 it was considered uneconomical to repair the vehicle. However, the same vehicle has been included in the Fund's property, plant and equipment. No justification has been provided for its inclusion.

## **240. Imprest Management**

The statement of financial position, reflects an amount of outstanding imprests of Kshs.218,200 which remained unaccounted for as at 30 June, 2019 although these imprests were due and should have been surrendered or otherwise recovered in full amount with interest from the salaries of the defaulting officers. In addition, it was also observed that officers were issued with multiple imprests totalling to Kshs.1,438,900 before the previous one(s) had been surrendered contrary to the regulations.

Further, two Counties had unaccounted for temporary imprest amounting to Kshs.6,059,600 being Kisumu, - Kshs.5,259,600 and Uasin Gishu, - Kshs.800,000

which had been applied in procuring of goods and services using temporary imprests.

Under the circumstances, there is non-compliance with Government Financial Guidelines and no explanation has been provided for the anomaly.

#### **241. Unremitted Statutory Deductions**

The statement of financial position reflects provision for gratuity of Kshs.26,912,978 which include the statutory deductions for PAYE on gratuity from forty (40) County Coordinators of Kshs.4,265,639 due before 30 June, 2019 but remained unremitted contrary to the Income Tax Act and Regulations. Non-remittance of these taxes is likely to attract penalties from the relevant authorities.

#### **242. Operations of the NGAAF County Committees**

##### **242.1 Unauthorized Activities and Expenditures**

The Kiambu County NGAAF Committee incurred expenditures that were not in the budget or the approved work plan for the year totalling Kshs.2,639,235 as detailed below:

- (i) Kiambu County NGAAF Office incurred Kshs.1.2 million on a medical camp for breast and cervical cancer screening, general medical check-up, ENT, issuing medicines and NHIF registration all of which are functions of the County Government. The expenses incurred covered event management, mobilization, venue set up, branding, media, marketing and refreshments all costing Kshs.1 million and administration logistics costing Kshs.200,000. No explanation has been provided on why the NGAAF County Committee undertook a function not related to the functions of the National Government contrary to the NGAAF Regulations and the Constitution of Kenya.
- (ii) The County Committee also spent Kshs.927,235 and Kshs.512,000 on food items and administration expenses respectively for Kiambu County's temporary rehabilitation for persons admitted for substance abuse through Sober Mothers Self-help Group CBO. This was contrary to the NGAAF Regulations which require that a project shall not include recurrent costs for a facility. No explanation has been provided for this recurrent expenditure totaling Kshs.1,439,235 by the County.

##### **242.2 Funding of Ineligible Groups**

The County Committee in three (3) Counties; Machakos, Meru and Isiolo approved a total of Kshs.16,620,763 funding for sixty-four (64) groups. The amount was released in the third quarter of the financial year. However, the Counties had not fulfilled the funding requirements as set out under Section 2.0 of the NGAAF Fund Access Guidelines, 2017 and the Project proposal evaluation guidelines, as there was no evidence of their minimum group memberships, minimum group funding of

at least three hundred thousand shillings and confirmation that the group has been in existence for lesser periods than stipulated.

#### **242.3 Unsupported Projects by County Committees**

The County Committee in Garissa, Kericho, Kilifi and Nairobi Counties undertook the projects costing a total of Kshs.43,735,600 which no evidence has been submitted in support of their identification process and invitation as required by the regulation before the implementation was approved.

#### **242.4 Unsupported Procurements**

The County Committees in eleven (11) Counties undertook procurements amounting to Kshs.130,623,746. However, no procurement supporting documents were availed for audit verification and therefore it was not possible to confirm whether the same was done in strict adherence to the Public Procurement and Asset Disposal Act, 2015 and the Fund Access Guidelines. It was also not possible to confirm value for money in respect of above expenditures.

#### **242.5 Unsupported Projects Expenditures**

Various Counties undertook a number of projects costing Kshs.191,345,302 upon approval but which were not supported during the review process and at the approval stage. No explanation has been provided for the anomalies and it has not been possible to confirm whether the Fund obtained value for money in incurring the above expenditure.

#### **242.6 Ineligible Projects**

Projects worth Kshs.35,917,698, although approved for funding by the Board as value addition projects, did not comply with the NGAAF Fund Access Guidelines, 2017, Section 2.0, and Project Proposal Evaluation Guidelines, which require projects and activities to be funded only if they are processing farm and livestock products, green energy innovations and any other economic activity involving value addition.

Consequently, the accuracy and validity of the expenditure of Kshs.35,917,698 could not be confirmed.

### **243. Annual Budget**

The financial statements included a statement of comparison of budget against actual amounts. However, the approved budget for the year 2018/2019 was not provided for audit verification. Consequently, it was not possible to confirm whether the expenditure for various account items were within the approved budget. Although the Board was notified of the reduction of the total Fund's approved budget from Kshs.2.6 billion to Kshs.2.075 billion in its meeting of 27 September, 2018, the approval for its rationalization was neither sought nor granted even though, as provided by Section 1.2 (g) of Mwongozo guidelines, it is the responsibility of the Board to approve the annual budget of the organization.

#### **244. Budgetary Control and Performance**

Review of the statement of comparison of budget and actual amounts for the year ended 30 June, 2019 revealed that the Fund exceeded the budget with respect to the following expenditure items;

<b>Component</b>	<b>Budget (Kshs.)</b>	<b>Actual (Kshs.)</b>	<b>Over (Kshs.)</b>
Transfer to Other Govt Unit- County Expenditures	1,967,866,141	1,969,632,174	1,766,033
Board remuneration	12,966,690	16,826,925	3,860,235
General expenses	32,434,014	45,438,110	13,004,096
Provision for gratuity	5,946,296	27,639,317	21,693,021

No justification has been provided by Management for exceeding the budget.

#### **245. Annual Procurement Plan**

No annual procurement plan was prepared in the format set out in the Regulations and within the approved budget prior to commencement of the financial year as part of the annual budget preparation process.

#### **246. Board Meetings Held Without Statutory Quorum**

During the year under audit, five of the Board meetings were held without the requisite statutory quorum. In the absence of quorum as provided for in the relevant constitutive instruments, we are unable to confirm the legitimacy of the Board decisions made.

#### **247. Procurement of Motor Vehicle for Board Chair**

Review of records maintained by the Fund revealed that Management procured a motor vehicle for the Chairperson of the Board at a cost of Kshs.14,500,000 during the year under review and allocated a designated driver for the Chair. It was noted that the Chair is not an Executive Chairman of the Fund therefore not entitled to a car owned and maintained by the Fund. Further, request by the Fund to The National Treasury seeking approval to procure the motor vehicle was declined due to lack of budget and the vehicle was procured using funds voted for other purposes without seeking for authority for reallocation. In addition, the procurement was not included in the approved Procurement Plan for 2018/2019 financial year yet the Board went ahead and passed a resolution to procure the motor vehicle. It is therefore not possible to ascertain lawfulness in the use of public resources.

#### **248. Unapproved Civil Works**

The Fund partitioned its offices at a contract sum of Kshs.36,553,804, under a contract dated 4 May, 2019, without first seeking and obtaining the relevant approvals from the County Government in violation of the relevant bylaws. Further, it was also observed that the leasing of the premises and partitioning of the same was not factored in the Fund's approved budget and procurement plan for the year under review.

#### **249. Loss of Public Resources Through Theft**

In Bungoma County, a Local Purchase Order (LPO) No.2588742 was issued for the supply and delivery of thirty-six (36) canvas tents of a hundred (100) persons' seater capacity worth Kshs.5,400,000 and a payment was made. Another LPO, No.2588739, was issued for the procurement of one thousand two hundred (1,200) water tanks worth Kshs.12,000,000 and which was paid for. However, on the night of 01 September, 2017, the Bungoma County NGAAF office lost all the above items worth Kshs.17,400,000 from its office yard. As at the time of audit the lost items had not been recovered.

#### **250. Irregular Direct Procurements**

Bungoma County procured Kuroiler chicks at Kshs.1,000,000 while Embu County procured blankets and chairs worth Kshs.1,931,776 without observing the regulatory guidelines. Management did not explain why the above items were single sourced without subjecting the process to competition as required. Further, no evidence has been provided to show that the direct procurements were reported to the Public Procurement Regulatory Authority (PPRA) as a mandatory reporting requirement.

#### **251. Unapproved Expenditure**

Two groups were given funds totalling Kshs.900,000 in Uasin Gishu County without seeking and obtaining both the County Committee's and the Board's approvals.

#### **252. Unresolved Prior Years Issues**

Various prior year's audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year's audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**253.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**254.** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain

sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **255. Property, Plant and Equipment**

##### **255.1 Loss of Obsolete Assets**

The statement of cash flows reflects a loss of obsolete assets amount of Kshs.5,062,515 under cash from operating activities which has not been supported. In addition, the figure has been referenced to Note 18 to the financial statements while the Note does not reflect such an amount.

##### **255.2 Unexplained Disposals of Computer Equipment**

Note 13 to the financial statements reflects a disposal figure of Kshs.67,891,128 under computer equipment which is not supported by any documentation. No record was provided to show that the assets were previously categorized as computers. The breakdown of disposed computers and related assets not included in Note 17 on disposal of property, plant and equipment is shown below:

<b>Asset Name</b>	<b>Purchase Date</b>	<b>Cost (Kshs.)</b>	<b>NBV (Kshs.)</b>	<b>Charge Value (Kshs.)</b>	<b>Accumulative Depreciation (Kshs.)</b>
CDFMIS Software	30/06/2011	31,219,426	1,259,817	539,921	29,959,609
CDFMIS Software	30/06/2013	35,934,202	2,071,535	887,800	33,862,666
Hard Disk	30/06/2016	200,000	48,020	20,580	151,980
Software	30/06/2017	360,000	123,480	52,920	236,520
Computer System	19/01/2017	107,500	36,873	15,802	70,627
20 Flash Disks	2013	70,000	4,036	1729	65,964
<b>Total</b>		<b>67,891,128</b>	<b>3,543,761</b>	<b>1,518,752</b>	<b>64,347,366</b>

Consequently, the existence, completeness and accuracy of the property, plant and equipment figure of Kshs.112,203,116 as at 30 June, 2019 could not be confirmed.

##### **255.3 Failure to Provide Original Logbooks**

Included in the property, plant and equipment balance of Kshs.112,203,116 are three (3) motor vehicles reflected with a total historical cost of Kshs.17,412,000 whose logbooks were not availed for audit verification.



Consequently, the ownership of the above vehicles with historical cost value of Kshs.17,412,000 could not be confirmed.

#### **255.4 Lost Cameras**

Included in the balance of Kshs.112,203,116 are cameras bought in 2018 by the Board at a cost of Kshs.279,885 and which were reported missing. The cameras continue to be included in the assets even though not physically available for use by the Board. No meaningful efforts appear to have been taken by Management to recover the stolen equipment or hold any officer responsible for occasioning the loss.

Consequently, it has not been possible to confirm that the Fund got value for money from Kshs.279,885 used to procure the cameras.

#### **256. Cash and Cash Equivalents**

The statement of financial position as at 30 June, 2019 reflects cash and cash equivalents balance of Kshs.1,711,951,774. However, the following matters were noted;

##### **256.1 Dormant Bank Accounts**

As disclosed in Note 11 to the financial statements, the statement of financial position reflects a balance of Kshs.1,711,951,774 under cash and cash equivalents which includes an amount of Kshs.35,429,127 held in dormant bank accounts as follows:

No explanation has been provided as to why these bank accounts remained dormant during the last two (2) years and why action has not been taken to close the same and avoid incurring unnecessary running expenses.

##### **256.2 Unrecorded Amounts- Kenya Commercial Bank Account**

The statement of financial position reflects cash and cash equivalents balance of Kshs.1,711,951,774 which includes a balance of Kshs.38,022,931 held in a Kenya Commercial Bank (KCB) account. However, a review of the KCB account bank reconciliation statements for the month of June, 2019 revealed payments in bank statements not in cash book of Kshs.32,589,081. These unrecorded amounts are in respect of monies fraudulently withdrawn from the Fund's KCB bank account in the year 2011/2012 which has not been recovered to date.

In the circumstances, the accuracy of the cash balance reflected under the KCB cashbook account of Kshs.38,022,931 could not be confirmed.

#### **257. Non-Current Employee Benefit Obligation**

As disclosed in Note 16(b) to the financial statement, the statement of financial position reflects a balance of Kshs.227,799,075 under non-current employee benefit obligation being provisions for gratuity less the gratuity paid in the year under review. The Management has not explained why the entire amount is

classified as non-current liability yet there is a component of gratuity due and payable each year.

Further, the reconciled bank balance for the gratuity money at Equity Bank account as at 30 June, 2019 was Kshs.104,541,042 which differs with the financial statements balance for Non-Current employee benefit obligation reflected under Note 16(b) to the financial statements of Kshs.227,799,075, and resulted in an unreconciled variance of Kshs.123,258,033. In addition, the Fund Management did not maintain a movement schedule of the opening employee benefit obligation balance, additional provisions made during the year and payments paid out during the current year.

Consequently, the accuracy and completeness of non-current employee benefit obligation of Kshs.227,799,075 could not be confirmed.

#### **258. Employee Benefit Obligation**

The statement of financial position reflects employee benefits obligation of Kshs.2,710,867 which relates to leave allowance provisions net of the allowances paid during the year. However, the analysis of this balance per staff member was not availed for audit verification.

Consequently, the accuracy and completeness of the employee benefit obligation of Kshs.2,710,867 could not be confirmed.

#### **Other Matter**

#### **259. Unauthorized Training Expenditure**

During the year under review, the Fund Board spent a total of Kshs.171,271,349 on training against a budgetary provision of Kshs.138,227,000, resulting in unauthorized expenditure of Kshs 33,044,349. Further, it was noted that the annual training needs assessment were pegged at Kshs.108,660,372. No reallocation approvals were provided for audit verification.

Consequently, it was not possible to match the trainings conducted by the Fund Board against the training needs assessment. Further, the source of funding for over expenditure is unknown.

Under the circumstances, the over expenditure of Kshs.33,044,349 on training is irregular.

#### **260. Unresolved Prior Year issues**

As disclosed under the progress on follow up of auditor's recommendations section of the financial statements, various prior year's audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year's audit issues.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **261. Under-Utilization of National Government Constituency Development Fund Management Information System**

The Fund Board entered into a contract with a Consultant for the supply and implementation of an Integrated Constituency Development Fund Management Information System (CDFMIS) at a contract sum of Kshs.34,800,000 on 31 August, 2010. The major objective of the system was to implement an integrated Constituency Development Fund Management Information System (CDFMIS) across all the departments and at the constituency level. The system has modules which includes programmes, finance, legal services, corporate planning strategy, audit, communication and procurement. The only department that is partially utilizing the system is the programmes department.

Further, an amount of Kshs.10,536,800 was spent in 2017/2018 to train fund managers on use of the project's module of the MIS in Eldoret. The basis of selection of the trainer who was different from the system implementation consultant was not availed for audit verification. The secretariat programmes and finance staff were trained in February, 2019 on use of the project's module of the CDFMIS but the details on the cost that was incurred for the training were not availed for audit verification. Despite all the investment in the cost of purchase, maintenance and training, the integrated CDFMIS largely remains underutilized since 2010 and hence the CDFMIS has not been put in proper use as intended by the Fund Board. No explanation has been provided why the system has not been fully implemented.

Consequently, there is no evidence that the Fund has received value for money in the procurement of the integrated Constituency Development Fund Management Information System. Further, no explanation has been provided on why the system has not been put to use.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **262. IT Weaknesses**

During the year under review, the Fund Board did not have a Disaster Recovery Plan and an automated financial management system for its operations.

#### **263. Undisclosed Information on Disposal of Assets**

The following information in regard to disposal of assets was not availed for audit verification:

- i) Appointment letters of members to the Disposal Committee.
- ii) The list of unserviceable, obsolescent assets that was forwarded to the Disposal Committee.
- iii) A Disposal report that was forwarded and approved by the Accounting Officer with specific recommendations on the items to be disposed or those not to be disposed and reasons therefore.

## **THE PRESIDENCY-VOTE 1011**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**264.** There were no material issues noted during the audit of the financial statements of the Presidency.

#### **Other Matter**

#### **265. Pending Bills**

As disclosed under Notes 17.1 and 18.1 to the financial statements, The Presidency had pending bills totalling Kshs.342,081,809 as at 30 June, 2019, that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**266.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**267.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **DONOR FUNDED PROJECTS**

### **KENYA DEVELOPMENT RESPONSE TO DISPLACEMENT IMPACTS PROJECT (IDA CREDIT NO.6021-KE)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**268.** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**269.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**270.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **TECHNICAL ASSISTANCE TO ENHANCE THE CAPACITY OF THE PRESIDENT'S DELIVERY UNIT (ADB GRANT NO.5500155012902)**

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**271.** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**272.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**273.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## STATE DEPARTMENT FOR INTERIOR-VOTE 1021

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 274. Unreconciled Variances Between the Financial Statements and the Integrated Financial Management Information System (IFMIS) Trial Balance

The audit of the financial statements and IFMIS Trial Balance revealed the following variances:

Account	Financial Statements (Kshs.)	IFMIS Trial Balance (Kshs.)	Variance (Kshs.)
Recurrent	2,478,224,900	101,171,731,035	(98,693,506,135)
Development	900,195,787	23,885,771,501	(22,985,575,714)
Deposits	605,551,629	362,816,658	242,734,971
Cash in Hand/Transit	152,156,097	346,542,329,253	(346,390,173,156)

No reconciliation was provided to explain the above variances.

In the circumstances, it was not possible to ascertain the completeness and accuracy of the account balances affected by the differences between the financial statements and the IFMIS Trial Balance.

#### 275. Unreconciled Cash and Cash Equivalents Balances

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.4,136,128,414 which includes bank balances of Kshs.3,983,972,316 as analyzed in Note 22 to the financial statements. However, included in the bank reconciliation statements were payments in the cash book not in the bank statements amounting to Kshs.609,496,111 which have been outstanding since the year 2015. Further, receipts in the bank statements not in the cash book of Kshs.1,615,928,444 had also been outstanding since the year 2015. In addition, payments in the bank statements not in the cash book included long outstanding items totalling Kshs.7,389,999,277 and relating to the period between 2016 and 2018. Further, receipts in the cash book not in the bank statements totalling Kshs.418,173,050 have also been outstanding for long and they relate to the period between 2015 and 2018. No satisfactory reason was provided for failure to clear the long outstanding bank reconciliation items from the books of account.

Consequently, the completeness and accuracy of bank balances of Kshs.3,983,972,316 included in the cash and cash equivalents as at 30 June, 2019 could not be ascertained.

## **Other Matter**

### **276. Pending Bills**

Note 28 to the financial statements reflects pending bills totalling Kshs.4,374,388,259 as at 30 June, 2019 which were not settled during the year under review but were instead carried forward to the financial year 2019/2020. Had the bills been paid and the expenditure charged to the account for 2018/2019, the statement of receipts and payments for the year under review would have reflected a deficit of Ksh.4,137,340,968 instead of the surplus of Kshs.237,047,291 shown. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form the first expenditure to be charged.

### **277. Lack of a Fixed Assets Register**

Disclosed in Annex 2 to the financial statements for the year ended 30 June, 2019 is a summary of fixed assets register. However, contrary to the reporting guidelines issued by the Public Sector Accounting Standards Board (PSASB), the summary of fixed assets register attached reflects nil balances instead of actual figures relating to the historical costs brought forward, additions and disposals during the financial year 2018/2019, and the historical costs as at 30 June, 2019. The audit also revealed that the State Department for Interior did not maintain a fixed assets register during the year under review contrary to the requirements under Regulations 139 and 143 of the Public Finance Management (National Government) Regulations, 2015.

As a result, the existence, movement, conditions, completeness, valuation and book balances of the fixed assets owned by the State Department for Interior as at 30 June, 2019 could not be confirmed.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

## **Basis for Conclusion**

### **278. Provision of Comprehensive Medical Cover**

The National Police Service procured a comprehensive medical cover for a period of two years commencing on 1 October, 2017 to 30 September, 2019 through direct procurement method. The tender was awarded to the National Hospital Insurance Fund on 26 September, 2017 at a contract sum of Kshs.4,785,805,560. Included in the contract sum of Kshs.4,785,805,560 was an amount of Kshs.200,000,000 for excess of loss cover to cushion members who might exhaust their limit. This amount was refundable at the end of the contract but was not



refunded when the contract came to an end. Further, no documentary evidence was provided for audit verification to show how the amount refundable was applied.

Consequently, it was not possible to determine whether the National Police Service got value for money from the amount of Kshs.200,000,000 that was due for refund at the end of the comprehensive medical cover contract.

#### **279. Proposed Nyamarambe Police Post Residential Houses Phase 11**

The tender for construction of the Proposed Nyamarambe Police Post Residential Houses Phase II was awarded to a local construction company at a contract sum of Kshs.9,740,635. The contract agreement was signed on 20 May, 2019. The duration of the contract was 20 weeks commencing on 18 May, 2019 to 18 November, 2019. The scope of works entailed among others; construction of superstructure concrete framing with both external load bearing and infill wall partitions; and roof structure (frame) cover and rain water gutters. From an audit inspection conducted on 30 August, 2019, it was observed that the contractor was required to use 16mm high yield square twisted reinforcement bars to BS cut, bent and placed in position for reinforcement in line with the Bill of Quantities. However, the contractor used 12mm ditto high yield square reinforcement bars on the second floor. Further, the contractor was required to use “kidowa” or “olulunga” natural dressed stones costing Kshs.1,094,000 for internal walling. However, the contractor used clay bricks and natural dressed stones which were of poor quality.

In the circumstances, it was not possible to determine whether Kenya Police Service got value for money from the Kshs.9,740,635 spent on the project.

#### **280. Completion of Kamukunji Lines Police Station**

The tender for completion of Kamukunji Police Lines was awarded to a local construction company at a contract sum of Kshs.151,190,254. The contract agreement was signed on 18 October, 2018. The project was scheduled to take 52 weeks from 18 October, 2017 but the project completion date was further extended by 24 weeks. The scope of work included; fencing and perimeter wall; supply, installation, testing and commissioning of electrical installations; plumbing, drainage, fire protection and water reticulation services; and supply, delivery and installation of high-level and low-level water tanks and booster pumps.

An audit inspection conducted on 6 January, 2020 revealed the following deficiencies:

- i. The roof tops that had been constructed using galvanized iron sheets were leaking in all the three blocks while the white PVC T&G ceiling boards fitted were loose and, in some houses, had fallen off.
- ii. The Bill of Quantities provided for three aluminium coated steel ladders not less than 9000mm long. However, the contractor did not fit the same.

- iii. The Bills of Quantities provided for 48 sets of 5 lever mortice locks for doors fitting. The contractor instead used latches. Further, the contractor did not fit 40mm diameter rubber door steps as provided for in the Bill of Quantities.
- iv. The windows were not fitted with grills as per the Bill of Quantities.
- v. The heavy gauge chain-link perimeter wall fence above ground was not constructed as per specifications of the Bill of Quantities.
- vi. The Bill of Quantities provided for two steel gates of 4500mm x 2400mm comprising of 25 x 25 x 3mm RHS vertical members at 100 mm welded to 25 x 25mm horizontal members at 400mm centers complete with gateposts wheels and guiding rails. However, only one gate was constructed according to the foregoing specifications but the wheels and guiding rails were not functional. Further, the second gate did not meet the above specifications while the culvert and head walls were not constructed as provided for in the Bill of Quantities.

The Bill of Quantities provided for provisional sums of Kshs.20,000,000 and contingencies of Kshs.5,000,000 for additions required to complete Kamukunji Lines Police Station and for provision for fluctuations in prices, respectively. However, documentary evidence on how the total amount of Ksh.25,000,000 was utilized was not availed for audit review. The Bill of Quantities under preliminaries included provisions for the following services/items: prevention of accidents, damage or loss-Kshs.260,000; working conditions-Kshs.120,000; labour camp – Kshs.200,000; demolitions and alterations-Kshs.200,000; materials from demolitions-Kshs.100,000; existing services-Kshs.150,000; performance bond-Kshs.300,000; delivery of tender-Kshs.25,000; project managers expenses-Kshs.1,538,240; desktop computer-Kshs.400,000; training-Kshs.1,000,000; area to be occupied by contractor-Kshs.200,000; protection of works-Kshs.500,000; training levy-Kshs.500,000 and hoarding-Kshs.500,000. However, no documents were provided for audit to confirm how the foregoing preliminaries amounting to Kshs.5,993,240 were accounted for.

Consequently, it was not possible to determine whether value for money was obtained in respect of the expenditure of Kshs.151,190,254 incurred on the contract for completion of Kamukunji Lines Police Station.

## **281. Proposed Completion of Pangani Police Station Civil Works**

The tender for the proposed completion of Pangani Police Station Civil Works was awarded to a local construction company at a contract sum of Kshs.10,839,488. The contract agreement was signed on 10 April, 2018. The works were to be executed for a period of 52 weeks from 10 April, 2018. The scope of works included access road and parking areas.

An audit inspection conducted on 6 January, 2020 revealed that the contractor had abandoned the site and the work had not been completed.

Further, the compact 25mm premix dense bituminous wearing course, the joint precast concrete channel 250x125mm including 100mm thick concrete bed and haunch, the footpaths, storm water drainage both open and slotted work, headwalls and culverts, foul water drainage works and the pipe and the manhole constructions had not been done as per the Bill of Quantities. In addition, the contractor left the manholes dangerously open and exposed.

Consequently, it was not possible to ascertain whether value for money was obtained regarding the expenditure of Kshs.7,741,580 incurred on the contract for the completion of Pangani Police Station civil works.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**282.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## REVENUE STATEMENTS – STATE DEPARTMENT FOR INTERIOR

### REPORT ON THE REVENUE STATEMENTS

#### Basis for Qualified Opinion

#### **283. Fees on Use of Goods and Services**

The statement of receipts and transfers reflects an amount of Kshs.4,838,182,626 as having been received during the year under fees on use of goods and services. However, the audit revealed the following anomalies:

##### **283.1 Under-Charge of Licenses at Betting Control and Licensing Board**

Examination of revenue records maintained at Betting Control and Licensing Board revealed that the Board did not use the recommended revenue collection rates during the issue and renewal of various classes of licenses. This resulted in the revenue undercharge of Kshs.1,500,000 which is yet to be accounted for.

##### **283.2 Uncollected Revenue for Hire of Security Services**

Examination of records maintained at Security of Government Buildings Unit revealed that an amount of Kshs.143,233,000 in respect of security services offered to Kenya Revenue Authority from January, 2016 to October, 2019 had not been received or collected. This is contrary to Section 57(6)(1) of the National

Police Service Standing Orders which requires payments to be made before security services are deployed or offered.

Further, a review of Nairobi Area Police records revealed that various banks were offered security services from July, 2018 to June, 2019 in respect of which an amount of Kshs.8,526,033 had not been received or collected for the security services rendered. In addition, the Critical Infrastructure Police Unit (CIPU) also rendered security services to various Machakos County clients for which an amount of Kshs.911,450 had not been received or collected. The Memorandum of Understanding (MoU) between the CIPU and the clients requesting for hire of security services was not provided for audit review.

Under the circumstances, the accuracy and completeness of the reported fees on use of goods and services receipts of Kshs.4,838,182,626 for the year ended 30 June, 2019 could not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 284. Banking of Revenue in Undesignated Accounts

On 20 November, 2018 and again on 14 June, 2019, the Accounting Officer for the State Department for Interior, directed that all revenue collected by all departments under the State Department for Interior directly and through Huduma Centres, County registrars, Sub-County registrars and all regional coordinators should always be banked immediately and directly into the Central Bank of Kenya Account No.1000209585 and Kenya Commercial Bank, Account No.1119750730 for the Ministry of Interior and Coordination of National Government. However, examination of revenue records revealed that despite the Accounting Officer's instructions, the Kenya Police Service and the Security of Government Buildings Unit have continued to bank the revenue collected in undesignated accounts at the National Bank of Kenya Account No.01001005016300 and Account No.01001000904600, respectively.

Further, during the year under review, revenue transfers were done quarterly to the account maintained at the Central Bank of Kenya rather than immediately contrary to the Accounting Officer's instructions, which also required revenue returns to be submitted to the State Department for Interior Headquarters by the 5<sup>th</sup> of every month. No explanation has been provided for the non compliance.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**285.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **NATIONAL COHESION AND INTEGRATION COMMISSION**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**286.** There were no material issues noted during the audit of the financial statements of the Commission.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**287.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**288.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **GOVERNMENT PRESS FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**289.** There were no material issues noted during the audit of the financial statements of the Fund.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**290.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**291.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## NATIONAL HUMANITARIAN FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **292. Unsupported Payments to Internally Displaced Persons**

As disclosed in Note 4 to the financial statements, the National Humanitarian Fund made payments totalling Kshs.176,600,319 to Internally Displaced Persons (IDPs) under cash payments programme in 2018/2019 financial year. However, supporting schedules for the payments were not provided for audit review with Management indicating that the banks requested for more time to collect the data from various branches that paid the IDPs.

In the circumstances, it has not been possible to ascertain the propriety of the expenditure of Kshs.176,600,319 included under other grants and transfers and payments in the statement of receipts and payments for the year ended 30 June, 2019.

#### **293. Unaccounted for Advances**

The statement of financial assets and liabilities reflects outstanding imprests and advances totalling Kshs.71,960,000.00 as at 30 June, 2019. As disclosed in Note 5B to the financial statements, the outstanding advances of Kshs.68,960,000, Kshs.2,000,000 and Kshs.1,000,000 were issued to County Commissioners of Mandera, Nakuru and Bomet respectively in 2014/2015 financial year for onward transmission to the beneficiaries (IDPs). However, no evidence has been provided as a proof that the funds reached the intended beneficiaries.

In the circumstances, it has not been possible to ascertain the completeness, existence and accuracy of the imprests and advances balance of Kshs.71,960,000 as at 30 June, 2019.

#### **294. Long Outstanding Bank Reconciliation Items**

As disclosed in Note 5A to the financial statements, the statement of financial assets and liabilities reflects cash and cash equivalent balance of

Kshs.567,652,452.60 as at 30 June, 2019. A review of the bank reconciliation statements as at 30 June, 2019 revealed payments totalling Kshs.582,888 in the cash book not yet recorded in the bank statement and which includes Pay As You Earn (PAYE) amounting to Kshs.438,000 which has been outstanding since 2017. The bank reconciliation statements also reflect payments totalling Kshs.6,912,100.70 in the bank statement not yet recorded in the cash book which have also been outstanding since 2017. No satisfactory explanation has been given for failure to clear the long outstanding balances.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**295.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**296.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **STATE DEPARTMENT FOR CORRECTIONAL SERVICES-VOTE 1023**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **297. Unsupported Transfers from Development Vote to Deposits Account**

The statement of assets and liabilities reflects a balance of Kshs.130,469,777 under accounts payables – deposits which includes an amount of Kshs.56,588,053 that was transferred from the State Department's Development Account to Deposits Account. According to Management, the transfer was in relation to retention money withheld from various contractors. However, no documentary evidence was provided for audit review to confirm the contracts in respect of which the retention money was withheld, and the amount deducted and withheld for each contract.

In these circumstances, it was not possible to confirm the validity and accuracy of the account payables – deposits balance of Kshs.130,469,777 as at 30 June, 2019.

### **Other Matter**

#### **298. Pending Bills**

Note 14 to the financial statements reflects pending bills amounting to Kshs.6,278,208,687 as at 30 June, 2019 which were not settled in the year under review but carried forward to 2019/2020 financial year. As further disclosed in Annex I to the financial statements, the pending bills balance includes long outstanding unpaid bills totalling to Kshs.6,212,289,160 and relating to 2017/2018 and earlier years. Failure to settle bills in the year to which they relate adversely affects the subsequent year's provisions to which they have to be charged.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **299. Irregular Procurement Process**

Contracts records and tender evaluation reports for various construction projects maintained at the State Department for Correctional Services show that contracts worth Kshs.170,721,762 were awarded to various contractors during the year under review. However, an audit review of the Tender Opening and Evaluation Committees appointment letter dated 22 November, 2017 revealed that nine members were appointed to participate in both the Opening and Evaluation Committees contrary to Section 78(1) of the Public Procurement and Asset



Disposal Act, 2015, which require that at least one of the members shall not be directly involved in the processing or evaluation of the tenders. Further, audit review of the bid documents submitted by the bidders revealed that some of the contractors did not have the technical specifications and structural designs for the buildings. In the absence of the architectural designs and other technical specifications, the bidders could not compete openly, fairly and effectively with the other bidders contrary to the requirements of Section 60(1) and (2) of the Public Procurement and Asset Disposal Act, 2015. In addition, examination of the proposed construction contract records and tender documents revealed that the contractors did not submit performance security bond or tender securities as prescribed in the tender documents.

In the circumstances, the provisions of Public Procurement and Asset Disposal Act, 2015 were not fully complied with as regards the contracts worth Kshs.170,721,762.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**300.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## PRISON INDUSTRIES REVOLVING FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **301. Pay Master General (P.M.G) Account**

The statement of financial position reflects a balance of Kshs.175,987,430 under Pay Master General (P.M.G) Account. The balance represents amounts held on behalf of the Fund in the former Ministry of Home Affairs Deposits Account which was yet to be transferred to the Fund's new account as at 30 June, 2019. In addition, documentary evidence including bank certificates and bank reconciliation statements for the said deposits account have not been provided to support this balance.

In the circumstances, the existence, completeness and accuracy of the P.M.G Account balance of Kshs.175,987,430 as at 30 June, 2019 could not be confirmed.

#### **302. Cash in Transit**

As disclosed in Note 12 to the financial statements, the statement of financial position reflects a balance of Kshs.30,318,827 in respect of cash in transit as at 30

June, 2019. Although the same amount was also reflected in the previous year's financial statements, no documentary evidence has been provided to support the balance of Kshs.30,318,827.

Consequently, the existence, validity and accuracy of the cash in transit balance of Kshs.30,318,327 as at 30 June, 2019 could not be confirmed.

#### **Other Matter**

### **303. Budget Control and Performance**

The statement of comparison of budget and actual amounts reveals that the Prison Industries Revolving Fund realized an actual revenue amount of Kshs.444,535,245 or 86% against budgeted revenues of Kshs.517,092,226. Further, the statement indicates that the Fund utilized an amount of Kshs.251,351,321 which represents 51% of the budget expenditure figure of Kshs.493,797,982, resulting to an under expenditure of Kshs.242,446,661 which represents 49% of the budgeted expenditure. Consequently, the Fund may not have implemented all programs and work plans fully as approved in the budget.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

### **304. Stalled Project for Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle Number Plate Blanks**

An audit inspection done on 25 September, 2019 and a review of records at Kamiti Main Prison Industry revealed that machines for producing modern motorized vehicle number plates which were supplied and delivered in the year 2016 at a cost of Kshs.15,295,500 had never been used for the intended purpose and remained idle. In addition, a three-year contract for supply and delivery of motorized vehicle number plate blanks was signed on 7 November, 2017 and executed. However, the raw materials (motorized vehicle number plate blanks) delivered, were still held at the Kamiti Main Prison Industry stores.

In the circumstances, and although the Fund's Management indicated that the matter is under investigation, value for money has not been achieved owing to the delay in implementing the project.

### **305. Unequal Treatment of Suppliers**

A review of payments registers at the Prisons Headquarters for the financial year 2018/2019 revealed that out of invoices totalling Kshs.238,601,175 submitted to the State Department of Correctional Services Headquarters for payment, invoices amounting to only Kshs.102,671,940 were paid during the year, leaving pending bills of Kshs.135,929,235.

Further, out of the seventy-four (74) suppliers, only twelve (12) suppliers were paid during the year. However, reasons for prioritizing the payments of Kshs.102,671,940 to the twelve (12) suppliers were not clearly explained by Management. It would, therefore, appear that there was unequal treatment of suppliers contrary to the provisions of Article 227(1) of the Constitution which requires a state organ or any other public entity that enters into a contract for supply of goods or provision of services to ensure that the system used is fair, equitable, transparent, competitive and cost- effective.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 306.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## PRISON FARMS REVOLVING FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **307. Unsupported and Unreconciled Pay Master General Account Balance**

The statement of financial position as at 30 June, 2019 reflects a Pay Master General (P.M.G.) Account balance of Kshs.56,021,755 while the corresponding Note 11 to the financial statements show a P.M.G. balance of Kshs.95,825,187. The resulting difference of Kshs.39,803,432 has not been supported, reconciled or explained.

Further, Note 11 to the financial statements indicates that the P.M.G. Account represents the amount held in the Ministry's Deposit Account on behalf of the Fund. However, the Ministry's Deposit Bank Account had a balance of Kshs.65,939,663 instead of Kshs.56,021,755 as at 30 June, 2019. The resulting difference of Kshs.9,917,908 has not been analyzed or explained.

Under the circumstances, the completeness and accuracy of the P.M.G. Account balance of Kshs.56,021,755 as at 30 June, 2019 could not be confirmed.

#### **308. Suspense Account**

The statement of financial position as at 30 June, 2019 also reflects a balance of Kshs.5,809,155 under suspense account, which has not been analysed or supported by verifiable source documents as required under Regulation 107 of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the completeness and accuracy of the suspense account balance of Kshs.5,809,155 as at 30 June, 2019 could not be confirmed.

## **Other Matter**

### **309. Pending Bills (Debtors)**

The statement of financial position and Note 8 to the financial statements reflects debtors (pending bills) totalling Kshs.156,459,707 as at 30 June, 2019, an increase of Kshs.8,445,486 from Kshs.148,014,221 as at 30 June, 2018. These bills were not settled in the year under review but were instead carried forward to 2019/2020 financial year. Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.

### **310. Budget Control and Performance**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects the Fund's projected sundry revenue of Kshs.252,300,000. However, the actual sundry revenue collected in 2018/2019 financial year amounted to Kshs.120,108,202, resulting in an under-collection of Kshs.132,191,798 or a 52.4% shortfall. Further, the Fund's projected expenditure for the year 2018/2019 was Kshs.201,750,000 while the actual expenditure was Kshs.26,297,241, resulting in an under-expenditure of Kshs.175,452,759 or 87% of the budgeted expenditure.

The Fund did not therefore, fully implement its programs and work plans as approved in the budget.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**311.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**312.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STATE DEPARTMENT FOR IMMIGRATION AND CITIZEN SERVICES-VOTE 1024**

### **REPORT ON THE FINANCIAL STATEMENT**

#### **Basis for Qualified Opinion**

##### **313. Unsupported Confidential Expenditure**

During the financial year, the State Department for Immigration and Citizen Services incurred a confidential expenditure under item 2211312, totalling Kshs.29,450,750. However, the expenditure was not supported by a certificate or a declaration by the Cabinet Secretary and Accounting Officer, contrary to the requirements under Regulation 101 (5) of the Public Finance Management (National Government) Regulations, 2015. Further, no documentary evidence was provided to support an expenditure of Kshs.722,500 out of the total confidential expenditure of Kshs.29,450,750.

Consequently, it has not been possible to ascertain the propriety of the confidential expenditure of Kshs.29,450,750 incurred during the year ended 30 June, 2019.

#### **Other Matter**

##### **314. Pending Bills**

Disclosed in Note 11.1 to the financial statements are pending bills totalling Kshs.210,887,020 which were not settled during the year but were carried forward to 2019/2020 financial year. Had these bills been settled and the expenditure charged to the relevant accounts for 2018/2019, the statement of receipts and payments for the year would have reflected a deficit of Kshs.177,032,944 instead of the surplus of Kshs.33,854,076 now shown.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**315.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

##### **316. Lack of ICT Policy Documents**

The State Department for Immigration and Citizen Services did not have an approved ICT Policy, ICT strategic plan and a disaster recovery plan during the

year under review. This is contrary to Treasury Circular No. 03/2009; Ref: MOF/IAG/033(75) requires that government entities/agencies to, among other things, develop and establish Risk Management Policy and Framework (RMPF) to guide its strategic and operational activities.

## **REVENUE STATEMENTS - STATE DEPARTMENT FOR IMMIGRATION AND CITIZEN SERVICES**

### **REPORT ON THE REVENUE STATEMENTS**

#### **Unqualified Opinion**

**317.** There were no material issues noted during the audit of the revenue statements of the State Department.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**318.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**319.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STATE DEPARTMENT FOR DEVOLUTION-VOTE 1032**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **320. Use of Goods and Services**

##### **320.1 Printing and Advertising**

The statement of receipts and payments reflects a balance of Kshs.1,511,465,264 under use of goods and services which includes an amount of Kshs.2,321,300 relating to printing, advertising and information supplies and services. However, expenditures of Kshs.217,000 and Kshs.50,000 relating to domestic travel and staff welfare respectively, were wrongly classified under printing, advertising and information supplies and services leading to an overstatement of the expense.

Further, the printing, advertising and information supplies and services expenditure includes a payment of Kshs.252,100 in respect of cancellation of tenders for an activity that was not included in the approved annual procurement plan for the year 2018/2019. The purchase order for procurement of the cancellation of advertisement was dated 26 October, 2018 while the services had been procured and rendered in September, 2018.

In addition, the State Department did not utilize the services of the Government Advertising Agency in breach of the Executive Office of the President Circular Ref. No. OP/CAB.58/4A dated 8 February, 2017 which provides that any officer found violating this requirement is liable to a surcharge of the amount spent besides other disciplinary action.

Consequently, the propriety and accuracy of the expenditure of Kshs.2,321,300 incurred on printing, advertising and information and supplies services could not be confirmed.

##### **320.2 Foreign Travel and Subsistence Allowance**

The statement of receipts and payments reflects a balance of Kshs.1,511,465,264 under use of goods and services which includes an amount of Kshs.3,409,006 relating to foreign travel and subsistence, out of which payments totalling Kshs.2,481,400 related to activities within the Country and were therefore, misclassified.

Under the circumstances, the accuracy and validity of foreign travel and subsistence expenditure of Kshs.3,409,006 could not be confirmed.

### **320.3 Rental of Produced Assets**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.1,511,465,264 under use of goods and services which includes an amount of Kshs.71,935,923 relating to rentals of produced assets. However, an examination of the account revealed that an amount of Kshs.17,473,411 was charged to acquisition of assets leading to understatement of the expenditure and misclassification of the same. Further, the State Department for Devolution paid a total of Kshs.14,789,215 in respect of 20<sup>th</sup> floor offices at Teleposta Towers occupied by the National Consultative Coordination Committee (NCCC) that is not part of the State Department.

Consequently, the accuracy and propriety of rental of produced assets expenditure of Kshs.71,953,923 could not be confirmed.

### **320.4 Specialized Materials and Services**

The statement of receipts and payments reflects an expenditure of Kshs.1,511,465,264 in respect of use of goods and services, out of which Kshs.6,192,400 related to purchase of specialized materials and services. However, expenditure totalling to Kshs.5,596,200 was not supported. The unsupported expenditure includes AIE amounting to Kshs.5,000,000 indicated as transfer of funds to the State Department for Crops for onward transmission to Strategic Food Reserve (SFR). The amount was expensed upon transfer as no returns were availed from the State Department for Crops showing how the funds were utilized. As a result, it could not be confirmed that the funds were used for the desired purpose. Further, there was no confirmation of receipt of Kshs.5,000,000 from the State Department for Crops.

### **321. Account Receivables**

As disclosed in Note 12 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.22,083,520 under accounts receivables which includes an amount of Kshs.21,964,820 relating to district suspense. However, the breakdown of the district suspense was not availed for audit review. In addition, AIEs totalling Ksh.16,200,000 issued to various Counties more than two months before the year end, had not been surrendered.

As such, the accuracy of the receivables balance of Kshs.22,964,820 as at 30 June, 2019 could not be confirmed.

### **322. Proceeds from Domestic and Foreign Grants - IDEAS (EU) Direct Payments**

#### **322.1 European Union – Instruments for Devolution Advice and Support Project**

The statement of receipts and payments reflects proceeds from domestic and foreign grants totalling Kshs.938,102,713 which includes direct payments of



Kshs.931,175,313 under IDEAS (EU). However, the donor (European Union) had made payments of Kshs.941,287,026 to 15 Counties which acknowledged receipt of the same and another amount of Kshs.38,653,540 was disbursed to the State Department for administrative purposes making a total of Kshs.979,922,566 disbursed during the year. The difference of Kshs.48,747,253 between the reported figure of Kshs.931,175,313 and the actual disbursement Kshs.979,922,566 has not been reconciled or explained.

### **322.2 Proceeds from Domestic and Foreign Grants - Grants Received from Multilateral Donors (International Organizations) – UNDP**

The statement of receipts and payments reflects proceeds from domestic and foreign borrowings amounting to Kshs.938,102,713 which includes Kshs.931,175,313 from the European Union (EU) and Kshs.6,927,400 from UNDP. However, an amount of Kshs.892,251,773 from the European Union has not been audited in line with the financing agreement between the European Union and the County Governments. Over 80% of the cash was unutilized and is still being held in the designated project accounts. In addition, the transfers to Counties in respect of the IDEAS Project have not been reported in the financial statements as well as the expenditure in respect of Kenya Symbiocity Project and the Administrative expenditure in relation to IDEAS Project.

### **323. Compensation of Employees**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.247,437,832 under compensation of employees which includes an amount of Kshs.152,464,095 paid as basic salaries of permanent employees. However, the budgeted amount of basic salaries of permanent employees amounted to Kshs.146,619,509 resulting to unexplained and unsupported over expenditure of Kshs.5,844,586. In addition, examination of the twelve (12) months payroll data for the State Department for Devolution indicates that a total of Kshs.133,299,494.75 was paid as basic salaries to permanent employees while the statement of receipts and payment shows an amount of Kshs.152,464,095 resulting into an unexplained difference of Kshs.19,164,590.25 or 14.4%. No reconciliations have been provided for the difference.

Further, the compensation of employees balance of Kshs.247,437,832 includes Kshs.94,973,737 being personnel allowances paid as part of salaries that further includes an unexplained adjustment of Kshs.4,956,093 re-classified from basic wages of temporary employees. Examination of documents revealed that during the financial year 2018/2019, the State Department for Devolution did not hire any casual workers. No documentary evidence has been provided to show the workers hired, paid and payment vouchers used. Without this information it has not been possible to confirm the accuracy and occurrence of the figure of Kshs.4,956,093.

Under the circumstances, the accuracy and completeness of the expenditure in respect of compensation of employees of Kshs.247,437,832 could not be ascertained.

#### **324. Acquisition of Assets**

The statement of receipts and payments reflects a balance of Kshs.1,428,194,349 under acquisition of assets which includes purchase of strategic stocks and commodities of Kshs.1,419,479,759 and purchase of certified seeds, breeding stocks and live animals worth Kshs.5,198,310. However, a breakdown of the items procured, the quantities, values, and details of where each of the stocks were received including the acknowledgement of receipt by the various stores together with details showing to whom and when the commodities were issued have not been availed for audit verification.

Consequently, the accuracy and propriety of acquisition of assets payments totalling Kshs.1,428,194,349 could not be confirmed.

#### **325. Other Grants and Transfers**

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.808,216,937 in relation to other grants and transfers in respect of emergency relief and refugee assistance. Included in this amount is Kshs.1,479,210 incurred on printing and stationeries wrongly charged to this account, overstating the expenditure on other grants and transfers. In addition, the documentation for distribution of the relief commodities valued at Kshs.808,216,937 to beneficiaries, and the basis of selection of beneficiaries were not availed for audit examination.

Consequently, the accuracy and completeness of other grants and transfer of Kshs.808,216,937 could not be confirmed.

#### **326. Grants and Transfers to Other Government Entities**

The statement of receipts and payments reflects a balance of Kshs.38,823,570,187 in respect of transfers to other Government units which includes an amount of Kshs.4,000,000,000 that was disbursement by The National Treasury directly to Counties under the Kenya Devolution Support Programme (KDSP). However, there were no confirmations for these receipts by the respective Counties and therefore, it was not possible to confirm whether the funds were received by the Counties.

#### **327. Variance Between Financial Statements and IFMIS Ledger**

The figures reported in the financial statements do not tally with the figures in the IFMIS statement as tabulated below:

<b>Details</b>	<b>Amounts per Financial Statements (Kshs.)</b>	<b>Amounts Per IFMIS Reports (Kshs.)</b>	<b>Difference (Kshs.)</b>
Financial Assets	75,860,088	8,214,863,419	(8,139,003,331)
Financial Liabilities	52,658,544	(567,673,381)	620,331,925
Opening Balances	2,034,746	(567,673,381)	569,708,127

The differences between the two sets of records has not been explained or reconciled.

#### **Other Matter**

#### **328. Pending Bills**

Note 17.1 and Note 17.2 to the financial statements reflect pending bills totalling Kshs.6,735,297,709 comprised of pending accounts payables of Kshs.3,467,119,693 and other pending payables of Kshs.3,268,178,016 respectively. Management has not provided an explanation for non-payment of the pending bills. Failure to settle bills during the year to which they relate distorts the financial statements for the year and adversely affects the provisions of the subsequent year to which they have to be charged.

#### **329. Unresolved Prior Year Audit Issues**

Several audit issues reported in the Auditor-General's report for the financial year ended 30 June, 2018 remained unresolved as at 30 June, 2019. These issues are captured under progress on follow up of auditor's recommendations.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**330.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**331.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **DONOR FUNDED PROJECT**

### **INSTRUMENTS FOR DEVOLUTION ADVICE AND SUPPORT PROJECT (CREDIT NO.KE/FED/024/230)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Basis for Qualified Opinion**

##### **332. Unsupported Transfers to Other Government Entities**

As disclosed under Note 8.10 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.938,849,773 as receipts under proceeds from domestic and foreign grants and controlled by third parties as direct payments. The statement also reflects an amount of Kshs.938,849,773 as payments under other grants and transfers and payments controlled by third parties. This balance relates to amounts transferred to National Government entities and County Governments directly by the financier. However, included in this figure is an amount of Kshs.46,382,000 transferred to the Kenya School of Government out of which only an amount of Kshs.2,400,000 was supported with sufficient and verifiable documents leaving a balance of Kshs.43,982,000 unsupported.

Further, an amount of Kshs.50,014,226 indicated as having been transferred to the County Government of Kwale differed with Kshs.45,000,000 acknowledged by the County, as received resulting to unreconciled variance of Kshs.5,014,226.

Under the circumstances, the accuracy and completeness of receipts and other grants and transfers and payments of Kshs.938,849,773 controlled by third parties reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be ascertained.

##### **333. Unsupported Training Expenditure**

As disclosed under Note 8.5 to the financial statements, the statement of receipts and payments reflects payments under training of Kshs.2,643,893 made by the entity. The amount relates to payment of subsistence allowance paid to staff who attended training in South Africa. However, supporting documents such as attendance register, boarding passes, invitation for training, work plan, and budget were not availed for audit verification.

In the circumstances, it has not been possible to confirm the propriety and validity of the expenditure of Kshs.2,643,893 in respect of training reflected in the statement of receipts and payments for the year ended 30 June, 2019.

## **Other Matter**

### **334. Prior Year Unresolved Issues**

The Management has not included in the annual reports, progress on follow up of audit issues reported during 2017/2018 audit. The issues remain unresolved as follows;

#### **334.1 Unsupported Balances**

The statement of receipts and payments for the year ended 30 June, 2018 reflects an amount of Kshs.66,307,652 under Cumulative Proceeds from domestic and foreign grants out of which Kshs.48,819,253 were direct payments made by third parties on behalf of the project. However, the documentation that was provided revealed that the payment was made by the European Union but the money was received by the County Government in July, 2018.

#### **334.2 Other Grants and Transfers and Payments**

The statement of receipts and payments for the year ended 30 June 2018 reflects an amount of Kshs.48,819,253 under other grants and transfers and payments which relates to payments made by third parties directly to the beneficiary Counties. However, no accountable documentation was provided for audit review.

Consequently, it has not been possible to ascertain whether the amounts were utilized for the intended purposes at the Counties.

#### **334.3 Proceeds from Domestic and Foreign Grants**

The statement of receipts and payments reflects an amount of Kshs.48,819,253 as proceeds from domestic and foreign grants payment made by third parties. However, no supporting documentation to demonstrate that this payment was actually made by the third party, neither was there an acknowledgement by the recipient that the amount was received. Information available for audit indicated that the amount was disbursed by the donor on 17 July, 2018 and therefore should not have been a receipt during the year.

Consequently, the accuracy and completeness of proceeds from domestic and foreign grants totaling Kshs.66,307,652 for the financial year ended 30 June, 2018 could not be ascertained.

#### **334.4 Unauthorized Expenditure**

Further, the statement of receipts and payments for the year ended 30 June, 2018 had reflected an amount of Kshs.6,636,184 under purchase of goods and services. The figure included an amount of Kshs.3,466,584 in respect of printing, advertising and information supplies and services out of which an amount of Kshs.1,475,000 related to purchase of polo t-shirts and caps that were not included in the approved project work plan. The balance of Kshs.1,991,584 was paid in respect of banners,

brochures and branded note books an item which had an approved budget of Kshs.1,000,000 resulting to an over expenditure of Kshs.991,584.

Consequently, the accuracy of the receipt of Kshs.48,819,253 and propriety in the utilization of Kshs.1,475,000 could not be confirmed.

### **335. Budget Control and Performance**

The statement of comparative budget and actual amounts reflects a budget and actual receipts on a comparable basis of Kshs.173,000,000 and Kshs. 977,503,313 respectively resulting to over funding of Kshs.804,503,013 or 465% of the budget. Similarly, the Project spent Kshs.949,018,566 which is 97% of the receipts but Kshs.711,594,166 over and above the approved budget of Kshs.237,424,400.

Management has not given any plausible explanation for the over funding or whether the payments in excess of the approved budget were authorized.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **336. Irregular Recruitment of Project Manager**

As disclosed under Note 8.5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.6,067,500 under compensation of employees. Included in this figure is Kshs.5,827,500 paid to the Project manager who had earlier been recruited through the Public Service Commission for a different World Bank project that had come to an end. Her services were transferred to the Instruments for Devolution Advice and Support Project after 'a Letter of No Objection' was granted by the European Union (the donor). However, the Management has not availed supporting documents, for audit review, showing the terms of engagement and whether relevant tax obligations were deducted and remitted to the Kenya Revenue Authority.

### **337. Lack of Contract Agreements**

As disclosed in Note 8.3 to the financial statements, the statement of receipts and payments reflected an amount of Kshs.938,849,773 being direct payments from the donor (European Union) made as 1st tranche of funds to all 15 counties who have acknowledged receipt of the funds. However, the contract agreements between the County Governments and the donor have not been availed for audit purposes.

In absence of such undertakings, value for money in the use of public funds could not be confirmed.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**338.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AN AGENCY UNDER THE STATE DEPARTMENT FOR DEVOLUTION

### KENYA SYMBIOCITY PROGRAMME-GRANT NO.51110060 – COUNCIL OF GOVERNORS

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Adverse Opinion

#### **339. Inaccuracies and Errors in the Financial Statements**

The financial statements for the year ended 30 June, 2019 contain the following inaccuracies and errors: -

##### **339.1 Inaccuracies in Statement of Receipts and Payments**

The statement of receipts and payments reflects a surplus of Kshs.26,620,822 which differs with the casted surplus of Kshs.21,620,822 resulting to an unreconciled variance of Kshs.5,000,000. Note 8.4 to the financial statements refers to proceeds from Domestic and Foreign grants while the statement of receipts and payments refers to Transfers from Government Entities. Further, the following variances were not reconciled;

- (i) Compensation to employees cumulative amount is Kshs.27,101,382 in the financial statements whereas Note 8.7 to the financial statements reflects an amount of Kshs.18,701,100 resulting to a variance of Kshs.8,400,282.
- (ii) Purchase of goods and services cumulative amount is reflected as Kshs.76,349,177 whereas Note 8.8 to the financial statements reflects Kshs.74,843,490 resulting to a variance of Kshs.1,505,687. In addition, training payments include Kshs.3,221,500 that was captured net of withholding tax amount of Kshs.155,537 whose reconciliation was not availed.

- (iii) Acquisition of non-financial assets cumulative amount is reflected as Kshs.8,336,860 whereas Note 8.9 to the financial statements reflects an amount of Kshs.7,469,800 resulting to a variance of Kshs.867,060.

### **339.2 Inaccuracies in the Statement of Financial Assets and Liabilities**

The description of the title of statement of financial assets and liabilities has been referred to as statement of financial assets. In addition, the statement reflects net financial position of Kshs.108,523,038 which differs with the casted total of Kshs.113,523,038 resulting to an unreconciled variance of Kshs.5,000,000.

### **339.3 Inaccuracies in the Statement of Cash flow**

The statement of cashflow reflects net cashflow from operating activities of Kshs.21,039,878 which differs with the casted figure of Kshs.21,621,400 resulting to an unreconciled variance of Kshs.581,522. The purchase of goods and services has an error of Kshs.578.

### **339.4 Inaccuracies in the Statement of Comparative Budget and Actual Amounts**

The statement of comparative budget and actual amounts reflects total payments under the original budget of Kshs.12,624,650, which differs with the casted figure of Kshs.132,624,650 resulting to an unexplained variance of Kshs.120,000,000.

### **339.5 Undisclosed Transfer to Council of Governors (CoG) Devolution Conference Support**

The statement of financial assets and liabilities and the statement of cash flows reflects a transfer to the Council of Governors', devolution conference support for MODA of Kshs.25,000,000. However, although the amount has a corresponding receipt entry under the funds received from Government entities, the same was not reflected under payments despite the fact that the financial statements are drawn based on International Public Sector Accounting Standards - Cash Basis.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2019 cannot be confirmed.

### **339.6 Compensation of Employees, Transferable to Council of Governors**

The statement of financial assets and liabilities reflects compensation to employees transferable to the Council of Governors amounting to Kshs.9,061,800. Even though the amount has been explained to be salaries in respect of Project employees that was paid for the year 2017/2018 that was reimbursable to Council of Governors, the liability had not been included in the statement of financial assets and liabilities as at 30 June, 2018 and its accuracy and completeness could not be confirmed.



### 339.7 Unreconciled Comparative Balances

Comparatives figures reported in the 2017/2018 audited financial statements differ with the opening figures presented in the 2018/2019 financial year but the variances have not been reconciled as detailed below:

<b>Component</b>	<b>2017/2018 Financial Statements (Kshs.)</b>	<b>2018/2019 Financial Statements (Kshs.)</b>
Compensation of Employees	9,732,050	9,061,800
Purchase of Goods and Services	30,806,180	35,933,706
Communication Supplies and Services	291,000	333,094
Hospitality Supplies and services	5,042,295	34,199
Acquisition of Non-Financial Assets	5,318,903	6,767,760
Deficit for the Year	45,857,133	51,763,266

From the forgoing, the Project's financial statements are grossly misstated and the respective balances are not in agreement with the fundamental records, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

### Other Matter

#### 340. Prior Year Audit Matters

The annual report and the financial statements section on prior year audit matters indicate that all the issues have been resolved. However, no documentation was provided, for audit verification. The matters remain outstanding as indicated below:

##### 340.1 Accuracy, Completeness and Presentation and Disclosure of the Financial Statements

- (i) The financial statements for Kenya Symbiocity Programme for the year ended 30 June, 2018 had an incorrect name for the project which was not in line with the Specific Project Agreement. The Agreement has the name Kenya Symbiocity Programme while the financial statement have Symbiocity Programme.
- (ii) The statement of receipts and payments for the period under review reflected figures that had no reference to any supporting notes to the financial statements.

- (iii) The statement of receipts and payments and the statement of financial assets and liabilities showed that the bank and cash balance were explained on Note 7.8 which is not presented as a note to the financial statements.
- (iv) The figures on the financial statements were different from the figures reflected on the trial balance as indicated in the analysis below:

<b>Expenditure</b>	<b>Financial Assets (Kshs.)</b>	<b>Trial Balance Figures (Kshs.)</b>	<b>Difference (Kshs.)</b>
Grants and Transfer and Payments	-	25,000,000	(25,000,000)
Staff Costs	9,732,050	9,061,800.	670,250
Cash and Cash Equivalents	120,964,016	138,665,482	(17,701,466)
Utilities, Supplies and Services	6,406,787	592,590	5,814,197
Communication, Supplies and Services	291,000	333,094	42,094
Domestic Travel and Subsistence	2,919,002	5,936,793	(3,017,791)
Foreign Travel and Subsistence	196,555	1,553,155	1,356,600
Printing, Advertising and Information Supplies and Services	5,680	1,086,678	1,080,998
Training Expenses and Conferencing Facilities	20,952,957	21,388,600	435,643
Hospitality, Supplies and Services	34,199	5,042,794	5,008,595
Furniture	150,800	1,317,760	1,166,960
Transport Equipment	5,168,103	5,450,000	281,897

The differences as shown above per each component between the two sets of records, which ordinarily should read the same, were not reconciled.

In view of the foregoing circumstances, the accuracy, completeness and presentation of the Project's financial statements could not be ascertained as at 30 June, 2018.

### **340.2 Omitted Receipts**

The statement of receipts and payments as at 30 June, 2018 reflected a nil balance in respect of receipts. However, the bank statement included a receipt amount of

Kshs.25,000,000 received within the year but which had neither been indicated in the receipts for the year nor had any explanation been provided for audit review.

### **340.3 Cash and Cash Equivalents Balances**

The bank balance in the financial statements, of Kshs.120,873,022 included a receipt of Kshs.25,000,000 that had not been recognized in the receipts during the year and was not reflected as a reconciling item. The treatment of this amount had not been explained and there is no corresponding credit representing this amount in the financial statements. Further, the bank reconciliation in support of the bank balance as at 30 June, 2018 includes cash in transit amounting to Kshs.204,991 out of which an amount of Kshs.192,491 has been outstanding for over four months. No explanation has been provided for non-clearance of these amounts.

Under the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.120,873,022 as at 30 June, 2018 could not be ascertained.

### **340.4 Acquisition of Non-Financial Assets**

The statement of receipts and payments as at 30 June, 2018 reflected an amount of Kshs.5,318,902 in respect of acquisition of non-financial assets as detailed in Note 7.5 to the financial statements. The figure included an amount of Kshs.150,800 in respect of purchase of office equipment, furniture and fittings. However, the payment vouchers provided in support of this purchase totalled Kshs.1,317,760 resulting into an unexplained difference of Kshs.1,166,960.

Further, Note 7.5 of the financial statements reflected an amount of Kshs.5,168,103 in respect of purchase of transport equipment. However, the payment vouchers provided in support of the purchase amounted to Kshs.5,450,000. The difference of Kshs.281,897 was not explained.

Additionally, ownership of the Kenya Symbiocity Programme vehicle, registration GKB 769S Double Cabin could not be verified as the logbook was not provided for audit scrutiny.

Under the circumstances, the accuracy and validity of the payments in respect of acquisition of non-financial assets totalling Kshs.5,318,903 as at 30 June, 2018 could not be ascertained.

### **340.5 Compensation of Employees**

The statement of receipts and payments, reflected payments in respect of Compensation of Employees amounting to Kshs.9,732,050. However, the figure included Kshs.670,250 being payment to a consultant which is not part of compensation to employees. Further, annual increments for the Communication Officer, for the months of November and December totalling up to Kshs.4,750 was

not paid and is not included in the financial statements. There was no explanation provided for the anomalies.

Consequently, the accuracy and validity of the cost of employee compensation of Kshs.9,732,050 could not be confirmed.

#### **340.6 Funds Balance**

The statement of financial assets and liabilities included an amount of Kshs.28,155,667 described as amount payable to main account under the funding section of the statement. However, no documentation was availed to show how the money was received and the reason it was considered a liability in the Project. Under the circumstances, the accuracy of the fund balance could not be ascertained.

#### **340.7 Noncompliance with Specific Agreement**

The specific agreement indicated that the Swedish Government was to provide financial assistance totalling SEK32,300,000 (Swedish Cronor) and Technical Assistance amounting to SEK45,700,000 to the Programme. However, project information attached to the financial statements showed donor commitments of SEK31,185,000 (Kshs.389,812,520) only out of which SEK13,908,330 (Kshs.163,136,457) had been received as of 30 June, 2018, with nil receipts in respect of technical assistance.

In addition, the financial statements reflected donor commitment for the Project as SEK30,300,000 (Kshs.378,750,000) but no revised agreement was made available to explain the revision of the figure from SEK32,300,000 reported in the previous year. The difference of SEK1,115,000 in financial assistance commitment shown between the agreement and the project information has not been satisfactorily explained.

#### **340.8 Nondisclosure of Financial Management Agency**

The specific agreement stipulated that the project was to have an independent Financial Management Agency (FMA). The FMA was to be sourced and paid for directly by the donor partner from the programme proceeds with a budget of SEK2,000,000. The identity of the FMA was not disclosed in the Project information attached to the financial statements. In addition, details of the amounts so far paid to the FMA in respect of the SEK2,000,000 budget were not been included in the financial statements for the year ended 30 June, 2018.

#### **340.9 Technical Assistance**

- (a) The specific agreement also stated that the Swedish Government would make available support to the Programme, through Swedish Association of Local Authorities and Regions (SALAR), by providing technical assistance amounting to SEK45,700,000. The details of disbursements made by the

Swedish Government to the SALAR or amounts paid to Consultants by SALAR during the year under review were not provided for audit verification. There was no explanation of how these receipts in kind would be accounted for in the financial statements.

The Council of Governors, the implementing Agency for the Programme, did not provide for audit review any documents detailing delivery schedules and key milestones used as a basis for initiating payments. It was therefore, difficult to establish the amount paid in respect to technical assistance and whether payments made so far in relation to technical assistance were made against attained project milestones. Consequently, it was not possible to confirm whether or not there has been value-for-money in respect of the technical assistance granted to the Programme.

- (b) The specific agreement also stated that the Swedish Government would make available support to the Programme, through Swedish Association of Local Authorities and Regions (SALAR), by providing technical assistance amounting to SEK45,700,000. The details of disbursements made by the Swedish Government to the SALAR or amounts paid to Consultants by SALAR during the year under review were not provided for audit verification. There was no indication on how these receipts in-kind would be accounted for in the Programme's financial statements.
- (c) The Council of Governors, the implementing Agency for the Programme, did not provided for audit review any document detailing delivery schedules and key milestones used as a basis of initiating payments. It was therefore, difficult to establish whether payments made so far in relation to technical assistance were made against attained project milestones. Consequently, it was not possible to confirm whether or not there had been value-for-money in respect of the technical assistance granted to the Programme.

#### **340.10 Nondisclosure of Swedish Component in Budget**

The Kenya Symbiocity Programme has funding and budget support for two components, that is, the Swedish Association of Local Authorities and Regions (SALAR) and the Council of Governors (CoG). However, the financial statements only recognized the Council of Governors component only. No reason was provided for the exclusion of the SALAR component in the financial statements for the year ended 30 June, 2018.

#### **341. Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.114,300,000 and Kshs.57,300,000 respectively resulting to an under-funding of Kshs.57,300,000 or 50% of the budget. The underfunding affected the planned activities and Projects which may have impacted negatively on service delivery to the public.

In addition, out of the total receipts of Kshs.57,300,000, only Kshs.35,679,178 was absorbed resulting to an under absorption of Kshs.21,620,822 or 38% of the receipts. Also, the hospitality supplies and services amount of Kshs.3,010,584 was in excess of the approved budget of Kshs.1,610,000 resulting in unauthorized expenditure of Kshs.1,400,584. Further, the approved budget and work plan for financial year 2018/2019 was not availed for audit examination. The Management did not render satisfactory explanation for the overall budget underperformance.

In the circumstances, the public has not received the services as planned and the Management is in breach of the law.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **342. Noncompliance with Specific Agreement**

- (a) The amended specific agreement dated 14 February, 2019 stated that the Swedish Government would make available support to the programme, through the Swedish Association of Local Authorities and Regions (SALAR), by providing technical assistance amounting to SEK51,372,650. The details of disbursements made during the year under review have not been disclosed in the financial statements.
- (b) The Management has not provided, for audit review, documents detailing delivery schedules and key milestones used as a basis of initiating payments. It is, therefore, difficult to establish the amount paid in respect to technical assistance and whether payments made so far in relation to technical assistance were made against attained Project milestones.

Consequently, it is not possible to confirm whether or not there has been value-for-money in respect of the technical assistance granted to the programme.

#### **343. Nondisclosure of Swedish Component Budget**

The Programme has funding and budget support for two components, that is, Swedish Association of Local Authorities and Regions (SALAR) and the Council of Governors. However, as previously reported, the financial statements have only recognized the Council of Governors component only. No reason has been provided for the exclusion of the SALAR component in the financial statements for the year ended 30 June, 2019.

#### **344. Irregular Consultancy Expenses**

As disclosed under Note 8.8 of the financial statements, the statement of receipts and payments reflects purchase of goods and services of Kshs.26,039,878 which

includes a payment of Kshs.1,505,687 in respect of consultancy services relating to 2017/2018 that had not been disclosed in the pending bills. However, the payment was noted to have the following anomalies:

- (i) The amount paid is in excess of the amount awarded as per the professional opinion award by Kshs.207,681.

The date of the professional advice from the Head of Procurement to the Chief Executive Officer is dated 4 June, 2016 while the two (2) firms that responded to the request on 16 June, 2017 which was one (1) year after the professional opinion. The professional opinion had no sign of approval by the Accounting Officer.

- (ii) The minutes of the evaluation committee had not been dated though signed by the evaluation team.
- (iii) The contract was to commence on 18 July, 2017, more than thirteen (13) months after the professional opinion was issued by the head of procurement.
- (v) The contract was to take two (2) months period from 18 July, 2017 but the acceptance and Project completion certificate was issued on 7 June, 2018 which was more than ten (10) months after the contract expiry period.
- (vi) The payment was made on 26 June, 2019 which was one (1) year after issuance of completion certificate and fifteen (15) months after receipt of the invoice. The amount was not included in the pending bills for the project as at 30 June, 2018.

Consequently, the legality and validity of the consultancy expenditure of Kshs.1,505,687 could not be ascertained as at 30 June, 2019.

#### **345. Unauthorized Payments Relating to 2017/2018**

The Management made payments on various components relating to 2017/2018 which had not been listed in the pending bills as at 30 June, 2018 as follows: -

- i. Communication supplies and services - Kshs.771,500.
- ii. Hospitality supplies and services - Kshs.2,648,897.
- iii. Domestic travel and subsistence payments - Kshs.3,407,367.

Further, payments of Kshs.700,070 had their invoices dated earlier than the local service orders.

In view of the foregoing, the accuracy, validity and completeness of pending bills paid during the year under review could not be ascertained.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**346.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## STREET FAMILIES REHABILITATION TRUST FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **347. Lack of Ownership Documents**

The statement of financial position reflects Kshs.1,738,520 in respect of property, plant and equipment as at 30 June, 2019. The balance excludes the values of various parcels of land that have no ownership documents as indicated below:

#### **347.1 Land - LR No. 209/11325 at Mukuru Kwa Njenga Slum**

As previously reported, Kenya Pipeline Corporation (KPC) donated and surrendered to the Trust Fund a piece of land L.R No.209/11325 on 23 August, 2007 vide a letter Ref. No. LE/LA/ 25/4 addressed to the Commissioner of Lands by the Managing Director of the Company. The title was surrendered to the Commissioner of Lands on 6 August, 2007 for purposes of transferring and registering the property in the name of the Trust Fund. A review of the position in the month of March, 2020, twelve (12) years after the donation revealed that the transfer has not been effected and the land in Mukuru Kwa Njenga slum has since been encroached upon by members of the public.

#### **347.2 Parcels of Land in Embu, Murang'a and Laikipia**

Information available indicates that the defunct Local Authorities of Embu, Murang'a and Laikipia allocated land to the Trust Fund informally as captured in the Minutes dated 19 September, 2016. The Trust Fund is however, yet to identify where the pieces of land are located or to obtain either title deeds or any legal or formal documents of allocation. In addition, Management has not demonstrated any efforts put in place to acquire ownership documents.



### **347.3 LR. NO. Mavoko Town Block 3/2545**

As was reported in the previous year, the Trust Fund purchased land measuring 8.090 hectares in Mavoko Town at a cost of Kshs.38 Million on 6 December, 2013. The original title was surrendered to the Ministry of Land for subsequent transfer in the same month. A review of the position during the audit, in the month of March, 2020, revealed that the said property had not been transferred to the Trust Fund and no further information was available for audit verification.

In the circumstances, it has not been possible to confirm the completeness and accuracy of the property, plant and equipment balance of Kshs.1,738,520 reflected in the statement of financial position as at 30 June, 2019.

### **Other Matter**

#### **348. Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.244,358,492 and Kshs.153,000,000 respectively, resulting to an over-funding by Kshs.91,358,492 or 37% of the budget. Similarly, the Trust Fund expended Kshs.147,104,302 against an approved budget of Kshs.244,358,492 resulting to an under-expenditure of Kshs. 97,254,190 or 40% of the budget.

In the circumstances, the Trust Fund's objective of spearheading National Government response to restore dignity to street families and the strategic goal of safeguarding and promoting the rights of street families and addressing the concerns of all homeless, destitute and vulnerable people in urban areas, may not have been achieved as planned.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**349.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **350. Lack of Information Technology and Risk Management Policies and Data Recovery Strategy**

A review of the internal controls at the Trust Fund revealed weaknesses that included the absence of documented Data Recovery Strategy, Risk Management

Policy or an Information Technology Policy. There were no measures in place to counter risks. Thus the Trust Fund is exposed to threats in terms of loss of strategic data and information regarding its operations, exposure to cyber-attacks, poor response to fire outbreaks and unsafe storage of information technology resources.

### **351. Weak Internal Controls**

A review of internal controls at the Trust Fund revealed weaknesses that included lack of effective accounting function since all the accounting transactions are executed from the State Department for Social Protection. The Trust Fund also largely depends on the staff seconded from the State Department for Social Protection to discharge its mandate, which negatively affects its operations due to a lean staff establishment.

### **352. Lack of Assets Register**

During the year under review, the Trust Fund did not maintain an assets register and the assets acquired in the financial year had not been tagged. From the foregoing, the ownership, valuation and safety of the Trust Fund's assets could not be ascertained or confirmed.

## STATE DEPARTMENT FOR DEVELOPMENT OF THE ASALS-VOTE 1035

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 353. Unreconciled Financial Statement Figures

The statement of assets and liabilities as at 30 June, 2019 reflects balances under financial assets and financial liabilities which do not tally with the figures reflected in the Integrated Financial Management System (IFMIS) reports as shown below:

Details	Balance as per Financial Statements (Kshs.)	Balance as per IFMIS Reports (Kshs.)	Difference (Kshs.)
Financial Assets	10,203,062	1,198,840,688	(1,118,638,626)
Financial Liabilities	10,174,387	1,198,812,013	(1,188,637,626)

The difference between the two sets of figures have not been explained or reconciled.

This is a pointer to preparation of financial statements outside IFMIS.

As such, it has not been possible to confirm the accuracy and presentation of the financial statements for the year ended 30 June, 2019

#### 354. Irregular Payment of Allowances

The statement of receipts and payments reflects a balance of Kshs.154,331,256 under compensation of employees which includes an amount of Kshs.60,021,848 in respect of personal allowances paid as part of salary. The latter balance includes an amount of Kshs.5,150,000 paid as extraneous allowances without the authority of the Salaries and Remuneration Commission (SRC) contrary to Part III, Section C.13 of the Human Resource Policies and Procedures Manual for Public Service, 2016. No explanation has been provided for this anomaly.

In the circumstances, the accuracy and propriety of the personal allowances paid as part of salary amount of Kshs.5,150,000 could not be ascertained.

#### 355. Unauthorized Reallocation of Funds

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.48,565,862 under acquisition of assets which includes an amount of Kshs.11,956,700 in respect of daily subsistence

allowance paid to officers for undertaking activities not related to acquisition of assets. No documentation was provided for audit verification in support of the reallocation of the expenditure.

Consequently, the propriety and accuracy of acquisition of assets payments of Kshs.11,956,700 for the year ended 30 June, 2019 could not be confirmed.

### **356. Unsupported Adjustment - Communication, Supplies and Services**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.256,887,800 in respect of use of goods and services. The amount includes an amount of Kshs.10,438,117 incurred under communication, supplies and services. The latter balance includes amounts of Kshs.100,000 and Kshs.34,918 described as adjustments but have not been supported or explained.

Consequently, the validity and accuracy of communication, supplies and services expenditure of Kshs.134,918 could not be confirmed.

### **357. Cash and Cash Equivalents**

The statement of assets and liabilities reflects a balance of Kshs.10,203,062 under cash and cash equivalents comprised of Kshs.626, Kshs.28,049 and Kshs.10,174,387 for recurrent, development and deposits bank accounts respectively. The following observations were noted.

#### **357.1 Receipts and Payments in the Recurrent Cash Book Without Supporting Documents**

The bank reconciliation statement for the recurrent account reflects receipts of Kshs.57,702,404 in the cash book not in the bank statement, out of which receipts amounting to Kshs.1,907,664 have not been explained what they relate to and the date they were recorded in the cash book. Further, payments in cash book not reflected in the bank statement of Kshs.58,438,786 made on 30 June, 2019 includes an amount of Kshs.11,723,534 paid to officers but was not included in the outstanding imprest balance as at 30 June, 2019 and a further Kshs.46,715,252 paid to suppliers. The supporting documents for the above payments were not availed for audit verification.

#### **357.2 Payments in the Development Cash Book Without Supporting Documents**

The bank reconciliation statement for development bank account shows payments in the cash book not reflected in the bank statement amounting to Kshs.522,612,498 out of which an amount of Kshs.1,383,913 was paid to staff on 30 June, 2019 but supporting documents were not availed for audit verification. The amount has not been reflected as outstanding imprests from the staff under receivables and no explanation has been provided for the anomaly.

Under the circumstances, the accuracy of cash and cash equivalent balance of Kshs.10,203,062 as at 30 June, 2019 could not be confirmed.

### **358. Accounts Payables - Deposits and Retentions**

As disclosed in Note 12 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.10,174,387 under accounts payables- deposits and retentions. Although lists totalling to Kshs.10,174,387 were availed, details of the contractors and constructions undertaken that would form the basis of settlement were not provided for audit verification.

Without this information, the accuracy and validity of the deposits and retentions amount of Kshs.10,174,389 as at 30 June, 2019 could not be confirmed.

### **Other Matter**

### **359. Pending Bills**

As disclosed in Notes 16.1 to the financial statements, the State Department for Development of the ASALS had an outstanding pending bill of Kshs.15,172,530 as at 30 June, 2019, that was not settled during the year 2018/2019 but was instead carried forward to 2019/2020. Failure to settle pending bills during the year to which they relate distorts the financial statements for the year and adversely affects the provisions of the subsequent year to which they are charged.

### **360. Unresolved Prior Year Matters**

The following prior year matters remained unresolved as at 30 June, 2019:

#### **360.1 Other Grants and Transfers - Emergency Relief and Refugee Assistance**

As previously reported, the statement of receipts and payments as at 30 June, 2018 reflected a balance of Kshs.3,401,423,681 (2016/2017 – Kshs.7,097,995,969) in relation to other grants and transfers. The balance included an amount of Kshs.3,289,532,111 (2016/2017 – Kshs.7,097,393,359) in respect of emergency relief and refugee assistance. However, although the documentation in respect of procurement of the relief commodities were availed, the documentation for distribution to the beneficiaries and the basis of selection of the beneficiaries were not provided for audit scrutiny.

Consequently, the validity of the expenditure and value for money to the citizens could not be confirmed.

#### **360.2 Discrepancies in Relief Foodstuff Receipts and Distribution to Beneficiaries**

As reported previously, an audit inspection in five (5) Sub-Counties namely Mwatate, Kilifi North, Baringo Central, Kitui Central and Makueni revealed the following anomalies in relief receipts and distribution to vulnerable populations:

- i) The State Department of Special Programmes did not follow up to ensure whether relief foodstuff sent to the Counties was received by the intended beneficiaries. This was evident from the discrepancies in the dispatch records and the receiving records maintained by the Sub-Counties.
- ii) The distribution of the relief food was undertaken by the State Department for Interior which made no report of the quantities received and quantities distributed to the State Department for Special Programmes and therefore no indication on how the foodstuff was received by the beneficiaries.
- iii) In all the Sub-Counties visited, there were no comprehensive distribution records to indicate how the foodstuff received was distributed.
- iv) There was no documentation on how needy persons were identified or how quantities of various donations were determined.
- v) The Management at the State Department for Special Programmes was not involved in ensuring smooth logistics for transportation and distribution of the relief support to the beneficiaries.
- vi) There was no accountability for AIEs sent to the County Commissioners for transport as evidenced by the Counties which could not fully account for Kshs.1,700,000 AIEs sent to them.
- vii) Although the Department had no vehicles at the Sub-Counties, the AIEs disbursed to Sub-Counties were being used for motor vehicles repairs.

In view of the foregoing, the accuracy, completeness, validity and accountability of other grants and transfers balance of Kshs.3,401,423,681 as at 30 June, 2018 could not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 361. Use of Goods and Services - Other Operating Expenses

The statement of receipts and payments reflects an amount of Kshs.256,887,800 in respect of use of goods and services for the year ended 30 June, 2019. Included in this balance is an amount of Kshs.51,788,815 relating to other operating expenses which includes a payment of Kshs.2,716,616 to a transporter in respect of transportation of relief food to various destinations. The payment was supported by a contract for transportation of relief food supplies that expired on 5 October, 2015. However, the contract was extended as indicated in the minute No.10/2015-16 of the Ministerial Tender Committee meeting held on 17 December, 2015 for a period of four (4) months from 5 October, 2015 to 5 February, 2016. An audit scrutiny of records revealed the following anomalies:

- i) The extended contract was signed on 8 June, 2016, four (4) months after the lapse of the extension period hence invalidating any works done after the lapse of the contract on 5 October, 2015;
- ii) There was no evidence of fresh tendering having been done to select a new supplier or renew the contract of the existing supplier and hence Management was in breach of Section 139 (2) (a) of the Public Procurement and Asset Disposal Act, 2015.
- iii) On waybill No.07795 dated 11 May, 2016 for Kshs.191,427, the lorry was loaded with 200 bags of rice weighing 50Kgs each and 50 bags of beans. On reaching the destination, 199 bags of rice and 49 bags of beans were received in the stores with a short delivery of one (1) bag of rice and one (1) bag of beans as indicated in the waybill. This anomaly was not addressed.
- iv) For the Waybill No.086246 for Kshs.80,486.85, the lorry was loaded with 300 bags of rice weighing 50 kgs each and 50 bags of beans weighing 50 kgs each. On arriving at the destination and upon offloading, the bags were found to be weighing between 41- 45kgs each.
- v) Waybill No.08625 of Kshs.71,475 indicated that 200 bags of rice weighing 50kgs each were loaded on the lorry but upon reaching the intended destination they were found to be weighing between 41-50kg.

No explanation or documentary evidence were provided for audit verification to show the action taken against the transporter for less delivery of the relief food.

### **362. Unauthorized Procurement of Goods**

The statement of receipts and payments shows a figure of Kshs.48,565,862 under acquisition of assets for the year ended 30 June, 2019 which includes a payment of temporary imprest amounting to Kshs.368,200 to an Officer as facilitation for accreditation materials while attending ASAL Conference in Malindi. However, the surrender showed that the entire amount was used for cash procurement without due regard to competitive sourcing as required by the Public Procurement and Asset Disposal Act, 2015.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

- 363.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **MINISTRY OF DEFENCE-VOTE 1041**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**364.** There were no material issues noted during the audit of the financial statements for the Ministry.

#### **Other Matter**

##### **365. Pending Bills**

Note 16C to the financial statements reflects pending bills balance of Kshs.568,617,140 as at 30 June, 2019. Had the accounts been settled and charged to the statement of receipts and payments for the year, it would reflect a deficit of Kshs.510,846,979 instead of the current reported surplus of Kshs.57,770,161. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form the first expenditure to be charged.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

#### **Conclusion**

**366.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**367.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **REVENUE STATEMENTS - MINISTRY OF DEFENCE**

### **REPORT ON THE REVENUE STATEMENTS**

#### **Unqualified Opinion**

**368.** There were no material issues noted during the audit of the revenue statements of the Ministry.



## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**369.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**370.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **MINISTRY OF FOREIGN AFFAIRS-VOTE 1052**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **371. Long Outstanding Imprests**

The statement of assets and liabilities as at 30 June, 2019 reflects a balance of Kshs.4,800,429 under accounts receivables – outstanding imprests. Examination of records held at Kenya Missions in Stockholm and Berlin revealed long outstanding imprests amounting to Kshs.2,956,653. Some of the imprests have been outstanding for 30 years and thus making their recoverability doubtful.

In the circumstances, the recoverability of imprests totalling Kshs.2,956,653 included in the accounts receivables – outstanding imprests balance of Kshs.4,800,429 could not be confirmed.

##### **372. Unapproved Expenditure and Irregular Prior Year Adjustment**

As previous reported, the Ministry of Foreign Affairs expenditure estimates (Supplementary II) for 2017/2018 reflected a development budget of Kshs.207,786,113 for the Kenya High Commission in Pretoria in respect of construction of the High Commissioner's residence and staff houses. A review of expenditure records revealed that payments amounting to Kshs.439,635,853.55 were made to the contractor for the construction works in the 2017/2018 financial year, leading to unapproved expenditure of Kshs.231,849,740.55 over and above the approved budgeted limit of Kshs.207,786,113.

To accommodate part of the expenditure that was not budgeted for in 2017/2018 financial year, Management irregularly made a prior year adjustment of Kshs.221,020,794 as disclosed in Note 15 to the financial statements. This prior year adjustment was contrary to International Public Sector Accounting Standard, Financial Reporting under the Cash Basis of Accounting, paragraph 1.5.3. The errors envisaged by the Standard for prior year adjustment may occur as a result of mathematical mistakes, misinterpretation of facts, mistakes in applying accounting policies or oversights. However, in the foregoing case, no error had occurred in the previous financial year to warrant a prior year adjustment in the financial statements for the year ended 30 June, 2018.

In the circumstances, the Ministry did not comply with the Standards.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **373. Irregular Variation of Contract**

The statement of receipts and payments for the year ended 30 June, 2019 reflects an expenditure of Kshs.1,618,676,563 in respect of acquisition of assets and which as disclosed in Note 9 to the financial statements includes an amount of Kshs.504,687,138 relating to refurbishment of buildings.

During the financial year 2018/2019, the Ministry contracted a firm to renovate offices at the Ministry's Headquarters at a contract price of Kshs.14,925,045. However, the contract price was varied to Kshs.18,141,407 representing an increase of Kshs.3,216,362 or 21.5 % of the contract price. The increase went beyond the allowed 15% and was made before the end of twelve months after signing the contract contrary to the requirements under Section 139 (3) and (4) of the Public Procurement and Asset Disposal Act, 2015.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**374.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# STATE DEPARTMENT FOR VOCATIONAL AND TECHNICAL TRAINING-VOTE 1064

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 375. Transfers to Other Government Units

The statement of receipts and payments reflects an expenditure of Kshs.6,998,566,833 in respect of transfers to other government units. The following anomalies were noted regarding the expenditure:

##### 375.1 Over Disbursement Due to Use of Unverified Data

From a sample of institutions, it was noted that the enrolment numbers provided by Kenya Universities and Colleges Central Placement Service were not used for disbursement purposes. Instead, different enrolment data containing inflated numbers whose source is unknown, was used resulting to an over payment of Kshs.50,599,308 as detailed below:

PV No.	Institution	KUCCPS Total No.	Valid No.	No. Used	Difference	Rate (Kshs.)	Amount (Kshs.)
1507	North Eastern NP	1,141	1,139	2,046	907	6,322.28	5,734,308
1092	Kisiwa TVC	31	-	2,113	2,113	15,000	31,695,000
1092	Mathenge TVC	494	374	1,108	734	15,000	11,010,000
1092	Moiben TVC	8	6	150	144	15,000	2,160,000
<b>Total</b>							<b>50,599,308</b>

##### 375.2 Over Disbursement Due to Inflated Student Enrolment Numbers

For some institutions, the data for student enrolment numbers used to make the disbursements was not cleaned to eliminate the students who did not provide the correct details, those who did not meet the minimum qualification, unregistered programs, non-citizens and those whose results could not be validated. This had the effect of increasing the number of students in these institutions leading to overpayment of Kshs.119,403,322 as detailed below:

PV No.	Institution	KUCCPS Total No.	Valid No.	No. Used	Difference	Rate (Kshs.)	Amount (Kshs.)
1504	Kabete NP	7,681	106	7,198	7,092	15,000	106,380,000
1507	Eldoret NP	11,673	8,617	8,624	7	6,322	44,254
1507	Kabete NP	10,631	3,431	3,433	2	6,322	12,645

<b>PV No.</b>	<b>Institution</b>	<b>KUCCPS Total No.</b>	<b>Valid No.</b>	<b>No. Used</b>	<b>Difference</b>	<b>Rate (Kshs.)</b>	<b>Amount (Kshs.)</b>
1507	Kisumu NP	6,561	4,081	4,082	1	6,322	6,322
1507	Meru NP	7,739	1,361	1,362	1	6,322	6,322
1507	Nyeri NP	5,874	1,939	1,940	1	6,322	6,322
1507	Sigalagala NP	3,782	459	461	2	6,322	12,645
1507	North Eastern NP	-	-	2,046	2,046	6,322	12,934,812
666	Eldoret NP	3,049	3,042	3,049	7	15,000	105,000
<b>Total</b>							<b>119,403,322</b>

### **375.3 Excess Disbursements and Disbursements to Institutions with Low/Nil Student Population**

Examination of records held by the State Department revealed that six (6) institutions entitled to a total of Kshs.12,000,000 based on the set criteria received a total of Kshs.27,000,000 resulting into excess disbursement of Kshs.15,000,000. Further, an amount of Kshs.64,500,000 in respect of recurrent grants was disbursed to institutions with less than two hundred (200) students. In addition, Kshs.500,000 was disbursed to Endebess Technical Training Institute in spite of the fact that the Institution was not listed among the beneficiary Institutions.

In the circumstances, it has not been possible to confirm that the established criteria for the transfers was adhered to and that the disbursements were fairly done.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **376. Purchase of Furniture**

Included in the amount of Kshs.6,998,566,833 in respect of transfers to other Government units reflected in the statement of receipts and payments is an amount of Kshs.36,234,800 being expenditure for purchase of furniture and fittings for vocational and technical training institutes. However, the source of the funding was not disclosed as this activity was not provided for in the budget for the 2018/19 financial year neither were the amounts included in the pending bills for financial year 2016/17 when the procurement commenced.

Evaluation of tenders was done on 22 May, 2017 and two (2) merchants emerged the winners for a total of Kshs.36,234,800. The contracts for the two (2) companies were signed on 2 August, 2017 - seventy-two (72) days after notification of award

of tender contrary to the provisions of Section 2 (2.29) of the tender document that provided for a maximum of thirty (30) days.

The bid price for one of the bidders was adjusted upwards by Kshs.341,600 from Kshs.18,014,400 to Kshs.18,356,000 by the evaluation committee contrary to Section 82 of the Public Procurement and Asset Disposal Act, 2015 which clearly stipulates that the tender sum as submitted and read out during the tender opening shall be absolute and final and shall not be the subject of correction, adjustment or amendment in any way by any person or entity.

Further, the procured items were delivered on 1 February, 2018 and 25 May, 2018 - seventy-five (75) and one hundred and seventy-five (175) days respectively after the expiry of the contract periods. In addition, three Inspection and acceptance committee reports with different dates and each providing a different status of the goods delivered to Kasarani TVC were provided. It could therefore not be confirmed that the items were delivered in compliance with the terms and specifications of the contract.

Consequently, the propriety and value for money on the purchase of furniture expenditure of Kshs.36,234,800 could not be confirmed.

### **377. Non-Compliance to the Third Rule on Salary Deductions**

Analysis of the payroll data for the year ended 30 June, 2019 revealed that payroll deductions for twenty-three (23), twenty-five (25) and one hundred and forty-nine (149) employees in the months of April, May and June respectively were in excess of two thirds of their gross pay. This contravenes Section 19(3) of Employment Act, 2007 which states that the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employees at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

In the circumstance, the State Department is in breach of the Law.

### **378. Non-Operational Institutions**

In the financial year 2017/2018, the State Department completed sixteen (16) technical training institutes in fifteen (15) Counties. The institutions though completed, were not operational as at the time of audit casting doubt on their viability and whether proper feasibility studies were conducted. In addition, the non-operational Institutions continued to draw Kshs.2,000,000 annually for operational costs from the Government.

Under the circumstances, value for money may not have been realized.

### **379. Stalled Projects**

#### **379.1 Proposed Kakrao Technical Training Institute**

The contract for the construction of the proposed Kakrao technical training institute was awarded at a contract sum of Kshs.53,720,833. The contract commenced on 01 November, 2014 with an expected completion date of 01 November, 2015 for a period of fifty two (52) weeks. The contract was terminated on 4 July, 2017. According to the termination letter, the contractor had already been paid Kshs.46,214,053 being 86% of the contract sum. The level of completion at the time of termination was 73% and the contractor, therefore, ought to have been paid Kshs.33,844,125 or 63% of the contract sum given 10% portion requirement. The contractor was therefore overpaid by Kshs.12,369,928 which may constitute loss of public funds.

In addition, the incomplete institution with no learners was fitted with furniture and donor funded equipment which are now subject to wear and tear without being put to any economical use.

In the circumstances, the objectives of the project may not have been attained and value-for-money may not be realized on the expenditure.

#### **379.2 Incomplete Technical Training Institutes**

Records maintained by the State Department reflected that construction of eight (8) technical training institutes started as early as June 2014 and which ought to have been completed within one year were still at varying stages of completion. No extension of the contract periods had been granted. Although Management attributed the delayed completion to various challenges ranging from insecurities to dispute over land, completion of the projects was not achieved as at the time the audit report was finalized and solutions for the challenges were not indicated.

### **380. Unresolved Prior Year Matter**

#### **380.1 Purchase of Information, Communication and Technology (ICT) Equipment, Furniture and Fittings for Technical Solutions**

As reported in the previous year, the statement of receipts and payments for the year ended 30 June, 2019 reflected a figure of Kshs.6,850,983,600 under use of goods and services. The figure included an amount of Kshs.6,509,182,533 for purchase of specialized materials and services as disclosed in the financial statements, which also included an amount of Kshs.339,347,580 spent in the procurement of ICT equipment, furniture and fittings for various technical training institutions from nine (9) firms. The following anomalies were noted:

- i. The approved procurement plan for the year was not availed for audit review. It was therefore not possible to confirm that the items were in the

procurement plan of the State Department of Vocational and Technical Training.

- ii. The bidder's original tender documents were not availed for audit review and therefore the validity of the procurement process could not be ascertained for the year ended 30 June, 2018.
- iii. The tender evaluation was undertaken thirty-four (34) days after the tender opening on 19 April, 2018 and forty-one (41) days for ICT equipment and furniture and fittings respectively contrary to the provisions of Section 80(6) of the Public Procurement and Asset Disposal Act, 2015 which allows a maximum of thirty (30) days after the opening of the tenders.
- iv. The appointment letters for the tender opening and evaluation committees were not availed for audit review and hence it's not clear if the members who performed the duties on 19 April, 2017 and 15 May, 2017 were appointed by the Principal Secretary as per the Public Procurement and Asset Disposal Act 2015.
- v. The evaluation reports prepared did not have scores awarded by each evaluator neither were the individual score sheets availed for audit review.
- vi. The inspection and acceptance committee members were paid Kshs.5,917,800 for inspection and acceptance of various equipment and construction works at various technical training institutions. The officers had not been appointed formally into the inspection and acceptance committees as required by the Public Procurement and Asset Disposal Act, 2015 Section 48(1) which requires that an accounting officer of a procuring entity to establish an ad-hoc committee known as the inspection and acceptance committee.

In the circumstances, the State Department is in breach of the law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 381.** There were no material issues relating to effectiveness of internal controls, risk management and governance.



## **DONOR FUNDED PROJECTS**

### **KENYA ITALY DEBT FOR DEVELOPMENT PROGRAM (KIDDP)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**382.** There were no material issues noted during the audit of the financial statements of the Program.

##### **Other Matter**

##### **383. Budget Control and Performance**

The statement of comparative budget and actual amounts reflects nil receipt budget and nil actual on comparable basis. However, the Program spent an amount of Kshs.20,288,614 against the approved budget of Kshs.53,735,500 resulting to an under expenditure of Kshs.33,446,886 or 62 % of the budget. The Management has explained that the Program utilized past savings and attributed the underpayment to slow Program's implementation.

In the circumstances, the citizens have not received the services as planned.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**384.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**385.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**SUPPORT TO TECHNICAL, VOCATIONAL EDUCATION AND  
TRAINING FOR RELEVANT SKILLS DEVELOPMENT (GOK/ADB  
TVET PHASE II) PROJECT - LOAN NO. 2100150033295**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**386.** There were no material issues noted during the audit of the financial statements of the Project.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**387.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE**

**Conclusion**

**388.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **STATE DEPARTMENT FOR UNIVERSITY EDUCATION-VOTE 1065**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **389. Unconfirmed Receipt of Grants**

The statement of receipts and payments for the year ended 30 June, 2019 reflects transfers to other Government Units figure of Kshs.89,827,490,592, which as disclosed in Note 7 to the financial statements, includes a balance of Kshs.1,976,016,602 in respect of grants to thirty (30) private universities for 29,729 government sponsored students. However, no confirmations from the recipient private universities on the number of government students who were actually admitted and are still in these institutions was availed for audit review. In addition, no reports by the State Department officials on verification of the said students in the specific universities were availed for audit review. This is contrary to provisions of Section 23(2)c of the Public Finance Management (National Government) Regulations, 2015 which guide transfer of funds to institutions within and outside Government.

#### **390. Grants and Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other Government Units figure of Kshs.89,827,490,592 which, as disclosed in Note 7 to the financial statements, includes Kshs.79,943,771,622 in respect of current grants to Government Agencies and other levels of Government. However, a review of the records maintained by the State Department revealed the following unsatisfactory matters:

##### **390.1 Disbursements to Jomo Kenyatta University of Agriculture and Technology**

During the year under review Kshs.110,467,995 was disbursed to Jomo Kenyatta University of Agriculture and Technology for construction of a new administration block against an approved budget amount of Kshs.103,420,000. The contract for the construction of the new administration block was executed on 14 December, 2012 at a contract price of Kshs.285,919,713. A review of the University Council's special meeting minutes dated 17 June, 2019 indicated that the project stalled in 2016 and that the contract sum was increased by Kshs.62,447,206 from the original contract price of Kshs.285,919,713 to Kshs.348,366,919. However, documentation supporting the payment of Kshs.110,467,995 and progress report on whether the stalled project will be revived, completed and put to use, were not availed for audit review.

### **390.2 Disbursements to Machakos University**

During the year under review Kshs.37,500,000 was disbursed to Machakos University for extension of ADB Building. The disbursement was done against 2017/2018 local purchase orders totalling Kshs.19,749,133 while the remaining disbursement of Kshs.17,750,867 was not supported. Further, Kshs.220,000,000 was disbursed to the institution for construction of a tuition block against the approved budgeted amount of Kshs.149,737,500 resulting to an excess disbursement of Kshs.70,262,500.

### **390.3 Disbursements to Karatina University**

Payment records held at the State Department indicate that amounts of Kshs.119,175,132 and Kshs.148,262,855 were disbursed to Karatina University for construction of a library and a resource center respectively. However, the disbursements for the library were not supported by valuation certificates while payments for the resource center were in respect to a 2011/2012 contract. No information has been availed to ascertain that these contracts are still ongoing to date and the status of the projects.

### **390.4 Disbursements to Maasai Mara University**

During the year under review, the State Department disbursed Kshs.200,340,000 and Kshs.75,898,140 to Maasai Mara University for the construction of a tuition block and perimeter wall respectively. A review of payment records indicate that the tuition block contract sum was Kshs.410,700,000 plus 10% consultant fee totalling to Kshs.451,770,000 while the perimeter wall was for a contract sum of Kshs.87,219,440. Information available indicates that amounts totalling Kshs.485,835,000 and Kshs.95,135,640 have been disbursed in respect to the tuition block and perimeter wall respectively in the last three (3) years. However, the excess disbursements of Kshs.34,065,000 and Kshs.7,916,200 for the two projects respectively has not been explained. The excess disbursements totalling Kshs.41,981,200 above the contract sums is irregular and contrary to the Public Finance Management Act, 2012.

### **390.5 Disbursements to Maseno University**

On 1 August, 2016, Maseno University entered into a contract for construction of an administration block at a contract price of Kshs.89,900,246. A review of the payment records indicates that Kshs.121,250,000 has been disbursed towards the administration block. No explanation for the excess expenditure of Kshs.31,349,754 has been availed for audit review.

Under the circumstances, the accuracy and completeness of the current grants to Government Agencies and other levels of Government could not be ascertained.

## **391. Unapproved Expenditure on Repair of Motor Vehicle**

The statement of receipts and payments reflects an expenditure of Kshs.545,330,148 under use of goods and services, which as disclosed in Note 5

to the financial statements, include an amount of Kshs.506,920 incurred on routine maintenance – vehicles and other transport equipment. The expenditure of Kshs.506,920 was in respect of motor vehicle repairs of GKB 411F which had been involved in an accident. The police abstract availed for audit review indicates that the accident occurred at Shauri Moyo Government quarters on 19 April, 2019 through careless driving of the vehicle of the other party. However, whereas the insurer of the other party accepted to honor the claim, it is not clear why the State Department incurred the cost of repair on its behalf.

In the circumstances public funds may have been lost as no information has been provided to confirm that the funds incurred for the repair were refunded by the insurance company.

### **Other Matter**

## **392. Budget Control and Performance**

### **392.1 Budget Under Absorption**

The State Department for University Education had a total budget of Kshs.111,863,534,937 for the financial year 2018/2019 comprising of Kshs.100,471,475,368 for recurrent and Kshs.11,392,059,569 for development votes respectively. However, the total actual expenditure was Kshs.101,812,416,076 resulting to an overall budget under-absorption of Kshs.10,051,118,861 or 9%. The under absorption of the approved budget is an indication of activities planned for but not implemented by the State Department hence denying Kenyan citizens the desired services.

### **392.2 Under-Collection of A-I-A**

The State Department for University Education realized Appropriations-in-Aid of Kshs.40,988,810,636 against approved estimates of Kshs.49,780,884,087 resulting into under-collection of Kshs.8,792,073,451 or approximately 18% of the total estimated collections. The under collection is an indication of projects planned for but not implemented by the various Institutions denying Kenyan citizens the desired services.

### **392.3 Unauthorized Expenditure**

During the year under review, examination of accounting records indicated that a sum of Kshs.1,054,629,381 was disbursed to five (5) universities namely Machakos University, Jomo Kenyatta University of Science and Technology, Tom Mboya University College, Kibabii University College and Meru University of Science and Technology against a collective budget of Kshs.922,550,000, thus exceeding the budget allocation by Kshs.132,079,381.

Although Management indicated that the payments were processed and disbursed to the Universities before the supplementary budget was approved by Parliament in June, 2019, these amounts have not been recovered to date.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**393.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**394.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## DONOR FUNDED PROJECTS

### SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION, SCIENCE AND TECHNOLOGY PROJECT (ID NO. P-KE-IAD-001 - LOAN AGREEMENT NO. 2100150027993)

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### **395. Defects and Delays in Plant and Equipment Supplies to Universities**

The statement of receipts and payments for the year ended 30 June, 2019 reflects expenditures totalling Kshs.225,053,795 incurred on acquisition of non-financial assets. Included in the balance are payments totalling Kshs.150,030,625 incurred on purchase of specialized plant, equipment and machinery during the year.

As indicated in the audit report for the previous year, the Project has entered into contracts with several vendors for supply of specialized science and engineering equipment to selected public universities. Under the terms of the contracts, the vendors receive advance payment equivalent to 20% of their respective contract values after they submit bank guarantees of equivalent amount. A further 60% of the contract sum is paid after the equipment is shipped and relevant documents submitted to Management. The remainder 20% is paid upon receipt and acceptance of the items supplied.

As at 30 June, 2019, the Project's expenditure on procurement of specialized plant and equipment totalled Kshs.2,724,432,291, spent over two financial years. However, audit verification revealed that equipment valued at Kshs.43,028,900

delivered to four (4) universities did not meet user specifications and were, as a result, rejected by the respective inspection and acceptance committees. At the time of the audit in September, 2019, the equipment had not been replaced. Also equipment worth Kshs.90,607,668 bought for the four (4) universities lacked some key components and were rejected by the respective inspection committees. The suppliers did not offer replacements even though the contract terms required them to replace or repair defective supplies within fourteen (14) days of being notified to do so.

In addition, equipment worth Kshs.41,513,200 due for supply to three (3) of the four (4) universities were not delivered by the respective suppliers.

In view of the defective and unfulfilled supplies, it is not possible to confirm the value of equipment acquired by the Project against expenditures totalling Kshs.2,724,432,291 reported in Note 8.6 to the financial statements as having been incurred on purchase of specialized plant, equipment and machinery in the two financial years ended 30 June, 2019. Further, the universities have not obtained any value on the expenditures totalling Kshs.175,149,768 incurred on the defective and unfulfilled purchases. As a result, the purposes for which the various equipment were bought have not been attained.

#### **Other Matter**

#### **396. Budget Control and Performance**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects final budgeted and actual expenditure on comparable basis amounting to Kshs.415,460,000 and Kshs.338,080,474 respectively resulting to under-expenditure of Kshs.77,379,526 or 19% of the budget for the year.

No explanation has been provided by Management for the failure to absorb all the funds made available to the Project during the year under review.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**397.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**398.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **ESTABLISHMENT OF KENYA ADVANCED INSTITUTE OF SCIENCE AND TECHNOLOGY(KAIST) PROJECT NO KEN-4**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**399.** There were no material issues noted during the audit of the financial statements of the Project.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**400.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**401.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **EASTERN AND SOUTHERN AFRICA HIGHER EDUCATION CENTERS OF EXCELLENCE (ACE II) PROJECT (CREDIT NO. 5798-KE)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **402. Loss of Project Vehicle**

As disclosed in Note 8.6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.24,285,013 in respect of acquisition of non-financial assets, out of which Kshs.22,180,900 relates to purchase of vehicles and other transport equipment. Available information indicates that the Management acquired a Project vehicle - Toyota Fortuner Registration No. GK B193V at a cost of Kshs.8,355,900 in May, 2019. However, physical verification and motor vehicle records revealed that the vehicle was missing.



The Project Management explained that the vehicle was stolen, within days after purchase, in a carjacking incident and this was reported to the police.

In the circumstances, the Accounting Officer may not have put adequate measures to safeguard Project assets and the citizens will not derive value from this vehicle.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**403.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**404.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR UNIVERSITY EDUCATION**

#### **AFRICA CENTER OF EXCELLENCE IN SUSTAINABLE USE OF INSECTS AS FOOD AND FEEDS PROJECT (IDA CREDIT NO.5798-KE) – JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**405.** There were no material issues noted during the audit of the financial statements of the Project.

##### **Other Matter**

##### **406. Budgetary Control and Performance**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts of Kshs.122,265,498 against budgeted receipts of Kshs.164,772,368 resulting in a shortfall of Kshs.42,506,870 or 26% of the total

budget. Further, actual expenditure for the year amounted to Kshs.66,133,902 against the actual receipts of Kshs.164,772,368 resulting in an under expenditure of Kshs.98,638,466 or 60% of the budgeted expenditure. The under expenditure occurred in all expense components. The Project did not therefore implement all programmes and work plans fully as approved in the budget thus delaying provision of services to the Kenyan citizens.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 407. Lack of Government Counterpart Funding

The statements of receipts and payments reflects transfer from foreign entities amounting to Kshs.40,535,699 which as disclosed in Note 8.2 to the financial statements represents grants received from Bilateral Donors. However, there was no evidence to prove that counterpart funding was received or budgeted for as per the Grant Agreement which states that counterpart funds of up to five percent of the credit (equivalent to a maximum of US\$ 900,000) over the project duration of five (5) years be provided to support activities of the Project. No reason has been provided for this anomaly, contrary, to Regulation 72 (6) of the Public Finance Management (National Government) Regulations, 2015, which states that the National Government shall ensure grants are factored in the budgets and counterpart funds appropriated accordingly.

Consequently, failure to receive budgeted funds negatively affects the operations of the Project and none adherence to provisions of the Grant Agreement may lead to withdrawal of funds by the Donor.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**408.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **FLOOD DISASTER RISK REDUCTION IN BUNYALA, BUSIA COUNTY, KENYA PROJECT (ADB G-KE-KZ0-ZZZ-002) – MASENO UNIVERSITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **409. Unsupported Cash Equivalents Balance**

The statement of financial assets and liabilities reflects a cash equivalents balance of Kshs.1,254,067 as at 30 June, 2019 which has no corresponding Note to the financial statements. Further, the balance was not supported by a board of survey report casting doubt on the accuracy of the cash equivalents balance of Kshs.1,254,067 as at 30 June, 2019.

#### **410. Inconsistencies Between the Financial Statements and the Explanatory Notes**

The statement of financial assets and liabilities reflects an opening fund balance of Kshs.21,876,147, which has been incorrectly presented as cash and cash equivalent brought forward, in the statement of financial assets and liabilities.

Further, Notes 8.8 A to 8.8 D referred to in the statement of financial assets and liabilities are omitted under Notes to the financial statements. Similarly, the statement of receipts and payments refers to Note 8.7 on foreign exchange loss but Note 8.7 contain information on cash and cash equivalents.

In view of the unreconciled variance and the inconsistencies between the financial statements and the explanatory notes, the accuracy and fair presentation of the financial statements could not be confirmed.

### **Other Matter**

#### **411. Budget Control and Performance**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts of Kshs.21,876,147 against budgeted receipts of Kshs.50,222,901 resulting in a shortfall of Kshs.28,346,754 or 56% of the total budget. Similarly, the actual expenditure for the year amounted to Kshs.20,569,952 against the budgeted receipts of Kshs.50,222,901 resulting in an under-expenditure of Kshs.20,569,952 or 50%. The receipts shortfall is attributed to delay in disbursements of funds from the Development Partner while the under-expenditure is due to delay in carrying out some of the Project activities. As a result of the large budget deficit, the Project may not have implemented all programmes and work plans fully as approved in the budget thus delaying provision of services to the Kenyan citizens.

#### **412. Pending Bills**

Note 8.8 and Note 8.9 to the financial statements reflects pending staff bills amounting to Kshs.637,000 and pending payables owed to suppliers of goods and services amounting to Kshs.3,588,226 as at 30 June, 2019 respectively. Pending payments have the potential risk of additional costs in interest on delayed payments and penalties.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**413.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**414.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **AFRICA CENTRE OF EXCELLENCE (ACEII) PHYTOCHEMICALS, TEXTILES AND RENEWABLE ENERGY (PTRE) PROJECT – MOI UNIVERSITY**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Basis for Qualified Opinion**

##### **415. Inaccuracies in the Financial Statements**

##### **415.1 Discrepancies Between Balances in the Financial Statements and the Ledger**

The statement of receipts and payments for the year ended 30 June, 2019 reflects total payments figure of Kshs.88,459,403 which is at variance with the amount reflected in the ledger of Kshs.91,187,149 resulting into an unexplained variance of Kshs.2,727,746. Further, the total payments figure of Kshs.88,459,403 was not supported by ledgers for the project's different activities. Although the expenses have been classified according to their functions in the financial statements, it was observed that the accounting system of the University reflected total expenditure

of Kshs.91,187,149 for the year in one single entry in the ledger. It has not been explained how these expenses were disaggregated or apportioned to the various components reflected in the financial statements.

Consequently, the accuracy, validity and completeness of the total payments amount of Kshs.88,459,403 for the year ended 30 June, 2019 could not be confirmed.

#### **415.2 Balances in the Statement of Comparison of Budget and Actual Amounts and the Approved Budget**

The statement of comparison of budget and actual amounts final budget figure of Kshs.154,519,233 is at variance with the approved final budget figure of Kshs.215,626,403 resulting in a variance of Kshs.61,107,170 which has not been explained or reconciled. As a result, the accuracy and completeness of the statement of comparison of budget and actual amounts final budget figure of Kshs.154,519,233 for the year ended 30 June, 2019 could not be confirmed.

In view of the foregoing, the accuracy and completeness of the financial statements could not be ascertained as at 30 June, 2019.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **416. Irregular Renovations of Kenya-Re and Main Campus Houses**

As disclosed under Note 2.4 to the financial statements, the statement of receipts and payments reflects under purchase of goods and services an amount of Kshs.62,927,466 which includes an expenditure of Kshs.16,810,689 for 'set up and Institutional framework' under activity 1.0. According to the consolidated procurement plan, there was planned renovation and refurbishment for approximately Kshs.2,575,000.00. The refurbishments were to be done in-house by the Estates Department which in their estimates provided materials schedule with a cost estimate of Kshs.1,534,495 for the repair works.

The procurement of the refurbishment materials was done in 19 January, 2018 out of which three (3) firms won the tender under a different category of materials and were awarded tenders at a cost of Kshs.2,640,573, Kshs.70,267 and Kshs.705,232 respectively for supply of assorted hardware materials. An examination of the expenditure records relating to the refurbishments revealed that a total of Kshs.5,484,797.00 was spent thereby resulting to an over expenditure of Kshs.3,047,608 over and above the approved budget and work plan. Further, no explanation was given for the variance of Kshs.3,950,302 between the materials schedule estimate of Kshs.1,534,495 and the actual expenditure of Kshs.5,484,797. In addition, seven (7) other firms which did not participate in the

quotations were also paid contrary to section 44 (2)(1a) of Public Procurement and Asset Disposal Act, 2015.

In the circumstance the management was in breach of the law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **417. Lack of Imprest Register**

The statement of financial assets and liabilities reflects imprests and advances of Kshs.311,392. However, the imprests register was not availed indicating the details of the imprest issued by way of name of imprest holder, warrant number, amount, date of issue, purpose of imprest, and date of surrender.

Consequently, the accuracy, validity and completeness of the imprests and advances of Kshs.311,392 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

# **STATE DEPARTMENT FOR EARLY LEARNING AND BASIC EDUCATION-VOTE 1066**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **418. Overpayment of Subsidies**

The statement of receipts and payments reflects a balance of Kshs.59,633,897,605 being subsidies for the year ended 30 June, 2019. Included in this amount is an overpayment of subsidy funds amounting to Kshs.105,905,782 to three hundred and thirty-one (331) public secondary schools in different counties arising from inflated enrolment data. A comparison of the disbursement schedules for terms 1 and 2 of 2019 with the schedules for term 3 of 2018 for sampled counties revealed discrepancies between the data submitted by the schools and the data reflected by the State Department that was used for calculation of subsidy amounts due to schools.

In the circumstances, it is not possible to confirm the authenticity of the reported subsidies totalling Kshs.59,633,897,605.

#### **419. Transfers to Other Government Units**

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.25,381,569,547 in respect of transfers to other government units. The following observations were made with regard to the expenditure:

##### **419.1 Overpayment of Grants**

Included in the transfers to other government units balance is Kshs.369,905,960 overpaid to ninety-nine (99) primary schools sampled from thirteen (13) counties due to inflation of enrolment data. The number of students used to calculate the disbursements differed with the number of students confirmed by the Sub-County Directors of Education.

In the circumstances, it has not been possible to confirm the validity of the expenditure of Kshs.25,381,569,547 on transfers to other government units.

##### **419.2 Transfer of Funds to Improperly Registered Special Needs Education Institutions**

The balance of Kshs.25,381,569,547 on transfers to other government units includes a disbursement of Kshs.148,045,707 to special needs education institutions and post primary schools that were not properly registered as required

under part 3.0 (i) of Disbursement Guidelines for Special Needs Education. The guidelines require that grants should only be disbursed to registered special primary schools and post primary schools. Further, some schools did not have Teachers Service Commission (TSC) numbers and others had duplicate certificate of registration numbers. In addition, the transfers includes an amount of Kshs.127,247,521 disbursed for Special Needs Education for the months of October and November, 2018. However, the enrolment data differed in the two months from 12,734 pupils in October, when Kshs.94,686,421 was paid, to 14,157 pupils when top-ups amounting to Kshs.32,561,100 were paid in the subsequent month.

In the circumstances, it has not been possible to confirm the authenticity of the disbursements.

#### **419.3 Irregular Payments to Low Cost Boarding Schools**

Included in the balance of Kshs.25,381,569,547 transfers to other government units is an amount of Kshs.8,028,000 irregularly paid to low cost boarding schools out of which Kshs.6,576,000 was paid in excess as a result of the State Department using enrolment figures that were higher than the figures confirmed by the County Directors of Education in some schools. A balance of Kshs.1,452,000 was paid to undeserving schools not in the list of Low-Cost Boarding Schools (LCBS) confirmed by the County Directors of Education (CDE). Further, some schools appearing in the list of LCBS confirmed by the CDEs did not receive funding amounting to Kshs.8,544,000 thus denying funds to deserving students.

#### **419.4 Disbursement of Funds to Schools with Duplicate Registration Numbers**

Included in the balance of Kshs.25,381,569,547 transfers to other government units is an amount of Kshs.919,171,802 disbursed to various primary schools. The schools had identical registration numbers, some of which could not be traced in the National Education Management Information System (NEMIS) and the list of TSC registered schools. The transfer of funds was against ministerial guidelines on funds disbursements.

In the circumstances it is not possible to confirm the authenticity of the disbursements.

### **420. Unresolved Prior Year Matters**

#### **420.1 Compulsory Acquisition of LR No.209/7879/4 by the National Land Commission**

As reported in the previous year, a total of Kshs.1,500,000,000 was spent under the Head, Legal Dues/Fees, Arbitration and Compensation Payments. The



approved budget under this Head was Kshs.20,120,000 but the State Department spent an extra Kshs.1.5 billion. The funding was meant to cater for compulsory acquisition of part of LR No. 209/7879/4 measuring 13.5364 acres for Ruaraka High School and Drive-Inn Primary School from its registered owners. However, the following unsatisfactory matters were noted:

Based on Article 223(5) of the Constitution, the Principal Secretary, The National Treasury exceeded his mandate by authorizing the Principal Secretary, Ministry of Education to over spend Kshs.1,500,000,000 on land compensation, an amount which exceeded the allowable threshold of Kshs.20,120,000 - being 10% of the budgeted provision for the item by Kshs.1,479,880,000.

Although the Principal Secretary to The National Treasury had indicated that the amount was to be ratified in the Supplementary II Budget, no evidence was provided that this was done. Further, the outstanding compensation balance of Kshs.1,769,040,600 was not factored in the subsequent budgets and was not disclosed in the financial statements as a pending bill.

Various correspondences between the Chairman, National Land Commission and the Principal Secretary, State Department for Early Learning and Basic Education indicated that the Chairman, National Land Commission had on 24 April, 2017 disclosed the compensation amount of Kshs.3,269,040,600 for the two parcels of land two months prior to the actual valuation done on 14 June, 2017. It is not clear how the compensation amount was arrived at before the actual valuation was done.

To date, the entire area has been developed contrary to the provisions of Section 30, 31 and 41 of the Physical Planning Act, 1996 (Revised 2012) where applications for development should be accompanied by the approved plans, the purposes of the development, the land which the applicant intends to surrender for purposes of public utility and roads for access to any subdivisions within the area included in the application to the adjoining land.

In the circumstances, it has not been possible to confirm that the expenditure totalling Kshs.1,500,000,000 for the year ended 30 June, 2018 was a proper charge to public funds.

#### **420.2 Subsidies**

As reported in the previous year, there was an overpayment of subsidies to one hundred and eighty-five (185) Secondary Schools in eleven (11) sampled counties amounting to Kshs.269,254,288 as a result of inflated enrolment data.

Although the State Department has explained that the officer involved in the data entry that resulted to a variance between the enrolment data submitted by schools and the enrolment data used by the State Department for computation of amounts due to the schools was interdicted and the matter referred to the Ethics and Anti-

Corruption Commission for further investigation, the case has not been concluded. In addition, two (2) non-existent schools in Kakamega received a total of Kshs.27,329,598.95.

In the circumstances, it was not possible to confirm that payment of Kshs.296,583,887 to the one hundred and eighty-seven (187) Secondary Schools was a proper charge to public resources.

## **Other Matter**

### **421. Pending Bills**

Notes 18.1 and 18.2 to the financial statements reflects pending bills amounting to Kshs.8,592,146 as at 30 June, 2019 which were not settled in the year under review but carried forward to 2019/2020 financial year due to inadequate Exchequer releases. Failure to settle bills in the year to which they relate adversely affects the subsequent year's provisions to which they have to be charged.

### **422. Long Outstanding Schools' Creditors and Debtors**

As at 30 June, 2019, seven (7) sampled schools and one (1) college had outstanding trade and other payables totalling to Kshs.192,511,912. Delay in settlement of liabilities might lead to escalation of interest, litigation, reputation risk and other costs related to delayed payments. Similarly, a sample of five (5) schools and one (1) college had Kshs.3,731,620 being unpaid rent on houses occupied by teachers contrary to Section C.8 (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016, which requires officers occupying institutional houses to pay rent equivalent to the value as determined by the Ministry responsible for Housing or to surrender their house allowance whichever is lower.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **423. Acquisition of Unauthorized Loans by Shanzu Teachers College**

Shanzu Teachers Training College obtained a loan of Kshs.103,485,595 during the financial year 2014/2015. The loan was for the construction of accommodation facilities within the College for a private entity - a Business School. Although the loan agreement was not provided for audit verification, the loan statement as at 10 September, 2019 indicated that repayments amounting to Kshs.49,389,825 had been made leaving an unpaid balance of Kshs.54,095,770. However, approval by the Cabinet Secretary for borrowing as required under Section 51 (2) of Public Finance Management Act, 2012 and evidence of competitive bidding for the loan as required under Article 227 of the Constitution of Kenya was not provided.

In addition, neither the evidence of approval for the establishment of a Business School within the College nor the approval to offer the title deed for the College land as collateral for the loan was provided. Further, documents reviewed at the College indicated that interest at the rate of 12.5% per annum was agreed upon and later varied to 18%, 19%, 20% and finally 24%. No explanation was provided for the variation. In addition, the College procured the construction works at a contract sum of Kshs.59,000,000 through request for quotations method contrary to the thresholds provided under the Public Procurement and Asset Disposal (Amendment) Regulations, 2013.

Under the circumstances, the legality of the arrangements to build the accommodation facilities for a private entity within the College and to offer the title deed for the College land as collateral for the loan could not be confirmed. In addition, the regularity, competitiveness and value for money on the loan obtained and procurement of the construction works was in doubt.

#### **424. Construction of New Mama Ngina Girls High School**

Mama Ngina high school received a disbursement of Kshs.192,449,398 for the relocation of the school to North Coast. The works were awarded vide Contract No. MNGIHS/Tender No.21/2019 for main works, plumbing and electrical works.

A review of the Contract revealed that the evaluation committee did not comply with Regulations 9 and 10 of the Public Procurement and Asset Disposal Act, 2015 read together with Legal Notice No.106 of 2013 that requires an evaluation committee to prepare a report on the analysis of the tenders received and final ratings assigned to each tender and to submit a report that includes among others, the scores awarded by each evaluator for each tender or proposal to the tender committee.

Further, Section 46(c) of the Public Procurement and Asset Disposal Act, 2015 requires an Accounting Officer to ensure that an adhoc evaluation Committee is established with the secretary being the person in charge of the procurement function.

Minutes availed for audit review did not indicate presence or professional contribution of a secretary who is in charge of the procurement function. The State Department has however explained that an officer was seconded to provide advice to the committee on procurement matters.

In the circumstances, it has not been possible to confirm the propriety of the expenditure of Kshs.183,160,230 and that public resources have been applied lawfully and in an effective way.

#### **425. Non-Compliance to a Third Rule on Salary Deductions**

Analysis of the payroll data for the year ended 30 June, 2019 revealed that forty-six (46) and fifty- one (51) employees had payroll deductions in excess of two thirds

of their gross pay in the month of May and June respectively with some employees having negative net pays. This contravenes Section 19 (3) of Employment Act, 2007 which requires that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.

In the circumstance, the State Department was in breach of the law.

#### **426. Audit of Schools**

##### **426.1 Installation of Closed-Circuit Television (CCTV) System at Nembu Girls High School**

The school's Board of Management approved the procurement of CCTV cameras at a budgeted cost of Kshs.600,000 on 23 February, 2019. However, the school administration procured the cameras at a cost of Kshs.1,173,400 contrary to Section 45 (3) (a) of the Public Procurement and Asset Disposal Act, 2015 which provides that all procurement processes shall be within the approved budget of the procuring entity.

Further, as at the time of audit, the Management had paid Kshs. 600,000 to the supplier leaving a balance of Kshs.573,400. Information available indicated that the supplier had initiated legal proceedings to recover the unpaid amount exposing the institution to additional costs in form of legal costs, interest on delayed payments and other penalties.

##### **426.2 Irregular Disbursement of Secondary School Funds**

Included in the statement of receipts and payments balance of Kshs.59,633,897,605 for subsidies is an amount of Kshs.8,438,326 disbursed to Primary Schools from the Free Day Secondary Education (FDSE) Funds. The same schools also benefitted from Free Primary Education (FPE) funds meant for primary schools. This therefore, led to double and excess funding to the said schools as different rates were used for the two categories with the FDSE having higher rates than FPE. The excess funding to primary schools denied deserving secondary schools the much-needed cash for their operations negatively affecting the schools' operations, liquidity and consequently, the quality of education offered.

##### **426.3 Construction of Resource Centre in Buruburu Girls Secondary School**

The school conceptualized the idea to put up a resource center at a cost of Kshs.113,064,596. Although the Board of Management approved the project, the school did not seek approval from the County Director of Education. Further, the school did not involve the Ministry of Public Works in preparing the bill of quantities but instead single sourced a private firm. Evidence of how the bidders invited to quote for the works were identified was not provided neither was evidence of

appointment of an adhoc evaluation committee pursuant to Section 46 (1) of the Public Procurement and Asset Disposal Act, 2015 provided. The basis for the award of the works was therefore unclear. In addition, as at the time of audit in May,2020, Kshs.50,992,073 had already been paid to the contractor and the project had stalled.

In the circumstances, the regularity and value for money on the expenditure could not be confirmed.

#### **426.4 Construction of Laboratory and Dormitory at Maryhill Girls High School**

Included in the statement of receipts and payments balance of Kshs. 59,633,897,605 for subsidies is an amount of Kshs.25,828,050 disbursed to Maryhill Girls High School for infrastructure development.

A perusal of procurement documents revealed that the school Management used the infrastructure funds to construct a laboratory and a dormitory at a cost of Kshs.5,971,333 and Kshs.19,856,717 respectively using force account method of procurement. However, no evidence was provided on the competitiveness in the procurement of the assets, equipment and labour utilized and that the conditions for use of the force account method as outlined under Section 109 (2) and (3) of the Public Procurement and Asset Disposal Act, 2015 had been satisfied. In particular the following anomalies were noted:

- i) No prior approval from the Accounting Officer which is a requirement to apply this method.
- ii) The bill of quantities used for the works was not availed for audit.
- iii) Management used labour based method which was not advertised as required in the Public Procurement and Asset Disposal Act, 2015.
- iv) There was no evidence that Management invited quotations for the supply of project materials from the list of prequalified suppliers.
- v) The works involved in the project did not meet the requirement of Section 109(a) of the Public Procurement and Asset Disposal Act, 2015 where quantities of work involved should be small and scattered or in remote locations and the quantities of work should be defined in advance. In this case the work exceeded the Kshs.5,000,000 threshold above which open tender should have been used.
- vi) There was no evidence that the school's Management used force account method by making recourse to the state or using public assets, equipment and labour contrary to section 109(2) which states that where quantities are small and scattered in remote locations for which qualified construction firms

are unlikely to tender at reasonable prices and quotations of work cannot be defined in advance.

Management is in breach of law and the propriety of the expenditure totalling could not be ascertained for the year ended 30 June, 2019.

#### **426.5 Irregular Payments for Construction of a Multipurpose Hall at Kaimosi Teachers Training College**

The balance of Kshs.59,633,897,605 for subsidies reflected in the statement of receipts and payments includes Kshs.43,314,289 disbursed to the College for the construction of a Multipurpose Hall. The institution signed a contract with a local construction company on 3rd October, 2017. Although the company contracted to undertake the works was in the list of registered suppliers, the contract sum was above the threshold for use of restricted tendering and the works should therefore have been advertised.

Further, the thirty-six (36) weeks contract period was to lapse in June, 2018. However, as at the time of audit, the contractor had abandoned the site after payment of Kshs.27,749,758 by the College and had not applied for extension of the contract period. Further, the initial design and bill of quantities were altered from a hall with a kitchen to an amphitheater and a kitchen. However, revised engineer's drawings and the necessary approvals were not provided.

In the circumstances, the propriety and value for money on the expenditure totalling Kshs.43,314,289 could not be confirmed. In addition, in absence of the necessary approvals for the construction, the legality of the construction and the health and safety of the building could not be ascertained.

#### **426.6 Infrastructure Funds to Sixty-Five (65) Primary Schools**

Included in the balance of Kshs.25,381,569,547 reflected in the statement for receipts and payments for transfer to other government units is a disbursement of Kshs.51,600,000 to sixty-five (65) primary Schools for infrastructure development. The amount was disbursed without any formal application contrary to the requirement that needy schools should make applications to the Ministry through their County Directors of Education for approval after attaching all the necessary documentations. The regularity of the disbursements could therefore not be confirmed.

#### **426.7 Construction of a Wall at Machakos Boys High School**

Machakos Boys high school received an amount of Kshs.10,000,000 from the State Department for construction of a wall around the school. As at the time of the audit, the construction was ongoing. However, it was observed that the tender opening committee minutes and the tender evaluation reports provided for audit were not signed. The appointment letters of the committee members, tender

opening register and score sheets from individual evaluation committee members were not provided for audit.

In addition, the minutes provided indicated that the school principal, chaired the tender opening and the evaluation committees creating a conflict of interest since the professional opinion from the head of the procurement function would be addressed to him. Further, the tender was awarded to the second lowest bidder at a contract price of Kshs.9,828,010. No explanation was provided as to why the tender was not awarded to the winning bidder who had quoted Kshs.8,492,163.

In the circumstances, it is not possible to confirm that public funds were spent in a lawful and in an effective manner.

#### **426.8 Irregular Payments to Kenya Secondary Schools Heads Association**

Included in the balance of Kshs.59,633,897,605 for subsidies as reflected in the statement of receipts and payments is an amount of Kshs.13,051,941 payment to Kenya Secondary Schools Heads Association. The funds were diverted from free day secondary education funds. The beneficiary organization is not defined in the government funding structure and such payments amount to diversion of public funds. Consequently, government officers making the payments were in breach of Section 79(2) (b) of the Public Finance Management Act, 2012 which provides that a public officer employed in a national government, state organ or public entity shall ensure that the resources within the officer's area of responsibility are used in a way which is lawful and authorized, effective, efficient, economical and transparent.

In the circumstance, it has not been possible to confirm that the payments totalling Kshs.13,051,941 is a proper charge to public funds.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**427.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **DONOR FUNDED PROJECTS**

### **KENYA PRIMARY EDUCATION DEVELOPMENT PROJECT (GRANT NO. TFO18863)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Basis for Qualified Opinion**

##### **428. Unreconciled Cash and Cash Equivalents Balance**

The statement of financial assets as at 30 June, 2019 reflects cash and cash equivalents totalling Kshs.338,104,683 as further disclosed in Note 8.10 A to the financial statements. The balance includes Kshs.76,427,428 (Account A - Kshs.72,252,550, Account B – Kshs.447,999 and Gok Account – 3,726,879) being payments in the cashbook not yet captured in the bank statement. In addition, outstanding payments totalling Kshs.4,766,183 reflected in the cashbook are not reflected in the bank statement.

In the view of these anomalies, the accuracy and completeness of the cash and bank balance totalling Kshs.338,104,683 reflected in the statement of financial assets as at 30 June, 2019 cannot be confirmed.

##### **Emphasis of Matter**

##### **429. Unreconciled Special Account Statements**

The statement of receipts and payments for the year ended 30 June, 2019 reflects proceeds from domestic and foreign grants totalling Kshs.2,226,690,359 as further disclosed in Note 8.4 to the financial statements. However, the identical account balance reflected in the special account statement as at 30 June, 2019 is Kshs.1,839,775,734 resulting to a variance of Kshs.386,914,625 which, however, had not been reconciled at the time of the audit.

My Opinion is not qualified in respect to this matter

##### **Other Matter**

##### **430. Unresolved Prior Year Matters**

The following matters reported during the 2017/2018 audit had not been resolved as at the time of conclusion of the 2018/2019 audit. The Matters related to unreconciled balances on expenditures, cash and the special account statement.

##### **430.1 Expenditure Balances**

The statement of receipts and payments for the year ended 30 June, 2018 reflected expenditure totalling Kshs.2,259,784,105 while records shown in the



Integrated Financial Management Information System (IFMIS) report for the same period reflected expenditure totalling Kshs.2,274,469,102. The variance of Kshs.5,259,898 between the two records was, however, not reconciled.

As a result, it was not possible to confirm the accuracy and completeness of the expenditure totalling Kshs.1,844,175,185 included in the financial statements for the year ended 30 June, 2018.

#### **430.2 Cash and Bank Balances**

Excluded from cash and cash equivalents balance amounting to Kshs.196,612,188 as at 30 June, 2018 was Kshs.1,326,538 being payments in bank statement not captured in the cashbook. Some of the payments dated back to December, 2017. No explanations were provided by Management on why the two sets of records were not reconciled. As a result, the accuracy and completeness of the cash and bank balances totalling Kshs.338,104,683 as at 30 June, 2018 could not be confirmed.

#### **430.3 Special Account Statement**

The statement of receipts and payments for the year ended 30 June, 2018 reflected a comparative balance totalling Kshs.2,458,212,857 under proceeds from domestic and foreign grants which however, differed with the respective account balances reflected in the special accounts statement amounting to Kshs.1,415,868,504 and Kshs.976,182,343, amounting to Kshs.2,392,050,847 in aggregate. The difference amounting to Kshs.66,162,010 between the two sets of records was not explained. As a result, the accuracy of the statement of receipts and payments could not be confirmed.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**431.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **432. Outstanding Imprests and Advances**

The statement of financial assets as at 30 June, 2019 reflects outstanding imprests and advances totalling Kshs.130,210,818 as disclosed under Note 8.10(C) to the financial statements. A sum of Kshs.2,733,739 of the balance is due from some education directorates in County governments and relates to disbursements made

in the 2017/2018 financial year. Further, examination of records relating to imprests issued to officers and partner organizations indicated that controls over accounting for the imprests are not working as intended as large portions of the imprests are not surrendered in time.

No plausible explanation has been provided as to why the imprests have not been accounted for.

## **GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **433. Inaccuracies in Cash and Cash Equivalents**

As noted in the previous year's audit report, the statement of financial assets reflects cash and cash equivalent balance of Kshs.4,648,145. However, a recast of the cashbook in the month of August, 2016 revealed that the balance carried down was Kshs.9,128,436 instead of Kshs.10,148,436 resulting in an unreconciled variance of Kshs.1,020,000. Further, the bank reconciliation statement as at 30 June, 2019 reflected payments in bank statements not recorded in cash book amounting to Kshs.503,350 in respect of outward payment and whose nature has not been disclosed or analysis availed for audit review.

In view of the above, the completeness and accuracy of the cash and cash equivalents of Kshs.4,648,145 reflected in the statement of financial assets as at 30 June, 2019 could not be confirmed.

#### **Other Matter**

##### **434. Unsupported Cumulative Expenditure**

As reported in the previous year, the statement of receipts and payments for the year ended 30 June, 2018 had reflected payments on purchase of goods and services totalling to Kshs.134,826,523 which constituted direct payments balance of Kshs.114,711,204 representing 85.1% that had not been supported.

Consequently, the completeness and accuracy of cumulative expenditure to-date of Kshs.1,361,179,756 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

##### **435. Unsupported Domestic and Foreign Grants**

As disclosed under Note 8.4 to the financial statements, the statement of receipts and payments reflects proceeds from domestic and foreign grants of

Kshs.3,808,950 and cumulative to-date of Kshs.1,662,735,984. However, progress report on the grants were not availed for audit review.

#### **436. Budget Control and Performance**

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.3,808,950 which was 100% of the budget. However, the Programme spent Kshs.4,642,817 against the approved budget of Kshs.3,808,950 resulting to an over expenditure of Kshs.833,867 or 18%. The Management has however, not explained the cause of the variance through an Annexure to the financial statements as required by the reporting template and as provided by International Public Sector Accounting Standard, IPSAS 24.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **437. Conclusion**

There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **438. Lack of Key Programme Information**

As previously reported, the following Programme documents were not availed for audit review; the design report, implementation manual, GOK/UNICEF policies, annual work plan and activities report.

In the forgoing, it has not been possible to ascertain if the Programme met the expectation of the Kenyan citizens as outlined in the GOK/UNICEF Country Programme Action Plan, 2014-2016.

## **STATE DEPARTMENT FOR POST-TRAINING AND SKILLS DEVELOPMENT-VOTE 1068**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**439.** There were no material issues noted during the audit of the financial statements of the State Department.

#### **Other Matter**

##### **440. Pending Bills**

Note 18.1 to the financial statements reflects pending bills balance of Kshs.3,261,565 as at 30 June, 2019. Had the accounts been settled and charged to the statement of receipts and payments for the year, it would reflect a deficit of Kshs.3,241,138 instead of the current reported surplus of Kshs.20,427. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form the first expenditure to be charged.

##### **441. Budget Control and Performance**

The State Department for Post Training and Skills Development had a total recurrent budget of Kshs.75,455,000 voted for the financial year 2018/2019 while actual receipt was Kshs.56,033,474 resulting to an under absorption of Kshs.19,421,524 or 26% of its voted amount. The under absorption of the approved budget indicates that the State Department did not implement some of the planned activities, which implies that citizens did not receive the expected services.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**442.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**443.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **MINISTRY OF HEALTH-VOTE 1081**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **444. Un-Surrendered Old Deposits Balances from Former Ministries**

The statement of assets and liabilities reflects cash and cash equivalent's balance of Kshs.141,471,060 as at 30 June, 2019. However, as previously reported, deposits totalling Kshs.10,956,114,687 that were held in the bank accounts of the former Ministry of Medical Services and Ministry of Public Health and Sanitation, which were later merged to form the Ministry of Health, were not transferred to the new deposit account contrary to the provisions of Treasury Circular No.AG/CONF.17/01/65 of September, 2013 which required deposits in former Ministries to be analyzed and transferred to new the account.

Additional information indicate that the bank accounts of the former Ministries were closed on 16 October, 2014 and the Ministry vide letter Ref: No/ACC/AUDIT/12/VOL.II(18) dated 6 March, 2019 sought for approval from The National Treasury to write off the balance. The approval has however, not been granted.

Consequently, the validity and accuracy of the reported cash and cash equivalents balance of Kshs.141,471,060 as at 30 June, 2019 could not be ascertained.

##### **445. Bank Balances**

###### **445.1 Recurrent Account**

As disclosed under Note 12A to the financial statements, the statement of assets and liabilities reflects a bank balance of Kshs.140,841,550 which includes an amount of Kshs.591,183 held in the recurrent bank account. However, the recurrent cash book reflected a balance of Kshs.36,115,976 resulting in an unexplained variance of Kshs.35,524,793. Further, out of the cash book balance of Kshs.36,115,576, only an amount of Kshs.4,853,999 was transferred to The National Treasury at the end of the reporting period resulting to an unaccounted for balance of Kshs.31,261,977.

In addition, although the June, 2019 bank reconciliation statement reflected receipts in cash book not in bank statement amounting to Kshs.2,117,644,383, an amount of Kshs.15,712,323 of these receipts could not be traced in the cash book. Further, the reconciliation statement reflected payments in cashbook not in bank statement totalling Kshs.672,272,662, receipts in bank statement not in cashbook totalling to Kshs.8,202,963, payments in bank statement not in cashbook totalling to Kshs.295,396,076 and receipts in cashbook not in bank statement totalling to

Kshs.432,271,217 for which clearance status as at 31 March, 2020 was not provided.

#### **445.2 Development Account**

The bank balance of Kshs.140,841,550 as at 30 June, 2019, includes a balance of Kshs.2,987 relating to the development bank account. However, the bank reconciliation statement for the account reflected payments in cash book not in bank statement amounting to Kshs.3,628,640,131 of which Kshs.1,995,512,927 could not be traced to the cashbook.

#### **445.3 Deposit Account**

The bank balance of Kshs.140,841,550 as at 30 June, 2019, further includes an amount of Kshs.140,247,380 held in the deposits bank account. However, although Note 12A to the financial statements reflects a comparative deposit account bank balance of Kshs.51,947,227, the cash book reflected a balance brought forward of Kshs.57,520,674 as at 1 July, 2018 resulting in an unexplained variance of Kshs.5,573,447.

In addition, the June 2019 bank reconciliation statement reflects payments in cashbook not in bank statement totalling Kshs.1,259,580, receipts in bank statement not in cashbook totalling Kshs.1,916,278, payments in bank statement not in cashbook totalling Kshs.788,820 and receipts in cashbook not in bank statement totalling Kshs.25,194,975 for which clearance status as at 31 March, 2020 was not provided.

Further, the bank reconciliation statement reflects receipts in bank statement not in cashbook amounting to Kshs.1,916,278 which includes transfers of Kshs.1,387,180 whose details were not provided. The reconciliation also reflects receipts in cash book not in bank statement amounting to Kshs.41,300,107 which includes an amount of Kshs.6,190,402 whose nature was not disclosed.

In the circumstances, the validity, accuracy and completeness of the reported bank balance of Kshs.140,841,550 as at 30 June, 2019 could not be confirmed.

#### **446. Accounts Receivables - Outstanding Imprest**

Note 13 to the financial statements reflects outstanding government imprest balance of Kshs.19,761,950 as at 30 June, 2019. However, included in this balance is an amount of Kshs.14,648,675 which ought to have been accounted for on or before 30 June, 2019 but was still outstanding as at 31 October, 2019. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Regulation 93(6), further, provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the

Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

The Ministry was, therefore, in breach of the law and full recoverability of the imprest balance of Kshs.19,761,950 as at 30 June, 2019 could not be ascertained.

#### **447. Fund Balance Brought Forward**

The statement of assets and liabilities reflects a fund balance brought forward of Kshs.30,802,623 which differs with the closing net financial position balance of Kshs.31,562,536 reflected in the 2017/18 financial statements resulting in an unexplained difference of Kshs.759,913.

In the circumstance, the accuracy of fund balance brought forward of Kshs.30,802,623 could not be confirmed.

#### **448. Accounts Payables**

Included in the reported accounts payable - deposits balance of Kshs.140,247,380 is an amount of Kshs.14,958,603 comprised of fines and surcharges, salary recoveries and imprest recoveries from the payroll. No satisfactory explanation was provided as to why the amounts were included under deposits.

In the circumstances, the accuracy of accounts payables balance of Kshs.140,247,380 as at 30 June, 2019 could not be confirmed.

#### **449. Other Receipts**

The statement of receipts and payments reflects a balance of Kshs.4,136,816,060 for other receipts which as disclosed in Note 5 to the financial statements includes administrative fees and charges of Kshs.14,223,368. However, the account analysis from the Integrated Financial Management Information System (IFMIS) reflected an amount of Kshs.15,899,324 for the receipts resulting into an unexplained variance of Kshs.1,675,956.

In the circumstances, the accuracy and validity of administrative fees and charges balance of Kshs.14,223,368 could not be confirmed.

#### **450. Unsupported and Double Payment of Compensation of Employees**

Included in the compensation of employees figure of Kshs.7,137,164,779 reflected in the statement of receipts and payments is an amount of Kshs.3,066,301 whose payment vouchers and other related supporting documents were not provided for audit review.

In addition, the compensation of employees figure includes a payment of Kshs.29,845,500 (USD 295,500) vide payment voucher number 000650 of October, 2018 to the Principal Secretary, Ministry of Foreign Affairs, being June,

2018 stipend for Cuban doctors. However, a similar payment of Kshs.30,141,000 (USD 295,500) for the month of June, 2018 stipend was made on 21 January, 2019 vide payment voucher number 001713. No explanation was provided for the double payment of the month of June, 2018 stipend.

Consequently, the accuracy of the reported balance for compensation of employees of Kshs.7,137,164,779 could not be confirmed.

#### **451. Use of Goods and Services**

##### **451.1 Rentals of Produced Assets - Managed Equipment Services (MES) Scheme**

On 06 February, 2015, the Ministry entered into agreements with five (5) medical contractors for lease of medical equipment to ninety-eight (98) hospitals across the forty-seven (47) Counties under the Government Managed Equipment Services (MES) Scheme. The equipment was to be delivered in five (5) lots as follows:

<b>Lot</b>	<b>Equipment</b>
Lot 1-Theatre Equipment	Anesthetic machine with ventilator, electrosurgical unit, operating theatre ceiling mounted lamp, operating theatre table major, resuscitaires, instrument trolleys, patient stretcher/side rail, resuscitation patient trolley and linen trolley.
Lot 2-Theatre CSSD Surgical Instruments and Equipment	Surgical instruments set for major operations, gynecological, minor operations, ENT, Ophthalmology and theatre CSSD equipment.
Lot 5-Renal equipment	Dialysis machine, dialysis beds, suction machine, vital signs monitor, oxygen concentrator and drug trolleys.
Lot 6	ICU/HDU Equipment
Lot 7	Radiology Equipment

However, on 16 October, 2017 and 22 November, 2017, the Ministry signed variations of contracts with three (3) suppliers for leasing of additional medical equipment under lot 1, 2, 5 and 6 to twenty-four (24) hospitals in twenty-three (23) Counties.

As at 30 June, 2019, the Ministry had paid a total of Kshs.26,342,824,540 to the various medical contractors and consultants, out of which an expenditure of Kshs.8,794,740,483 relates to 2018/2019 financial year. The expenditure of Kshs.8,794,740,483 included Kshs.902,231,552 in respect of the variation of contracts as detailed below:



<b>Lot</b>	<b>Original Contracts (Kshs.)</b>	<b>Variation Contracts (Kshs.)</b>	<b>Total (Kshs.)</b>
1	839,368,980	193,137,595	1,032,506,575
2	1,607,359,354	473,116,838	2,080,476,192
5	4,386,089,500	-	4,386,089,500
6	345,333,190	117,817,292	463,150,482
7	694,648,162	118,159,826	812,807,988
Consultancy	19,709,746	-	19,709,746
<b>Sub-Total</b>	<b>7,892,508,932</b>	<b>902,231,551</b>	<b>8,794,740,483</b>
Administrative Costs			3,635,410
<b>Grand Total</b>			<b>8,798,375,893</b>

The following anomalies were noted;

#### **451.1.1 Lack of a Needs Assessment Survey Report**

A needs assessment report which informed the decision to lease additional equipment for the twenty-four (24) hospitals was not availed for audit verification.

Consequently, the propriety of the expenditure amounting to Kshs.902,231,553 could not be confirmed.

#### **451.1.2 MES Equipment not in Use**

A physical verification exercise carried out in January, 2020 revealed that, lot 1 theatre equipment - a set of which consists of: anesthetic machine with ventilator (1), electrosurgical unit, operating theatre ceiling mounted lamp (1), operating theatre table major (1), resuscitaires -infant radiant warmer (1), instrument trolleys (2), patient stretcher -side rail (1), resuscitation patient trolley (3) and linen trolley (2) - had not been put into use in some hospitals as detailed below:

<b>S/No.</b>	<b>County</b>	<b>Hospital</b>	<b>Comments</b>
1	Kakamega	Kakamega County Referral Hospital	Equipment was still in store as it was not required at the time. Lease paid Kshs.8,047,400.
2	Elgeyo Marakwet	Kamwosor Sub County Hospital	The equipment was not in use as the sub county hospital did not have a theatre and specialists including anaesthetists and theatre nurses. Lease paid Kshs.8,047,400.
3	Muranga	Kigumo Sub County Hospital	Equipment was not in use due to lack of anaesthetists, washing machine and power back up (generator). Lease paid Kshs.8,047,400.

S/No.	County	Hospital	Comments
4	Samburu	Suguta Marmar Sub County Hospital	Equipment was not in use due to lack of theatre nurses and anaesthetists, inadequate power supply, lack of power back up (generator) and water. Lease paid Kshs.8,047,400.
5	Meru	Kanyakine Sub County Hospital	The equipment is only used for minor cases due to lack of specialized personnel including theatre nurses and anaesthetists. Lease paid Kshs.8,047,400.
6	Tharaka Nithi	Magutuini Sub County Hospital	The equipment is only used for minor cases due to lack of specialized personnel including theatre nurses and anesthetists. Lease paid Kshs.8,047,400.
7	Lamu	Mpeketoni Sub County Hospital	The equipment is only used for minor cases due to lack of specialized personnel including theatre nurses and anaesthetists. Lease paid Kshs.8,047,400.
8	Machakos	Mwala Sub County Hospital	Equipment was not in use due to lack of theatre room. Lease paid Kshs.8,047,400.

Under the circumstances, it was not possible to ascertain whether the public obtained value for money from lease payments totalling Kshs.64,379,200 incurred in respect of the medical equipment delivered but not put into use.

## **452. Other Grants and Transfers**

### **452.1 Emergency Relief and Refugee Assistance**

The statement of receipts and payments reflects payments of Kshs.180,489,639 for other grants and transfers which, as disclosed in Note 9 to the financial statements, includes expenditure of Kshs.176,337,067 on emergency relief and refugee assistance. However, included in the latter balance is an amount of Kshs.52,834,587 for which payment vouchers and other related supporting documents were not provided for audit review. Further, the unsupported expenditure included Kshs.24,219,683 incurred on foreign travel and subsistence allowance.

Consequently, the propriety of expenditure totalling Kshs.52,834,587 and the accuracy of the reported balance for emergency relief and refugee assistance could not be confirmed.

### **453. Acquisition of Assets**

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.1,204,509,178 under acquisition of assets. The following observations were made with regard to the expenditure:

#### **453.1 Purchase of Vehicles and Other Transport Equipment**

The expenditure of Kshs.1,204,509,178 includes an amount of Kshs.13,825,000 incurred on purchase of vehicles and other transport equipment for which payment vouchers were not provided for audit verification.

#### **453.2 Construction of Buildings**

Included in the expenditure of Kshs.1,204,509,178 under acquisition of assets is an amount of Kshs.461,740,690 incurred on construction of buildings which includes Kshs.266,678,188 paid to a contractor. However, the contract agreement and payment vouchers relating to the payment were not provided for audit verification. No explanation was provided for this anomaly.

#### **453.3 Research, Studies, Project Preparation, Design and Supervision**

Payment vouchers and related documents for an expenditure of Kshs.7,178,010 included under research, studies, project preparation, design and supervision balance of Kshs.236,609,510 were not provided for audit verification.

### **454. Transfer to Other Government Units**

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.53,389,723,735 under transfer to other government units which includes an amount of Kshs.3,981,570,000 disbursed to the National Hospital Insurance Fund (NHIF). However, NHIF confirmed receipt of Kshs.2,300,000,000 resulting to an unexplained variance of Kshs.1,681,570,000.

Consequently, the accuracy and validity of the transfers to the National Hospital Insurance Fund of Kshs.3,981,570,000 could not be confirmed.

### **455. Pending Bills**

As disclosed in Note 17 and Annex 1 to the financial statements, pending bills totalling to Kshs.41,925,635,774 were not settled during the financial year 2018/2019 but were instead carried forward to 2019/2020 financial year. Further, included in the pending bills of Kshs.41,925,635,774 is a balance of Kshs.40,715,355,848 - representing 97.1% of the total pending bills - in respect of court awards and legal fees for which the breakdown and analysis was not provided for audit verification.

In the circumstances, the accuracy and validity of pending bills balance of Kshs.41,925,635,774 could not be confirmed.

#### **456. Unresolved Prior Year Matter - Transfer to Other Government Units**

As previously reported, included in other transfers figure of Kshs.63,911,988 for the year ended 30 June, 2018 is an amount of Kshs.4,855,887 being refund of ineligible expenditure to Global Fund National Tuberculosis Lung Disease (NTLD) Project as a result of imprest issued for activities outside the Project's work plan in the year 2007.

No reason was provided for non-recovery of this long outstanding amount from the officers concerned.

#### **Emphasis of Matter**

#### **457. Budget Control and Performance**

During the year under review, the Ministry's actual receipts amounted to Kshs.75,664,375,352 against budgeted receipts of Kshs.85,142,343,332 resulting in a shortfall of Kshs.9,477,967,980 or 89% of the budgeted amount. Further, the Ministry's actual expenditure for the year amounted to Kshs.75,674,063,779 against budgeted expenditure of Kshs.85,142,343,332 resulting in an overall under expenditure of Kshs.9,468,279,553 or 89%. Management has attributed the shortfall in expected receipts to unrealized Appropriations-In-Aid (AIA) component of the donor funded projects and unrealized revenue reported by Semi-Autonomous Government Agencies.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **458. Provision of Health Care Information Technology (HCIT) Solutions for Managed Equipment Service (MES) Project**

On 2 October, 2017, the Ministry entered into a contract with an ICT firm for provision of health care information technology solutions for the MES Project at a contract sum of Kshs.4,900,000,000. The Project was to take five (5) years commencing on the contract date and was to cover ninety-eight (98) hospitals under the Government's MES plan. The project's scope entailed provision of health care information technology solutions including software and hardware interfaces, training and on-going maintenance.

Information available indicates that, although the Project had not commenced as at 30 June, 2019, the Ministry vide letter dated 18 November, 2019, terminated the contract without notice thereby exposing the Government to the risk of litigation

and damages. The Ministry while terminating the contract cited among other reasons some unrealistic clauses in the contract including clause 39.2 which provided that in the event of termination by the procuring entity, the entity shall pay to the contractor for all services undertaken, and an additional amount equivalent to eighty (80) per cent of the remaining outstanding contractor's fees as detailed under schedule 13 of the contract.

Management has not explained why the contract was signed with the unfavorable clauses and why the input of the Attorney-General was not sought before the contract was signed, as provided under Section 5 of the Office of the Attorney General Act, 2012. The Section empowers the Attorney General to negotiate, draft, vet and interpret local and international agreements and treaties for and on behalf the government and its agencies.

#### **459. Proposed Upgrading of Othaya District Hospital**

As previously reported, the Ministry awarded a contract for the upgrading of facilities at Othaya sub district hospital to a contractor at a contract sum of Kshs.436,300,799 which was later revised to Kshs.501,745,919. The initial completion period of 85 weeks was extended to 123 weeks with the new completion date being 25 October, 2012. A status report dated 21 February, 2014 – 69 weeks after lapse of the contract period of 123 weeks - indicated cumulative payments of Kshs.501,745,918 representing 99.9% of the revised contract sum of Kshs.501,574,918.

Inspection of the project in November, 2015 revealed that the contractor and subcontractors were not on site. Although it was indicated that the project had been terminated on mutual agreement, no documentary evidence was made available for audit verification. Further, no evidence was provided that the performance guarantee had been recalled and discharged against the uncompleted works. Additional information also revealed that another company had been awarded a new contract to complete the remaining works at a contract sum of Kshs.141,959,487. The total expenditure for the construction of the hospital had accumulated to Kshs.578,542,747 by 30 June, 2016.

In addition, the Ministry reported an expenditure of Kshs.145,154,150 for construction of Othaya district hospital during the financial year 2016/2017 which brought accumulated expenditure on the hospital to Kshs.723,696,897 by 30 June, 2017. This expenditure when compared against the initial contract value of Kshs.436,300,798 gives rise to a variation of Kshs.287,396,099 or 66%. Further, the Ministry incurred expenditure of Kshs.20,880,390 comprising of upgrading of facilities of Kshs.827,520, stand by diesel generator of Kshs.16,564,061 and consultancy fees of Kshs.3,488,810 during the year under review. This has raised the initial contract of Kshs.436,300,798 to Kshs.744,577,287 leading to a variation of Kshs.308,276,489 (71%). The project progress reports availed have not addressed the variation, completion and handing over of the facility. An update report in the month of February, 2019 indicated that the hospital was not yet

operational although the Ministry has been planning to operationalize the new hospital as a National Government facility. This was after the County Government of Nyeri cited budgetary challenges and requested the Ministry to take over the hospital.

Consequently, it has not been possible to confirm value for money on the expenditure of Kshs.744,577,287 incurred on the hospital as at 30 June, 2019.

#### **460. Long Outstanding County Debts**

As previously reported, in the 2013/2014 financial year, the Ministry paid salaries totalling Kshs.19,208,279,767 on behalf of the county governments. The payments were to be recovered in the same financial year. However, documents and information available indicated that the Ministry only recovered Kshs.14,837,973,350 in the 2013/2014 financial year leaving a balance of Kshs.4,370,306,417 which remained outstanding as at 23 July, 2020 when the audit was finalized.

The Ministry has not explained why the amounts remained outstanding and why no disclosure was made in the financial statements.

#### **461. Irregular Payment on Portable Clinics**

As previously reported, the Ministerial tender committee awarded the contract for Supply of Portable Medical Clinics to an Investments Company vide Ministerial Tender Committee Minute No. MOH/MTC/.37/2014-2015 of the meeting held on 29 June, 2015. The Company was to supply one hundred (100) portable medical clinics at a unit price of Kshs.10,000,000 (totalling to Kshs.1 billion). On 17 July, 2015, the contract to Supply, Install, Commission and Hand Over the clinics was signed between the Investment Company and the Ministry. The contract period was to be from the date of signing of the contract to the end of financial year 2015/2016. During the 2015/2016 financial year, the Ministry paid Kshs.800,000,000 for portable clinics before installing, commissioning and handing over thus contravening the contractual agreement.

Further, in 2018/19, the Ministry incurred Kshs.2,417,100 on allowances to officers from the Ministry involved in verifying the contents of the portable clinics, carrying out repairs, rebranding and writing a comprehensive operationalization plan of 89 clinics allegedly vandalized at Miritini, Mombasa. No explanations were provided on the whereabouts of eleven (11) clinics and why the Ministry incurred an extra Kshs.2,417,100 on the clinics that are not in its possession.

Consequently, it has not been possible to confirm that the Government obtained value for money on the expenditure of Kshs.802,417,100.

#### **462. Computed Tomography (CT) Scanners**

As previously reported, the Ministry in 2017/18 financial year paid Kshs.1,740,000,000 for Computed Tomography (CT) scanners. This was 20% of

the contract value which was paid as a condition precedent for the Government of Kenya to obtain a loan of Kshs.7,000,000,000 from the People's Republic of China to finance the purchase of the CT scanners. The scanners were procured through Neusoft Medical Systems Co. Ltd. However, no procurement documents for Neusoft Medical Systems had been provided at the time of conclusion of the audit review. Information available indicate that Neusoft Medical Systems was proposed by the Government of the Peoples Republic of China as a leading manufacturer of CT scans. Consequently, it was not possible to ascertain whether due diligence and fidelity to the Public Procurement and Asset Disposal Act, 2015 was observed. In particular, Section 85 which requires tenders to be evaluated by the evaluation committee of the procuring entity for the purpose of making recommendations to the Accounting Officer through the head of procurement to inform the decision of the award of the contract to the successful tenderers.

Under the circumstances, procurement laws and regulations may have been flouted as the necessary procurement documents were not provided for audit review.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **463. Lack of an Audit Committee**

Section 73(5) of the Public Finance Management Act, 2012 provides that every National Government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. However, although the audit committee members were inducted in October, 2018, the Chairman of the committee later resigned. In the absence of a functioning audit committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of the audit committee did not take place which may have hindered good corporate governance at the Ministry.

#### **464. Lack of well Documented Enterprise Wide Risk Management Process and IT Strategic Committee**

As previously reported, the Ministry did not have a well-documented enterprise wide risk management process or policies in place to effectively guide the enterprises risk management processes at large. This is contrary to Regulation 165 of the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer shall ensure that the National Government entity develops - (a) risk management strategies, which include fraud prevention mechanism; and (b) a system of risk management and internal control that builds robust business operations.

The Ministry also did not have an IT Strategic Committee; an IT Strategic Plan that supports business requirements and ensures that IT spending remains within the approved IT Strategic Plan; formally approved IT Security Policy to ensure data confidentiality, integrity and availability; formal, documented and tested emergency procedures; or copies of the IT continuity and disaster recovery plans kept off-site and backups stored in a secure off-site location.

## **DONOR FUNDED PROJECTS**

### **GLOBAL FUND PROGRAM – EXPANDING HIV PREVENTION, CARE AND TREATMENT SERVICES TO REACH UNIVERSAL ACCESS (80% COVERAGE) TO REDUCE BOTH INCIDENCE AND ASSOCIATED IMPACT (GRANT NO. KEN-H-MOF/KEN-H-TNT NO.853**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Basis for Qualified Opinion**

##### **465. Unconfirmed Bank Balances**

The statement of financial assets reflects bank balance of Kshs.67,372,346 as at 30 June, 2019. However, and as reported in the previous year, the bank reconciliation statement for Co-operative bank account No.01141125021800 for the month of June, 2018 reflected receipts in cashbook not captured in the bank amounting to Kshs.1,397,060. However, a review of the bank statements had revealed the cheques amounting Kshs.1,397,060 had indeed been cleared in May, 2018.

A review of the matter during the year under review revealed that the status remained unresolved as at 30 June, 2019. In the circumstances, the accuracy of cash and cash equivalent balance of Kshs.67,372,346 reflected in the statement of financial assets as at 30 June, 2019 could not be confirmed.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Basis for Conclusion**

##### **466. Prior Year Adjustment**

The statement of financial assets reflects a prior year adjustment of Kshs.11,250,790 which relates to outstanding imprest and advances for the prior year accounted for in the year under review. However, the treatment is contrary to



the requirement of paragraph 47 of International Public Sector Accounting Standard (IPSAS) 3 which requires that material prior year period errors be corrected retrospectively in the first set of financial statements authorized for issue after discovery by restating the comparative amounts for prior period(s) presented in which the error occurred. No explanation has been provided for the non-compliance.

Consequently, the financial statements have not complied with the requirements of IPSAS 3.

#### **467. Unauthorized Receipts and Expenditure**

Contrary to the International Public Sector Accounting Standards, IPSAS 24, the Management did not provide any reason for material deviations between the budget and actual amounts. Further, the Management did not include in the preparation of the financial statements, an annexure as provided by the Public Sector Accounting Standards Board of Kenya to explain the deviations. The Project received Kshs.5,432,208 and utilized Kshs.46,621 without any budget or authority.

The Management is therefore in breach of the law.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

#### **468. Inability to Utilize the Grant within the Project Period**

As disclosed under the funding summary section of the annual report and financial statements, the Project was for a duration of two (2) years from 1 October, 2015 to 31 December, 2017 with total available funding of Kshs.3,801,642,328 (USD 43,200,481). A review of the annual report and financial statements for the year ended 30 June, 2019, however reflect undrawn balances of Kshs.1,016,799,046 (USD 9,825,170) and cash and cash equivalent balance of Kshs.67,372,346 as at 30 June, 2019 which is likely to be refunded to the donor as no Program extension is in place. Although Management has indicated that disbursements of funds to counties remained a challenge, there was need to expand the area of coverage so as to utilize the grant and maximize the benefits. In the circumstances, the primary objective of reduction of HIV AIDS new infections by 75% and related mortality rate by 25% and value for money for the Program may not have been achieved in light of undrawn and unutilized funds.

## **EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING PROJECT (EAPHLN) CREDIT NO.5616-KE**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**469.** There were no material issues noted during the audit of the financial statements of the Project.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**470.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROL, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**471.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA HEALTH SECTOR SUPPORT (EMMS) PROJECT (IDA NO.4771 AND 50340 – KE)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **472. Transfer to Other Government Entities**

The statement of receipts and payments reflects transfer to other government entities of Kshs.527,102,564. Note 8.7 to the financial statements discloses that the figure includes a transfer of Kshs.73,908,356 to International Development Association (IDA) in respect of ineligible funds identified under the Project during implementation period termed as long outstanding un-documented expenditures caused by foreign exchange losses. The Management did not avail supporting documents and explanations for the payment by way of clarifications and

information on how the amount was tabulated and why such losses could not have been avoided.

In the circumstances, it has not been possible to confirm the propriety of transfer to other government entities of Kshs.527,102,564 reflected in the statement of receipts and payments for the year ended 30 June, 2019.

#### **473. Cash and Cash Equivalents**

The statement of financial assets and liabilities as at 30 June, 2019 reflects cash and cash equivalents balance of Kshs.135,997,037. However, the reconciliation statement supporting the bank balance of Kshs.135,997,037 reflects payments in bank statement not in the cashbook amounting to Kshs.2,380,000 with some balance dating far back to July, 2016 and whose clearance status had not been availed at the time of the conclusion of the audit.

Consequently, the accuracy and validity of the bank balance of Kshs.135,997,037 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **474. Approved Budget and Workplan**

Schedule 2 (Project execution) D on annual work program and budget of the Project financing agreement requires that the recipient should prepare and furnish to the Association, for the review and approval, an annual budget and work program not later than 28<sup>th</sup> of February each year. During the year under review, the statement of receipts and payments reflects payments totalling to Kshs.579,629,210. However, the approved work program and budget were not availed for audit verification.

Consequently, it has not been possible to ascertain that activities and programmes were within the annual workplans, were executed as planned and that the stakeholders obtained value for money in the expenditure of Kshs.579,629,210.

#### **475. Project Closure**

A review of the financing agreement indicated that the Project was expected to come to an end on 30 June, 2018. However, the Management did not avail any evidence of either the Project extension or the closure report for audit review.

As a result, the eligibility and validity of expenditure amounting to Kshs.579,629,210 incurred during the year ended 30 June, 2019, could not be confirmed.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**476.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## KENYA HEALTH SECTOR SUPPORT PROJECT – SWAp SECRETARIAT (IDA CR. NO. 4771-KE AND CR. NO.5367-KE)

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

##### **477. Inaccuracy in the Statement of Financial Assets and Liabilities**

As disclosed in Note 8.8B to the financial statements, the statement of financial assets and liabilities ought to reflect outstanding imprest balance of Kshs.170,098 down from the balance brought forward of Kshs.21,106,696 reflected in the previous financial year but which has not been reflected in the statement of financial assets and liabilities as at 30 June, 2019. The Management has not provided explanation for this anomaly.

In addition, the Accounting Officer had not initiated recovery of the full amount from the salary of the defaulting officer nor subjected the outstanding imprest to a charge of interest at the prevailing Central Bank rate as provided for under Section 93 (6) of the Public Finance (National Government) Regulations, 2015 which provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

In the circumstances, the accuracy, completeness and validity of the financial statements could not be confirmed.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### Basis for Conclusion

##### **478. Irregular Project Extension**

As per the financing agreement, the Project closed on 30 June, 2018. However, the Management did not avail, for audit review, evidence of approval for an extension. Consequently, the eligibility of expenditure amounting to

Kshs.525,552,947 incurred during the year under review and the validity of the project could not be confirmed for the year ended 30 June, 2019.

In the foregoing, I am unable to confirm whether, the expenditure of Kshs.525,552,947 incurred during the year ended was a proper charge to public funds.

#### **479. Lack of Approved Budget and Workplan**

During the year under review, the Management incurred expenditure amounting to Kshs.525,552,947. However, the approved work program and budget were not availed for audit verification contrary to Schedule 2D (project execution) on annual work program and budget of the financing agreement that required not later than 28 February, in each year, the recipient to prepare annual budget and work program for approval.

Consequently, the Management was in breach of the Public Finance Management Act, 2012.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROL, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**480.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **EAST AFRICA'S CENTRE OF EXCELLENCE FOR SKILLS AND TERTIARY EDUCATION IN BIOMEDICAL SCIENCES – PHASE 1 (LOAN NO.2100150031997) PROJECT**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**481.** There were no material issues noted during the audit of the financial statements of the Project.

##### **Other Matter**

##### **482. Budget Control and Performance**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects an approved budget and actual receipts on comparable basis of Kshs.227,525,215 and Kshs.204,058,455 respectively, thus exceeding the budget by Kshs.24,067,879 or 90% of the budgeted receipts. Similarly, the Project

utilized an amount of Kshs.143,852,430 or 63% of the approved budget of Kshs.230,000,000 resulting into an under-expenditure of Kshs.86,147,571 or 37% of the budget. Management has attributed the under-expenditure to delays in the approval of hiring of personnel at the Project Coordinating Unit (PCU), training of students and procurement of equipment which is now underway.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **483. Delay in Project Implementation**

As reported in the previous year, Section 3.0.1 of the financing agreement states that the Borrower shall repay the principal of the loan over a period of thirty-five (35) years, after a five (5) years grace period commencing from the date of signing the agreement. The Project commencement date was 17 December, 2014 with a projected end date of 31 December, 2019. A review of the status as at 30 June, 2019 revealed that an extension of two (2) years was granted in May, 2019 to end on 31 December, 2021. However, some major milestones had not commenced including the construction of the East Africa Kidney Institute Complex which in turn has delayed the implementation of other activities.

Consequently, I am unable to confirm whether value for money will be achieved by the stakeholders as planned.

#### **484. Irregular Payment for Substandard Items**

A firm was engaged by the Ministry of Health to supply surgical instruments and care equipment at a price of Kshs.54,811,465.33 inclusive of duties and taxes. A review of the procurement records indicated that the items were supplied at a cost of Kshs.44,336,263 on 12 February, 2018. However, the inspection and acceptance committee rejected some items Kshs.1,721,892 which did not meet the set specifications and were not valid.

Further, according to the contract delivery and completion schedule, the contract was to be serviced within a period of sixteen (16) weeks from the date of signing, which was to end on 30 June, 2017. However, by 30 June, 2019, two (2) years after the expected completion, and with some items delivered and paid for having been rejected, management was yet to enforce the provision for liquidated damages as provided in clause 20 of the general conditions of the contract.

Consequently, the effectiveness on management of public resources could not be confirmed.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Basis for Conclusion

#### 485. Lack of Project Steering Committee (PSC) Meetings

Paragraph 4.1.2 of Section IV of the Project's Appraisal Technical Report requires that the established Project Steering Committee (PSC) shall meet quarterly as part of project implementation. However, evidence availed during the year under review, showed that the PSC only met once. Additionally, substantial sustainability challenges were discussed in the meeting including audit of training equipment supplied, slow absorption of funds, challenges in acquiring consumables for dialysis unit, among others. The PSC minutes were not signed and evidence of follow up actions was not availed.

## GLOBAL FUND TUBERCULOSIS GRANT PROGRAM (GRANT NO.KEN-T-TNT-854 AND KEN-T-TNT-1548)

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 486. Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents balance of Kshs.424,552,261 as disclosed under Note 8.9 to the financial statements. A reconciliation of the balances between the cashbook balances and those in the bank statement included reconciling items totalling Kshs.1,429,924 which have been long outstanding. However, no explanation was provided for failure to clear the long outstanding reconciling items under both the old and new grant accounts as indicated below:

Description	Old Grant (Kshs.)	New Grant (Kshs.)
Payments in cashbook not in bank	61,196	976,175
Receipts in bank not in cashbook	135,330	35,000
Payments in bank not in cashbook	51,893	0
Receipts in cashbook not in bank	35,000	135,330
<b>Total</b>	<b>283,419</b>	<b>1,146,505</b>

This may be an indication of errors or misstatements in the cashbook balance. Under the circumstances, the accuracy and validity of the cash and cash equivalents balance of Kshs.424,552,261 as at 30 June, 2019 could not be confirmed.

## **Other Matter**

### **487. Budget Control and Performance**

The statement of comparative budget and actual amounts reveals that the Project had budgeted receipts totalling Kshs.1,166,028,879 from the external development partners but actual receipts amounted to Kshs.814,513,562 only, resulting to a shortfall of Kshs.351,515,317 or 30% of the total budgeted receipts. Similarly, the Project had budgeted to spend an amount of Kshs.1,166,028,879 but only Kshs.663,786,370 or 57% was actually expended. The under-utilization of funds implies that the Project may not be achieving its planned goals and objectives.

Management has not given any plausible explanation for material deviation between the budget and actual amounts contrary to the provision under IPSAS 24.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **488. Failure to Recover Long Outstanding Imprests**

As previously reported, the statement of financial assets reflects accounts receivable-imprest and advances balance of Kshs.4,432,469 as at 30 June, 2019. However, and as disclosed at Note 8.10 to the financial statements, the total imprest and advances of Kshs.4,432,469 some dating back to 2012/2013 financial year were overdue as at 30 June, 2019.

This is contrary to Section 93 (5) of the Public Finance Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Further, Section 93 (6) provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

Consequently, it has not been possible to ascertain the recoverability of the imprest and advances balance as at 30 June, 2019 and the Management is therefore in breach of the law.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**489.** There were no material issues relating to effectiveness of internal controls, risk management and governance.



## **GLOBAL FUND MALARIA ROUND 10 PROJECT GRANT NO. KEN-011-G13-M AND NO. KEN-M-TNT-1546**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**490.** There were no material issues noted during the audit of the financial statements of the Project.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**491.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**492.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **HEALTH SECTOR SUPPORT PROJECT - HEALTH SECTOR SERVICES FUND (GRANT NO.4771-KE AND TF-16027)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **493. Unsupported Bank Balances**

As had been reported in the previous year and as disclosed under Note 8.13.A to the financial statements, the statement of financial assets and liabilities reflects bank balances of Kshs.658,291,115. However, the Management did not avail supporting documents by way of bank confirmation certificates, bank reconciliation statements and cash books to account for an amount of Kshs.657,875,266 which is indicated as held in forty-seven (47) Counties. Further, although a review of the audit carried out by the Independent Integrated Fiduciary Review Agent (IIFRA) - M/s Wachira Irungu and Associates indicated that supporting documents of Kshs.518,080,255 was availed resulting to unsupported cash balance of Kshs.139,795,011 from twelve (12) Counties. No explanation has been given for

failing to avail these documents for audit review or why Management has not adjusted the balances in the books of accounts.

Consequently, the validity, completeness and accuracy of bank balances of Kshs.658,291,115 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **494. Lack of Project Extension**

As per the Project Information and overall performance report, the Project was expected to end on 30 June, 2018. Ideally, the Management should have sought for an extension from the donor in order to continue operating beyond the closing date. During the year under review, the Project utilised an amount of Kshs.371,351,105 although nothing was received from the donor. The Management, however, did not avail authority for the extension or a 'Letter of No Objection' from the financier.

In the circumstances, the validity and eligibility of expenditure amounting to Kshs.371,351,105 could not be ascertained.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**495.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **SUPPORT OF THE HEALTH FINANCING STRATEGY - OUTPUT BASED APPROACH (OBA) PROGRAMME (CREDIT NO. 201065853)**

## REPORT ON THE FINANCIAL STATEMENTS

### **Unqualified Opinion**

**496.** There were no material issues noted during the audit of the financial statements of the Programme.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **497. Unsupported Payments to Consultant**

As disclosed under Note 8.5 to the financial statements, the statement of receipts and payments reflects an expenditure under use of goods and services amounting to Kshs.22,435,199 out of which, a payment of Kshs.21,907,000 or 98% was paid to a company, engaged through a contract with the Ministry of Health, to perform consulting services on Micro Health Insurance through micro-finance institutions (BMZ-Ref No. 201065853) on 22 December, 2014. The contract was for a duration of five (5) years ending 1 October, 2019 for a fixed order value of EUR 3,000,000 (Kshs.330,000,000). Section 5.2 of the contract – detailed disbursement plan provides for annual external report during the Programme period. A review of disbursements to the company up to 30 June, 2019 revealed that a total of Kshs.21,907,000 of the order value had been paid. However, the Management has not availed financial statements by the consultant as required by the contract.

In the circumstances, the propriety of Kshs.21,907,000 paid to the company could not be confirmed.

#### **498. Discrepancy in Project Timelines**

The Programme was officially scheduled to end on 30 October, 2017 while the Micro Health Project which is operating under the Programme was scheduled to end on 01 October, 2019 with the final report expected on 01 April, 2020. The Management has not demonstrated how the Micro Health Project will be managed beyond the period of the Programme.

In the circumstances, I am unable to confirm the continued existence of the Micro Health Project.

#### **499. Lack of Programme Extension and Undrawn Balances**

A review of the funding summary reflects undrawn balance of EURO 3,954,416 equivalent to Kshs.467,133,977 and the statement of financial assets and liabilities reflect cash and cash equivalent balance of Kshs.19,910,763 which is likely to be refunded to the donor since the Programme end date was 30 October, 2017. There is no evidence that the management have sought for approval for the extension of the Programme upon expiry.

In the circumstances, the Programme may not have realized its set goals and objectives

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**500.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **SUPPORT OF THE HEALTH CARE FINANCING STRATEGY – REPRODUCTIVE HEALTH – OUTPUT BASED APPROACH (RH-OBA) PROJECT (CREDIT BMZ NO. KENYA 201065853)**

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**501.** There were no material issues noted during the audit of the financial statements of the Project.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### Basis for Conclusion

#### **502. Late Submission of Financial Statements**

The financial statements for the year ended 30 June, 2019 were submitted for audit on 11 November, 2019, more than one (1) month after the statutory deadline of 30 September, 2019. This is contrary to Section 81(4)(a) of the Public Finance Management Act, 2012 which requires accounting officers to submit financial statements to the Auditor-General within three (3) months after the end of each financial year. Late submission of financial statements affect the execution of the planned audit.

Management was therefore in breach of the law.

#### **503. Lack of Project Extension**

As reported in the previous year, the Project was intended to contribute in reduction of both maternal and infant mortality rates by improving access to and utilization of reproductive health services by the economically disadvantaged populations. As disclosed under the funding summary section of the annual report and financial statements, the project, (Phase I-IV) was expected to end in January, 2018 with total available funding of Kshs.3,273,686,056 (EURO.30,200,000). However, a review of the annual report and financial statements for the year ended 30 June, 2019, reflects undrawn balances of Kshs.122,746,139 and cash and cash equivalent balance of Kshs.14,506,635 which is likely to be refunded to the donor

as no project extension is in place. Although Management explained the reduction on reimbursable amounts as due to the Government of Kenya funding on free maternity, there was need to expand the area of coverage so as to utilize the grant and maximize the benefits.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**504.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **TRANSFORMING HEALTH SYSTEMS FOR UNIVERSAL CARE (THS-UC) PROJECT GRANT IDA CREDIT NO.5836-KE, TFOA2561 AND TFOA2792**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **505. Long Outstanding Imprests and Advances**

The statement of financial assets reflects accounts receivables-imprest and advances of Kshs.30,189,944 which had not been recovered as at 30 June, 2019 which includes a long outstanding balance of Kshs.1,774,900 issued during the financial year 2016/2017. No explanation has been availed why the Accounting Officer has not taken action to recover the full amount from the salary of the defaulting officers plus interest at the prevailing Central Bank Rate as provided under Section 93(5) of the Public Finance Management (National Government) Regulations, 2015.

##### **506. Ineligible Expenditure**

During the year under review, the Country received a total of Kshs.20,543,431 to finance planned project activities. It was observed that an expenditure of Kshs.1,625,000 for Emergency Maternal and Neonatal Obstetric Care (EMNOC) training of County health workers was paid through the Project. However, according to the annual work plan for the County Health Department, the activity was to be funded by the County Government and not THS-UC Project. There is no evidence that the Management sought and/or was given a 'Letter of No Objection' by the Donor or the Secretariat.

In absence of any 'Letter of No Objection', the eligibility of the expenditure could not be confirmed.

## **507. Irregular Payment of Undisclosed Pending Bills**

During the year under review, the Project made payments totalling to Kshs.27,843,830 for goods and services delivered and invoiced in the previous financial years and which had not been disclosed as pending bills in the previous year's financial statements.

In the circumstance, the accuracy and validity of the payments of Kshs.27,843,830 could not be confirmed.

### **Other Matter**

## **508. Budget Control and Performance**

The summary statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.5,321,546,459 and Kshs.2,736,445,044 respectively resulting to an under-funding of Kshs.2,585,101,415 or 49% of the budget. The underfunding affected the planned activities and projects which could impact negatively on service delivery to the public. In the circumstances, the public has not received the services as planned.

## **509. Prior Year Audit Matter**

### **509.1 Unsupported Payments in County Government of Taita Taveta**

As previously reported, the statement of receipts and payments for the year ended 30 June, 2018 reflected transfers to other government entities (third parties) of Kshs.1,250,000,000. Included in this amount was a disbursement of Kshs.14,863,473 to Taita-Taveta County. An audit inspection during the financial year 2017/2018 had revealed that payments amounting to Kshs.2,846,500 were incurred at the County level but did not have supporting documents such as counter receipt vouchers (S13), bin cards for taking items on charge while no authority or approvals to carry out activities were availed.

In the circumstance, the propriety of the expenditure of Kshs.2,846,500 reported in the 2017/2018 could not be confirmed.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

## **510. Nairobi County**

### **510.1 Un-utilized Funds**

During the year under review, the annual work plan for the Nairobi County Department of Health reflected a budget for project activities of Kshs.55,242,085 which comprised of Kshs.17,009,120 that related to activities carried forward from the previous year work plan and Kshs.38,232,965 relating to planned activities for

the year under review. Further, the County had available funds totalling to Kshs.49,576,417 comprising of a balance brought forward of Kshs.17,009,120 and funds received during the year of Kshs.32,567,279. However, payment vouchers availed for audit review indicated that the Project incurred expenditure amounting to Kshs.17,009,120 which relates to implementation of previous year's work plan activities. The difference of Kshs.32,567,297 relating to implementation of financial year 2018/2019 annual work plan activities remained unutilized as at 30 June, 2019. The slow rate of funds absorption is contrary to the values and principles of public service as provided for under Article 232(1)(c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

In the circumstances, the planned project activities were not achieved and therefore the expected benefits to the people of Nairobi County were not realized.

## **510.2 Comingling of Funds**

Section 76(1) of the Public Finance Management (County Governments) Regulations, 2015 requires opening and maintenance of a Project account for every Project at Central Bank of Kenya (CBK), unless exempted in writing by the Cabinet Secretary, into which all funds shall be kept and an account shall be known by the name of the Project for which it is opened and each Project shall maintain only one bank account.

A review of the County transactions in respect of the Project indicated that a separate account was not maintained. The Project transactions were conducted in a County Special Purpose Account which also handled transactions for other Projects.

Consequently, the Management is in breach of the law.

## **511. Irregular Procurement of Conference Facilities in Kiambu County**

Section 10(2)(b) of the Public Procurement and Asset Disposal Act, 2015 requires quotations to be given to as many persons as necessary to ensure effective competition. During the year under review, the County made various payments amounting to Kshs.4,781,500 through the Project for hire and use of conference facilities for training. However, it was noted that the hotel services were paid using cash with no evidence of competitive procurement. In the absence of competitive bidding, it could not be established whether there was value for money for the services provided amounting to Kshs.4,781,500.

In the circumstances, the management is in breach of the law.

## **512. Transfer to Other Government Entities**

The statement for receipts and payments for the year ended 30 June, 2019 reflects total transfers to other government entities of Kshs.2,174,871,327 comprising of

transfers by the entity of Kshs.215,286,365 and payments made by third parties of Kshs.1,959,584,962. Signed confirmations or expenditure returns from beneficiaries were however, not availed for audit review. Consequently, it has not been possible to establish whether the transfers were received by the intended beneficiaries and utilized for the intended purposes.

In the circumstances, I am unable to confirm whether the transfers are a proper charge to public funds.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **513. Lack of Audit Committee Reports**

Paragraph 160(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which requires that the internal auditors shall have a duty to give reasonable assurance through the Audit Committee on the state of risk management, control and governance within the organization. Further, Section 162(1) requires that the Head of Internal Audit reports administratively to the Accounting Officer and functionally to the Audit Committee.

However, the Management did not avail any supporting documents as evidence that the Project had approved internal audit work plans and/or whether there was any discussion of the audit reports and actions taken. Consequently, the measures put in place for internal controls, risk management and governance may not be adequate.

## **GLOBAL FUND HIV AIDS PROGRAM (GRANT NO. KEN-H-TNT GA 1547)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **514. Unsupported Cash and Cash Equivalents**

As disclosed under Note 8.8 to the financial statements, the statement of financial assets reflects cash and cash equivalents of Kshs.91,948,910 which includes an Mpesa balance of Kshs.15,000,000 whose supporting documents by way of Mpesa confirmation certificate were not availed for audit review. In addition, the reconciliation statement supporting the bank balance of Kshs.76,948,910 reflects payments in bank statement not in the cashbook totaling Kshs.614,000 and whose



clearance status had not been disclosed at the time of conclusion of the audit in October, 2019.

Under the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.91,948,910 reflected in the statement of financial assets as at 30 June, 2019 could not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **515. Unaccounted for Imprests**

As disclosed under Note 8.9 to the financial statements, the statement of financial assets reflects under Accounts Receivable-imprest balance of Kshs.1,959,870. The outstanding imprests were overdue as at 30 June, 2019 contrary to Section 93(5) of the Public Finance Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the same within seven (7) working days after returning to the duty station. Further, Section 93(6) provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

Consequently, the Management was in breach of the law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**516.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **UNITED NATIONS POPULATION FUND (UNFPA) 8<sup>TH</sup> COUNTRY PROGRAMME FOR KENYA**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Unqualified Opinion**

**517.** There were no material issues noted during the audit of the financial statements of the Programme.

## **Emphasis of Matter**

### **518. Unverified Purchase of Goods and Services in Prior Year**

The statement of receipts and payments for the year under review reflects cumulative expenditures on purchases of goods and services totalling Kshs.151,798,622, as further disclosed in Note 8.5 to the financial statements. As reported in the previous financial year (2016/2017), the balance includes Kshs.7,232,800 paid to facilitate training in various Counties. However, the respective support documents were not presented for audit verification and as a result, the occurrence and validity of the expenditure could not be confirmed. The expenditure remains unverified.

My opinion is not qualified in respect to this matter.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**519.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**520.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF HEALTH**

### **KENYA HEALTH SECTOR PROGRAMME SUPPORT III – DANIDA REF. 104. KENYA.810.300 – COUNTY GOVERNMENT OF KISII**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**521.** There were no material issues noted during the audit of the financial statements of the Programme.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**522.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**523.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## HEALTH SECTOR SUPPORT PROJECT (CREDIT NO.4771-KE) – KENYA MEDICAL SUPPLIES AUTHORITY (KEMSA)

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **524. Unconfirmed Receipts and Utilization of Projects Funds**

The statement of comprehensive income for the year ended 30 June, 2019 reflects total revenue of Kshs.376,629,191 which comprises of receipts transferred from the Ministry of Health (KSSP/EMMS) amounting to Kshs.333,194,208 and bank interest of Kshs.43,434,983. The above Kshs.333,194,208 constitutes an amount of Kshs.200,000,000 receipts from Sector Wide Approach (SWAP) Secretariat, Kshs.49,539,459 indicated as Ministry of Health Medical Grants and Kshs.83,654,749 which is indicated as income for KEMSA facilitation. However, the amounts indicated had not been received in the Project bank account by the close of the financial year but were instead received in the KEMSA Equity Trade Account. Further, it is not clear how the corresponding expenditure financed by the total amount of Kshs.333,194,208 was captured in the Project ledger given that the amount had not been received in the Project account.

In the circumstances, it is not possible to confirm the accuracy and validity of receipts of Kshs.333,194,208 and the respective expenditure for the year ended 30 June, 2019.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**525.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Basis for Conclusion

#### **526. Delay in Distribution of Equipment**

The statement of comprehensive income for the year ended 30 June, 2019 reflects under purchase of assets, equipment and consumables amounting to Kshs.400,099,529. However, equipment valued at Kshs.3,051,499 was still at KEMSA warehouses and had not been distributed for installation and commissioning despite the suppliers having been fully paid. Consequently, the public may not have realized value for money in respect of the undistributed equipment valued at Kshs.3,051,499 as at 30 June, 2019.

#### **527. Delayed Project Closure**

A review of the project agreement indicates that the Project was to close on 30 June, 2018. During the year under review, the Project incurred expenditure amounting to Kshs.477,133,561. The Management did not avail for audit review evidence of approval of the project extension or a 'Letter of no Objection' from the Donor.

However, no approved workplans and budget were availed for audit verification contrary to Schedule 2 (project execution) D on annual work program and budget of the Project Financing Agreement, 2014 that requires the recipient to prepare and furnish to the Donor, the annual budget and work program not later than 28 February, each year for the Donor's review and approval.

As a result, it has not been possible to ascertain the validity and eligibility of expenditure or determine whether programmes were executed as planned and that the stakeholders obtained value for money in the expenditure of Kshs.477,133,561.

# **GLOBAL FUND HIV/AIDS PROJECT GRANT NUMBER KEN-H-TNT-1547 – NATIONAL AIDS CONTROL COUNCIL**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **528. Unconfirmed Funds from Previous Grant**

The statement of receipts and payments reflects funds brought forward from a previous Grant of Kshs.79,960,862. Information availed indicates that under Clause 6.1 of Grant Agreement, Global Fund gave authority for the Management to utilize the uncommitted balances from the previous Grant KEN-H-TNT-853 to roll out the new Grant KEN-H-TNT-1547. It was however, noted that the previous Grant KEN-H-TNT-853 had not been preparing separate financial statements for the past years and no Grant closure report from the Local Fund Agent was availed for audit.

In the absence of Grant closure reports and clear authorization from Global fund on the exact amounts to be transferred to the new Grant, the accuracy of the receipts of Kshs.79,960,862 cannot be confirmed.

### **Other Matter**

#### **529. Low Budget Absorption**

A review of the Project funding summary at Section 1.7 of the annual report and financial statements indicates that Global Fund has committed an equivalent of Kshs.709,999,904 towards implementation of various Project activities within the Project duration of forty-two (42) months commencing 1 January, 2018 to 30 June, 2021. Further, and as reflected in the statement of comparative budget and actual amounts, out of the total commitments of Kshs.709,999,904, an amount of Kshs.478,554,970, equivalent to 67% of the total commitments was factored in the budget for the eighteen (18) months' period ended 30 June, 2019, for implementation of various approved Project activities. However, out of the budgeted expenditure amount of Kshs.478,554,970, only Kshs.167,355,928, equivalent to 35% of the total budget was utilized during the period, resulting in unutilized balance of Kshs.311,199,042, equivalent to 65% of the total budget. The Management has attributed the low absorption to late programme approval, delayed process of the implementation of the Strategic Framework and Adolescent Programme.

Consequently, the project is clearly behind schedule and timely achievement of the key project objectives and outcomes as outlined in the grant agreement remain doubtful.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**530.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**531.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING PROJECT (EAPHLN) CREDIT NO.4732-KE – KENYA MEDICAL SUPPLIES AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**532.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **533. Budget Control and Performance**

The statement of comparison between the budget and actual amounts reflects approved revenue budget of Kshs.85,864,578 and actual amounts realized of Kshs.64,135,422 resulting to an under-funding of Kshs.21,729,156 or 25% of the budget.

However, out of the received amount of Kshs.64,135,422 only Kshs.3,224,286 relating to 2015/2016 budget was absorbed resulting to an under absorption of Kshs.60,911,136 or 95% of revenue. The low absorption could adversely affect the achievement of the planned activities hence impacting negatively on service delivery.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**534.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROL, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**535.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **STATE DEPARTMENT FOR INFRASTRUCTURE-VOTE 1091**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **536. Prior Year Adjustments**

As disclosed under Note 15 to the financial statements, the statement of assets and liabilities reflects a prior year adjustment figure of Kshs.2,482,600,901;(2018-Kshs.34,215,084) which is not supported by way of documentary evidence. Consequently, the accuracy of the prior year adjustments could not be confirmed.

#### **537. Unresolved Prior Year Audit Matters**

The following prior year matters that have a bearing on the accuracy of the financial statements for the year remained unresolved as at 30 June, 2019.

##### **537.1 Inaccuracies in the Financial Statements**

The comparative figures in the financial statements did not balance and reflected the following material inaccuracies: -

###### **537.1.1 Unbalanced Trial Balance - Suspense and Clearance Accounts**

The trial balance presented in support of the financial statements for the year ended 30 June, 2018 did not balance and reflected suspense and clearance account balances of Kshs.676,928,451 (Debit) and Kshs.355,031,018 (Credit) respectively. Management has not provided support on how the balances were cleared and its effect on the financial statements balances for the year ended 30 June, 2019.

##### **537.2 Cash and Cash Equivalents**

###### **537.2.1 Development Bank Account**

Included in the comparative cash and cash equivalent balance of Kshs.2,695,462,863 is development account balance of Kshs.2,265,313,292. The trial balance in support of the balance reflected Kshs.88,564,683,918 resulting to unexplained and unreconciled difference of Kshs.86,299,370,626.

Further, the bank reconciliation statement for the bank account had payments in cash book but not in bank amounting Kshs.4,875,005 which composed of stale cheques that had not been written back to the cash book. The bank reconciliation also included receipts and payments in bank but not in the cash book amounting



to Kshs.3,350,700 and Kshs.2,045,624 respectively. No explanation has been provided for failure to clear the long outstanding reconciling items.

### **537.2.2 Recurrent Bank Account**

Included also in the comparative cash and cash equivalent balance is recurrent bank account balance of Kshs.214,309,493. The trial balance presented in support of the balance reflected a balance of Kshs.17,416,693,411 resulting to an unexplained and unreconciled difference of Kshs.17,202,383,918.

Further, the bank reconciliation statement for the bank account had payments in cash book but not in bank statement amounting to Kshs.9,608,371 which composed of stale cheques that had not been written back to the cash book. The bank reconciliation statement also included receipts and payments in the bank statement but not in the cash book amounting to Kshs.12,695,351 and Kshs.4,434,680 respectively while receipts in the cash book but not recorded in the bank statement amounted to Kshs.11,090,993. Management has not provided reasons for non-clearance of the long outstanding reconciling items.

In addition, the bank reconciliations were being prepared outside the Integrated Financial Management Information System (IFMIS).

### **537.2.3 Deposits**

Included in the comparative cash and cash equivalent balance are deposits of Kshs.212,555,241. However, detailed analysis in support of the deposits has not been provided. Further, the trial balance in support of the deposit balance reflected an amount of Kshs.309,435,345 resulting to unexplained and unreconciled difference of Kshs.96,880,104.

### **537.2.4 Undisclosed Bank Balances**

Excluded from the comparative cash and cash equivalent balance were bank balances of Kshs.4,004,785 and Kshs.25,056,895,967 of the Kenya Transport Sector Support Project and the Road Annuity Fund respectively.

From the foregoing, the accuracy and completeness of the reported cash and cash equivalent balance of Kshs.593,057,945 as at 30 June, 2019 could not be confirmed.

### **537.3 Exchequer Releases**

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflected comparative exchequer releases figure of Kshs.52,873,956,581 while the trial balance in support reflected a figure of Kshs.254,572,836,570 resulting to an unreconciled difference of Kshs.201,698,879,989.

In the circumstance, it was not possible to ascertain the accuracy of the comparative Exchequer releases for the year ended at 30 June, 2019.

#### **537.4 Accounts Receivables**

##### **537.4.1 Clearance Account**

Included in the comparable accounts receivables balance is Kshs. Nil, being clearance account balance. However, the trial balance in support reflects a balance of Kshs.676,928,451, resulting to a variance of Kshs.676,928,451, that has not been explained.

##### **537.4.2 Other Debtors and Prepayments and Agency Account**

The comparable accounts receivables balance of Kshs.38,282,324 excludes other debtors and prepayments and agency account balances of Kshs.13,068,546 and Kshs.16,410,340 respectively in the trial balance.

##### **537.4.3 Government Imprests**

The comparative Government imprest balance of Kshs.1,731,087 is at variance with the Trial Balance figure of a negative Kshs.1,798,211 resulting to unexplained difference of Kshs.3,529,298 that has not been reconciled.

In the circumstance, the accuracy and fair statement of the accounts receivables balance of Kshs.53,132,393 as at 30 June, 2019 could not be ascertained.

#### **537.5 Accounts Payables – Deposits and Retention**

As disclosed under Note 13 to the financial statements, the statement of assets and liabilities reflect comparative accounts payables balance of Kshs.212,555,241. However, there was no schedule in support of the balance. Further, the Trial Balance in support reflects a balance of Kshs.1,605,943,329 resulting to an unexplained variance of Kshs.1,393,388,088.

Consequently, the accuracy and fair statement of comparative accounts payables balance of Kshs.191,621,913 as at 30 June, 2019 could not be confirmed.

#### **Other Matter**

##### **538. Pending Bills**

As disclosed under Notes 17.1 to the financial statements, the State Department for Infrastructure had pending bills totalling Kshs.4,622,222 as at 30 June, 2019 that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**539.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**540.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## DONOR FUNDED PROJECTS

### NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT (IDA CREDIT NO. 5140-KE)

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**541.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **542. Special Account Reconciliation Variance**

As previously reported, the statement of receipts and payments for the year ended 30 June, 2016 reflected total receipts from development partners of Kshs.48,744,572, while the special account statement prepared by The National Treasury reflected an amount of Kshs.8,000,736 as having been withdrawn to finance the Project activities. Management has not reconciled or explained the resultant difference of Kshs.40,743,836 between the two sets of records.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**543.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**544.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (IDA CREDIT NO.5638-KE)**

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### **545. Inaccuracies in the Statement of Financial Assets**

The statement of financial assets reflects prior year adjustments of Kshs.6,492,005 which, as shown under Note 8.16 to the financial statements, related to outstanding imprests. However, the details of the prior year adjustments were not provided. Further, the statement of financial assets reflects a nil balance under inter project payables while Note 8.14 to the financial statements reflects outstanding inter project payables of Kshs.4,711,006. The difference between the two sets of records have not been explained.

### Other Matter

#### **546. Unexplained Budgetary Variances**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts of Kshs.70,891,648 against budgeted receipts of Kshs.80,000,000 resulting in an under-collection of Kshs.9,108,358 or 11% of the budget receipts. Similarly, the statement reflects total actual expenditure of Kshs.97,944,718 against the budgeted expenditure of Kshs.80,000,000 resulting into an over-expenditure of Kshs.17,944,718 or 22% of the budgeted expenditure. Explanations for the material differences between the budget and actual amounts were not provided contrary to the reporting requirements prescribed by the Public Sector Accounting Standards Board.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**547.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**548.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO.S 4926-KE AND 5410-KE (COMPONENT B1 SUPPORT TO MINISTRY OF ROADS))**

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**549.** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**550.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**551.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY  
AGENCIES UNDER THE STATE DEPARTMENT FOR  
INFRASTRUCTURE**

**SUPPORT TO ROAD SECTOR POLICY: 10<sup>TH</sup> EDF RURAL ROADS  
REHABILITATION PROJECT IN KENYA (AGREEMENT  
NO.KE/FED/023-571) – KENYA RURAL ROADS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**552.** There were no material issues noted during the audit of the financial statements of the Project.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**553.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE**

**Conclusion**

**554.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**NUNO-MODOGASHE ROAD PROJECT – KENYA NATIONAL  
HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**555.** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **556. Pending Bills**

Notes 9.1 to the financial statements reflects pending accounts payable totalling Kshs.1,829,786,534 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**557.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**558.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **NORTH EASTERN TRANSPORT IMPROVEMENT PROJECT (IDA CREDIT NO. V0630) - KENYA NATIONAL HIGHWAYS AUTHORITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **559. Unaccounted Project Funds Reported as Cash in Transit**

Note 8.10 to the financial statements discloses cash in transit of Kshs.48,755,520, relating to cash released by the development partner in 2017/2018 financial year but was yet to be accounted for as at the financial statement date. Consequently, it is not possible to ascertain the accuracy of the cash in transit amount of Kshs.48,755,520 as of 30 June, 2019.

## **Other Matter**

### **560. Pending Bills**

Note 9.1 to the financial statements discloses pending bills amount of Kshs.76,746,315 as at 30 June, 2019. Although Management has committed to liaising with the line ministry and The National Treasury for adequate budgetary

allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**561.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND OVERALL GOVERNANCE

### Conclusion

**562.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## NAIROBI OUTER RING ROAD IMPROVEMENT PROJECT NO.P-KE-DB0-020 – KENYA URBAN ROADS AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**563.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

### 564. Pending Bills

Note.9.1 to the financial statements reflects pending bills amounting to Kshs.660,153,812 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.



## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**565.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**566.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## KIBWEZI-MUTOMO-KITUI ROAD PROJECT CONTRACT NO. BLA2016K001 - KENYA NATIONAL HIGHWAYS AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**567.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **568. Accrued Interest on Delayed Payments**

Review of Interim Payment Certificates numbers 1 and 2 revealed interest claim on the project as a result of delayed payments of Kshs.189,516,296 to November 2018. As per project progress report of June, 2019, the claim had been certified for payment whilst the contractor continued to levy interest on subsequent delayed payments. Management attributed the delays to the inadequate budgetary provision on the Government of Kenya counterpart contribution which is a prerequisite prior to release of development partner portion in line with the signed financing agreement. With the continued delays, the cost of completing the project is bound to escalate.

#### **569. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.2,607,930,204 as at 30 June, 2019. Although management has committed to liaising with the line Ministry and The National Treasury for adequate budgetary

allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**570.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**571.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **MOMBASA WEST INTEGRATED URBAN ROADS NETWORK PROGRAMME PHASE 2: DUALLING OF MAGONGO ROAD (A109L) AND EXPANSION OF KIPEVU ROAD – KENYA NATIONAL HIGHWAYS AUTHORITY**

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Unqualified Opinion**

**572.** There were no material issues noted during the audit of the financial statements of the Project.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**573.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**574.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## KAPCHORWA-SUAM-KITALE AND ELDORET BYPASS ROADS (KENYA) PROJECT ID NO. P-Z1-DB0-183 - KENYA NATIONAL HIGHWAYS AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**575.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### 576. Pending Bills

Note 9.1 to the financial statements reflects pending accounts payable amounting to Kshs.3,614,452,293 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**577.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**578.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **MOMBASA PORT AREA ROAD DEVELOPMENT PROJECT (LOAN AGREEMENTS NOS.KE-P29 AND KE-P32) - KENYA NATIONAL HIGHWAYS AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**579.** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **580. Pending Bills**

Note 9.1 to the financial statements reflects pending accounts payable of Kshs.4,770,992,771 as at 30 June, 2019. Although management has committed to liaising with the line ministry and The National Treasury for adequate budgetary allocation, timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**581.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**582.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT  
PHASE II (MARSABIT-TURBI ROAD) ID NO. P-Z1-DBO-027 -  
KENYA NATIONAL HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**583.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**584. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.72,171,014 as at 30 June, 2019 against a bank balance of Kshs.2,837,752. Management has not explained how these bills will be cleared since the project has closed and they may not access further funding from either the development partner or the Kenyan government.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

**Conclusion**

**585.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

**Conclusion**

**586.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT  
PHASE III (TURBI - MOYALE) NO. P-ZI-DB0-095 LOAN NO.  
2100150025546 - KENYA NATIONAL HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**587.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**588. Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.141,736,470 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

**Conclusion**

**589.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

**Conclusion**

**590.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**MOMBASA–MARIAKANI HIGHWAY PROJECT LOT 1:  
(MOMBASA-KWA JOMVU) LOAN NO. 2100150032743 - KENYA  
NATIONAL HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**591.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**592. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.3,731,885,451 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

**Conclusion**

**593.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

**Conclusion**

**594.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**IMPROVEMENT OF RURAL ROADS AND MARKET  
INFRASTRUCTURE IN WESTERN KENYA PROJECT CREDIT  
NO. BMZ 2007-65 123 (KFW) – KENYA RURAL ROADS  
AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**595.** There were no material issues noted during the audit of the financial statements of the Project.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**596.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND OVERALL GOVERNANCE**

**Conclusion**

**597.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**KENYA-SOUTH-SUDAN LINK ROAD PROJECT (REF.  
NO.202062065 AND BMZ NO.202083939) - KENYA NATIONAL  
HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**598.** There were no material issues noted during the audit of the financial statements of the Project.



## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**599.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**600.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **TIMBOROA-ELDORET ROAD REHABILITATION PROJECT NO. P-KE-DB0-019 (LOAN NO. 2100150023344) - KENYA NATIONAL HIGHWAYS AUTHORITY**

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**601.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **602. Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.2,644,758 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**603.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**604.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## NAIROBI-THIKA HIGHWAY IMPROVEMENT PROJECT LOT I AND II (CREDIT NO. 2100150015544) - KENYA NATIONAL HIGHWAYS AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**605.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **606. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.279,213,863 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**607.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**608.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**CENTRAL KENYA RURAL ROADS IMPROVEMENT AND  
MAINTENANCE PROJECT (AFD CREDIT NO. CKE 1012 01 B,  
CREDIT NO. CKE 1046 01 J AND CREDIT NO. CKE 1094 01 M) –  
KENYA RURAL ROADS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**609.** There were no material issues noted during the audit of the financial statements of the Project.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**610.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE**

**Conclusion**

**611.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**MULTINATIONAL:ARUSHA-HOLILI/TAVETA-VOI ROAD PROJECT  
LOAN NO.2100150028894 - KENYA NATIONAL HIGHWAYS  
AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**612.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**613. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.198,195,163 as at 30 June, 2019. Although management has committed to

liaise with the line Ministry and The National Treasury for adequate budgetary allocation, timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**614.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**615.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## PORT REITZ/MOI INTERNATIONAL AIRPORT ACCESS (C110) ROAD (FIDIC EPC/TURNKEY BASED) - KENYA NATIONAL HIGHWAYS AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**616.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **617. Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.106,793,758 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**618.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**619.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **PROJECT FOR DUALLING OF NAIROBI - DAGORETTI CORNER ROAD C60/C61 (PHASE 1) - JICA GRANT AGREEMENT NO. 1260210 – KENYA URBAN ROADS AUTHORITY**

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**620.** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**621.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**622.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT CREDIT NO. 4148-KE (IDA) - KENYA NATIONAL HIGHWAYS AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**623.** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **624. Pending Bills**

Note.9 to the financial statements reflects pending bills amounting to Kshs.161,784,366 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**625.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**626.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**SIRARI CORRIDOR ACCESSIBILITY AND ROAD SAFETY  
IMPROVEMENT PROJECT: ISEBANIA-KISII-AHERO (A1) ROAD  
REHABILITATION-CREDIT NO.2000130015238 - KENYA  
NATIONAL HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**627.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**628. Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.1,695,411,275 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**629.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE**

**Conclusion**

**630.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR DEVELOPMENT PROJECT NO. P-ZI-DBO-018 (ISIOLO-MERILLE SECTION) - KENYA NATIONAL HIGHWAYS AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENT**

### **Basis for Qualified Opinion**

#### **631. Unsupported Bank Balance**

The statement of financial assets and liabilities reflects a bank balance of Kshs.18,682,650 as at 30 June, 2019 which is however, not supported by certificate of bank balance. Although Management explained that the project account was closed and the amount transferred to Kenya National Highways Authority (KENHA) GoK Exchequer account, it is not possible to ascertain existence of funds since the GoK exchequer account certificate as at 30 June, 2019 reflects a balance of Kshs.3,169,418,106 which has not been supported by analysis of Projects for which the balance represents.

### **Other Matter**

#### **632. Pending Bills**

The Project reflects pending bills amounting to Kshs.57,675,003 as at 30 June, 2019 under Note 9 to the financial statements. Although the project was completed in July, 2010, the pending bills has remained outstanding and Management has not indicated how they intend to settle the long outstanding bills.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**633.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**634.** There were no material issues relating to effectiveness of internal controls, risk management and governance.



# **NORTHERN CORRIDOR REHABILITATION PROGRAMME PHASE III (ELDORET-TURBO-WEBUYE-MALABA ROAD IMPROVEMENT PROJECT) - KENYA NATIONAL HIGHWAYS AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**635.** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **636. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.552,705,680 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**637.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**638.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **KENYA TRANSPORT SECTOR SUPPORT PROJECT CREDIT NO.4926-KE AND NO.5410-KE– KENYA NATIONAL HIGHWAYS AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**639.** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **640. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.4,259,055,378 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**641.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**642.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**REGIONAL ROADS COMPONENT (MERILLE-MARSABIT ROAD)  
(KE/001/09) PROJECT LOAN AGREEMENT NO. KE/FED/2009/021-  
655 – KENYA NATIONAL HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**643.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**644. Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.403,057,264 as at 30 June, 2019. Although Management has committed to liaising with the line Ministry and The National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

**Conclusion**

**645.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

**Conclusion**

**646.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **NAIROBI MISSING LINK ROADS AND NON-MOTORISED TRANSPORT FACILITIES (GRANT NO. KE/FED/022-951)– KENYA URBAN ROADS AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**647.** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **648. Pending Bills**

Notes 9.1 to the financial statements reflects pending accounts payable totalling Kshs.424,116,845 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**649.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**650.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**KENYA NAIROBI SOUTHERN BYPASS PROJECT LOAN NO.  
CHINA EXIM BANK PBC NO. (2011) 32 TOTAL NO. (183) NO.  
(1420303052011211528) - KENYA NATIONAL HIGHWAYS  
AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**651.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**652. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.3,126,057,307 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

**Conclusion**

**653.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

**Conclusion**

**654.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**KENYA NAIROBI-THIKA HIGHWAY IMPROVEMENT PROJECT  
(LOT 3) GOVERNMENT CONCESSIONAL LOAN AGREEMENT  
NO.(2009) 39 TOTAL NO.(290)– KENYA NATIONAL HIGHWAYS  
AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**655.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**656. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.230,252,472 as at 30 June, 2019. Although Management has committed to liaising with the line Ministry and The National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**657.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE**

**Conclusion**

**658.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT IDA  
CREDIT NO.5140-KE– KENYA NATIONAL HIGHWAYS  
AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**659.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**660. Pending Bills**

The statement of financial assets and liabilities as at 30 June, 2019 reflects cash and cash equivalents balance totaling Kshs.7,728,397 while Note 9.1 to the financial statements discloses pending bills totaling Kshs.847,640,836; (2018-Kshs.839,334,672) owed by the Project as of that date. The Project's duration ended on 31 December, 2018. Although Management has explained that the Authority has requested The National Treasury to allocate funds to pay the pending bills, no evidence has been presented to show if funds have been allocated in the 2019/2020 financial year budget. The bills are therefore likely to remain unpaid.

My opinion is not qualified with respect to this matter.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**661.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE**

**Conclusion**

**662.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT NO. IDA 5140-KE – KENYA URBAN ROADS AUTHORITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**663.** There were no material issues noted during the audit of the financial statements of the Project.

#### **Other Matter**

##### **664. Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.600,233,589 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation, timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**665.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**666.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT IDA CREDIT NO.3930-KE AND NO.4571-KE – KENYA NATIONAL HIGHWAYS AUTHORITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**667.** There were no material issues noted during the audit of the financial statements of the Project.



## **Other Matter**

### **668. Pending Bills**

Note 9 to the financial statements reflects pending accounts payable totalling Kshs.702,771,811 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

### **669. Budget Control and Performance**

The statement of comparative budget and actual amounts reflects total receipts of Kshs.425,918,337 against estimated receipts of Kshs.139,276,985 resulting into excess receipts of Kshs.286,641,352 or 304%. Similarly, the statement reflects actual expenditure totalling Kshs.423,895,396 against estimated expenditure of Kshs.139,276,985 resulting into an over-expenditure of Kshs.284,618,411 or 304% which mainly occurred under acquisition of non-financial assets. The over-expenditure was attributed to late processing of the 2<sup>nd</sup> Supplementary Budget for the year 2017/2018 whose Exchequer releases were received and paid in 2018/2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**670.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**671.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **REGIONAL MOMBASA PORT ACCESS ROAD PROJECT (LOAN NO. 27459, FI NO. 84010 AND GRANT NO. 202061919) – KENYA NATIONAL HIGHWAYS AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**672.** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**673.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**674.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## UPGRADING OF “GILGIL MACHINERY” ROAD PROJECT– KENYA RURAL ROADS AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**675.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **676. Pending Bills**

Annex 2A to the financial statements reflects pending accounts payable totalling Kshs.44,316,541 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties, with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**677.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE

**Conclusion**

**678.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**DUALLING OF NAIROBI - DAGORETTI CORNER ROAD C60/C61  
(PHASE 2)-PROJECT-JICA GRANT NO. 1760220– KENYA URBAN  
ROADS AUTHORITY**

REPORT ON THE FINANCIAL STATEMENTS

**Unqualified Opinion**

**679.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES

**Conclusion**

**680.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE

**Conclusion**

**681.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**KENYA NAIROBI WESTERN BYPASS PROJECT CREDIT NO.  
CHINA EXIM BANK GCL NO. (2017) 28 TOTAL NO. (633)– KENYA  
NATIONAL HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**682.** There were no material issues noted during the audit of the financial statements of the Project.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**683.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE**

**Conclusion**

**684.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**ARUSHA-NAMANGA-ATHI RIVER ROAD DEVELOPMENT  
PROJECT NO. P-Z1-DB0-040– KENYA NATIONAL HIGHWAYS  
AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**685.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**686. Pending Bills**

Note 9 to the financial statements reflects pending bills amounting to Kshs.83,809,765 as at 30 June,2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary

allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**687.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **688. Budget Control and Performance**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts totalling Kshs.152,982,733 against an approved budget of Kshs.56,050,000 hence an over-collection of Kshs.96,932,733 or 273% of the total budget. Further, actual expenditure for the year amounted to Kshs.158,175,831 against a budget of Kshs.56,050,000 resulting in an under expenditure of Kshs.102,125,831 or 282% of the total budget. The over-expenditure occurred mainly under acquisition of non-financial assets. The over-collection and under-expenditure are attributed to carryover funds allocated towards settlement of development pending bills.

## **EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT IDA CREDIT NO.5638-KE – KENYA NATIONAL HIGHWAYS AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**689.** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **690. Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.3,052,886,730 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary

allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**691.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**692.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **ROADS ANNUITY FUND**

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Unqualified Opinion**

**693.** There were no material issues noted during the audit of the financial statements of the Fund.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**694.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**695.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STATE DEPARTMENT FOR TRANSPORT-VOTE 1092**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**696.** There were no material issues noted during the audit of the financial statements of the State Department.

#### **Other Matter**

##### **697. Pending Bills**

Note 15 to the financial statements reflects pending bills balance of Kshs.13,694,139; (2018-Kshs.95,458,484). Had the bills been settled, the reported surplus of Kshs.805,795 would have reduced to a deficit of Kshs.12,888,344. Failure to settle bills in the year for which they relate will adversely affect the implementation of the subsequent year's budgeted programmes as the pending bills form a first charge to that year's budget provision.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**698.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**699.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **DONOR FUNDED PROJECTS**

### **NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT CREDIT NO. 5140-KE (MOT COMPONENT)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**700.** There were no material issues noted during the audit of the financial statements of the Project.

##### **Other Matter**

##### **701. Under Absorption of Project Funds**

Out of the total commitment of Kshs.1,152,400 from International Development Association (IDA), the Project had withdrawn Kshs.935,649,481 or 81% as at 30 June, 2019. Similarly, out of the total commitment from GoK counterpart funding of Kshs.347,600,000, the Project had received only Kshs.97,686,797 or 28%. In view of the funding deficit and with the Project period having lapsed on 31 December, 2018, the strategic goals of the Project may not be fully achieved.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Basis for Conclusion**

##### **702. Procurement of Services**

The Project procured conference facilities at a cost of Kshs.1,800,000 through the request for quotations method of procurement. Although the request was sent to three bidders, only one bidder responded. The single quotation was evaluated and the bidder consequently awarded the contract contrary to Section 106 (2) (d) of Public Procurement and Asset Disposal Act, 2015 which provides that at least three persons shall submit their quotations prior to evaluation and Section III of the Financing Agreement that requires competitive bidding. In addition, no evidence was provided on the procurement procedure followed to identify the resource persons who facilitated the training and who were paid Kshs.1,353,000.

Under the circumstances, the regularity and value for money on the expenditure totalling Kshs.3,153,000 could not be confirmed.



## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**703.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT IDA CREDIT NO. 4148 KE-(MOT COMPONENT)**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Unqualified Opinion**

**704.** There were no material issues noted during the audit of the financial statements of the Project.

#### **Other Matter**

##### **705. Construction of Transport Data Centre**

The State Department of Transport entered into an agreement with a local firm on 30 September, 2014 for supply, installation, testing, commissioning of a Transport Data Centre, networking, software and hardware at a cost of Kshs.130,739,261. The State Department of Transport further entered into another agreement with a local university firm for consultancy services for the establishment of the Transport Data Repository Centre Resolution at a contract sum of Kshs.22,390,000. The consultancy services included; designing of the Transport Data Repository Centre system; preparation of bid documents for supply and installation; supervision and capacity building of staff to man the data centre. The consultancy agreement dated 4 July, 2012 was to run for a period of sixty-four (64) weeks with effect from the commencement/agreement date ending on 25 September, 2013.

A review of the Project in 2018/2019 financial year revealed that the contract agreement had expired. Further, the contractor had not completed the project to warrant the issuance of completion certificate and official hand over of the project. The contractor had been paid Kshs.120,252,245 (92% of the contract sum) while the consultant had been paid Kshs.16,792,500 (75% of the contract sum). In addition, the project had pending bills from the Transport Data Centre contract and the same had not been disclosed in the financial statements. The Project did not, therefore, recognize or disclose its liabilities/pending bills in full.

Under the circumstances, it was not possible to ascertain whether the State Department of Transport obtained value for the total amount of Kshs.137,044,745 paid to the contractor and the consultant.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**706.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**707.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (MOT/KRC COMPONENT) CREDIT NO.4148-KE AND 4977-KE

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**708.** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **709. Undisclosed Value Added Tax (VAT) Pending Bills**

Note.8.8.1 of the financial statements reflects pending bills amounting to Kshs.97,782,181 as at 30 June, 2019. However, detailed analysis of the pending bills was not provided for audit review.

Further, the project status report as at June, 2019 indicated that VAT amounting to Kshs.1,578,916,127 on the completed works remained unpaid. The State Department for Transport, in consultation with The National Treasury and KRA, had been advised to reconcile the outstanding VAT payments on the Project. Although Management has explained that some contractors had taken the issue of exemption or refund of the VAT component to the arbitration tribunal, the

pending VAT payments are not recognized as pending bills nor a disclosure made in the financial statements.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**710.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**711.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA TRANSPORT SECTOR SUPPORT PROJECT CREDIT NO. 4926-KE AND NO. 5410-KE (MOTI COMPONENT)**

## REPORT ON THE FINANCIAL STATEMENTS

### **Unqualified Opinion**

**712.** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **713. Pending Bills**

Annex 2A to the financial statements reflects pending bills totalling Kshs.31,386,582 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **714. Budgetary Over-expenditure**

The statement of comparative budget and actual amounts reflects total receipts of Kshs.130,781,699 against estimated receipts of Kshs.144,358,330 resulting into excess receipts of Kshs.13,576,631 or 10%. Similarly, the statement reflects actual

expenditure totalling Kshs.147,727,720 against estimated expenditure of Kshs.130,781,699 resulting into an over-expenditure of Kshs.16,946,021 or 13% which occurred under purchase of goods and services. The legality of the unapproved over-expenditure of Kshs.16,946,021 could not be confirmed.

#### **715. Ineligible Expenditure**

The Project Management procured various ICT equipments at a total cost of Kshs.3,970,000. However, the total cost of the items procured exceeded the ceiling of Kshs.1,801,600 approved by the World Bank by an amount of Kshs.2,168,400. In the circumstance, the eligibility of the unapproved over-expenditure of Kshs.2,168,400 could not be confirmed.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**716.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT CREDIT NO.3930-KE (MOT COMPONENT)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**717.** There were no material issues noted during the audit of the financial statements of the Project.

##### **Other Matter**

#### **718. Project Closure**

A review of the Project Funding Summary indicates that the Project was to run for a period of eleven (11) years from 2004 to 2015. Management has however, not availed for audit review, documentary evidence to show that the closure process has been initiated and whether the bank balance of Kshs.18,335,645 as at 30 June, 2019 has been refunded to The National Treasury.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**719.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**720.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR TRANSPORT

### NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT CREDIT NO. IDA 5140-KE (KRC COMPONENT)– KENYA RAILWAYS CORPORATION

#### REPORT ON THE FINANCIAL STATEMENTS

##### Unqualified Opinion

**721.** There were no material issues noted during the audit of the financial statements of the Project.

##### Other Matter

##### **722. Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.48,976,777 as at 30 June, 2019. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

##### **723. Low Absorption of Project Funds**

Note 1.7 on the funding summary indicates that the Project was to be implemented within a duration of six (6) years from 2012 to 2018, with a total expected credit of Kshs.1,071,552,600 equivalent to US\$11,930,000. However, only Kshs.117,813,333 or 11% of the total expected credit had been received from the Donor as at 30 June, 2019, leaving a balance of Kshs.953,739,267 or 89% undrawn. No explanation has been provided for the anomaly even though the Project is unlikely to complete its activities and attain its objectives and expected outcomes.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**724.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**725.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## KENYA AVIATION MODERNIZATION PROJECT (PREPARATION ADVANCE NO.V0440) - KENYA AIRPORTS AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**726.** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### **727. Consulting Services for the Rehabilitation of Existing Passenger Terminal Facilities at Jomo Kenyatta International Airport (JKIA)**

The contract for consulting services for provision of preliminary and detailed design for the rehabilitation of existing passenger terminal facilities at JKIA was awarded on 19 April, 2017 at a sum of Kshs.454,337,996 (USD 4,498,396). However, examination of the records availed for audit review, revealed the following unsatisfactory issues:

##### **727.1 Outstanding Claim**

An outstanding claim by the consultant but disputed by Management as at 30 June, 2019 amounted to Kshs.79,799,191 (USD 790,091). Management has indicated the claim as disputed, having been disapproved by the Project steering committee. However, there is no evidence of this having been communicated to the consultant

or subsequent concurrence by the consultant. Consequently, the project is faced with penalties or legal action with the continued delay in settling the account.

## **727.2 Incomplete Works**

The works were certified complete vide completion certificate dated 12 July, 2019. However, information available indicates that design works relating to new baggage reconciliation system and virtual reality valued at Kshs.1,363,500 and Kshs.9,898,000 respectively, were incomplete. Although Management has explained that the incomplete works were not in the original scope of works but incremental proposals, to add value to the designs, failure to include the works in the contract led to the delay in obtaining a No Objection letter from the World Bank. As a result, Management resolved to put on hold the incremental proposals with an intention to procure under a separate contract in future.

In the circumstances, the value for money in implementation of the Project could not be confirmed.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**728.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO. 4926-KE AND 5410-KE) - KENYA CIVIL AVIATION AUTHORITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**729.** There were no material issues noted during the audit of the financial statements of the Project.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**730.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**731.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA TRANSPORT SECTOR SUPPORT PROJECT (CREDIT NO. 4926-KE AND NO. 5410-KE) - KENYA AIRPORTS AUTHORITY**

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **732. Unreconciled Special Account Statement**

The statement of receipts and payments for the year under review reflects grants and loans from development partners of Kshs.190,728,000 and Kshs.27,248,000 respectively as also disclosed under Notes 2A and 2B to the financial statements. However, the Special Account Statement (Part A) prepared by the Central Bank of Kenya reflects nil disbursements from the special account during the year. Management has not reconciled the variance of Kshs.217,976,000 between the two sets of records. Consequently, the accuracy and completeness of the reported balances for grants and loans from development partners of Kshs.190,728,000 and Kshs.27,248,000 respectively cannot be confirmed.

#### Other Matter

#### **733. Pending Bills**

Annex 2A to the financial statements reflects pending bills totalling Kshs.9,123,079 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

#### **734. Low Absorption of Project Funds**

Note 1.7 on the funding summary indicates that the Project was to be implemented within a duration of eight (8) years from 2011 to 2018, with a total expected credit of Kshs.10,038,000,000 equivalent to US\$110,000,000. However, only Kshs.5,395,000,000 or 54% of the total expected credit had been received as at 30 June, 2019, leaving a balance of Kshs.4,643,000,000 or 46% undrawn. Although, a one (1) year extension period to December, 2019 was granted, the



Project is unlikely to complete its activities and attain its objectives and expected outcomes.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 735. Procurement of Fire Fighting Equipment

A contract for the supply of firefighting equipment was awarded to an international firm in January, 2018 at a contract sum of Kshs.209,000,000 through direct procurement. However, the specifications of the equipment to be supplied were varied on 13 October, 2018 - nine (9) months into the contract – contrary to Section 139(4) of Public Procurement and Asset Disposal Act, 2015 which provides that a variation of a contract should only be considered after twelve (12) months from the date of signing the contract and only if specified conditions are met. Under the circumstances, it was not possible to confirm whether public resources were applied in an effective and lawful way.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**736.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## MULTINATIONAL LAKE VICTORIA MARITIME COMMUNICATIONS AND TRANSPORT PROJECT– KENYA MARITIME AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 737. Inaccuracies in the Statement of Receipts and Payments

As disclosed under Note 8.8 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.8,679,671 in respect of purchase of goods and services. However, examination of supporting schedule revealed various discrepancies between the financial statements and schedule which has not be reconciled as detailed below:

No	Components	Financial Statements Amount (Kshs.)	Schedule Amount (Kshs.)	Variance (Kshs.)
1	Domestic travel and subsistence	6,664,814	6,830,559	(165,745)
2	Foreign travel and subsistence	1,151,508	1,133,648	17,860
3	Training payments	556,500	614,800	(58,300)
4	Hospitality supplies and services	298,559	275,400	23,159

In the circumstances, the accuracy and completeness of the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

### **Other Matter**

#### **738. Budget Control and Performance**

The statement of comparative budget and actual amounts reflects on comparable basis an approved receipts budget and actual receipts of Kshs.160,000,000 and Kshs.22,093,000 resulting to under-collection of receipts of Kshs.137,0076,000 or 86.2% of the approved receipts. Similarly, the Project recorded actual expenditure of Kshs.8,680,000 against an approved budget of Kshs.160,000,000 resulting to under-utilization of Kshs.151,320,000 or 94.6% of the approved budget.

Although Management has attributed the huge overall under-collection and under-absorption to delayed completion of project scoping exercise, the dismal performance is indicative of poor planning, ineffective Project's management and weak budget execution process.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis of Conclusion**

#### **739. Opening and Operating an Account Without Approval**

During the year under review, the Management opened and operated a bank account at the Kenya Commercial Bank (Kilindini Branch) for Project related activities. However, the approval by The National Treasury was not provided for audit review contrary to Section 28(1) of the Public Finance Management Act, 2012 which states that 'The National Treasury shall authorize the opening, operating and closing of bank accounts and sub accounts for all National Government entities in accordance with the regulations made under this Act'.

In the circumstances, the Management is in breach of the law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**740.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## RAILWAY DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT)

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **741. Unreconciled Transfers from Government Entities**

The statement of receipts and payments reflects transfer from government entities amount of Kshs.25,635,706,065 which differ with the amount reflected in the Railway Development Levy Fund Holding Account of Kshs.31,999,674,958 maintained by The National Treasury. The difference of Kshs.6,363,968,893 has not been explained or reconciled.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### Conclusion

**742.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**743.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## STATE DEPARTMENT FOR SHIPPING AND MARITIME-VOTE 1093

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 744. Variances Between Financial Statements and Integrated Financial Management Information Systems (IFMIS) Balances

The financial statements presented for audit and IFMIS trial balance presented in support had significant variances amounting to Kshs.1,266,253,221 as detailed below:

<b>Item</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>IFMIS Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Cash and Cash Equivalents	8,332,456	434,421,804	426,089,348
Other Debtors and Prepayments	0	52,941,558	52,941,558
Recurrent Bank Account	5,969,083	341,687,905	335,718,822
Exchequer Releases	247,739,582	699,243,075	451,503,493
<b>Total</b>	<b>262,041,121</b>	<b>1,528,294,342</b>	<b>1,266,253,221</b>

Management has not provided explanations or reconciliations for the variances casting doubt on the accuracy and completeness of the financial statements for the year ended 30 June, 2019.

#### 745. Unconfirmed Motor Vehicle Maintenance Cost

The statement of receipts and payments reflects a balance of Kshs.86,282,596 under use of goods and services which as disclosed under Note 3 to the financial statements includes an expenditure of Kshs.3,784,997 on routine maintenance – vehicles and other transport equipment. The latter balance includes an expenditure of Kshs.1,974,371 on account of motor vehicles repairs to GKA 665V. However, there was no proof of the repairs having been undertaken by way of pre and post repairs report by the engineer, Mechanical and Transport Fund detailing out the nature of repairs to be undertaken and confirmation of works done. Further, the vehicle has continued to remain grounded since July, 2018 casting doubt on whether the repairs were undertaken.

Consequently, the accuracy of the expenditure on use of goods and services of Kshs.86,282,596 for the year ended 30 June, 2019 cannot be ascertained.

## **Other Matter**

### **746. Pending Bills**

As disclosed under Note 14 to the financial statements, the State Department for Shipping and Maritime had pending bills totalling Kshs.674,800 as at 30 June, 2019 that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **747. Contracts Without Performance Security**

During the year under review, the State Department contracted the provision of cleaning, sanitary and security services at contract sums of Kshs.3,250,520 and Kshs.1,760,000 respectively for its offices at NSSF Annex Building. However, there was no performance security from the service providers. This was contrary to Clause 3.6 of the conditions of the contract which stipulated that within thirty (30) days of receipt of the notification of contract award, the successful tenderer shall furnish to the procuring entity the performance security where applicable in the amounts specified in the special conditions of contract.

To the extent, the State Department is in breach of the law.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**748.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT-VOTE 1094**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **749. Unresolved Prior Year Matters**

The following prior year matters which have a bearing on the accuracy of the financial statements for current period remained unresolved as at 30 June, 2019;

##### **749.1 Inaccuracies in the Financial Statements**

###### **749.1.1 Suspense and Clearance Account**

The trial balance presented in support of the financial statements for the comparative period did not balance and had an amount of Kshs.101,740,405 in the suspense and clearance account. The difference has not been investigated nor reconciled. Consequently, the accuracy and completeness of the comparative financial statements balance could not be established.

###### **749.1.2 Cash and Cash Equivalent**

As disclosed under Note 10A to the financial statement, the statement of financial position reflects comparative bank balance of Kshs.307,147,816. The following unsatisfactory observations were made: -

###### **749.1.2.1 Variance in Recurrent and Development Bank Balances**

Included in the comparative bank balance is recurrent and development balance of Kshs.7,034,044 and Kshs.3,703,183 respectively. However, the trial balance presented in support of the financial statements reflects a balance of Kshs.697,948,449 for the recurrent account and Kshs.786,532,000 for the development account resulting to unexplained variances of Kshs.690,914,405 and Kshs.782,828,817 respectively. Further, the bank confirmation certificate as at 30 June, 2018 reflected a balance of Kshs.38,413,152 for the recurrent account and Kshs. 14,944,099 for the development account for which no bank reconciliation statements have been provided to explain the discrepancies.

###### **749.1.2.2 Variance in Deposits Bank Account Balance**

Also included in the comparative bank balance is the deposit account balance of Kshs.296,410,590 whereas the trial balance reflected a balance of Kshs.417,668,946 resulting to unexplained variance of Kshs.121,258,356.

### **749.1.2.3 Cash in Hand and Cash in Transit**

The statement of financial position reflects comparative cash in hand of Kshs.627 while the trial balance in support reflects a balance of Kshs.10,177,007,503 resulting to an unreconciled variance of Kshs.10,177,006,876. Further, the Trial Balance reflects cash in transit balance of Kshs.9,971,930,237 that has been omitted from the financial statements.

In the circumstance, it was not possible to ascertain the completeness and accuracy of the comparative bank and cash balances of Kshs.307,147,816 and Kshs.627 respectively as at 30 June, 2019.

## **749.2 Accounts Receivables**

### **749.2.1 District Suspense and Prepayments**

The trial balance availed for audit included District Suspense and other debtors - pre-payments balances of Kshs.101,740,405 and Kshs.5,742,838 respectively that have not been incorporated in the financial statements.

### **749.2.2 Temporary Imprest**

Note 11 to the financial statements discloses comparative Government Imprests balance of Kshs.2,069,419. However, the trial balance in support reflected a negative balance of Kshs.14,079,569 resulting to a difference of Kshs.16,148,988 which has not been explained or unreconciled.

From the foregoing, the accuracy and fair statement of the comparative accounts receivables balance of Kshs.2,069,419 could not be established.

## **749.3 Accounts Payables**

Note 12 to the financial statements discloses comparative accounts payables balance of Kshs.296,410,591 which varies with the trial balance figure of Kshs.114,124,090 resulting to a difference of Kshs.182,286,501 which has not been explained or unreconciled.

From the foregoing, the accuracy and fair statement of the comparative accounts payables balance of Kshs.296,410,591 could not be established.

## **749.4 Exchequer Releases**

The statement of receipts and payments reflects comparative Exchequer releases amount of Kshs.10,477,169,945 which differs from the trial balance figure of Kshs.10,818,621,490 resulting to unexplained and unreconciled difference of Kshs.341,451,545. Further, supporting documents availed on Exchequer releases were for Kshs.10,150,397,275 while the balance of Kshs.326,772,670 was not supported.

In the circumstances, the accuracy and completeness of the comparative Exchequer releases amounting to Kshs.10,477,169,945 as at 30 June, 2019 could not be ascertained.

#### **749.5 Rent Income**

The statement of receipts and payments reflects comparative rent income of Kshs.156,530,113 while the trial balance in support reflects a nil balance. Further, the rent income declined from Kshs.249,561,252 in 2016/2017 to Kshs.156,530,113 in 2017/2018 with no satisfactory explanation being rendered for the reduction.

In the circumstances, the accuracy and completeness of the comparative rent income for the period ended 30 June, 2019 could not be confirmed.

#### **Other Matter**

#### **750 Budget Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.39,405,937,539 and Kshs.30,991,916,611 respectively resulting to a shortfall of Kshs.8,414,020,828 or 21% of the approved budget.

The revenue under performance may have negatively affected service delivery to citizens due to failure to implement the planned programmes and activities.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **751 Disputed Ownership of Property**

The Department developed and sold a block of apartments on property LR No. 209/3217 located at Nairobi, Kileleshwa - Makueni road, to civil servants who have since taken occupation. Available information indicates that, on 28 June, 2016, the court awarded a claimant to the property Kshs.100,000,000 being compensation for the land. However, the awarded amount which had not been appealed against had remained unpaid as at 30 June, 2019 and accrued interest amounting to Kshs.36,953,342. No explanation has been rendered for failure to adhere to the court order.

The Department is at risk of incurring further interest penalties with the continued breach of the court ruling.



## 752 Abandoned Projects

The State Department has five (5) projects under implementation with a total contract sum of Kshs.639,402,174. The projects had been abandoned as at the time of audit as detailed below:

	<b>Project Name</b>	<b>Scope</b>	<b>Contract Sum (Kshs.)</b>	<b>Status</b>
1.	Construction of Housing Units for National Police and Prison Services - Shimo La Tewa Prison	Construction of 100 Housing units	137,395,968	Abandoned
2.	Construction of Housing Units for National Police and Prison Services - Emali AP Training Camp	Construction of 100 Housing units	136,705,536	Abandoned
3.	Construction of Housing Units for National Police and Prison Services - Kakamega Prison	Construction of 60 Housing units	118,621,630	Abandoned
4.	Construction of Housing Units for National Police and Prison Services - Narok Prison	Construction of 60 Housing units	123,718,295	Abandoned
5.	Construction of Housing Units for National Police and Prison Services - Kajiado Police Post	Construction of 100 Housing units	122,960,745	Abandoned

No measures have been put in place to restart the projects and ensure their logical completion.

In the circumstances, it has not been possible to confirm if and when value for money will be realized from the public funds committed to the five projects.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**753** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **DONOR FUNDED PROJECTS**

### **KENYA INFORMAL SETTLEMENT IMPROVEMENT PROJECT (IDA CREDIT NO.4873-KE)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**754** There were no material issues noted during the audit of the financial statements of the Project.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**755** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**756** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **KOROGOCHO SLUM UPGRADING PROJECT (KENYA-ITALY DEBT FOR DEVELOPMENT SWAP PROGRAMME) CREDIT NO. CN/1246**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**757** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**758** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**759** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## NAIROBI METROPOLITAN SERVICES IMPROVEMENT PROJECT CREDIT NO. 5102-KE

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **760 Unsupported Expenditure - Construction of Ngong Market**

The statement of receipts and payments reflects a total expenditure of Kshs.6,677,711,997 under acquisition of non-financial assets. Included in the amount of Kshs.6,677,711,997, is the cost of constructing Ngong Market in Kajiado County comprising of a five (5) storied building development and upgrading of the existing open-air market to a permanent facility. The cost of the construction could not be determined as supporting documents by way of tender process documents, signed contract and payment vouchers were not availed for audit with Management indicating that the records had been taken by the Ethics and Anti-Corruption Commission.

In the circumstance, it has not been possible to confirm the accuracy and fair statement of the reported expenditure on the acquisition of non-financial assets totalling Kshs.6,677,711,997 for the year ended 30 June, 2019.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### **761 Unremitted Taxes**

Note 9.1 discloses pending accounts payable balance of Kshs.61,146,089; (2018-Kshs.1,028,027,046). Included in the balance are taxes not remitted to the Kenya

Revenue Authority on due dates amounting to Kshs.53,699,245 comprising of Value Added Tax and withholding taxes of Kshs.33,359,529 and Kshs.20,339,716 respectively. The Project Management is, therefore, in breach of the Income Tax Act.

In addition, Management has not provided reasons for non-payment of the pending bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments

#### **762 Retention Bank Account**

As reported previously, the Project retained money amounting to Kshs.752,826,327 for construction works undertaken by the Project to safeguard against shoddy workmanship during the defect liability period. However, contrary to the provisions of Section 28(1) of the Public Finance Management Act, 2012, and Section 151(2)(H) of the Public Procurement and Asset Disposal Act, 2015, no dedicated bank account has been opened for the purposes of receiving retention money as provided for in law.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**763** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA URBAN SUPPORT PROGRAM – IDA CREDIT NO.6134-KE**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **764 Unsupported Transfers to Counties**

As disclosed under Note 8.7A to the financial statements, the statement of receipts and payments reflects transfers to Counties amounting to Kshs.13,318,702,500. However, there was no expenditure returns from the County Governments to show utilization of the funds transferred to them.

Consequently, the accuracy of transfers to Counties amounting to Kshs.13,318,702,500 for the year ended 30 June, 2019 could not be ascertained.

## **Other Matter**

### **765 Pending Bills**

Notes 9.1 and 9.2 to the financial statements reflects pending accounts payable totalling Kshs.131,641,771 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **766 Disbursement of Funds to Counties**

According to Section V (Withdrawal of Credit Proceeds) of the Financing Agreement between the International Development Association (IDA) and the Republic of Kenya, funds were to be disbursed in two (2) tranches. The first tranche was to facilitate formation of County Program Coordination Teams, which, among other responsibilities is to manage the use of Urban Institutional Grants (UIG) and also to provide support to participating County Governments for the formulation of Urban Development Plans including the establishment and operation of Urban Institutional Arrangements such as Charters, Board's administrations and operation of Urban Institutional Arrangements and for the initial preparation of Urban Infrastructure Investments.

However, the first tranche was for Urban Development Grants (UDG) of Kshs.11,464,702,500 which was released to the participating Counties on 10 December, 2018 while the Second tranche for Urban Institutional Grants (UIG) of Kshs.1,854,000,000 was released on 28 June, 2019 meaning that the first tranche released was Urban Development Grants (UDG) instead of Urban Institutional Grants (UIG) contrary to the Financing Agreement.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**767** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **KISUMU URBAN PROJECT - (PROJECT ADVANCE ACCOUNT) – CKE 1035.01.G**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Adverse Opinion**

#### **768 Inaccuracies in the Financial Statements**

##### **768.1 Non- Adherence with the Reporting Framework**

The review of financial statements revealed non-compliance with the International Public Sector Accounting Standards (Cash Basis) reporting framework as roles and responsibilities did not indicate the key qualification for the City Manager. In addition, the summary of overall projects performance did not include physical progress based on outputs, outcomes and impact since project commencement or comments on value for money achievements as required.

##### **768.2 Funding Summary**

The funding summary table at Note 2.2 to the financial statements is inconsistent with the previous year's format. It did not indicate the financial year for the amount received to date and undrawn balance to date. Further, the summary balance reflects the AFD amount received to date as Kshs.3.962 billion yet it had an opening balance of Kshs.1.932 billion and receipts received during the year of Kshs.1.242 billion all totalling Kshs.3.174 billion.

Consequently, the accuracy and validity of the funding summary could not be confirmed.

##### **768.3 Inaccuracies in the Statement of Receipts and Payments**

Total amount withdrawn from the special account during the year was EURO 11,616,240 translating to approximately Kshs.1,347,483,840 at exchange rate of Kshs.116 to the Euro. However, the statement of receipts and payments disclosed an amount of Kshs.1,242,803,200 thus understating it by Kshs.104,680,640. It is not clear whether the AFD funding was received during the year. Further, purchase of goods and services disclosed in the statement of receipts and payments of Kshs.215,736,820 is overstated by Kshs.5,595,720, while acquisition of non-financial assets of Kshs.395,571,657 is overstated by Kshs.294,333. Thus, the surplus for the period of Kshs.625,593,476 is understated by Kshs.5,890,053.

As a result, the accuracy and validity of the statement of receipts and payments could not be confirmed

In addition, the references to Notes to the financial statements were also omitted on the face of the statement of receipts and payments.

#### **768.4 Inaccuracies in the Statement of Financial Assets**

The statement of financial assets as at 30 June, 2019 had the following anomalies:

-

- i) The bank balance disclosed at Kshs.669,144,199 is understated by Kshs.4,517,540 since the Management cancelled a cheque of a similar amount but did not proceed to reverse the entire transaction from the books of accounts.
- ii) Accounts receivables - imprest and advances of Kshs.282,800 was not supported by payment vouchers in the Project cashbook, thereby resulting to an overstatement of Kshs.282,800.
- iii) Fund balance brought forward of Kshs.45,351,614 is at variance with the reconciled cash book balance brought forward of Kshs.42,205,209, resulting to an overstatement of fund balance brought forward by Kshs.3,146,405.
- iv) The financial assets of Kshs.669,426,999 are not equal to the fund balance shown as Kshs.670,945,090 by an unexplained variance of Kshs.1,518,091.
- v) Notes 8.13A to 8.15 in the statement of financial assets are not provided to support the figures in the face of the statement.

Consequently, the accuracy of the statement could not be confirmed.

#### **768.5 Inaccuracies in the Statement of Cash Flows**

The following anomalies were observed:

- i) Cash and cash equivalents at the end of the period of Kshs.723,901,685 is overstated by Kshs.54,474,686 when compared with the figure of Kshs.669,144,199 reflected in the statement of financial assets as at 30 June, 2019.
- ii) The net increase of cash and cash equivalent of Kshs.681,696,476 is overstated by Kshs.50,239,947.
- iii) The net increase in cash and cash equivalent of Kshs.681,696,476 differs with the net surplus figure of Kshs.625,593,476. The difference of Kshs.56,103,000 is not explained nor supported.

Consequently, the accuracy of the statement of cash flows is in doubt.

In view of the foregoing, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be ascertained.

## **769 Unsupported Expenditure on Purchase of Goods and Services**

Included in the purchase of goods and services figure of Kshs.215,736,828 is a payment of Kshs.19,033,440 made to SOFRECO for Technical Assistance Team (TAT) offered to Kisumu Urban Project (KUP) for consultancy vide cheque No.451 against invoice No.18252-008 dated 4 July, 2018 equivalent to Euros 104,350. However, the following anomalies were noted:

- i. Three letters dated 4 April, 2017, 26 April, 2017 and 18 May, 2017 were written to SOFRECO complaining of the absence of the TAT's, long after a 20% advance payment of the contract sum was made as per the contract. This has in turn slowed down implementation of projects.
- ii. Despite several correspondences between KUP and SOFRECO, there has been no response from SOFRECO explaining the reason for breach of contract.
- iii. There was neither a validation report provided nor a TAT inventory (to show the presence and availability of the TAT's) in the year under review, to regularize the payment. It was therefore not possible to ascertain whether the payment made was for services that were offered.
- iv. An Addendum No.1 dated July 2017 (adjustment of tax and replacement of key experts) was made between KUP and SOFRECO adjusting the total contract sum to Euros 2,087,000 to cater for all local taxes, fees, levies and other impositions levied under the applicable law. The client was in turn to withhold and pay to the concerned local administration on behalf of the consultant. The breakdown of additional taxes of Euros 417,400 was not provided. Furthermore, the addendum was not signed by both parties.

Under the circumstances, it has not been possible to confirm the propriety of the expenditure of Kshs.19,033,440 for the year ended 30 June, 2019.

### **Other Matter**

## **770 Budgetary Performance**

Approved budget was not provided to support the original budget figure of Kshs.2,478,671,465, adjustments on original budget of Kshs.1,037,781,723 and the final budget figure of Kshs.1,440,889,742.

Consequently, the accuracy and validity of budget statement could not be confirmed.

## **771 Under Absorption of Budgeted Funds for Acquisition of Non-Financial Assets**

An analysis of the statement of comparative budget and actual amounts attached to the financial statement revealed that the entity had planned to spend



Kshs.927,519,434 in the acquisition of non-financial assets but spent only Kshs.395,571,657 thus leaving a balance of Kshs.531,947,777 unutilized. The entity under-spent by fifty-seven (57%) percent on acquisition of non-financial assets component denying Kenyan citizens services.

## **772 Progress on Follow up of Auditor Recommendations**

Progress on follow up of previous year's auditor recommendations did not include action taken to address the following issues: wastage of funds, floodlight relocation, delay in projects implementation, pending bills, budget performance, invalid transactions, unsupported receivables from related parties, and unapproved KUP operations manuals. No explanation has been provided for the anomaly.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **773 Late Submission of Financial Statements**

The Project's financial statements were submitted to the Office of the Auditor-General for audit on 9 October, 2019. The advance account failed to meet the statutory deadline set for 30 September, 2019. No authority for exemption or reason leading to late submission was provided.

#### **774 Roads and Hospital Constructions**

##### **774.1 Construction of Car Wash-Sije Road**

During 2016/2017 financial year, the City of Kisumu through the Kisumu Urban Project proposed to construct to bitumen standard 2.12kms Car Wash-Sije Road. The proposed project was advertised in the local dailies, as per the tender minutes opening minutes of 14 December, 2016 and two (2) firms bided for the above works. The tender evaluation minutes of January, 2017, recommended an engineering works company for the award of the contract at a sum of Kshs.97,166,159 being the lowest responsive bidder. The donor (AFD) gave a no objection for the Project vide an email on 4 April, 2017.

A letter of award notification was on 4 May, 2017 issued to the contractor to carry out the above works, while the contract agreement was dated 5 July, 2018. The donor (AFD) gave no objection on the draft contract vide their email of 3 July, 2018.

The contract period was expected to be forty (40) weeks from 19 July, 2018 to 25 April, 2019. The expenditure records indicated that a total of Kshs.18,850,235 had been paid. However, examination of the payment vouchers, project files and

physical verification of the project on 7 November 2019, revealed the following anomalies:

- i. Audit review of the tender opening minutes revealed that five (5) members who were present did not initial each page of the tender opening minutes contrary to Section 78 (11) of the Public Procurement and Asset Disposal Act, 2015.
- ii. On 9 April, the contractor requested for an extension of the contract period by 220 days but no documentary evidence was availed to confirm whether the request for the extension was approved.
- iii. The advance payment bond and performance guarantee No. MD1824779231 and MD1824753691 had expired on 04 March, 2019 and 04 September, 2019 respectively and had not been renewed.
- iv. The Project implementation status report of 30 June, 2019 indicated that the works were eighteen percent (18%) complete.
- v. There is an ongoing court case stopping the demolition of Young Generation Centre hence expansion of the road along that section measuring about seventy (70) meters could be hindered.
- vi. Physical verification of the Project revealed that the contractor was on site and carrying out the works although at a slow pace and therefore, unlikely to complete the works in the stipulated time.

#### **774.2 Proposed Completion of Low Volume Access Roads - Tender No. CCK/KUP/W/4/2018/037**

During 2018-2019 financial year, the City of Kisumu through the Kisumu Urban Project proposed to complete low volume access roads. A local company was recommended for the award of the contract being the lowest responsive evaluated bidder at a contract sum of Kshs.63,687,970. The contract was awarded on 01 November, 2018 but the contract agreement was not availed for audit review.

Audit of expenditure of 2018/2019 financial year reflected a total of Kshs.11,518,321 had been paid out to the contractor. However, examination of the payment vouchers, project files and physical verification of the project on 07 November, 2019, revealed the following anomalies:

- i. Audit review of the tender opening minutes revealed that five (5) members who were present did not initial each page of the tender opening minutes contrary to Section 78 (11) of the Public Procurement and Asset Disposal Act, 2015.

- ii. The performance security that the contractor provided from a local bank was valid up to 28 July, 2019 hence it had already expired yet the contractor had done 16% of the works as at 30 June, 2019.
- iii. On 10 August, 2019, the contractor requested for extension of contract period for three (3) months from 30 September, 2019 to 31 December, 2019, which approval had not been granted.
- iv. On 17 October, 2019 the city engineer noted that the contractor could not complete the works within the three (3) months extension period requested for due to the slow pace and poor workmanship.

Physical verification of the roads indicated the following:

#### **774.2.1 Kemri-Otonglo-Tiengere-Rota Road**

The road was about four (4) KM and the following anomalies were noted;

- i. Poor workmanship in the drainage works in all the sections along the road was noted and some sections of the murram had been cut off by floods.
- ii. Poor workmanship in stone pitching was noted and some sections were falling off.
- iii. There was an electric pole in the middle of the road and no explanation was provided why it was left intact.
- iv. Construction works of the bridge/box culvert had been abandoned.
- v. The contractor was not on site and the site office had been abandoned.

Consequently, the value for money and the regularity of the expenditure could not be confirmed.

#### **774.2.2 Western-Namthoe Road (800m)**

The following anomalies were observed;

- i. No drainage covers had been installed on top of the drainage channels and drainage works were incomplete.
- ii. No major works were on going and only three casual laborers were on site and the site office was closed.
- iii. The contract period had lapsed and no evidence was available to show if the contract period had been extended.

### **774.3 Proposed Extension of Lumumba Health Centre Phase 1 - Tender No. CCK/KUP/W/5/2017/042**

During 2017-2018 financial year, the City of Kisumu through the Kisumu Urban Project proposed for the extension of Lumumba Health Centre Phase 1 and fourteen (14) firms bided for the above works. A local company was awarded the contract at a sum of Kshs.113,899,049 being the lowest responsive bidder.

Examination of the expenditure records indicated that a total of Kshs.58,268,637 had been paid and the following anomalies were noted:

- i. Audit review of the tender opening minutes revealed that five (5) members who were present did not initial each page of the tender opening minutes contrary to Section 78(11) of the Public Procurement and Asset Disposal Act, 2015
- ii. As per the progress report of 30 June, 2019, the Project was substantially complete but external works (furniture, landscaping, boundary fencing, incinerator, driveways and parking) were incomplete.
- iii. The contract period was unknown because no monthly progress reports and contract agreement was made available for our audit review.

### **774.4 Construction of Impala-Dunga-Nanga-Five Ways Road**

During 2016/2017 financial year, the City of Kisumu through the Kisumu Urban Project proposed to construct to bitumen standard Impala-Dunga-Nanga-Five Ways road. A construction company was awarded the contract at a sum of Kshs.301,145,590, being the lowest responsive bidder. The contract was expected to be completed within twelve (12) months from 13 April, 2018 to 12 April, 2019.

Expenditure records and Project files revealed that a total of Kshs.133,558,585 had been paid. However, the following observations were noted during a physical verification of the Project on 6 November, 2019:

- i. Audit review of the tender opening minutes revealed that five (5) members who were present did not initial each page of the tender opening minutes contrary to Section 78(11) of the Public Procurement and Asset Disposal Act, 2015
- ii. On 22 May, 2019, the contractor requested for an extension of the contract period and an extension of 78 days up to 30 June, 2019 was approved by the engineer. However, approval by the Tender Evaluation Committee and a no objection from the Donor were not availed for audit review.
- iii. On 15 March, 2019, the consultant requested the city manager for authority to expend contingency funds totalling Kshs.27,440,877 but no evidence

was availed that the Tender Evaluation Committee approved use of the contingency amount.

- iv. Site meeting minutes No. 15 held on 17 July ,2019 indicates that the contractor had only carried out 38.62% overall physical progress even though the extended contract period had expired on 30 June, 2019.
- v. No explanation was availed on why the notification of award was dated 7 May, 2017 while the contractor accepted to carry out the works on 6 May, 2016.
- vi. On 19 July, 2018, the city manager requested the Public Procurement and Regulatory Authority (PPRA) for advice on the contract for the extension of Impala-Dunga-Nanga-Five Ways Road which was to be 4.5kms. On 4 October, 2019, the city manager also requested the Director Kenya Wildlife Service to allow the contractor to complete a section of the road measuring about 0.098KM. No response has been received to date .
- vii. Physical verification of the Project on 6 November, 2019 revealed that the contractor was on site and the works were around eight five (85%) percent complete.

#### **774.5 Construction of Family Planning-Naselica Roads - Lot 5 Bid Number CCK/KUP/W/5/2014/050**

During 2016-2017 financial year, the City of Kisumu through the Kisumu Urban Project proposed to construct bitumen standard Family Planning-Naselica Roads. A contract was awarded to a construction company at a contract sum of Kshs.15,803,864, being the lowest responsive bidder and the Donor (AFD) gave a no objection on 6 August, 2018. The contract was expected to be completed within twenty-six (26) weeks from 27 August, 2018 to 25 February, 2019.

A review of expenditure records indicated that a total of Kshs.2,243,514 was paid on 20 March, 2019. However, examination of the payment vouchers, project files and physical verification of the Project on 7 November, 2019, revealed the following observations:

- i. Audit review of the tender opening minutes revealed that five (5) members who were present did not initial each page of the tender opening minutes contrary to Section 78 (11) of the Public Procurement and Asset Disposal Act, 2015.
- ii. On 19 June, 2019, the consultant recommended for the extension of the contract period by 114 days from 9 May, 2019 to 31 August, 2019. However, approval for the extension by Tender Evaluation Committee and a no objection from the Donor were not availed.

In addition, on physical verification of the road on 7 November, 2019, the following anomalies were noted:

- i. A hundred (100) meters of the road had not been fitted with gabbros (towards Khetias).
- ii. Stone pitching was done halfway and was incomplete.
- iii. No drainage works had been done in some sections of the road.
- iv. There were complaints from the owners of the buildings along the road that during the rainy periods, their business premises were getting flooded. The contractor did not therefore do quality work in the drainage system.
- v. The contractor was not on site and the site office was closed.

#### **774.6 Construction of Nairobi Road-Nyamasaria KFW Primary School-Sije Road - Lot 4 CCK/KUP/w/3/2014/047**

During 2016-2017 financial year, the City of Kisumu through the Kisumu Urban Project proposed to construct the Nairobi Road-Nyamasaria KFW Primary School-Sije Road to bitumen standard. A construction company was awarded the contract at a sum of Kshs.99,489,639 and the contract was expected to take nine (9) months from 15 January, 2018 to 14 October, 2018.

The audit review of 2018/2019 financial year expenditure records indicated that payments totalling Kshs.37,709,203 had been paid and a physical verification of the Project on 7 November, 2019, revealed the following:

- i. Audit review of the tender opening minutes revealed that five (5) members who were present did not initial each page of the tender opening minutes as contrary to Section 78 (11) of the Public Procurement and Asset Disposal Act, 2015.
- ii. On 16 May, 2019, the contractor requested for extension of the contract period which was approved by the consultant on 21 May, 2019 whereby the contract period was extended to 27 September, 2019.
- iii. On 12 July, 2018, the project engineer requested the city manager for authority to use a contingency amount of Kshs.8,792,315 but no evidence was availed as to whether the Tender Evaluation Committee approved the use of the contingency sums.

In view of the circumstances, the value for money and propriety of expenditure is in doubt.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**775** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## KISUMU URBAN PROJECT (CASH EXPENDITURE FUND) – CREDIT NO. CKE 1035.01.G

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Disclaimer of Opinion

#### **776 Financial Statements**

##### **776.1 Failure to Properly Identify the Reporting Period**

The statement of financial assets presented for audit indicate that it was drawn as at 30 June, 20XX instead of as at 30 June, 2019. Similarly, the statement of receipts and payments, and statement of cash flows are for the period ended 30 June, 20XX instead of for the period ended 30 June, 2019. This is contrary to the requirements of the revised annual reports and financial statements reporting template issued on 30 June, 2019 by the Public Sector Accounting Standards Board (PSASB).

##### **776.2 Failure to Indicate Approval Date of Financial Statements**

The financial statements for the year 2018/19 presented for audit had no approval date contrary to Treasury Circular Ref PSASB 1/12/Vol.1/44 of 25 June, 2019 on revised annual financial reporting templates which requires that the financial statements are approved, dated and signed.

##### **776.3 Incomplete Disclosure of the Financial Statements**

The objective of the Project is not stated under Project information and overall performance section of the Financial Statements. Further, the progress on follow-up of the Auditor-General's recommendations is not accurate since no audit evidence had been availed for audit verification by the time of the audit. In addition, Management has not specified the action taken to address the issues raised in the report for the year ended 30 June, 2018.

##### **776.4 Late Submission of the Financial Statements**

Section 47(1) of Public Audit Act, 2015 requires Management to prepare and submit financial statements for audit within three (3) months after the end of each financial year. However, the Project Management submitted the financial

statements for audit on 9 October, 2019 contrary to the stipulated required date, on or before 30 September, 2019. Management was therefore in breach of the law.

## **777 Trial Balance**

The annual report and financial statements presented for audit were not accompanied with a trial balance. Consequently, the accuracy and completeness of the figures presented in the financial statements and notes to the financial statements could not be confirmed.

## **778 Purchase of Goods and Services**

### **778.1 Unsupported Payments**

Included in Note 1.5 to the financial statements is purchase of goods and services totalling Kshs.6,753,745. The amount includes travelling and subsistence allowances amount of Kshs.2,224,870, out of which an amount of Kshs.267,820 was not supported by payment schedules. Further, included in the purchase of goods and services amount was an amount of Kshs.1,427,303 in respect to Kisumu Urban Project secretariat expenses. Out of this figure, an amount of Kshs.204,762 was not supported by payment schedules. In addition, included in purchase of goods and services balance of Kshs.6,753,745 were various payments totalling Kshs.2,687,628 which were not supported with documentary evidence like payment vouchers and travel tickets as required.

As a result, the propriety of purchase of goods and services expenditure of Kshs.6,753,745 could not be ascertained as at 30 June, 2019.

### **778.2 Unaccounted for Purchases**

During the year under review, a local firm was paid Kshs.628,827 for the supply of stationery and office accessories. However, examination of the stores receipt voucher (S13) and stores issue vouchers (S11) revealed that supplies amounting to Kshs.263,000 were not received in the stores nor issued out.

Under the circumstances, the propriety of the expenditure of Kshs.263,000 could not be ascertained.

## **779 Cash and Cash Equivalents**

### **779.1 Cash at Hand and at Bank**

The statement of financial assets reflects a cash and cash equivalents credit balance of Kshs.254,364 composed of an overdrawn bank balance of Kshs.248,721 and an overdrawn cash at hand balance of Kshs.5,643. On the other hand, Note 1.6 to the financial statements, reflects a net cash and cash equivalent balance of (Kshs.936) made up of a debit bank balance of Kshs.4,707 and a credit



cash at hand balance of Kshs.5,643 as at 30 June, 2019. In addition, the actual cash at hand balance could not be confirmed as a board of survey cash count certificate as at 30 June, 2019 was not provided. Further, offsetting of cash and cash equivalents by a credit balance is contrary to paragraph 48 of the International Public Sector Standards (IPSAS) 1 on presentation of financial statements, which requires that assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.254,364 as at 30 June, 2019 could not be confirmed.

## **779.2 Unsupported Imprest**

The statement of financial assets reflects a balance of Kshs.6,263,663 as outstanding imprest and advances. However, this figure could not be confirmed as imprests schedules and warrants were not produced for audit. Further, examination of the imprest register revealed that it was not updated with imprests issued and surrendered during the financial year. In addition, Note 1.7 to the financial statements reflects a nil balance under outstanding imprest and advances.

Consequently, the accuracy and completeness of the outstanding imprest and advances balance of Kshs.6,263,663 as at 30 June, 2019 could not be ascertained.

## **780 Receipts**

### **780.1 Stale Cheques**

The statement of receipts and payments reflects receipts amounting to Kshs.6,387,917 which included an amount Kshs.486,670 in respect of stale cheques. Further, it was observed that most of the stale cheques were issued to members of staff in form of imprest to undertake official duties. No reason was provided as to why members of staff held the cheques till past their validity period. Recognition of stale cheques as revenue is contrary to the accounting principle of prudence which requires that revenue should not be overestimated nor expenses underestimated. Stale cheques should be reversed in the cash book during bank reconciliation process.

### **780.2 Understatement of Amount Received**

Paragraph 1.6 on the Project Funding Summary indicates a total amount of Kshs.50,545,119 received as at 30 June, 2019. However, when the amount of Kshs.5,901,247 received in the current financial year is added to the balance brought forward of Kshs.48,845,119 as reported in 2017/18 financial year, the total

amount received as at 30 June, 2019 adds up to Kshs.54,746,366 resulting to unexplained difference of Kshs.4,201,247.

#### **781 Misstated Fund Balance Brought Forward**

The statement of financial assets reflects a fund balance amount of Kshs.6,883,855.00 brought forward from the previous year. However, the corresponding Note 1.8 reflects a nil balance brought forward from 2017/18 financial year casting doubt on the accuracy of the statement of financial asset as at 30 June, 2019.

#### **782 Pending Bills**

Annex 2A attached to the financial statements reflects pending bills amounting to Kshs.2,161,857. However, the pending bills were not disclosed in the notes to the financial statements under “other important disclosures” as required by the revised annual reports and financial statements reporting template issued on 30 June, 2019 by the Public Sector Accounting Standards Board (PSASB).

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**783** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**784** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

# **CIVIL SERVANTS HOUSING SCHEME FUND**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **785 Unsupported Payments for Machakos Project**

The statement of financial performance reflects general expenses of Kshs.37,735,391. A review of payment vouchers relating to the Fund housing project located in Machakos Town revealed that payments totalling Kshs.10,639,982 were not adequately supported with schedules and signed agreements.

In the absence of the supporting documents, the propriety of the expenditure of Kshs.10,639,982 could not be confirmed.

### **Other Matter**

#### **786 Unresolved Prior Year Matter - Cash and Cash Equivalents**

As previously reported, the cash and cash equivalents balance as at 30 June, 2018 had unreconciled balances which have remained unresolved as at 30 June, 2019. There were unbanked receipts of Kshs.201,183,649, out of which receipts amounting to Kshs.37,454,290 were aged more than one year. Further, payments in the bank statement but not in the cash book amounted to Kshs.31,553,576 while payments in the cash book but not in bank statement amounted to Kshs.180,596,212, of which Kshs.16,911,231 related to the periods before 30 June, 2017.

In the circumstance, it has not been possible to confirm the accuracy and completeness of the reported cash and cash equivalents balance of Kshs.3,580,219,336 as at 30 June, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**787** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**788** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STATE OFFICERS HOUSE MORTGAGE SCHEME FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**789** There were no material issues noted during the audit of the financial statements of the Fund.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**790** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**791** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA SLUM UPGRADING LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND (KENSUF)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**792** There were no material issues noted during the audit of the financial statements of the Fund.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**793** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**794** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# STATE DEPARTMENT FOR PUBLIC WORKS-VOTE 1095

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 795 Unresolved Prior Year Issues

The following prior year issues that have impact on the accuracy of current period financial statements were outstanding as at 30 June, 2019: -

##### 795.1 Inaccuracies in the Financial Statements

The cash and bank and the payables balances reflected in the statement of financial position as at 30 June, 2018 differed with the balances reflected in the trial balance as tabulated below:

Item	Financial Statements (Kshs.)	Trial Balance (Kshs.)	Variance (Kshs.)
<b>Cash and Bank</b>			
Recurrent Account	1,821,467	(757,611,463)	759,432,930
Development Account	368,986	(1,353,408,928)	1,353,777,914
Deposit Account	629,570,230	880,726,524	(251,156,294)
Cash in Hand	40,314	1,634,718,693	-1,634,678,379
Cash in Transit	0	813,558,475	(813,558,475)
<b>Payables</b>			
General Deposits	629,211,010	635,418,037	(6207027)
Salary Deductions	3,700	0	3700
Withholding Tax	0	1,702,309	(1,702,309)
VAT	0	3,332,884	(3,332,884)
Cash Clearing	0	495,341,767	(495,341,767)
System Liabilities	0	46,649,715	(46,649,715)
Imprest		227,100	(227,100)

The variances have not been reconciled. Consequently, the accuracy and fair statement of the 2018/19 financial statements comparative balances could not be established.

##### 795.2 Cash and Cash Equivalents

The bank reconciliation statement presented in support of the reported cash and cash equivalents balance of Kshs.631,800,997 had the following inconsistencies:

###### 795.2.1 Recurrent Bank Account

Reflected in the bank reconciliation statement for the recurrent bank account under payments in cash books but not in bank statement (unpresented cheques), were stale cheques totalling to Kshs.2,660,483 which had not been written back.

Further, no explanation has been provided or action taken to clear payments in bank but not posted in the cash book amounting to Kshs.3,188,624 and unbanked receipts of Kshs.1,724,899. Further, the bank reconciliation statement reflects a balance of Kshs.1,190,399 described as closing balance undercast whose validity could not be established.

#### **795.2.2 Development Bank Account**

The bank reconciliation statement for the development bank account included unbanked receipts amounting to Kshs.5,537,584 and stale cheques amounting to Kshs.5,585,081 which had not been written back into the cash book. No explanation was provided as to why the payments had not been reversed in the cash book and how the unbanked receipts were accounted for.

#### **795.2.3 Deposit Bank Account**

The bank reconciliation statement for the deposit bank account included payments in cash book but not in bank statement amounting to Kshs.10,640,280 out of which Kshs.600,000 related to an unsupported cash book error adjustment. The accuracy of the reconciliation was therefore in doubt.

#### **795.2.4 Cash in Hand**

Note 9B to the financial statements reflects a comparative cash in hand balance of Kshs.40,314 whereas the Trial Balance in support reflected a balance of Kshs.2,448,277,169 resulting to an unexplained difference of Kshs.2,448,236,855.

In the circumstance, it has not been possible to confirm the completeness and accuracy of the reported cash and cash equivalent balance of Kshs.725,780,997.

### **Other Matter**

#### **796 Pending Bills**

Notes 15.1 and 15.2 to the financial statements reflect pending bills totalling to Kshs.526,694,677 as at 30 June, 2019. Failure to settle bills in the year to which they relate distorts the financial statements for the year and also affects the budgetary provisions for the subsequent year. Further, the supporting documents provided for the pending staff payables were inadequate.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **797 Construction Projects**

A number of sampled projects being undertaken by the State Department were behind schedule leading to penalties due to delays in settlement of contractors' payments as detailed out below: -

### **797.1 Completion of Voi Pool Housing Contract**

The proposed completion of Voi Pool Housing contract was awarded at a contract sum of Kshs.747,290,699 for a contract period of one hundred and four (104) weeks commencing 1 December, 2012. The estimated completion date of 30 November, 2014 was later revised to 31 December, 2019. However, as at 30 June, 2019 the works progress was at 40% clearly indicating that the project was behind schedule. Further, an amount of Kshs.19,479,450 had already been incurred on interest payments due to late settlement of certified works.

### **797.2 Completion of Lamu Police Station and Management Housing**

As reported previously, the proposed completion of Lamu Police Station and Management Housing project was awarded at a contract sum of Kshs.615,848,997, for a duration of seventy-two (72) weeks with the estimated completion date of 19 February, 2014 which was later revised to 19 January, 2017. However, the progress report dated 14 December, 2017 indicated that Kshs.267,196,753 representing 46% of the contract sum had been certified and that the project was behind schedule as at 30 June, 2017. Further, Kshs.12,952,170 had been incurred on interest on payments due to late settlement of certified works. Management did not avail any progress reports on the project and it was not possible to ascertain the status of the Project as at 30 June, 2019.

### **797.3 Construction of Mathare Nyayo Hospital**

As reported previously, the Project was awarded at a contract sum of Kshs.1,212,414,732 for a duration of one hundred and fifty-six (156) weeks. The expected completion date was 27 August, 2015. The contractor was granted an extension of time of seventy-six (76) weeks ending 27 December, 2018. However, the Project progress report as at 18 May, 2019 indicated that the value of work done was 56% of the contract sum and the payment certificate for valuation No. 20 dated 11 July, 2017 reflected Kshs.46,570,658 being interest on delayed payments. Further, the Project Management expenses of Kshs.25,294,298 had exceeded the contracted Bill of Quantities amount of Kshs.16,413,600 by Kshs.8,880,698 which has not been explained.

### **797.4 Kenya Institute of Business Training Contract**

As previously reported, the contract was awarded at a sum of Kshs.629,909,101 (later revised to Kshs.767,533,439) for a duration of one hundred and fifteen (115) weeks ending 28 June, 2011. The Project was completed and handed over on 16 September, 2018. However, interest on delayed payments amounting to Kshs.16,676,563 had been incurred.

### **797.5 Proposed Headquarters for Nyandarua County at Ol Kalou**

The contract was awarded at a sum of Kshs.617,644,564 for a contract duration of 104 weeks beginning 16 March, 2017 and ending on 23 May, 2019, and was



terminated on 25 March, 2019 at a completion stage of 16%. At the time of termination, payments amounting to Kshs.101,623,125 had already been made to the contractor of which Kshs.13,078,306 was for lifts installation for a structure that stalled at the foundation level. Further, the contractor had filed claims amounting to Kshs.112,871,385 for idle labor and removal of equipment which Management indicated was under arbitration.

#### **797.6 Nyanza Headquarters Phase II**

The above contract was awarded on 17 May, 2010 at a contract sum of Kshs.508,579,213 (later revised to Kshs.624,761,082) for a duration of 16 weeks starting 17 May, 2010 and ending on 8 August, 2011. The total payments of Kshs.624,761,082 as at 30 June, 2019, included Kshs.13,390,187 for materials stolen on site, fluctuations of Kshs.20,000,000 and Kshs.76,618,367 being interest on late payments. Although the building was occupied and the contract sum paid in full, the completion status could not be established as the final and handing over certificates were not provided.

#### **797.7 Proposed Completion Works at Kagumo Teachers Training College**

The contract was awarded on 14 February, 2012 at a contract sum of Kshs.170,300,000 for a contract duration of 68 weeks ending on 31 July, 2013. However, as at 30 June, 2019, the Project was 20% complete with Kshs.30,984,685 having been paid. Further, the contractor was not on site and the project had stalled.

From the foregoing, the Projects are behind schedule and the likelihood of cost escalations is high. Further, no satisfactory explanations have been provided for the delays in completing the projects and in settlement of contractor payments. Consequently, it has not been possible to confirm whether public resources have been used in an effective manner.

#### **798 Irregular Contracts for Construction of Bridges**

As reported previously, included in the acquisition of assets balance of Kshs.473,284,876 reflected in the statement of receipts and payments for the period ended 30 June, 2018 is an amount of Kshs.48,110,666, paid out for the construction of bridges in several regions in the country. The works were procured through restricted tendering contrary to the provisions of Section 54(2) of the Public Procurement and Disposal Act, 2005 that requires such procurements to be undertaken through open tender.

To the extent, the State Department is in breach of the law.

#### **799 Competitiveness of Service Contracts**

A scrutiny of contract documents maintained by the State Department showed that the State Department did not initiate procurement process for expiring contracts of

cleaning and security services in a timely manner. As a result, the contracts that had run for two years from January, 2017 to January, 2019 were extended for a period of six (6) months and the service providers were still providing the services as at the time of audit in October, 2019 without evidence of a competitive procurement process. In this circumstance, it has not been possible to confirm whether the department received value for money on payments totalling to Kshs.5,164,008 made on the extended contracts as at 30 June, 2019.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**800** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STORES AND SERVICES FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Disclaimer of Opinion**

##### **801 Lack of Underlying Records and Budget**

As reported in the previous year, the Fund did not avail for audit review, the underlying records used to prepare the financial statements by way of budget, ledgers and trial balance. In addition, the financial statements prepared and presented for audit did not comply with the Public Sector Accounting Standards Board (PSASB) reporting framework as they did not include the statement of comparison of budget and actual amounts, contrary to the provisions of the Public Sector Accounting Standards Board (PSASB) and paragraph 24 of the International Public Sector Accounting Standards (IPSAS).

Consequently, it was not possible to confirm the accuracy and completeness of the financial statements.

##### **802 Inventories**

###### **802.1 Lack of Acknowledgement of Stocks**

As disclosed in Note 10 to the financial statements, the statement of financial position reflects inventories balance of Kshs.197,048,168; (2018-Kshs.130,736,547). The balance is net of stock valued at Kshs.5,138,117 transferred to the regional offices at Kisumu and Kisii of Kshs.3,162,689 and Kshs.1,975,428 respectively in 2018. However, the returns acknowledging receipt

and utilization of the inventories at the regional offices were not available for audit review.

Consequently, the accuracy and fair statement of inventories balance of Kshs.197,048,168 as at 30 June, 2019 could not be confirmed.

### **802.2 Doubtful Surplus for the Year**

As previously reported, the statement of financial performance reflects revenue from exchange transactions - sale of goods of Kshs.488,800 against a nil expenditure resulting into net surplus of Kshs.488,800. However, there was no matching of revenue and expenditure as required by the matching concept.

In the circumstance, the accuracy and validity of the reported net surplus of Kshs.488,800 for the year ended 30 June, 2019 could not be confirmed.

### **803 Cash and Cash Equivalents**

As disclosed in Note 8 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.9,804,190;(2018-Kshs.6,847,025). However, the following unsatisfactory issues were noted: -

#### **803.1 Cash in Transit**

Included in the cash and cash equivalents balance of Kshs.9,804,190 is Kshs.377,860 reflected as cash in transit that has been outstanding since 2016/2017 and is unsupported.

#### **803.2 Unreconciled Balances**

The cash book in support of the cash and cash equivalents balance of Kshs.9,804,190 reflected an amount of Kshs.4,185,991 resulting to an unreconciled difference of Kshs.5,618,199. Further, the statements of cash flows reflects cash and cash equivalents balance of Kshs.64,459,585 resulting to an unreconciled variance of Kshs.54,655,395.

Under the circumstances, the accuracy and fair statement of cash and cash equivalents balance of Kshs.9,804,190 as at 30 June, 2019 could not be confirmed.

### **804 Receivables from Exchange Transactions**

The statement of financial position reflects receivables from exchange transactions of Kshs.1,232,261;(2018-Kshs.1,232,261) which has been outstanding for over two (2) years casting doubt to its recoverability. Further, no provision for bad and doubtful debts has been made in the financial statements.

Consequently, the accuracy and fair statement of receivables from exchange transactions balance of Kshs.1,232,261 could not be confirmed.

### **805 Payments Received in Advance**

As reported previously, the statement of financial position reflects payments received in advance balance of Kshs.66,875,248 as at 30 June, 2019. However, documents in support of the balance by way of bank statements and the dates of deposits were not made available for audit review.

Under the circumstances, the accuracy and fair statement of the payments received in advance balance of Kshs.66,875,248 could be confirmed.

### **806 Suspense Account**

The statement of financial position reflects suspense account balance of Kshs.19,641,489 as at 30 June, 2019. However, supporting documents for the balance were not availed for audit review.

Consequently, the accuracy and validity of the suspense account balance of Kshs.19,641,489 could be confirmed.

### **807 Bank Overdraft**

The statement of financial position reflects borrowings - bank overdraft (CBK) balance of Kshs.283,595,154 as at 30 June, 2019. However, the supporting documents for the balance was not availed for audit review.

Consequently, the accuracy and fair statement of the bank overdraft of Kshs.283,595,154 could be confirmed.

### **808 Late Submission of Financial Statements**

Contrary to Section 68(2)(k) of the Public Finance Management Act, 2012 that requires the entity's Accounting Officer to prepare and submit financial statements within three (3) months after the end of the financial year for audit, the Fund's financial statements were submitted on 20 November, 2019 more than one and a half months after the statutory timeline. The Fund is therefore, in breach of the law.

### **809 Unresolved Prior Year Audit Matters**

Various prior year's audit issues, as disclosed under the progress on follow up of auditor's recommendations section of the financial statements, remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year's audit issues.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**810** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

- 811** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

# **STATE DEPARTMENT FOR HOUSING, URBAN DEVELOPMENT AND PUBLIC WORKS-VOTE 1096**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**812** There were no material issues noted during the audit of the financial statements of the State Department.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**813** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**814** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## MINISTRY OF WATER AND SANITATION-VOTE 1107

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

##### 815 Unconfirmed Direct Payments

The statement of receipts and payments reflects transfers to other government units amounting to Kshs.27,501,227,464 which as disclosed in Note 7 to the financial statements includes direct payments totaling Kshs.9,702,013,707 made on behalf of various self-reporting entities. However, corresponding confirmations of the payments by the beneficiary institutions were not provided for audit verification.

In the absence of the confirmations, it has not been possible to ascertain the completeness and accuracy of the reported direct payments figure of Kshs.9,702,013,707.

##### 816 Variances Between Financial Statements and Confirmations from Other Government Agencies

Comparison of balances reported in the financial statements under transfers to other government agencies and acquisition of assets, and related confirmations from the respective agencies revealed unreconciled variances, as detailed in the table below:

Government Agency	Item	Financial Statements (Kshs.)	Amount Confirmed (Kshs.)	Variance (Kshs.)
Coastal Region Water Security and Climate Resilience Project	Transfers to Other Government Agencies	392,925,101	319,143,537	73,781,564
Kenya Water Security and Climate Resilience Project	Transfers to Other Government Agencies	1,570,895,644	1,585,314,732	(14,419,088)
Thwake Multipurpose Water Project	Acquisition of Assets	4,884,073,774	4,880,708,235	3,365,539

Management did not explain or reconcile the variances. It has, therefore, not been possible to ascertain the accuracy of the reported figure for transfers to other government agencies of Kshs.27,501,227,465 and acquisition of assets of Kshs.4,886,362,901 respectively. It was also not possible to confirm whether all the funds disbursed were received and properly accounted for by the agencies.

## **Other Matter**

### **817 Budgetary Performance**

The summary statement of appropriation-recurrent and development combined reflects total budgeted receipts of Kshs.41,116,122,141 against actual receipts of Kshs.33,304,530,482 resulting into underfunding of Kshs.7,807,560,691 or 19%. Similarly, out of the budgeted expenditure of Kshs.41,116,122,141, the Ministry spent Kshs.33,272,819,842 resulting into a budgetary expenditure deficit of Kshs.7,843,302,299 or 19%. Management has attributed the underutilization to lack of Exchequer releases from The National Treasury and lengthy procurement process.

Consequently, the Ministry may not have implemented all planned activities and this may have negatively impacted service delivery to the public.

### **818 Pending Bills**

Note 16.1 to the financial statements reflects pending bills amounting to Kshs.56,362,558. The bills were not paid during the year but were instead carried forward to 2019/2020 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year's provisions since the bills form the first charge to that year's budget provisions.

### **819 Delayed Completion of Ground Water Mapping and Assessment Project for Wajir County**

The Ministry engaged a local consulting firm to provide ground water mapping and assessment services for Wajir County at a cost of Kshs.85,205,000. The contract was signed on 6 April, 2018 and the expected completion date was 6 April, 2019 which was later extended to 5 October, 2019. However, as at the time of audit, the project had not been completed. The delayed completion of the project has denied the Ministry the benefits envisaged under the contract and could also lead to cost overruns.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **820 Poor Management of Vehicles for Water Tribunal**

Review of the documents availed for audit by the Water Tribunal revealed that the Tribunal had been assigned eight (8) vehicles. However, the audit revealed that only four (4) vehicles were with the Tribunal in the year under review. Although Management explained that two (2) vehicles were transferred to the Ministry while two (2) vehicles were grounded after being involved in accidents, reports of



handing over of the vehicles to the Ministry and the accident reports for the grounded vehicles were not provided for audit verification. Further, no evidence of insurance of the six (6) vehicles registered in the name of the Tribunal or evidence of compensation received for the two grounded accident vehicles was provided.

Under the circumstances, effectiveness in the management of the Tribunal's vehicles could not be confirmed.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**821** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **UPPER TANA NATURAL RESOURCES MANAGEMENT PROJECT IFAD LOAN NO.1-867-KE AND SPANISH TRUST FUND LOAN NO. 1-E-8-KE**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**822** There were no material issues noted during the audit of the financial statements of the Project.

#### **Other Matter**

#### **823 Budget Control and Performance**

The statement of comparative budget and actual amounts for the year under review reflects total budgeted receipts of Kshs.1,100,000,000 and actual receipts of Kshs.871,845,761 resulting to a budget shortfall of Kshs.228,154,239 or 21%. Further, the statement reflects approved final budgeted expenditure of Kshs.1,100,000,000 and actual expenditures of Kshs.967,426,540 resulting to under absorption of Kshs.132,573,460 or 12%.

Overall, the Management of Upper Tana Natural Resources Management Project failed to actualize its budget by Kshs.228,154,239 or 21% an indication that some of the programmes and activities that had been planned were not implemented. There is need therefore for the Management of Upper Tana Natural Resources Management Project to review its budget making process with a view to

formulating a realistic budget that would be actualized for service delivery to the stakeholders of Upper Tana Delta.

In addition, the Upper Tana Natural Resources Management Project under-spent its budget by Kshs.132,573,460 of the total budget allocation. The funds could have been allocated to other deserving areas that would have improved delivery of goods and services to the residents of Upper Tana Delta. There is need therefore for the management to re-look at its budgeting mechanism with a view to focusing on priority areas for higher positive impact and improved service delivery to the residents of Upper Tana Delta.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**824** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**825** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## COASTAL REGION WATER SECURITY AND CLIMATE RESILIENCE PROJECT (IDA CR. NO.5543-KE)

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**826** There were no material issues noted during the audit of the financial statements of the Project.

#### Other Matter

#### **827 Low Absorption of Funds**

The annual report for the year under review indicates that the Project has been in operation for four (4) years and has exhausted 67% of its six (6) year duration expected to end in May 2021. However, as at 30 June, 2019, the Project had only absorbed Kshs.916,579,560 out of the total loan amount of Kshs.20,000,000,000

(USD 200 million) translating to 4.6% of the total funding. In the year under review, the Project failed to utilize Kshs.460,854,464 (59%) of its annual budget.

In view of this experience, it is unlikely that the Project will have used up the whole loan amount before it ends and its expected outputs and objectives may not be achieved.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **828 Unsatisfactory Implementation of Rain-Water Harvesting Projects**

In 2017, the Ministry of Water and Sanitation entered into contracts for construction of rain-water harvesting and construction of sanitation blocks for schools, in Kwale County. The contracts were valued at Kshs.58,781,125 for Phase I, and Kshs.55,113,821 for Phase II. The works were to be completed four (4) months after the signing of the contract.

An audit inspection done in September, 2019 indicated that the contractor for Phase I works was paid Kshs.38,079,185 for certified works and Kshs.5,878,111 as advances. However, at Yapha primary school the contractor did not paint the sanitation blocks and the tanks installed were not collecting water since the gutter systems were not properly done. This was in spite the contractor's report dated 18 September, 2019 showing that the works were complete and all payments due paid. Therefore, the payments made for work not done may result in loss of public funds.

In Phase II, the works stalled with only a few aspects of the project done. The contractor abandoned the project sites in April, 2019 and was reportedly owed Kshs.16,332,891 for work done. Thus, the project had not attained its outputs and objectives more than two (2) years after its due date of completion.

#### **829 Doubts on Sustainability of Livelihood Programme**

The Project disbursed grants totalling Kshs.22,465,136 to sixty two (62) community groups in Kwale County under the livelihood programme. The programme was to carry out a series of activities aimed at improving sustainable livelihoods and sharing the Project's benefits in the rural areas of the County. The activities included establishment of tree nurseries, greenhouses and horticulture, dairy and poultry farming among other economic activities. However, an audit inspection carried out in September, 2019 revealed that some beneficiary groups diverted funds to activities not stated in their respective grant agreements. In addition, the groups did not keep proper records and their incomes did not cover expenses and as a result, the activities were unlikely to be sustained for long.

In view of these shortcomings, the funds disbursed to the groups did not achieve the desired objectives.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**830** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## THWAKE MULTI-PURPOSE WATER DEVELOPMENT PROGRAM PHASE I (PROJECT ID P-KE-E00-008: ADF LOAN NO.2100150029993 & GRANT NO.2100155025973)

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**831** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **832 Low Funding of the Program by the Government of Kenya (Gok)**

The Program financing agreement provides that the Government of Kenya (GOK) was to contribute UA 116,400,000 (approx. Kshs.14.78 billion) being 65% while African Development Bank (AfDB) was to contribute UA 62,890,000 (approx. Kshs.7.9 billion) being 35% of the total funding and the Program was to be completed by December, 2022. A review of the Program funding over the last four (4) years showed that although AfDB had contributed UA 54,342,045 which is 86% of its share of the Program funding, GOK had contributed UA 29,969,500 which is 26% of its share of the Program funding. Arising from the low funding from the GOK, there is a possibility that the Program may not be completed on time or as per the financing agreement, with only three (3) budget cycles remaining.

#### **833 Funding and Continuity of the Program**

As reported in the previous year, Phase 1 of the Project, which entails construction of the dam and associated structures, is currently under implementation at an estimated cost of Kshs.42.365 billion. The cost of the four (4) phases of the Project, whose projected completion dated is 31 December, 2022, is tabulated below:

Program Phase	Billions of Kshs.		
	GOK/Others	AFDB	Total
Multi-purpose Dam and RAP	34.342	8.023	42.365
Hydropower Generation	0.52	3.83	4.35
Water Supply, Sanitation and Waste Water Infrastructure	5.27	5.36	10.63
Irrigation Development	19.18	5.10	24.13
<b>Total (Phase 1-4)</b>	<b>59.312</b>	<b>22.313</b>	<b>81.475</b>

Although AfDB and GOK funding for the first phase of Kshs.42.365 billion has been approved, funding amounting to Kshs.39.845 billion with respect to the remaining three phases is yet to be secured or sought from financiers.

Consequently, it is not clear how the three phases will be financed in the ensuing period, up to completion of the program.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 834 Irregular Signing of Contract Without Adequate Funds

Regulation 51(c) of the Public Finance Management (National Government) Regulations, 2015 requires that contracts imposing financial obligations in excess of one (1) year should only be concluded by an accounting officer only if the accounting officer secures the resources required in line with the financing requirements set out in the contracts. According to the original Financing Agreement for the Program, both parties had an approved budget of UA 179,290,000 equivalent to about Kshs.22,873,970,000, where the borrower was to fund 65% and the lender was to loan the borrower the remaining 35%. As at 30 June, 2018, the Program had received Kshs.6,651,802,683 of the approved budget hence having a balance of Kshs.16,222,167,317. However, the Ministry entered into a contract for civil works and associated works for Kshs.36,791,358,148 with a contractor on 15 November, 2017 and issued orders to commence the works on 28 March, 2018, without setting out or having a plan or an agreement on how the extra Kshs.20,569,190,831 would be raised. Although, according to management, there was negotiation for additional funding, this had not been finalized at the time of concluding the audit.

In the circumstances, the Management is in breach of the law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**835** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **KENYA ITALY DEBT FOR DEVELOPMENT PROGRAMME**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**836** There were no material issues noted during the audit of the financial statements of the Project.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **837 Long Outstanding Advances**

According to Article III.1 of the Programme's funding agreement, the funds should be utilized by the Government of Kenya on goods and services for implementation of jointly agreed initiatives within the framework of the poverty eradication strategies.

As disclosed in Note 8.11 to the financial statements, the statement of financial assets and liabilities as at 30 June, 2019 reflects imprest and advances amounting to Kshs.12,991,890. This amount, as reported in the prior year was advanced to the Ministry of Water and Irrigation vide requisition MEWNR/ACCTS/233 of 17 September, 2014 to pay an outstanding travel bill due to a service provider. The advanced amount had not been refunded to the Programme by the time of concluding this audit in November, 2019, more than five (5) years since the advance was made.

In the circumstances, the advance was not utilized for the Programme activities and the Ministry risks being required by the Government of Italy to make refund as provided for under Article II.6 of the funding agreement.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**838** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **KENYA WATER SECURITY AND CLIMATE RESILIENCE PROJECT (IDA CR. NO. 5268/5674-KE AND GRANT NO. TFOA0761A)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **839 Transfer of Funds to National Lands Commission**

During the year under review, the Project disbursed Kshs.500,000,000 to National Lands Commission bringing the total amount disbursed to the Commission to Kshs.650,000,000 for compensation of Project Affected Persons for the construction of Mwache Dam. The basis for the disbursement was not clear since the project had not provided requisition from the Commission. In addition, it was noted that the National Lands Commission had not provided any expenditure returns for the advances made since June, 2016 while there was no evidence that any of the intended beneficiaries had been compensated.

These funds would have been applied to other deserving Project activities or be invested to earn interest for the Project.

### **Other Matter**

#### **840 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects approved receipts budget and actual on comparable basis of Kshs.1,445,000,000 and Kshs.1,959,633,234 respectively resulting to an over funding of Kshs.55,018,766 or 36%. Further, the Project spent an amount of Kshs.1,602,028,703 against an approved budget of Kshs.1,445,000,000 again resulting to an over absorption of Kshs.157,028,703 or 11% of the budgeted amounts.

The Management has attributed the over-funding to timing difference where the 2017/2018 financial year money was released to the Project during the 2018/2019 financial year while the under-absorption was attributed to reduction of the initial budget during the supplementary II budget when the expenditure had already been incurred.

#### **841 Pending Bills**

The Project reported pending bills amounting to Kshs.216,281,409 which comprised of Kshs.89,756,377 in respect to construction works, Kshs.102,594,338 for consultancy services of the Lower Nzoia Irrigation project and Kshs.23,930,694 in respect to outstanding staff payments.

Failure to settle bills during the year to which they relate distorts the financial statements for the year and adversely affects the provisions of the subsequent year to which they have to be charged.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **842 Irregular Engagement of Project Consultant**

As reported in the previous year, the Project through the Ministry of Water and Irrigation entered into a contract with a consultant on 31 January, 2017 for individual consultancy services. The officer, who was a finance officer at The National Treasury was supposed to apply for unpaid leave following her appointment. Although the officer applied for leave on 6 February, 2017, there was no evidence that the leave was granted. This implies that the officer was on two (2) employment terms and enjoyed Government pension benefits within the period she served in the project contrary to Section J.13(2)(V) of the Human Resource Policy and Procedure Manual for Public Service, 2016. There was no evidence that the pension was remitted to the relevant authorities. Further, it was not clear why the officer was engaged and contracted before the official release by The National Treasury.

Consequently, the Management is in breach of Human Resource Policy and Procedure Manual for Public Service, 2016.

#### **843 Delayed Compensation of Project Affected Persons**

A review of the project documents indicates that the Project Monitoring Unit, transferred to the National Lands Commission Kshs.250,000,000 and Kshs.200,000,000, on 13 December, 2016 and 4 December, 2017 respectively. These funds were meant for compensation of Project Affected Persons, for Lower Nzoia Irrigation project. However, by the time of concluding the audit in 2019 the compensation process was yet to be completed and the Commission had only utilized Kshs.183,487,149 for the compensation. Consequently, delays in compensation have resulted to change in the construction methodology for the dykes with an estimated project cost of Kshs.42 million and leasing of land with a projected cost of Kshs.19 million, according to project records reviewed.

There is therefore, lack of effectiveness in the use of public resources since the expenditures would have been avoided and utilized on other Project activities.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **844 Non- Utilization of Available Grant**

The Government of Kenya signed a grant agreement on 7 September, 2015 with the International Bank for Reconstruction and Development and International



Development Association acting as administrator of the Korea-World Bank Partnership Facility Trust Fund. The grant which amounted to US\$3.5 Million, was for the purpose of supporting and improving flood early warning system for Lower Nzoia, and its expected end date as per the agreement is 31 December, 2020. However, as at 30 June, 2019, one and half years to the expiry of the grant period, the Project had not started utilizing the grant. In the circumstances, the Project may not fully utilize the grant within the grant availability period, which may result to failure to achieve the intended Project objectives.

#### **845 Inconsistent Project Implementation Activity**

The Ministry of Water and Irrigation, through Kenya Water Security and Climate Resilience project entered into a contract with Suhufi Agencies Ltd on 2 February, 2017, for improvement works of water services in Likoni, Mombasa County. This project, whose contract price was Kshs.542,441,544 formed phase I of the entire project. The project was meant to address the problem of non-revenue water in Likoni area and to supply water from Tiwi borehole. Included in the contract was a pipeline designed to carry at least 2000m<sup>3</sup> of water. However, it was observed that the Tiwi borehole currently produces 1000m<sup>3</sup> of water per day, which is far less than the minimum required capacity of the new pipeline. According to Management, the extra capacity of water was to be provided by sinking more boreholes, and this had been agreed between the Ministry and the relevant water stakeholders, at the time of design of the pipeline. However, Management has not provided any documentary evidence to this effect. As a result, the project may not achieve value for money in the 50% capacity underutilization.

## **WATER AND SANITATION DEVELOPMENT PROJECT (IDA CR. NO.60290/60300-KE)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**846** There were no material issues noted during the audit of the financial statements of the Project.

#### **Other Matter**

#### **847 Budget Absorption**

The Project Financing Agreement between the Republic of Kenya and the International Development Association, was signed on 21 June, 2017. Further, the Project's duration is five (5) years effective March, 2018 to October, 2022 with an approved budget of USD 330 Million (approx. Kshs.33 billion). However, one and half years after signing the agreement, the Project had only absorbed

Kshs.348,544,532 representing 1.06% of the total project funding. In addition, a comparison of the budget and actual amounts indicates that the Project utilized only 13.73% of the total budget for the year under review. The low budget absorption could result to non-achievement of the Project objectives.

#### **848 Delays in Signing the Subsidiary Agreement with Participating Counties**

According to Article V of the Financing Agreement, the Project Implementing Entity was required to execute subsidiary agreements with each of the participating Counties, within 120 days after signing of the financing agreement. However, these subsidiary agreements were executed in May, 2019, more than one and half year after the deadline. The delay in signing the agreements has negatively impacted on the disbursements of the Project funds to the implementing entities and consequently delayed the achievement of the Project objectives.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**849** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **850 Internal Audit Review**

According to Section 8.10 (424) of the Water and Sanitation Development Project Financial Management Manual, the Ministry of Water and Sanitation's internal auditors are responsible for the Project's internal audit activities at the Project Coordination Unit. However, according to information obtained from the internal audit department, no such internal audit review was performed on the Project during the year under review.

In the absence internal audit reviews, it was possible to rule there is existence of weaknesses in internal controls and related risks during the year under review.

## **OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF WATER AND SANITATION**

### **LAKE VICTORIA WATER SUPPLY AND SANITATION PROGRAM (PHASE II) GRANT NO. 2100155019967 – LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Basis for Qualified Opinion**

##### **851 Unreconciled Cumulative Receipts Balances**

The statement of receipts and payments reflected total cumulative receipts of Kshs.1,667,410,202. However, the funding summary indicated that the total amount received by the Project as at 30 June, 2019 was Kshs.1,876,084,758 leading to an unreconciled difference of Kshs.208,674,556.

Consequently, the accuracy and completeness of the cumulative receipts figure of Kshs.1,667,410,202 reflected in the statement of receipts and payments could not be confirmed.

##### **Other Matter**

##### **852 Pending Bills**

Note 10(1) to the financial statements reflects pending bills totalling Kshs.337,125,361 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is ending on 31 December, 2018 and is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Basis for Conclusion**

##### **853 Late Submission of Financial Statements**

Section 47(1) of the Public Audit Act, 2015 requires Management to prepare and submit for audit financial statements for audit within three (3) months after the end of each financial year. However, the Project Management submitted the financial statements for audit on 07 October, 2019 contrary to the stipulated required date, on or before 30 September, 2019.

Management was therefore in breach of the law.

## **854 Unexplained Budgetary Variances**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts of Kshs.208,674,555 against budgeted receipts of Kshs.150,000,000 resulting in an over-collection of Kshs.58,674,555 or 39% of the budget receipts. Similarly, the statement reflects total actual expenditure of Kshs.208,674,555 against the budgeted expenditure of Kshs.150,000,000 resulting into an over-expenditure of Kshs.58,674,555 or 39% of the budgeted expenditure. Explanations for the material differences between the budget and actual amounts were not provided contrary to the reporting requirements prescribed by the Public Sector Accounting Standards Board.

In the circumstance, the regularity of the receipts and the resultant expenditure could not be confirmed.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**855** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA GRANT/CREDIT NUMBER: IDA 5103-KE) – COAST WATER WORKS DEVELOPMENT AGENCY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

### **856 Unsupported Acquisition of Non-Current Assets**

As disclosed in Note 8.6 to the financial statements and as previously reported, the statement of receipts and payments for the year ended 30 June, 2019 reflects a balance of Kshs.15,811,392 under acquisition of non-current assets. The balance includes an amount of Kshs.4,857,075 relating to purchase of office equipment to be used by the Project for the supply, installation and maintenance of billing system for six Water Service Providers (WSPs) in Mombasa, Kwale, Kilifi, Malindi, Taita Taveta and Tana-River whose contract was awarded on 26 October, 2016. The contract delivery date was 26 February, 2017 at a contract sum of Kshs.81,374,584. To date, Kshs.73,470,703 has been paid. However, as at the time of audit in July, 2019, the status of the project was as follows:

	<b>Project Site</b>	<b>Status Before Implementation</b>	<b>Status as at 30 July, 2019</b>
1	Kwale Water Company	Kwale Water Company declined the offer to be supplied with the system before the contract was signed. However, the contract remained unchanged and diverted to Mazeras Bulk Water Unit	The system was rejected by the Water Company because it was in the process of acquiring one of its own and already the procuring process was on-going.
2	Kilifi Water Company	The Water Company procured their own billing system in 2016.	The Water Company continues using the system called Sulis. All the equipment under the new project is lying idle in the Company's premises
3	Malindi Water Company	The Water Company procured their own billing system in 2012.	The Water Company continues to use the system called Sulis. All the equipment under the new project is lying idle in the Company's premises
4	Tana River Water Company	The Water Company has never used any billing system.	The system is yet to be fully operational since configurations are still being done by supplier.

The Board did not provide evidence of needs assessment or requisition by the user water companies for audit review of the billing system. The contract period lapsed on 26 February, 2017, yet no action has been taken to extend the contract period or take other disciplinary action against the supplier. Further, although Management informed the contractor on 17 August, 2017 to renew the performance security which was to expire on 2 September, 2017, the same had not been renewed. This is contrary to Clause 18.1 of the Special Conditions of Contract which requires that the supplier should provide a performance security for the duration of the Project.

Consequently, the validity, propriety and value for money of expenditure on office equipment of Kshs.4,857,075 for the year ended 30 June, 2019 could not be ascertained.

## **Other Matter**

### **857 Pending Bills**

Note 9.1 to the financial statements reflects pending bills totalling Kshs.32,954,534 as at 30 June, 2019. Management has not provided reasons for non-payment of

the bills even though the Project was to end on 31 December, 2019 and is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

### **858 Budgetary Control and Performance**

The Water and Sanitation Services Improvement Project had a final budget of Kshs.880,002,000 and an actual expenditure of Kshs.639,434,575 resulting to an overall under-absorption of Kshs.240,567,425 or 27%. The overall under-absorption is an indication of improper planning and Management may need to revisit its budget execution process with a view to focusing on more priority areas before the project ending date of 31 December, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**859** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**860** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA CR. NO.5103-KE) – LAKE VICTORIA NORTH WATER WORKS DEVELOPMENT AGENCY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**861** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

### **862 Delay in Disbursement of Funds to Project Accounts**

According to the subsidiary loan agreement of December, 2012, the Lake Victoria North Water Services Board was to receive a total of USD.32,204,214 from IDA by

the end of the Project on 31 December, 2019. Information availed indicated that as at 17 August, 2018, IDA had disbursed USD.32,204,214 which is 100% of the Project funding to the Designated Account - Stanbic Bank account No. CBK/GOK Part 3 Lake Victoria, which had a balance of USD.8,436,782.13 as at same date. Out of the balance, USD.5,000,000 was disbursed to Lake Victoria North Water Services Board on 6 September, 2018. As at 30 June, 2019 the undisbursed balance was USD.3,436,782.13.

In addition, the Government of Kenya had committed USD.2,785,970, out of which USD.2,199,450 or 78.95% of its commitment had been disbursed to the Board by 30 June, 2019 leaving an undisbursed balance of USD.586,522. The total funding by both partners not yet disbursed to the Project accounts stood at USD.4,023,302 (equivalent to Kshs.411,582,812) as at 30 June, 2019.

The delay in disbursement of funds to the Project may adversely affect the implementation of the Project activities which were to be finalized by 31 December, 2019 as per the funding agreement.

In the circumstances, it has not been possible to confirm if the undisbursed funds will be availed for the intended Project activities within the funding duration which ends on 31 December, 2019.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

An audit verification exercise carried during the month of November, 2019 on sampled project activities revealed the following unsatisfactory matters:-

### **863 Delay in Grants Works**

#### **863.1 Kapindaram Water Supply Project**

The contract for the Kapindaram water supply works was awarded to a firm at a contract sum of Kshs.64,789,977 and commenced on 18 December, 2016 with the initial scheduled completion date of 17 December, 2017. However, at the time of verification in November, 2019, works were still ongoing, nearly two (2) years after the expiry of the expected completion date.

Consequently, the residents of Kapindaram have not received the benefits associated with the project.

#### **863.2 Equipping of Drought Boreholes and Civil Works for Lake Victoria South Water Works Development Agency - Kisumu and Siaya Counties**

A contract for Lot 1 Papal, Mulambo and Kandege was awarded to a firm at a contract sum of Kshs.29,328,177 which was later terminated in March, 2017 after

the firm had done work valued at Kshs.20,647,762. A contract to complete the outstanding works was later awarded to another firm at a contract sum of Kshs.6,786,492.93 for a duration of four (4) months commencing on 11 September, 2018 and was to be completed on 11 January, 2019. By the time of the audit, eleven (11) months later, the contract was incomplete and not benefiting the intended users. The Project Management however explained that the works would be completed and be operational before the close of the project.

Failure to complete the works in time will have negative financial implications as IDA funding may not be available as per the financing agreement.

### **863.3 Irregular Release of Retention Monies on Drought Mitigation Boreholes in West Pokot**

During the year under review, a contractor who had been engaged by the Board to carry out several projects in West Pokot was paid retention monies amounting Kshs.683,098. A review of the contracts revealed that the contractor was discharged but the following issues were not addressed:

#### **863.3.1 Ortum Community Borehole**

Information available indicated that the borehole works were completed and handed over on 18 September, 2017, about 3 years after sinking. However, the following were observed:

- (i) One of the two (2) 10 cubic meter tanks supplied was leaking. The tank was previously meant to be replaced by the contractor under bill 5.7.1 at a cost of Kshs.250,000 but the same was not replaced.
- (ii) Included under bill 5.7.2 was an item for the supply of a galvanized supporting tower with a provisional contract sum of Kshs.1,980,000 which was not explained.
- (iii) There were shortcomings in the project design by not providing enough gate valves thus exposing the project to the risk of loss of water in case of damage to the pipeline.
- (iv) Three (3) years after handing over of the project, training of the borehole management team had not been done as required, thus leading to failure of the 'operate and maintain' model envisaged.

#### **863.3.2 Kasepa /Kases Community Borehole**

The borehole was sunk to a depth of 120 meters and capped on 12 December, 2014 with a tested yield of 3 cubic meters per hour. However, during the equipping of the borehole, the depth was noted to be 98 meters instead of 120 meters as indicated in the borehole completion report resulting to a variation of 22 meters.



Further the yield rate was found too low at 0.29 cubic meters per hour to allow any motorized pumping.

Consequently, the intended beneficiaries may not have got value for money spent on drilling and equipping of the boreholes.

#### **863.4 Rehabilitation and Expansion of Suswa Water Supply Project**

During the year under review, a total of Kshs.21,880,773 was incurred on rehabilitation and expansion of Suswa water supplies. According to the contract agreement dated 31 January, 2017, the works were awarded at a contract sum of Kshs.104,850,931 with an expected completion date on 31 January, 2018.

Further, according to the bills of quantities, the contractor had quoted an amount of Kshs.3,994,080 for construction of four (4) water kiosks which were partially completed at 95% completion level while the other three were at 75% and a partial certification of Kshs.1,735,563 issued. No documentary evidence was availed to show when the kiosks will be completed. During the audit verification exercise, the works were still going on and it was not evident when the project was to be completed with the grant closure date of 31 December, 2019.

In the circumstances, the delay to complete the works has denied the intended beneficiaries the benefits to be derived from the project.

#### **863.5 Equipping of Drought Boreholes and Civil Works in the Counties of Baringo and Narok**

The contracts for equipping of Lot III and IV boreholes water supply projects for Baringo and Narok Counties were awarded to a firm on 7 October, 2016 at a contract price of Kshs.43,487,643.50 and Kshs.33,925,902.78 respectively. The projects were to be completed and handed over to the community in April, 2017. However, as at the time of audit, 31 months after the expiry of the completion date, the works were still incomplete despite the fact that funding for the projects was provided under emergency drought mitigation programme.

At the time of audit inspection, Lot III boreholes had been assessed at approximately 49% complete and a total of Kshs.21,140,097 paid, while the Lot IV boreholes had been certified done to about 63% while Kshs.24,458,689 had been paid (Certificate No.3 in both cases).

According to Certificate No.3, the contract amount for Lot IV was indicated as having been revised to Kshs.38,638,971 up from Kshs.33,925,903, an increase of Kshs.4,713,068 (13.9%). However, there were no variation orders availed for audit review.

#### **863.6 Equipping of Drought Boreholes and Civil Works Rift Valley Water Services Board - Turkana County**

The contract was awarded to a firm on 29 April, 2016 at a contract sum of Kshs.57,474,176 in a contract agreement signed on 28 July, 2016 and the works

were to last six (6) months from 01 August, 2016 to 1 February, 2017. The works were inspected and accepted as substantially completed in the month of December, 2017, ten (10) months after the expected completion date.

Audit verification revealed that only six (6) out of twelve (12) boreholes were equipped and operationalized with submersible pumps run by solar energy. These were operating as point water sources that is; Nawaitorong, Lokalele Akwan, Nandwat/Nakalela, Namuruputh, Lobei and Lokipotet Akwan/ Ekoropot while the other boreholes were either dry, saline or yielding too little water for them to be equipped economically.

### **863.7 Lokalele Akwan Water Supply Project**

According to records availed for review, the borehole was sunk to a depth of 140 meters and recorded a yield of 2 cubic meters per hour. However, the water was saline and the community had rejected the project. Although the management indicated that they had carried out water quality tests in October, 2018 and found the parameters to be within the KEBS limits, no evidence of the test results was availed for confirmation.

Further, there were several disused boreholes within very short distances in the area all said to be having saline water. No reason has been provided for continued drilling and equipping of boreholes in this area known to be having saline water instead of looking for an alternative means of providing water to this community.

Consequently, the delays in implementation of these projects has led to the communities targeted to benefit from them unable to get clean water, as earlier envisaged through the drought emergency programme.

## **864 Works Funded by Loans**

### **864.1 Kapcherop II Upstream Water Treatment Works and Distribution Lines**

The statement of receipts and payments reflects goods, works, training and services expenditure of Kshs.154,106,743 and as disclosed under Note 8.6 to the financial statements the figure includes Kshs.5,037,024 in respect of additional investment for construction of upstream water treatment works and distribution lines in Kapcherop. The payment was made to the main contractor being the final retention upon successful completion of the project. The project, meant to produce 600 cubic metre of water daily, was handed over to Cherangani - Marakwet Water and Sanitation Company (CHEMAWASCO) for operation and maintenance on behalf of the County Government of Elgeyo - Marakwet to benefit 15,000 people on 14 March, 2017.

Further verification revealed that the backwash tank supported by Tembu water spring tank upstream did not have enough pressure to clear any accumulated silt

in the collection tank at the river Kiptaragon intake. The sedimentation tank was not properly raised resulting to raw drainage to run over and soil it while the filters were blocked by mud and could not allow free flow of clean water.

In addition, the raw water gravity main line which had been laid was dry as the water tanks at the raw intake tank did not have water.

Although the management indicated in the annual report and financial statements for the financial year ended 30 June, 2019, under Project information and overall performance, that the project was complete and benefiting 15,000 people, the project was not operational. A total of thirteen (13) 20 m<sup>3</sup> masonry water balancing tanks and ten (10) water kiosks which had been provided were all dry as there was no free flow of water. The facilities were therefore wearing out without benefiting the targeted community. Consequently, the envisaged benefits had not been realized.

#### **864.2 Rehabilitation and Expansion of Kapsoya and Construction of Naiberi Water Treatment Works**

The statement of receipts and payments reflects goods, works, training and services of Kshs.154,106,743 which includes payments of Kshs.75,441,005 for the expansion of Kapsoya treatment works as disclosed under Note 8.6 to the financial statements. The expenditure was in respect to a contract awarded to a firm on 19 May, 2016 at a contract sum of Kshs.625,337,109.

Audit review of the latest interim Certificate No.25 and site visit revealed that Kshs.604,160,609 had been certified as payable to the contractor, which included preliminary expenses of Kshs.76,994,783 certified payable to the contractor as at 16 July, 2019. However, there was no supporting documentation to confirm that preliminary expenses amounting to Kshs.12,64,275 included in the total preliminary expenses of Kshs.76,994,748 was a proper charge on public funds as detailed below:

<b>Description</b>	<b>Amount (Kshs.)</b>	<b>Remarks</b>
Accommodation for resident engineer/supervisor and assistant resident engineer	9,600,000	No lease/rental agreement was provided
Payment demanded by authorities for relocation of existing services	3,047,275	No evidence of payment to the authorities
<b>Total</b>	<b>12,647,275</b>	

Further, although Naiberi water treatment plant was expected to produce 2,000 cubic metres of water per day, the actual production was an average of 1,200 cubic metres per day resulting to an unexplained shortfall of about 800 cubic metres.

Consequently, I am unable to confirm whether the public received value for money in the Kshs.604,160,609 invoiced on the Project.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**865** There were no material issues relating to effectiveness of internal controls, risk management and governance.

#### **KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM (LOAN NO.2000200000501) – ATHI WATER WORKS DEVELOPMENT AGENCY**

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Unqualified Opinion**

**866** There were no material issues noted during the audit of the financial statements of the Program.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**867** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**868** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM - TANA WATER WORKS DEVELOPMENT AGENCY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**869** There were no material issues noted during the audit of the financial statements of the Program.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **870 Delayed Project Implementation**

During the year under review, Kenya Towns Sustainable Water Supply and Sanitation Program's approved expenditure budget was Kshs.1,925,000,000. However, the project incurred actual expenditure of Kshs.782,494,626 or 40.6% of the budget for implementation of various projects under the Tana and Northern Water Works Development Agencies. Although contract agreements for the implementation of the projects were signed in 2018 and early 2019, a status review of the construction of eight water and sewerage infrastructures as at 30 October, 2019 revealed that the projects were between nine and twelve months behind schedule.

Although Management attributes the delay in the projects implementation to failure to obtain approval of the tax exemptions from The National Treasury and inadequate GOK counterpart fund allocation, the delay may lead to cost overruns.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**871** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAMME – RIFT VALLEY WATER WORKS DEVELOPMENT AGENCY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **872 Presentation and Disclosure of the Financial Statements**

The financial statements were prepared for the eighteen (18) months period ended 30 June, 2019. However, this fact was not disclosed contrary to the requirements of IPSAS 1 – Presentation of Financial Statements - which requires that when an entity's annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements the reason for using a longer or shorter period and the fact that comparative amounts for certain statements and related notes are not entirely comparable.

#### **873 Unsupported Transfers from Government Entities**

The statement of receipts and payments reflects transfers from government entities receipts of Kshs.38,566,967 which as disclosed in Note 8.3 to the financial statements, represents counterpart funding from the Government of Kenya received in three tranches. However, the receipts were not supported by way of reference numbers of Authority to Incur Expenditure (AIE) and bank statements indicating credits into the Programme account.

Consequently, the accuracy and completeness of the reported transfers from government entities receipts of Kshs.38,566,967 could not be confirmed.

#### **874 Bank Balances**

The statement of financial assets reflects a nil bank balance as at 30 June, 2019. However, cashbooks, bank reconciliation statements and certificate of bank balances in support of the balance were not provided for audit verification.

Consequently, the accuracy and fair statement of the reported nil bank balances could not be confirmed.

### **Other Matter**

#### **875 Pending Bills**

Notes 9.1 to the financial statements reflects pending bills totalling Kshs.850,674,496 as at 30 June, 2019. Management has not provided

explanations for non-payment of the bills. The Program is at risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

## **876 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts and expenditure budgets of Kshs.737,500,000 and Kshs.1,107,595,524 respectively resulting into an unbalanced and unfunded budget of Kshs.370,095,524 that has not been explained.

In addition, the statement reflects final receipts budget and actual on comparable basis of Kshs.737,500,000 and Kshs.634,503,909 respectively resulting to an under-funding of Kshs.102,996,091 or 14% of the budget. Similarly, the Project expended Kshs.595,936,942 against an approved budget of Kshs.1,107,595,524 resulting to an under-expenditure of Kshs.511,658,582 or 46% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **877 Failure to Maintain Separate Programme Bank Account**

Clause 1.2 (j) of the Subsidiary Loan Agreement (SLA) between the Government of Kenya and Central Rift Valley Water Works Development Agency (CRVWWDA) requires the Programme to open a local currency account for the purpose of receiving the counterpart funding from the Government of Kenya. However, as at the time this audit was finalized, the Programme had not opened the account but continued to receive the counterpart funds through the Agency's operations bank account.

#### **878 Fixed Assets Register**

The Programme did not maintain a register of assets. This is contrary to Regulation 143 (1) of Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

Consequently, it could not be confirmed that the Programme assets had been properly safeguarded.

## **879 Acquisition of Land**

The statement of receipts and payments reflects payments controlled by the entity for acquisition of assets of Kshs.3,502,500 which as disclosed under Note 8.10 to the financial statements related to acquisition of land. Included in this amount was partial compensation for two land parcels measuring 0.16 and 2.4 hectares at a cost of Kshs.425,000 and Kshs.2,975,000 respectively where water supply projects are being implemented at Oyugis and Kendu Bay. However, the ownership of the land was yet to be transferred to the Agency as at the time of completing this audit in January, 2021.

In absence of land ownership documents, the propriety of the payments could not be confirmed.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **880 Lack of Risk Management Policy**

The Programme did not have a Risk Management Policy and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks as stipulated under Regulation 165 (1) of the Public Finance Management (National Government) Regulations, 2015. No formal risk assessment was conducted.

In absence of a formal approved risk management framework, ability to identify threats or risks and definition of strategy to eliminate or minimize the impact of the risks could be compromised.

Additionally, it was noted that the Management lacks a Disaster Recovery Plan and therefore crucial information may not be recovered in the event of a disaster.

## **SUPPORT TO WATER AND SANITATION SERVICES IN PERI-URBAN AREA PROJECT (LOAN NO.BMZ 2013.6543.6) – ATHI WATER WORKS DEVELOPMENT AGENCY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**881** There were no material issues noted during the audit of the financial statements of the Project.



## **Other Matter**

### **882 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.248,000,000 and Kshs.178,339,620 respectively resulting to an under-funding of Kshs.69,660,380 or 28% of the budget. Similarly, the Project performance was limited to the receipts and therefore spent Kshs.178,339,620 or 72% out of the approved budget of Kshs.248,000,000. The underfunding affected the planned activities and could have impacted negatively on service delivery to the public.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**883** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**884** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **WATER SECTOR DEVELOPMENT PROGRAMME OF KISII AND NYAMIRA WATER SUPPLY AND SANITATION PROJECT (CREDIT NO. ORIO11/KE/21) – LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Basis for Qualified Opinion**

### **885 Non-Submission of Prior Years' Financial Statements**

The statement of receipts and payments for the year ended 30 June, 2019 reflects cumulative to date receipts and payments of Kshs.80,534,656. However, the Project Management did not submit for audit the financial statements for the years 2014/2015 and 2015/2016.

Consequently, the accuracy of the cumulative to date receipts and payments balance of Kshs. 80,534,656 as at 30 June, 2019 could not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **886 Failure to Maintain Separate Project Cash Book and Bank Account**

The Project Management did not maintain a cashbook or a separate bank account for the Project during the year. Instead, receipts and payments in respect of the Project were recorded and accounted for in the main cashbook and bank account of the Agency contrary to Section 68(2) of the Public Finance Management Act, 2012 which requires Accounting Officers to ensure that proper financial and accounting records are kept.

#### **887 Sustainability of the Project**

Clause 2.2 of the ORIO Grant Arrangement for the Development Phase of the Project provides that the expected end date of the Development Phase was August, 2014. However, information available revealed that due to unrest in the area, it was difficult and at times not even possible for the Project team to work on the Project as their security was not guaranteed. This led to delays in the project development necessitating moving the time-line for the completion of the study, which was originally set for March, 2017 to August, 2017 and subsequently to December, 2017. This deadline could also not be met and therefore a new deadline for the completion of feasibility studies was agreed to be in November, 2017 which was however, again extended to 1 September, 2018 where it was expected that all documentations on geotechnical report 2, preliminary design, ESIA, organizational development and training plan and detailed Project plan would be finalized.

As at 30 June, 2019, the Project had spent Kshs.80,534,656 but the following material uncertainty issues relating to sustainability were noted:

- i. Continued hostility of the local residents towards the implementation of the Project which required that any visit to the project site by the project team and expert be under the escort of armed security personnel.
- ii. Lack of an identified financier; donor or grant arrangement for the implementation, operation and maintenance phase.
- iii. The increase of project cost for the implementation phase, which was a result of an increase in scope mainly caused by addition of the Nyamira Network.

Consequently, due to delay and reported community hostility resulting to limited public participation, objectives and outcomes of the Project may not be achieved and the residents may not receive value from the Project.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**888** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## WATER SECTOR DEVELOPMENT PROGRAMME LAKE VICTORIA SOUTH (KERICHO, KISII, NYAMIRA AND LITEIN) LOAN NO.BMZ 2010 65 861 AND GRANT NO.BMZ 2010 70 457 - LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**889** There were no material issues noted during the audit of the financial statements of the Programme.

### Other Matter

#### **890 Pending Bills**

Note 9.1 to the financial statements reflects pending bills amounting to Kshs.103,137,126 as at 30 June, 2019. The pending bills mainly relate to the Government of Kenya (GoK) component as shown under Annex 2 to the financial statements. Failure to pay bills in the year they relate to distorts the subsequent year's budgeted programs and activities.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### **891 Late Submission of the Financial Statements**

Section 47 of Public Audit Act, 2015 requires that financial statements should be submitted to the Auditor-General for audit within three months after the end of the fiscal year to which the accounts relate. Contrary to this requirement, the Project's

financial statements were submitted for audit on 7 October, 2019, seven (7) days after the lapse of the three months period.

The Programme Management was therefore in breach of the law.

## **892 Project Sustainability**

As disclosed under the Project Information section of the financial statements, the Project was to end on 28 February, 2019. However, a physical verification of the implementation of the Project activities during the month of October, 2019 revealed that the Project completion was behind schedule. On 8 October, 2019, the Project Management requested for an extension of the loan disbursement window to 30 December, 2022 and the due date for the loan to be extended to June, 2032. However, response to the request was not availed for audit review.

Further, with GoK having delayed in its contributions and in view of the fact that the donor reserves the right to stop disbursements after 30 December, 2015, the strategic goals of the Program may not be achieved in full.

## **893 Failure to Maintain Separate Project Cashbook and Bank Account**

The Project Management did not maintain a cashbook neither operate a separate bank account for the Project during the year. Instead, receipts and payments in respect of the Project were recorded and accounted for in the main cashbook and bank account of the Agency contrary to Section 68(2) of Public Finance Management Act, 2012 which requires Accounting Officers to ensure that proper financial and accounting records are kept.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

- 894** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA CREDIT NO.5103 KE) – ATHI WATER WORKS DEVELOPMENT AGENCY**

### **REPORT ON FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

- 895** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **896 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.3,875,165,414 and Kshs.3,085,194,182 respectively resulting to an under-funding of Kshs.789,971,232 or 20% of the budget. Further, of the receipts amount of Kshs.3,085,194,182, only Kshs.2,198,699,062 was absorbed resulting to an under absorption of Kshs.886,495,120 or 21% of the receipts.

The Management has not explained the low absorption and measures it intend to take to ensure the Project objectives are met within the Project lifetime.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **897 Delays in the Project Implementation**

##### **897.1 Unsatisfactory Implementation of the Northern Collector Tunnel and Water Intake Project**

Construction of Northern Collector Tunnel entails development of river-water intake structures and an 11.7 - kilometre underground tunnel at a cost of US\$85.20 million equivalent to Kshs.8.52 billion at the exchange rates prevailing on 30 June, 2019.

The Project is in its fifth (5<sup>th</sup>) year of implementation. During the year under review, several worksite incidents that included some sections of the tunnel collapsing occurred and were reported by Management. Apparently, it has been noted that there are significant gaps in compliance with environmental, social health and safety issues and adherence to safe working procedures when executing the project's works. Failure to mitigate these weaknesses could result in harm to workers or fatal injuries.

##### **897.2 Delay in Amboseli Pastoralist Water Supply Project**

The Project entails rehabilitation of Amboseli Pastoralist Water Supply Project. The works were estimated by Management to be at 62% level of completion as at 30 November, 2019. At that date, the aggregate payments made to the contractor amounted to Kshs.47,480,992 or 89% of the contract price of Kshs.53,482,085. The audit however, revealed that the works had stalled after the contractor abandoned the site. Management explained that differences between the contractor and the supervising consultant had resulted in non-payment of the latter's fees thereby causing him to pull out of the project. As a result, the contractor stopped the works citing lack of the procedural supervision required under the

contract. As at 30 June, 2019, the contractor was twenty (20) months behind the agreed project completion date. Further, several critical Project guarantees and insurance have since expired including; risk policies, work injury benefits, plant and machinery insurance, contract insurance, performance security and bank guarantees. This exposes the project to legal and financial risks that could result to loss of public resources.

### **897.3 Delay in Mwala Water Supply Project**

The project entails rehabilitation and expansion of five (5) water systems namely; Mwala Mini, Wamunyu, Mbika, Kitange and Makutano.

The estimated works completion rate for Mwala Water Supply Project as at 30 November, 2018 was 49% while payments made amounted to Kshs.35,659,561 equivalent to 65% of the contract value. However, the project had stalled with the contractor having abandoned the site citing absence of a project supervisor. This was after the contracted supervisors abandoned work reportedly because management had withheld their fees. Performance security and advance payment guarantees expired in February, 2019 and insurance policies in July, 2019 leaving the project exposed to several risks. Further, completion of the works was twenty three (23) months behind schedule as at 30 November, 2019

Contrary to the Values and Principles of Public Service as provided for under Article 232 (1)(c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

In the circumstance, validity and effective management of public resources for service delivery to the taxpayers could not be confirmed.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**898** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **TRILATERAL DEVELOPMENT COOPERATION IN KENYA, WATER AND SANITATION SECTOR PROJECT (CREDIT NO. BMZ 2013 65 352) – LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Disclaimer of Opinion**

#### **899 Non-Compliance with Standards on Presentation and Disclosure**

The Public Sector Accounting Standards Board (PSASB) prescribes the format and contents of financial statements prepared in accordance with International Public Sector Accounting Standards (IPSAS)-Cash Basis. The financial statements should comprise of: the statement of financial assets, the statement of receipts and payments, statement of cash flows, statement of comparative budget and actual amounts and a summary of significant accounting policies and other explanatory information to the financial statements. However, the financial statements presented for audit do not include the statement of financial assets as prescribed.

In the circumstances, the accuracy of the financial statements could not be ascertained.

#### **900 Non- Submission of Previous Years Financial Statements**

The statement of receipts and payments for the year ended 30 June, 2019 reflects cumulative donor amount received to date of Kshs.58,031,316. Included in this balance is an amount of Kshs.35,353,521 which was received in 2015/2016 and 2016/2017. However, Management has not submitted, the financial statements for the year 2015/2016 and 2016/2017 as required for audit review.

Consequently, the accuracy of the cumulative to date balance of Kshs.58,031,316 cannot be confirmed. Management is also in breach of the law.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**901** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 902** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## NAIROBI WATER DISTRIBUTION NETWORK PROJECT (CREDIT NO. BMZ 2020.82.527/KV26833) – ATHI WATER WORKS DEVELOPMENT AGENCY

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

- 903** There were no material issues noted during the audit of the financial statements of the Project.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### Conclusion

- 904** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 905** There were no material issues relating to effectiveness of internal controls, risk management and governance.



**NORTHERN COLLECTOR PHASE 1 - ADDITIONAL  
REHABILITATION AND DEVELOPMENT OF THE NETWORK  
PROJECT (LOAN NO.CK 1074) – ATHI WATER  
WORKS DEVELOPMENT AGENCY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**906** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**907 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.1,332,071,516 or 99% of the budgeted receipts of Kshs.1,324,000,000. Further, actual expenditure amounted to Kshs.1,560,174,616 resulting into an over expenditure of Kshs.240,174,616 or 18% of the budget.

The Management has attributed the overutilization to revision of the budget by the Ministry of Water, Sanitation and Agriculture after the amounts had already been disbursed to Athi Water Works Development Agency.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC  
RESOURCES**

**Conclusion**

**908** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE**

**Conclusion**

**909** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **SMALL TOWNS AND RURAL WATER SUPPLY AND SANITATION PROJECT ADF LOAN NO. 2100150021543 – TANATHI WATER SERVICES BOARD**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Adverse Opinion**

#### **910 Presentation and Disclosures**

The Public Sector Accounting Standards Board (PSASB) prescribes for the International Public Sector Accounting Standards (IPSAS) cash basis as the framework for the preparation of donor funded projects financial statements. However, the Project has prepared its financial statements using IPSAS-accrual basis. Further, the International Public Sector Accounting Standards (IPSAS)-accrual basis prescribes the elements of financial statements to comprise of: - the statement financial position, statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts. The financial statements submitted for audit includes a statement of receipt and expenditure which is not prescribed. In addition, the financial statements do not include a statement on progress on follow up of auditor's recommendations and special deposit account reconciliation statement(s) as prescribed by the reporting template.

In the circumstances, the financial statements as presented do not comply with the reporting guideline set by Public Sector Accounting Standards Board (PSASB) and do not comply with IPSAS-Accrual Basis.

##### **910.1 Unsupported Bank Balance**

The statement of financial position reflects cash and bank balance of Kshs.25,710,449 as at 30 June, 2019. Included in this balance is Kshs.25,444,049 on account of Tanathi Water Service Board (WSB) 10% retention account. However, the cash book, bank statements, bank confirmation certificate and bank reconciliations statements in support of the bank balance were not provided.

In the circumstances, the correctness and validity of the bank balance of Kshs.25,710,449 in as at 30 June, 2019 could not be confirmed.

##### **910.2 Unaccounted for Debtors and Prepayment Balance**

The statement of financial position reflects debtors and prepayments balance of Kshs.101,000,000 as at 30 June, 2019. The balance relates to an amount advanced to the National Land Commission for compensation of landowners of one hundred and twenty-four (124) acres of land for the Yatta Dam in Machakos County whose acquisition started in year 2011. However, records to confirm that the relocation action plan had been implemented and compensation to the affected

land owners done in accordance with the signed loan agreement Section 5.02(i) were not availed for audit review.

In the circumstances, the amount of Kshs.101,000,000 advanced to the National Land Commission remained unaccounted for as at 30 June, 2019.

### **910.3 Misstatement of Property, Plant and Equipment**

The statement of financial position reflects Property, Plant and Equipment net book value of Kshs.4,223,911,983;(2018-Kshs.4,366,957,648) as disclosed under Note 5(a) to the financial statements. Included in this balance is a motor vehicle exhaustor registration number KBR 886U with historical cost of Kshs.11,900,000 that is fully depreciated but still has economic usefulness to the Machakos Water Supply and Sanitation Company. However, this vehicle has not been revalued in line with paragraph 67 of IPSAS 17.

In the circumstances, the accuracy of the Property, Plant and Equipment balance of Kshs.4,223,911,983 as at 30 June, 2019 could not be confirmed.

### **Other Matter**

#### **911 Loan Repayment**

The statement of financial position reflects, long term liability-African Development Bank Loan balance of Kshs.5,149,753,042 (2018-Kshs.5,070,066,333) as disclosed under Note 10 to the financial statements. This amount represents on-lent loan to Tanathi Water Services Board by the Government pursuant to the financing agreement of 2010. As per the subsidiary loan agreement, the amount advanced to the Board was repayable to The National Treasury in fifty-two (52) equal installments commencing on 30 April, 2016. The Board was also to repay interest on the principal outstanding amount at the rate of 3.0% per annum for a period of 30 years. Interest was to accrue on any unpaid principal and interest amounts. However, there is no evidence of the Agency having complied with the provisions of the subsidiary loan agreement.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**912** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**913** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **NAIROBI SANITATION OUTPUT BASED AID PROJECT (IDA GRANT NO. TF014251 AND NO. TF0A5607) - NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED**

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**914** There were no material issues noted during the audit of the financial statements of the Project.

#### Other Matter

#### **915 Pending Bills**

Note 9.1 to the financial statements reflects pending bills totalling Kshs.48,655,513 as at 30 June, 2019 which as disclosed under Annex 2A related to unpaid certified construction works and amounts owed to consultants. The Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

#### **916 Project Funding and Budgetary Performance**

Note 1.7 on Funding Summary indicates the Project was to end on 30 June, 2019. However, out of the total funding donor commitment of Kshs.1,379,933,000, only Kshs.1,047,348,053 or 76% had been received as at 30 June, 2019.

Further, the statement of comparative budget and actual amounts indicates that the Project expected to receive a total of Kshs.346,400,000 during the year under review. However, only Kshs.266,041,900 was realized resulting in a deficit of Kshs.80,358,100 or 23%. Similarly, out of budgeted expenditure of Kshs.346,409,000, only Kshs.245,488,523 was spent hence an under-expenditure of Kshs.100,920,477 or 29%. Management explanation that the variance was caused by the long electioneering period was not plausible.

The Project may, therefore, not complete all the planned activities or fully attain its objectives and expected outcomes.

## **917 Fixed Assets Management**

As disclosed under the summary of fixed asset register at Annex 3 to the financial statements, the Project had assets valued at Kshs.10,800,000 as at 30 June, 2019. The assets, which include transport equipments and motor vehicles, were at the time of the audit being utilized by the Nairobi City Water and Sewerage Company. However, a report to show when the Project's assets were handed over to the Water and Sewerage Company was not availed for audit review.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**918** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**919** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA URBAN WATER AND SANITATION (KUWAS) OBA PROJECT FUND FOR LOW INCOME AREAS - WATER SECTOR TRUST FUND**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**920** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **921 Late Submission of Financial Statements**

The Project's financial statements for the year ended 30 June, 2019 were submitted to the Auditor General for audit on 17 February, 2020, four and a half months after the end of the financial year. This was in contravention of Section 68(2)(k) of the Public Finance Management Act, 2012, which stipulates that an

Accounting Officer shall prepare annual financial statements for each financial year within three (3) months after the end of the financial year, and submit them to the Auditor-General for audit.

## **922 Budget Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.148,900,000 and Kshs.64,705,876 respectively resulting in under-funding of Kshs.84,194,124 or 56% of the budget. Further, out of the budgeted amount of Kshs.148,900,000, only Kshs.40,514,827 was spent resulting to an under expenditure of Kshs.108,385,173 representing 73% of the estimated expenditure.

The under expenditure of the approved budget indicates that some activities and Projects in the annual work-plan were not implemented which is likely to have impacted negatively on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

## **923 Un-Procedural Extension of Contract**

On 5 October, 2015, the Water Sector Trust Fund (WSTF) entered into a contract with a consultancy firm referred to as Independent Verification Agent (IVA) for thirty-six (36) months ending on 5 October, 2018 to undertake baseline surveys, output verification and sustainability tests for water service providers.

On 13 May, 2019, WSFT issued an addendum extending the contract period for an additional twelve (12) months ending 31 December, 2019. However, the validity of the addendum was not confirmed as it was issued long after the contract had expired, and it did not comply with the terms of the contract which required the party seeking an extension to notify the other party of an event necessitating such extension as soon as possible, and not later than fourteen (14) calendar days following the occurrence of such event, providing evidence of the nature and cause of such event.

In view of the above, the validity of the Independent Verification Agent's contract, and work undertaken after contract expiry could not be confirmed.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**924** There were no material issues relating to effectiveness of internal controls, risk management and governance

# **MINISTRY OF ENVIRONMENT AND FORESTRY-VOTE 1108**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **925 Fixed Assets Register**

##### **925.1 Incomplete Assets Register**

Examination of the summary of fixed assets register at Annex 4 to the financial statements revealed that the Ministry did not have an updated fixed asset register showing all the property, plant and equipment owned by the Ministry and their valuation as at 30 June, 2019. In addition, some assets at the Kenya Meteorological Department were not tagged and did not bear the office identity markings.

In absence of an updated fixed assets register, it was not possible to confirm that assets acquired and owned by the Ministry as reflected in the financial statements are fairly stated.

##### **925.2 Loss of Government Vehicle**

As previously reported, a Ministry vehicle registration No. GK A152Q (civilian number plate KAY 953F) valued at Kshs.5,460,000 was lost at Mlolongo area in Machakos County under unclear circumstances on 24 August, 2013 and was at the time being driven by an unauthorized person. Management has not initiated any measures to recover the loss of Kshs.5,460,000 from the responsible parties.

##### **925.3 Land and Buildings**

###### **925.3.1 Un-Surveyed Land without Ownership Documents**

Records maintained by the Ministry revealed that the Ministry owns forty-nine (49) parcels of land spread throughout the Country which had not been valued. Further, ownership documents of these parcels of land were not availed for audit review. Consequently, it was not possible to confirm whether the parcels of land are owned by the Ministry. In addition, physical verification of selected parcels of land revealed ongoing encroachment by informal settlers.

###### **925.3.2 Encroachment on Ministry's Land on Enterprise Road**

The Ministry through the Kenya Meteorological Department (KMD) owns land Block/209/24794/81 situated in Industrial Area on Road B off Enterprise Road measuring approximately 21.04 hectares. Other information indicated that the

Ministry through tender No.DW0/D21/88/2013-2014 and local purchase order No.0313046 dated 5 June, 2014 awarded a contract to a company to fence off the land at a contract sum of Kshs.5,662,122. Physical verification of the land revealed that the land was partially fenced making it an easy target for private developers to grab or encroach. In addition, a private developer had recently erected a concrete fence on a portion of the land. The parcel of land is under-utilized and the Kenya Meteorological Department does not appear to be carrying any activity on the land.

Scrutiny of the land boundary along Road A revealed that unknown people had encroached, fenced and hived off five parcels of land of unknown acreage from the Department's land. Moreover, a storey building was illegally under construction on one parcel of land. However, the Ministry does not appear to have raised the issue or obtained an injunction to stop encroachment and construction on the land. Further, a portion of land of unknown acreage which was purported to belong to the Department, appeared to have been fenced off from the main land.

Under the circumstances, it has not been possible to confirm the total acreage of the Department's land and its status.

#### **925.3.3 Land Hived off Ngong Meteorological Station**

The Kenya Meteorological Department owns a station located near Ngong Town along Kibiku road, Kajiado County. The station is on LR /24302 measuring 44.32 hectares. However, twelve (12) acres of the land have been hived off to pave way for the recently constructed Standard Gauge Railway (SGR) to Naivasha that traverses through the parcel of land. The Chinese company constructing the SGR has also set a construction site within the said property. Management has not indicated whether it had been gazetted for compensation.

#### **925.3.4 Encroachment on Ministry's Land in Mombasa**

A private developer has encroached on two (2) plots in Mombasa, serial No.MN/VI3746 and No. MN/VI/3747, next to the Mombasa International Airport. Further, four (4) parcels of land owned by the Kenya Meteorological Department (KMD) in Bamburi with allotment letters numbers MN/1/2405, MN/1/2407, MN/1/2409 and MN/1/2411 all dated 16 February, 2011 have on-going court cases being prosecuted by the Ethics and Anti-Corruption Commission (EACC) at the High Court of Mombasa. The Ministry's legal department seemed unaware of these court cases since no communication relating to the court cases was available at the headquarters. In the circumstances, it was not possible to confirm ownership of the above parcels of land.

#### **925.3.5 Lack of Ownership Documents for Embu Meteorological Station**

The Ministry through Kenya Gazette Notices No. 8781 and No. 8782 dated 3 November, 2005 gave notice of intention to acquire the following parcels of land;



Ngandori/Kirigi 2708, 2709, 2710, 2723, 2728, 2729, 2730 and 2745 for the construction of Embu Meteorological Station, the registered owner of the land being Samuel Mbugua (deceased). Thereafter, the Ministry through the Kenya Meteorological Department contracted a construction company to construct a Model County Office in Embu in 2009 at a contract sum of Kshs.11,532,396 which was later revised upwards in 2012 to Kshs.14,548,499. However, the process of succession and formalization of ownership of the said property where the building was constructed had not been completed. In the circumstances, the Ministry risks losing the land and the building due to lack of ownership documents.

### **925.3.6 Unsupported Acquisition of Assets**

As disclosed in Note 18 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.632,108,885 under acquisition of assets which includes an amount of Kshs.459,373,093 against purchase of specialized plant, equipment and machinery. Included in the latter balance is an expenditure of Kshs.90,536,342 being part payment for an Airborne Lidar Photographic System procured for the Department of Remote Survey and Remote Sensing (DRSRS). Information available indicate that the Airborne Lidar Photographic System was procured at a total cost of Kshs.224,896,833. The procurement of the equipment was initiated in August, 2016 when the Department was domiciled at the Ministry of Mining and concluded in November, 2018 when the Department had been transferred and domiciled at the Ministry of Environment and Forestry. It was not possible to properly verify the expenditure as the original bid document showing the specifications of the equipment, the contract and systems were not availed for audit verification.

In the circumstances, it was not possible to verify the propriety of the expenditure on purchase of Airborne Lidar Photographic System of Kshs.90,536,342.

### **926 Disclosure of a Contingent Liability in the Financial Statements**

Note 28.4 to the financial statements shows that the Ministry had a court petition Ref. ELC No.22 of 2018 with a petitioner and two others. The petition is in respect to seven (7) acres medical and hazardous waste land situated in Ruai, Nairobi valued at Kshs.245 million purchased on 26 October, 2016.

The petitioner cited breach of contract by the Ministry after the Ministry cancelled the above land purchase contract on 13 February, 2017, three (3) months after both parties had signed it. In the legal suit, the petitioner claimed for the retention of Kshs.24.5 million which was 10% advance payment by the Ministry (buyer), balance of the purchase price amounting to Kshs.220.5 million, costs of the suit and a further Kshs.15 million compensation for the breach of contract. The Ministry, on the other hand, was claiming for the refund of Kshs.24.5 million advance paid to the petitioner (seller) plus interest and cost of the suit.

Examination of the documents availed for audit review revealed the following;

- (i) The Ministry had advertised for the purchase of the above land in January, 2016 upon which a law firm representing the petitioner and two others was awarded the contract.
- (ii) In the month of June, 2016, the Ministry sought for due diligence from the National Land Commission (NLC) and a response on the same was served in October, 2016. The National Land Commission raised several issues among them, the land size being less than seven (7) acres and the parcel being made up of seven (7) separate parcels of land.
- (iii) The Ministry disregarded the National Land Commission's advice and went ahead to sign the agreement in November, 2016 followed by payment of 10% deposit amounting to Kshs.24.5 million on 24 November, 2016. In February, 2017, the Ministry cancelled the contract and in March of the same year demanded refund of the deposit which was not honored by the seller.
- (iv) In October, 2017, the Principal Secretary to The National Treasury raised salient questions on the land among them cost of contract cancellation, budget allocation and efforts for recovery of the deposit paid to the seller. These were not addressed by the Ministry.
- (v) An independent valuation dated 7 February, 2018 conducted by the Office of the Director, Land Valuation at the Ministry of Lands and Physical Planning put the total value of the land at Kshs.166 million (Kshs.23.7 million per acre) resulting to unexplained variance of Kshs.79 million.
- (vi) As at the time of the audit, the case was still pending in court and both parties were preparing for the hearing and determination of the petition.
- (vii) Management did not avail the valuation report which valued the seven (7) acre piece of land situated in Ruai at Kshs.245 million (Kshs.35 million per acre). Further, Management has not explained why due diligence on the above matter was not done, why advice from the National Land Commission was ignored and whether the officers who negligently signed and cancelled the contract without taking into consideration expert opinion from the National Land Commission were held accountable.

In the circumstances, the government risks losing over Kshs.39.5 million in terms of the deposit paid of Kshs.24.5 million, unknown costs of the suit and compensation costs of Kshs.15 million which the petitioner is claiming.

## **Other Matter**

### **927 Pending Bills**

Note 28 to the financial statements reflects pending bills amounting to Kshs.115,781,578 as at 30 June, 2019. These bills were not paid during the year under review but were instead carried forward to 2019/2020 financial year. Failure

to settle bills in the year to which they relate adversely affects the following year's provision to which they form the first charge.

## **928 Budget Performance and Analysis**

### **928.1 Excess Revenue**

During the year, the Ministry received Exchequer/other receipts amounting to Kshs.13,187,813,194, while the approved budget was Kshs.1,431,380,000 resulting in unexplained excess budget receipts of Kshs.11,756,433,194. Further, the Ministry had budgeted to receive Kshs.915,108,000 from the sale of assets whose actual receipt was Kshs.910,108,000 resulting to a shortfall of Kshs.5,642,000.

### **928.2 Expenditure Budget Analysis**

During the year under review, the Ministry had a low absorption of the approved budget in the following items as shown below;

<b>Expenditure Item</b>	<b>Approved Budget (Kshs.)</b>	<b>Actual Expenditure (Kshs.)</b>	<b>Under Expenditure (Kshs.)</b>
Use of Goods and Services	733,331,156	592,694,868	140,636,288
Transfers to Other Government Units	11,110,415,586	10,649,744,111	460,671,476
Social Security Benefits	5,100,000	2,752,949	2,347,051
Acquisition of Assets	1,450,896,991	632,108,885	818,788,106
<b>Total</b>	<b>13,299,743,733</b>	<b>11,877,300,813</b>	<b>1,422,442,921</b>

In view of the foregoing, the Ministry did not achieve its planned objectives for the year under review.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **929 RANET-Kenya Community Radio**

RANET is a radio network which was established as a flagship project under the Kenya Meteorological Department (KMD) of the Ministry of Environment and Forestry, as a source of information on early warning system for communities affected by climate and weather-related phenomena. The radio station aims at delivering and disseminating climate knowledge to the local community to encourage them to foster climate action. The Climate Resource Centre serves as a learning institution for students on environmental and climate related studies.

The stations are located in Isiolo, Kwale, Narok, Busia, Vihiga and Murang'a Counties and others were being constructed. An audit inspection to various stations revealed the following observations;

#### **929.1 Isiolo (Garbatulla) Community Radio**

The community radio and the meteorological station was inaugurated on 29 October, 2012. However, during the field audit inspection in October, 2019, the Garbatulla RANET station was not operational. Further enquiry revealed that although the studio equipment is intact, the broadcasting services were discontinued effective 1 July, 2019 and the staff who were manning the facility had not been paid salaries.

Consequently, the ownership of the land, building and safety of the equipment could not be confirmed.

#### **929.2 Siaya and Matungu-Mumias Radio Station**

The construction of a radio station was on-going at the former Ministry of Information and Broadcasting site. It was not clear what agreement the Ministry had with the Ministry of Information, Communication and Technology as all works were said to have been contracted by the latter's Headquarters. As at the time of audit, an amount of Kshs.6.6 million had been paid to the construction company and a certificate of completion had been issued. However, physical inspection confirmed that work was incomplete as construction of generator room was still in progress. Further, in Matungu - Mumias the structural works was complete but equipment to host the RANET station had not been installed.

#### **929.3 Construction of RANET Building at Nyamache Sub-County, Kisii County**

The tender for the proposed construction of RANET building at Nyamache Sub-County was awarded to a general painting and building construction company at a contract sum of Kshs.23,738,320 for a period of twelve (12) months. The building was constructed on a three (3) acre piece of land donated by the County Government but the land transfer documents to the Department were not availed for audit review. Site inspection done on 04 October, 2019 revealed the following anomalies;

- (i) Contrary to Section 139(2) of the Public Procurement and Asset Disposal (PPAD) Act, 2015, the contractor was irregularly awarded a 10% variation amounting to Kshs.2,373,832 without authority from the Accounting Officer.
- (ii) The contract term expired in 2018 and was not renewed, but the contractor was still on site without a valid contract agreement. As a result of the expiry of the contract term, works and variation were executed outside the contract period contrary to Section 139(4d) of the PPDA Act, 2015.

- (iii) The project file containing correspondences between the contractor and the client was not provided for audit review. It was not, therefore, possible to make follow up on key issues like the performance bond, insurance, bills of quantities, contract documents and award documents.

In the circumstances, the Management was in breach of law.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

- 930** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **DONOR FUNDED PROJECTS**

#### **SOUND CHEMICALS MANAGEMENT MAINSTREAMING AND UPOPs REDUCTION IN KENYA PROJECT (GRANT NO. 99820)**

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Unqualified Opinion**

- 931** There were no material issues noted during the audit of the financial statements of the Project.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

- 932** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

- 933** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **SYSTEM FOR LAND BASED EMISSIONS ESTIMATIONS IN KENYA PROJECT**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**934** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **935 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.18,594,000 and Kshs.2,999,076 respectively resulting to an under-funding of Kshs.15,594,924 which represents 84% of the budget. Similarly, the Project spent Kshs.5,567,409 or 29% of the approved budget of Kshs.18,594,000. The Management has attributed the slow absorption to staff reduction as the Project nears the end.

#### **936 Unresolved Prior Year Matter**

##### **936.1 Irregular Payments**

As previously, reported in 2017/2018 financial year, an amount of Kshs.2,396,400 was irregularly incurred on salaries and allowances to officers whose contracts had expired. An officer in charge of ICT and another designated as administrative assistant were paid salaries and allowances even though their contracts had expired in June, 2017 and December, 2017 respectively.

A review of the matter indicated that none of the contracts had been renewed during the year under review.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **937 Late Submission of Annual Report and Financial Statements**

The Management submitted, for audit purpose, the annual report and the financial statements for the year ended 30 June, 2019 on 18 October, 2019 instead of 30 September, 2019. This was despite the fact that the Project was expected to have terminated by 31 December, 2018. This was contrary to Section 81(4)(a) of

the Public Finance Management Act, 2012. Late submission of the financial statements interferes with the audit process.

Consequently, the Management was in breach of the law.

#### REPORT ON EFFECTIVENESS INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**938** There were no material issues relating to effectiveness of internal controls, risk management and governance.

#### **INSTITUTIONAL STRENGTHENING OF THE OZONE DEPLETING SUBSTANCES PROJECT (UNEP PROJECT ACCOUNT NO.UNEP/KEN/SEV/80/INS/63)**

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Unqualified Opinion**

**939** There were no material issues noted during the audit of the financial statements of the Project.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**940** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**941** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT – (PHASE III) (PROJECT PREPARATION ADVANCE NO. V1570–KE)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Adverse Opinion**

#### **942 Phase II Expenditure**

The statement of receipts and payments reflects payments for purchase of goods and services amounting to Kshs.33,129,298. However, included in this amount were payments totalling Kshs.4,135,800 incurred on domestic travel and subsistence (Kshs.3,162,700) and office general supplies (Kshs.973,100) that related to activities under Phase II of the Project. However, details on how the Project transitioned from Phase II to Phase III, and the basis for inclusion of the expenditure in the financial statements for Phase III of the Project were not provided. Under the circumstances, the eligibility of the expenditure of Kshs.4,135,800 could not be confirmed.

#### **943 Cash and Cash Equivalents**

The statement of financial assets as at 30 June, 2019 reflects a comparative cash and cash equivalents balance of Kshs.1,415,506 as at 30 June, 2018. However, the balance differs with the cash and cash equivalents balance of Kshs.1,398,115 reflected in the audited 2017/18 financial statements for Phase II by Kshs.17,391. The difference of Kshs.17,391 has not been reconciled or explained. Further, the statement of financial assets reflects a cash and cash equivalents balance of Kshs.10,378,235 as at 30 June, 2019. However, bank statements for the Project bank account were not provided for audit review.

Under the circumstances, the accuracy and ownership of the cash and cash equivalents balance of Kshs.10,378,235 as at 30 June, 2019 could not be confirmed.

#### **944 Special Account Statement and Reconciliation**

The statement of receipts and payments reflects receipts of Kshs.39,891,146 under loan from external development partners. On the other hand, the special account statement, prepared by The National Treasury, indicates a total of Kshs.47,354,069 was withdrawn from the special account to finance the project activities during the year under review. However, the financial statements submitted for audit do not have a disclosure note on the special deposit accounts movement neither was the special deposit account reconciliation statement attached to the financial statements as required by the reporting template prescribed by the Public Sector Accounting Standards Board.



In the circumstance, the accuracy and completeness of the receipts from external development partners of Kshs.39,891,146 could not be confirmed.

#### **945 Surplus for the year shown under Prior Year Adjustments**

The statement of receipts and payments for the year ended 30 June, 2019 reflects surplus for the year of Kshs.8,962,729 which is erroneously reflected as a prior year adjustment in the statement of financial assets as at 30 June, 2019. In view of the transposition of the surplus balance of Kshs.8,962,729, the accuracy of the statement of financial assets could not be confirmed.

#### **946 Follow up of Auditor's Recommendations**

The financial statements submitted for audit has no information on progress on follow up of auditor's recommendations, a requirement by the reporting template prescribed by the Public Sector Accounting Standards Board. Under the circumstances, it was not possible to confirm how issues raised in the Audit Report for the year 2017/18 under Phase II of the Project were resolved.

#### **Other Matter**

#### **947 Unexplained Budgetary Variances**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts of Kshs.60,563,146 against budgeted receipts of Kshs.66,400,000 resulting in an under-collection of Kshs.108,854 or 9% of the budget receipts. Similarly, the statement reflects total actual expenditure of Kshs.51,600,417 against the budgeted expenditure of Kshs.66,400,000 resulting into an over-expenditure of Kshs.14,799,583 or 22% of the budgeted expenditure. Explanations for the material differences between the budget and actual amounts were not provided contrary to the reporting requirements prescribed by the Public Sector Accounting Standards Board.

#### **948 Cessation of Phase III Funding and Project Performance**

As reflected under the funding summary, out of the total commitment by IDA of Kshs.190,000,000, only Kshs.39,891,145 or 21% had been released to the Project as at 30 June, 2019. Similarly, out of the total GoK counterpart funding commitment of Kshs.52,800,000 only Kshs.20,672,000 or 39 % had been received by the Project as at the same date. However, the International Development Agency (IDA) vide its letter dated 2 October, 2019 addressed to The National Treasury and the Ministry of Environment and Forestry communicated its decision to stop the Project activities and funding. Through the same letter, the Project was required to document all eligible expenditures and ensure unjustified and unspent funds were refunded to the bank by 30 October, 2019.

Under the circumstances, the ability of the Project to continue to sustain services is in doubt. Further, it was not possible to confirm whether value for money on the total expenditure of Kshs.51,600,417 incurred by the Project was obtained.

#### **949 Closure of Lake Victoria Environmental Management Project Phase II**

The Project under review was preceded by Lake Victoria Environmental Management Project (LVEMP) Phase II. The following matters were noted with regard to LVEMP II Project:

- i) The Project financial statements for the year ended 30 June, 2019 were not submitted for audit neither do the financial statements for Phase III provide information on closure of Phase II or the transition from Phase II to Phase III. The relationship between the two phases has therefore not been established.
- ii) Further, a review of the special account statement for Phase II for the year ended 30 June, 2019 indicates that Kshs.48,112,543 (USD 474,271.74) was deposited into the special account out of which Kshs.47,354,059 (USD 475,013.11) was transferred to the Project bank account for purpose of financing activities during the year under review. However, I could not confirm the eligibility of the Kshs.47,354,059 as no expenditure documents nor returns were provided to indicate how the funds were utilized by the Project.
- iii) The LVEMP Phase II closure financial statements were not presented for audit and no evidence was provided that expenditure returns were submitted to The National Treasury by the close of the financial year ended 30 June, 2019.
- iv) Notes 9.1 and 9.2 to the 2017/18 financial statements of LVEMP II reflected pending accounts payable and pending staff payables of Kshs. 3,182,056 and Kshs.13,080,000 respectively as at 30 June, 2018 while the 2018/19 financial statements for Phase III indicated that there were no pending bills as at 30 June, 2019. It is not clear whether the bills were paid.

#### **950 Summary of Fixed Assets Register**

Annex 3 to the financial statements provides the summary of fixed assets register. However, the title headings do not indicate the years to which the figures relate to and therefore the accuracy of the summary could not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 951 Non-Remittance of Statutory Deductions

From a review of the records maintained by the Project, it was noted that statutory deductions totaling Kshs.1,888,526 comprising Pay As You Earn (PAYE), Value Added Tax (VAT) and National Hospital Insurance Fund (NHIF) deduction of Kshs.1,872,898, Kshs.8,828 and Kshs.6,800 respectively had not been remitted to the relevant authorities as at 30 June, 2019. Non-remittance of statutory deductions within the due dates is against the law and may also result in increased penalties and interest.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**952** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## NATIONAL ACTION PLAN ON ARTISANAL SMALL – SCALE GOLD MINING NO. AFR/NAP ASGM PROJECT/C/10-2016

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**953** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 954 Failure to Maintain a Separate Bank Account

Examination of Project documents reveals that National Action Plan on Artisanal Small - Scale Gold Mining Project uses the Ministry's Development bank account thus exposing the Project financing to the risk of comingling of funds with other

funds. No reason has been provided why a distinct Project account had not been opened at the initiation of the Project.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**955** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## GREEN GROWTH AND EMPLOYMENT PROGRAMME (GGEP) – DANISH EMBASSY FILE NO.2015-39790

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**956** There were no material issues noted during the audit of the financial statements of the Programme.

#### Other Matter

##### **957 Budget Control and Performance**

The statement of comparative budget and actual amounts reveals that the Programme had budgeted to receive a total of Kshs.308,000,000 from External Development Partners but actual receipts amounted to Kshs.47,188,551 only resulting into a shortfall of Kshs.260,811,449 or 85% of the total budgeted receipts. Similarly, whereas the Programme had budgeted to spend an amount of Kshs.308,000,000, actual expenditure was limited to the actual receipts of Kshs.47,188,551 or 15% of the budgeted operations. The under-utilization of funds implies that the Programme may therefore not be achieving its planned goals and objectives.

Management has attributed the under-funding and under-utilization to the untimely release of funds from both the Government and the Donor.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**958** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**959** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF ENVIRONMENT AND FORESTRY

### KENYA WATER TOWERS AGENCY PROJECT – KENYA FOREST SERVICE

#### REPORT ON THE FINANCIAL STATEMENTS

##### Unqualified Opinion

**960** There were no material issues noted during the audit of the financial statements of the Project.

##### Emphasis of Matter

##### **961 Material Uncertainty Related to Sustainability of Services**

As previously reported, the Project was suspended in January, 2018 by the donor, European Union, citing violation of rights of the people living in forests by Kenya Forest Service while implementing the Project in one of the Kenya Water Towers. As the Project was being implemented in the Mau, the Ogiek Community living in Mau Forest took the Republic of Kenya to the African Court on Human and Peoples' Rights claiming that they were being forcefully evicted from their ancestral land, the Mau Forest. The judgment on this case was delivered in the month of May, 2017 where the Court found that Kenya had violated 7 provisions of the African Charter on Human and Peoples' Rights by evicting the Ogiek from the Mau Forest. In addition, the United Nations Committee on the Elimination of Racial Discrimination, expressed concerns about reports on the eviction in Embobut Forest. The Committee called on Kenya to acknowledge the rights of the Sengwer, Endorois, Ogiek and all other indigenous peoples.

It was concluded that Kenya ought to carry out effective consultations between relevant parties and communities likely to be affected by the Project with a view to

obtaining prior and informed consent of indigenous communities before implementing future projects.

At the time of audit, the suspension had not been lifted although there were discussions between the Management of the Project and the Donor with a view of resuming the Project.

My opinion is not modified in respect of this matter.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**962** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**963** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **NAIROBI RIVERS BASIN REHABILITATION AND RESTORATION PROGRAMME - SEWERAGE IMPROVEMENT PROJECT (CREDIT NO.2100150023655) – ATHI WATER WORKS DEVELOPMENT AGENCY**

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Unqualified Opinion**

**964** There were no material issues noted during the audit of the financial statements of the Project.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**965** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 966** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## NORTHERN KENYA CONSERVATION PROJECT CREDIT NO.CKE 1036 01 H - KENYA WILDLIFE SERVICE

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

- 967** There were no material issues noted during the audit of the financial statements of the Project.

#### Other Matter

#### **968 Budget Control and Performance**

During the year under review, the Project had budgeted to receive Kshs.286,000,000. However, only Kshs.69,293,508 or approximately 26% of the budgeted figure was received resulting to receipts shortfall of Kshs.216,706,492 or 76%. As a result, the Project utilized past savings to finance current activities. The Management has not explained measures to ensure funding is available as planned.

In view of the foregoing, the Project may not have achieved its planned activities and its objectives for the year under review.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

- 969** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 970** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **CAPACITY DEVELOPMENT PROJECT FOR SUSTAINABLE FOREST MANAGEMENT IN THE REPUBLIC OF KENYA – KENYA FOREST SERVICE**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**971** There were no material issues noted during the audit of the financial statements of the Project.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**972** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**973** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **INTERNATIONAL PARTNERSHIP PROGRAMME FOREST 2020 - KENYA FOREST SERVICE**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**974** There were no material issues noted during the audit of the financial statements of the Programme.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**975** There were no material issues relating to lawfulness and effectiveness in use of public resources.



## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT GOVERNANCE

### Conclusion

**976** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## GREEN GROWTH AND EMPLOYMENT THEMATIC PROGRAMME - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**977** There were no material issues noted during the audit of the financial statements of the Programme.

#### Other Matter

#### **978 Budget Control and Performance**

The statement of comparative budget and actual amounts reveals that the Programme had budgeted to receive a total of Kshs.227,000,000 from External Development Partners but actual receipts amounted to 151,000,000 resulting into a shortfall of Kshs.76,000,000 or 33% of the total budgeted receipts. Further, of the receipted amount of Kshs.151,000,000, the Programme absorbed Kshs.138,482,051 resulting to an under absorption of Kshs.12,517,949 or 8% of the receipts. The under-utilization of funds implies that the Programme may therefore not be achieving its planned goals and objectives.

Management has attributed the under-funding to the failure by the Government and the donor release of the funds.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### Conclusion

**979** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**980** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## INTEGRATED PROGRAMME TO BUILD RESILIENCE TO CLIMATE CHANGE AND ADAPTIVE CAPACITY OF VULNERABLE COMMUNITIES IN KENYA - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

##### **981 Non-Performance by Sub-Executing Agency**

As disclosed under Note 8.7 the statement of receipts and payments reflects an amount of Kshs.8,946,194 in respect of transfers to other Government entities. The balance includes a cumulative amounts disbursed to the Kenya Forests Research Institute (KEFRI) amounting to 132,040,754. A review of records indicates that the World Vision through KEFRI had been contracted as a sub-implementing entity to undertake various activities under Component 1 in Homa Bay County.

The total budget as communicated to the World Vision on 10 March, 2017 was USD 578,480.4. However, World Vision pulled out of the Programme through their letter dated 8 May, 2017 without implementing the activities citing inadequacy of budget, after a request for budget adjustment from USD 578,480.4 to USD 594,531.90 was declined.

The approved Year 1 budget was Kshs.12,876,544 where Kshs.3,338,784 was disbursed to KEFRI for transfer to World Vision at the inception of the project. This amount was not utilized as per the initial project objectives and had not been refunded to NEMA, which is the National Implementing Entity as at 30 June 2019. The Management has explained that a request for refund has been made to KEFRI.

In the circumstances, the utilization of Kshs.3,338,784,532 disbursed to the sub implementing agency cannot be confirmed.

## **Emphasis of Matter**

### **982 Low Absorption Rate**

A review of the Financing Agreement revealed that the initial closing date for the Programme was 1 April, 2019 but this has been extended to 30 June, 2020 at no cost. Further, paragraph 1.7 of the non-financial information indicates that the Programme had drawn Kshs.901,442,454 out of the total Donor commitment of Kshs.1,012,714,450 leaving an amount of Kshs.112,272,110.

Further, the statement of receipts and payments indicates that the Programme had cumulatively spent Kshs.411,829,826 as at 30 June 2019 representing an absorption rate of 41% which includes Kshs.61,499,181 being unspent balance advanced to executing entities. Management has not explained how it will absorb the remaining 59% funding within the remaining period although Programme was given an extension up to 30 June, 2020.

My opinion is however not modified in respect of this matter.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**983** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **984 Delay in Programme Implementation**

As at the time of audit, it was noted that monitoring and evaluation activities of the various projects under the Programme had not been undertaken since the inception of the Programme. In the circumstances, it is not clear and the Management did not explain the action so far undertaken since the inception of the Programme, to ensure that the Programme funds are utilized as earlier intended and within the timeline of the Programme duration.

Further, the following projects had unsatisfactory matters: -

##### **984.1 Slow Delivery of Services - Kenya Forestry Research Institute (KEFRI)**

KEFRI was expected to implement under Component 2 in Loitokitok, Kajiado South Sub-County as per the initial Programme budget of Kshs.29,510,584.

However, the Institute awarded some six (6) contracts to various firms at a total cost of Kshs.65,110,584 which was over the approved budget resulting to a shortfall of Kshs.35,600,000 contrary to the Public Procurement and Asset Disposals Act, 2015.

The expected completion date was 15 March, 2018 and close to twenty (20) months have elapsed since then without the activity being undertaken. It is apparent that at the conclusion of the Programme there will be cost overruns of approximately Kshs.35.6 million raising doubt on how this deficit will be financed. The Management has not indicated how the deficit will be financed.

In the circumstances it has not been possible to confirm the action the Management would take on entities which have not implemented their activities as the Programme end date was extended from 30 June, 2019 to 30 June, 2020.

#### **984.2 Slow Procurement Process - Caritas Nyeri**

Caritas Nyeri, one of the Sub-Executing Entity under TARDA as per the initial Programme budget, was expected to implement in Thome, Laikipia County under Component 2 and an amount of Kshs.31,059,782 was transferred to Caritas Nyeri.

The project was launched on 24 April, 2016 and on 6 June, 2016 the advertisement for expression of interest (EOI) for detailed feasibility study and design of the Thome Small Holder Irrigation Project was done and closed on 21 June, 2016. The bidders submitted request for proposals where both technical and financial aspects were evaluated. However, this turned out to be non-responsive due to inadequate budgetary provisions. Caritas Nyeri with the consent of the Management, sought alternative means of carrying out the feasibility study, survey and approval through the Laikipia County Department of Water Services and Storage. The design report was submitted to NEMA on 19 October, 2017 which was later revised and re-submitted on 22 February, 2018 for consideration and approval. The implementation status report as at 30 June, 2019 indicated that the procurement has not been done and that NEMA was in the process of procuring for the works in the year under review. The procurement process has taken an unexceptionally long time to be concluded.

#### **984.3 Construction of Milk Cooling Plant, Fish Cooling Plant and Fruit Processing Plant - TARDA**

TARDA was supposed to construct a milk cooling plant, fish cooling plants and a fruit processing plant among other activities. According to the implementation status in the financial statements, the works have not been done and only the Environmental Impact Analysis (EIAs), Bills of Quantities (BQs) and design had been done by 30 June, 2019. At the time of the audit, the construction of a milk cooling plant, fish cooling plants and fruit processing plant had not been done. However, NEMA sought for a no cost extension that was granted by the Adaptation Fund Board and the Programme was given an extension up to 30 June, 2020.

In all the above cases no satisfactory explanations have been given for the undue delay and in the circumstances, the citizens have not received the services as planned.

## **ZUIA UKIMWI IMARISHA AFISA - KENYA FOREST SERVICE**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**985** There were no material issues noted during the audit of the financial statements of the Project.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**986** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**987** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## MINISTRY OF LANDS AND PHYSICAL PLANNING-VOTE 1112

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 988 Discrepancies Between Financial Statements and Integrated Financial Management Information System (IFMIS) Figures

The following discrepancies were noted between figures in the financial statements and figures in IFMIS statements as detailed below: -

Item Description	Balance in the Financial Statements (Kshs.)	Balance as per IFMIS Statements (Kshs.)	Difference (Kshs.)
Bank Balances	304,215,076	1,361,326,765	(1,057,111,689)
Cash in Hand	142,027	1,265,485,360	(1,265,343,333)
System Required Liabilities a/c	-	1,937,296,988	(1,937,296,988)
Fund Balance	13,730,176	81,992,613	(68,262,437)

In the circumstances, the accuracy of the financial statements could not be confirmed.

#### 989 Bank Balance

The statement of assets and liabilities and Note 8A to the financial statements reflect a total bank balance of Kshs.304,215,076. Included in the figure is a balance of Kshs.387 for the recurrent account, Kshs.643, for the development account and Kshs.304,214,046 for the deposit account. However, the balances relate to the cashbook balances and bank balance confirmation certificates as at 15 July, 2019 and not as at 30 June, 2019. Further, the Kenya Institute of Surveying and Mapping bank account held at the National Bank of Kenya had a balance of Kshs.6,077,289 as at 30 June, 2019 which has not been disclosed in the financial statements.

In the circumstances, the validity, accuracy and completeness of the reported bank balance of Kshs.304,215,076 could not be confirmed.

#### 990 Accounts Receivable – Outstanding Imprests

The statement of assets and liabilities reflects accounts receivables balance of Kshs.8,734,579 which as disclosed under Note 9 to the financial statements includes Government imprests of Kshs.3,028,253 that had been outstanding for more than one (1) year. This is contrary to Regulation 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Regulation 93 (6) further provides that

in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest charged at the prevailing Central Bank Rate.

Consequently, it has not been possible to confirm the validity and recoverability of the Government imprest balance of Kshs.3,028,253 as at 30 June, 2019.

### **991 Acquisition of Assets**

The statement of assets and liabilities reflects acquisition of assets expenditure of Kshs.1,348,739,044 which as disclosed under Note 7 to the financial statements includes research, studies, project preparation, design and supervision expenditure of Kshs.966,728,870. However, the expenditure includes Kshs.17,617,601 paid to the Ministry of Works Sports Club being morning tea and lunches for casual employees working in different offices at the Ministry. It is not clear why the casuals, in addition to their wages, were provided with meals and tea at a cost of Kshs.1,270 per day per person. Further, it was not clear how the Sports Club which is not a Government entity was identified to deliver the services to the Ministry.

In the circumstances, the accuracy of the reported figure for acquisition of assets and the propriety of the payments totalling to Kshs.17,617,601 could not be confirmed.

### **992 Undisclosed Expenditure for Kenya Institute of Surveying and Mapping**

Kenya Institute of Surveying and Mapping through its bank account operated at National Bank of Kenya collected Kshs.24,299,312 as fees. The Institute spent Kshs.12,622,023 on operational expenses and transferred Kshs.5,600,000 to the Ministry as Appropriations-In-Aid leaving a bank balance of Kshs.6,077,289 at the end of the financial year. However, both the expenditure of Kshs.12,622,023 and the bank balance of Kshs.6,077,289 have not been reflected in the Ministry's financial statements.

In the circumstances, the accuracy and completeness of the use of goods and services expenditure of Kshs.1,155,923,714 reflected in the statement of receipts and payments could not be confirmed.

### **993 Undisclosed Legal Pending Bills and Unpaid Bills**

As previously reported, the Ministry had legal pending bills amounting to Kshs.946,508,404 for cases determined against the Ministry. However, evidence that the bills were settled was not provided for audit and the bills have not been disclosed in the financial statements.

Further, as disclosed under Note 14.1 to the financial statements, bills totalling Kshs.319,367,601 remained unpaid as at 30 June, 2019. Failure to settle bills in

the year they relate to distorts the financial statements for the year and also affects the budgetary provisions for the subsequent year.

## **Other Matter**

### **994 Research, Studies, Project Preparation, Design and Supervision**

As previously reported, the statement of receipts and payments for the year ended 30 June, 2018 reflected a figure of Kshs.1,256,719,593 relating to acquisition of assets which included research, studies, project preparation, design and supervision expenditure of Kshs.621,224,359. The balance included payments totalling Kshs.8,613,960 in respect of claims for refund of per diem and expenses incurred on the 4<sup>th</sup> Joint Kenya – Ethiopia Boundaries Pillar's Inspection and Maintenance conducted in April and May, 2017 for 30 days. The exercise was carried out in the previous financial year but reimbursements were done in January, 2018. Approval for the team members to conduct the exercise without per diem and refunded later has not been availed for audit review. It was not clear on what basis the activities were allowed to be undertaken in the absence of funds.

### **995 Digitization of Land Registries**

As previously reported, contracts to digitize Machakos, Kajiado, Nakuru and Kisumu land registries were awarded to three (3) local companies on 30 May, 2015 at a combined contract sum of Kshs.154,280,000. However, lack of appropriate scanners and internet has significantly affected the sustainability of the digitization project in the four registries despite incurring significant expenditure. Consequently, it has not been possible to ascertain if there is value for money on the expenditure of Kshs.154,280,000 on the digitization process.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **996 Lack of a Register of Assets**

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.1,348,739,044 in respect of acquisition of assets during the year under review. Further, the summary of fixed assets register under Annex 3 to the financial statements reflects fixed assets with a historical value of Kshs.4,025,746,318 as at 30 June, 2019. However, the register of assets containing details such as address, area, dates of acquisition, disposal or major change in use, capital expenditure, lease hold terms, maintenance contracts and other pertinent management details for the assets as required under Regulation 143(2) of Public Finance Management (National Government) Regulations, 2015 was not provided for audit.

In the circumstances, it has not been possible to confirm that the assets of the Ministry had been properly safeguarded.



## **997 Development of Land Information Management System (LIMS)**

During the year under review, the Ministry received Authority to Incur Expenditure (AIE) amounting to Kshs.73,000,000 from the Ministry of Information, Communication and Technology-State Department for ICT for development of Land Information Management System (LIMS). However, the amount received on 28 June, 2019 and credited to the Ministry's deposit account was later paid to National Intelligence Service (NIS) on 2 August, 2019 for digitization of land registries. It was not clear why the money was not paid directly to NIS by the State Department for ICT.

Although Management has indicated that NIS was engaged following a multiagency approach in the digitization of the land registries due to the security nature of documents involved, the Ministry had prior to the engagement of NIS incurred a total of Kshs.700,004,000 in digitization of fourteen (14) land registries up to 2017/2018 financial year.

Under the circumstances, it is not clear why NIS was engaged to undertake a similar exercise that had already been paid for and whether the Ministry obtained value for money for the Kshs.700,004,000 spent on digitization of fourteen (14) land registries up to 2017/2018 financial year.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **998 Lack of an Audit Committee**

As reported in the previous year, the Ministry did not have an independent Audit Committee as required by Section 73(5) of the Public Finance Management Act, 2012, which provides that every National Government public entity shall establish an Audit Committee whose composition and functions shall be as prescribed by the regulations. In the absence of a functioning Audit Committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of an audit committee were not executed thus hindering good corporate governance at the Ministry.

# **REVENUE STATEMENTS - MINISTRY OF LANDS AND PHYSICAL PLANNING**

## **REPORT ON THE REVENUE STATEMENTS**

### **Basis for Qualified Opinion**

#### **999 Lack of Classification of Land Revenues**

The statement of revenues and transfers reflects a total of Kshs.1,250,772,191 revenue collected during the year under review. However, revenue collected from County Land Registries (out stations) amounting to Kshs.414,936,988 were commingled and classified as other land revenue instead of classifying them into specific revenue streams such as land registration, valuation, or adjudication and others.

Further, there was no consistency in classifying and reporting revenue collected. In the Head Office, registration fee comprised of searches, preparation fee and opening register fees while other land revenues comprised of all e-Citizen revenue collections, survey fees, direct banking's and all revenues collected from out stations.

In addition, all revenues collected in relation to searches, opening of registers and any other non - specific revenue collections in Eldoret station were classified as miscellaneous revenue. Consent fee was classified independently as preparation fees and land dispute fee was also classified independently.

Further, in Kakamega, revenue arising from boundary disputes, court orders, survey fee, sale of maps and registration were classified as registration fees.

#### **1000 Undisclosed Deposits to Kenya Commercial Bank (KCB) Revenue Control Accounts**

The revenue collected countrywide from Land Registries amounting to Kshs.414,936,988 includes a balance of Kshs.141,274,345 which could not be traced to any specific Land Registry. A review of the bank statements revealed that these were direct deposits from unidentified Land Registries and other sources deposited into the Account No.1122659288 all totalling to Kshs.141,274,345. Further, the consolidated monthly revenue return schedules that were used to support the revenue statements were incomplete making the verification of monthly revenue collections from the stations difficult.

In the circumstances, it was not possible to confirm the completeness and accuracy of revenue collected from the Land Registries.

### **1001 Failure to Provide Revenue Collection and Accounting Documents**

The Nakuru land station failed to provide revenue collection and processing documents such as the receipts books, collection control sheets (CCS), receipt and payment vouchers (FO17 & FO20/21), bank deposit slips, and Real Time Gross Settlement (RTGS) that were used to collect revenue estimated at Kshs.757,681. As a result, the accuracy and completeness of revenues disclosed could not be ascertained.

### **1002 Failure to Bank Revenue Collected**

The audit established that the Eldoret land station utilizes the services of the Sub County Treasury to collect and bank revenue. However, audit examination of documents such as receipt books, collection control sheets, cash book and bank statements revealed that revenue collected during the months of October, 2018, November 2018, March, 2019, April 2019, May, 2019 and June, 2019 amounting to Kshs.7,865,085 was not banked.

### **1003 Non-Payment of Stamp Duty**

The statement of revenues and transfers reflects a total of Kshs.1,250,772,191 revenue collected during the year under review. However, audit examination of land parcel files in Mombasa station revealed that land transfer transactions were effected without the payment of stamp duty totalling to Kshs.740,000.

In the circumstances, it was not possible to confirm the completeness and accuracy of revenue collected from Mombasa Land Registry

### **Other Matter**

The following prior year issues remained unresolved as at 30 June, 2019.

### **1004 Inaccuracies in the Financial Statements**

Note 4 to the revenue statements on sale of goods and services reflected transfers to the Exchequer account by the Ministry of Lands and Physical Planning comparative balance of Kshs.717,658,988 but the 2016/2017 audited revenue statements reflected an amount of Kshs.718,956,844 resulting to an unexplained difference of Kshs.1,297,856. Consequently, the accuracy of transfers to the Exchequer comparative balance of Kshs.717,658,988 for the year ended 30 June, 2018 could not be confirmed.

### **1005 Statement of Comparison of Budget and Actual Amounts**

The statement of comparative budget and actual amounts for the year ended 30 June, 2018 reflects actual revenue of Kshs.786,517,922 against a revenue budget of Kshs.841,297,579 resulting in under collection of Kshs.54,779,657. However, no explanations were provided for the material variances as required by the International Public Sector Accounting Standards (IPSAS) No.1.7.8. Non-

compliance with this requirement affects understandability of the revenue statement by the users.

#### **1006 Transfers to the Exchequer Account**

The statement of revenues and transfers for the year ended 30 June, 2018 reflected transfers to Exchequer account of Kshs.786,517,923. However, records maintained by The National Treasury indicated total receipts of Kshs.856,030,095 from the Ministry resulting in a variance of Kshs.69,512,172 which has not been explained or reconciled.

In the circumstances, the accuracy and validity of the total revenues collected of Kshs.786,517,923 could not be confirmed.

#### **1007 Irregular Collection and Remittance of Revenue**

As was reported in 2017/18, The National Treasury Circular number 20/47(88) of 28 March, 2017, requires that at the end of every month, all revenues collected should be transferred through RTGS to the central revenue control account held at the Ministry's Headquarters. However, records availed for Machakos County indicate that as at 30 June, 2018, an amount of Kshs.4,869,706 had been collected from survey fees, registry index maps fees and sale of maps and remitted to the County Government in contravention of The National Treasury Circular.

#### **1008 Non-Maintenance of Cash Book at Bungoma National Sub-County Treasury**

As was reported in 2017/18, Bungoma National Sub-County Treasury, did not maintain cash books for the land revenues collected at the station thus casting doubts on the completeness of the revenues collected at the Sub-County Treasury.

#### **1009 Selective Charging of Official Search Fees**

Section 88 of the Land Registration Act prescribes the fees chargeable on official searches. However, stations such as Kiambu, Kajiado, Mombasa, Muranga, Nyahururu, Kwale, Machakos and Nyeri were not charging search fees. As a result, revenues arising from an estimated 21,500 searches per station at Kshs.500 each totalling Kshs.10,750,000 per station was not collected in the financial year under review. In addition, in Kisumu and Homa Bay Stations, there was no consistency in charging search fees. No reason has been provided for not charging search fees and the inconsistencies.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **1010 Delay in Remittance of Funds Held in the Collection Accounts**

The statement of revenues and transfers reflects a total of Kshs. 1,250,772,191 revenue collected during the year under review. However, examination of the

Revenue Collection Accounts at various stations revealed that there were closing balances amounting to Kshs.34,441,550 as at 30 June, 2019 (2018: Kshs.24,501,012). It was not clear why the said funds were not being transferred to the Central Bank Account No. 1000323922 by the closure of the financial year. This is as enumerated below:

<b>Station</b>	<b>KCB A/C Number</b>	<b>Opening Balance as 1/07/2018 (Kshs.)</b>	<b>Closing Balance as at 30/06/2019 (Kshs.)</b>
Eldoret	1201611660	809,218	2,810,370
Homa Bay	1149342285	912,511	2,154,297
Nakuru	NBK-1001065252300	3,050,007	5,462,437
Nanyuki	1148136533	3,443,041	6,161,790
Meru	1148163743	1,945,985	929,875
Kajiado North (Ngong)	1180348923	795,294	892,820
Kajiado	1148539220	1,407,915	1,259,847
Nyahururu	1102166588	1,216,658	2,599,620
Nyeri	1208103393	1,376,964	1,988,142
Muranga	1148611460	4,255,484	2,667,911
Kisumu	1209552795	1,822,458	1,773,076
Kiambu	1148554955	3,465,479	2,156,639
Kakamega	1148251820		3,584,727
<b>Total</b>		<b>24,501,014</b>	<b>34,441,551</b>

In the circumstances, the accuracy and completeness of the total revenues collected of Kshs.1,250,772,191 could not be confirmed.

### **1011 Under-Assessment of Stamp Duty Fees**

In various stations, including Kiambu and Nyandarua, transfers of immovable properties for certificates of title, freehold lands, were all assessed at 2% regardless of being in an urban zone and, the certificates of lease, leasehold lands, were all assessed at 4% regardless of being in rural zones. This is contrary to items 12A and 11 in the Schedule to the Stamp Duty Act which states that stamp duty payable on transfer of immovable property should be derived at a rate of 4% of land valuation amount in urban (Municipality) areas and 2% of land valuation amount in rural (Agricultural) areas. This is despite the fact that Kiambu County has re-designated town and rural areas in line with the current urbanization in Ngong, Limuru, Ruaka, Karuri and Kikuyu.

Similarly, in Kajiado land jurisdiction zone, stamp duty is assessed at 2% regardless of the parcels of land existing within urbanized areas like Kajiado town, Kitengela, Rongai and Oloitokitok which would attract chargeable stamp duty of 4% had the stamp duty rating or assessment guide been reviewed. A similar scenario was noted in Homa Bay since the Ministry has not clearly demarcated and designated areas where 4% and 2% stamp duty are chargeable on transfer of land.

Further, the audit established that land parcels measuring an 1/8-acre plots or 0.045ha or 50m by 100m and below were considered as agricultural lands, yet 1/8-acre plot of land is not viable for agriculture and should therefore not be considered as agricultural land. This translated to the assessment for stamp duty for an 1/8-acre plot and below parcels of land at 2% of value instead of 4% and regardless of being in urban areas.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1012 Accounting for Revenue Collections and Exchequer Receipts (AIE) in the Same Cash Book and Bank Accounts**

The audit revealed that the revenues collected and funds received by the Ministry of Lands and Physical Planning as Exchequer releases for operations purposes (AIE) were posted in the same cash book and bank account in all the stations visited. This arrangement encouraged the use of revenue at source as it was difficult to segregate the AIE and revenue collected at source.

#### **1013 Use of Non-Designated Accountable Documents**

The audit established that approximately 65% of the miscellaneous receipt books were used to collect revenue instead of the Land Fee Receipt Books. The Land Fee Receipt Books are specific for land fees collection as they are itemized to indicate the revenue item or stream of revenue being receipted. However, the miscellaneous receipts books used for collection of revenue are general and are not itemized to indicate the revenue stream being receipted. This hampered proper classification of revenue.

#### **1014 Delay in Depositing of Revenue**

Examination of the receipt books, collection control sheets and bank statements in Kiambu station revealed that there were significant delays of up to six (6) months in depositing revenue collected. A similar trend of split or part banking was noted in Homa-Bay. It is not clear why revenue collected was not banked immediately and intact.

### **1015 Use of Revenue at Source**

Examination of accounting documents such as cash book, bank statement and bank reconciliation statement at Kisumu Sub-County Treasury revealed that during the month of November, 2018, an amount of Kshs.350,000 was withdrawn vide cheque No.127 dated 13 November, 2018 from the Revenue Collection Account when the authority to incur expenditure balance (AIE) was nil. It was not explained why revenue collected and banked was withdrawn.

Similarly, examination of the cash book, bank reconciliation and bank statement held by Ministry of Lands at the Eldoret Sub-County Treasury, Kenya Commercial Bank Account No. 1201611660, revealed that during the month of July, 2018, revenue amounting to Kshs.483,440 was withdrawn for office use when authority to incur expenditure balance (AIE) was nil, therefore resulting in the use of government revenue at source.

### **1016 Irregular Deposits**

The Kwale County Treasury accountant banked Kshs.163,046 on 4 December, 2018 into the Ministry of Land and Physical Planning, KCB Revenue Collection Account. The purpose and source of the deposit has not been disclosed. This raises a red flag over use of revenue at source and practicing of teeming and lading. No explanation was provided for this anomaly.

### **1017 Transfer of Revenue to a Non-Designate Account**

Audit review of bank statements at Muranga station revealed that revenue collected and deposited in KCB Revenue Collection Account No. 1148611460 amounting to Kshs.4,247,795 was transferred to a non-designate Central Bank of Kenya Account No. 1000209534 under the Ministry of Lands, Housing and Public Works instead of the Central Bank Account No.1000323922 under the current Ministry of Lands and Physical Planning. It has not been explained why the station continues to deposit revenue to the old KCB Account and at the Central Bank of Kenya.

### **1018 Shortage of Land Valuers in Counties**

As was reported in 2017/18, it was observed that the Ministry has a shortfall of land valuers which does not only result to inefficiencies in service delivery but also has significant impact on revenues realized from stamp duties. For instance, Migori has only one (1) land valuer based in Kisii County and covering Kisii, Nyamira, Migori and Homa Bay Counties while at the Bungoma Land Registry, the Assistant Senior Land Registrar in charge of the station performs valuation and assessment of stamp duty since the Regional Valuer is based in Kakamega.

### **1019 Inadequate Safety of Collected Revenue**

The audit revealed that there is no safe box or strong room for keeping and safeguarding revenue collected and cash at both the Land Registry and Survey Departments in Muranga, Eldoret, Kakamega, Homa Bay and Kiambu. At the revenue collection points, revenue is collected and kept in breakable drawers while the designate storage for all the revenue before banking are breakable drawers. Similarly, the strong rooms for storing revenue do not have reinforced glass window panes or doors.

### **1020 Poor Documentation of Revenue Collection**

A review of the revenue documents and files at the Nyandarua, Meru, Nakuru, Ngong, Homa Bay, Kakamega, Eldoret, Kiambu and Kajiado Land Offices revealed that the complete sets of Collection Control Sheets, FO17, MR's, banking slips and Funds Transfer Documents (RTGS) were not kept in an orderly manner. The audit established that the receipt vouchers - FO17 were not pre-numbered or serialized and the receipt books were used without due regard of serialization. It was also noted that the Collection Control Sheets were not recorded on a daily basis when transactions occurred but rather prepared at the end of the month when surrendering collected revenue.

In Meru and Nakuru stations, not all receipt books used during the year 2018/2019 were availed for the audit verification thereby curtailing the audit review. Further, some receipt books were captured twice on collection control sheets in Nyandarua. The audit review also noted that single receipt books were used to collect revenue from both registry and survey departments in Nyandarua and Kajiado stations.

### **1021 Failure to Frank Revenue Stamps on Transfer Documents**

Section 2 of the Stamp Duty Regulations, 2012 and the Fourth Schedule of the regulation on instruments requires that upon payment, the stamp duty may be denoted by means of revenue stamp impressed by a franking machine. However, in Nyandarua station, land transfer documents were not being franked due to the breakdown of the franking machine for a period of over four (4) years. In the absence of impressed stamp duty by a franking machine on the transfer documents, the legality of these transfers cannot be ascertained.

### **1022 Anomalies in Declaration and Reporting of Monthly Revenue Collections**

Audit verification of the consolidated revenue returns and its supporting documents established that only eight (8) out of the fifty-seven (57) stations or approximately 14% of the lands stations consistently declared monthly revenue returns. This made it difficult for the Head Office to keep complete and accurate records of revenue. It was also noted that the Survey Departments collects revenue



independently from the Lands Registry Departments however, they do not prepare monthly revenue returns.

In Kisumu, the Lands station failed to declare revenue to the Head Office during the months of December, 2018 amounting to Kshs.564,360, March, 2019, Kshs.926,220 and February, 2019 Kshs.820,360, all totalling Kshs.2,310,940. Similarly, there were also late declaration of revenue returns.

Further, audit examination established mis-reporting of collected revenue. In Kajiado station, revenue collected in October, 2018 vide CCS No. 0118310 totalling to Kshs.218,350 was surrendered or declared two (2) months late in December, 2018 and also mis-reported as part of revenue collected in December, 2018 vide FO.21 no. 6 totalling to Kshs.1,820,100 instead of October, 2018 collections.

Similarly, in December, 2018, revenue collected between 20 December, 2018 to 31 December, 2018 amounting to Kshs.169,500 was surrendered or declared one (1) month later in January, 2019 and mis-reported as part of January, 2019 revenue collections vide FO.21 no. 7 amounting to 1,406,492 instead of December, 2018 collections.

### **1023 Shortage of Staffing in Revenue and Accounts Sections**

Audit review established that there was shortage of staff in the stations visited and especially in the valuation unit, survey, revenue clerks and accountants in Nyeri, Kajiado, Kakamega, Eldoret, Nyahururu, Kisumu, Ngong, Meru, Nanyuki, Nakuru, Naivasha, Machakos and Mombasa stations. It was noted that a valuer in one station could serve three or more other stations. For instance one valuer who is based in Kisii County also serves two (2) more counties of Homa Bay and Migori. This caused delays in valuation of transfers and collection of revenue.

### **1024 Lack of Valuation Reports and Inconsistencies in Land Values in Registered Parcel Files**

Audit review revealed that all land transfers carried out in Homa Bay relating to land parcels lacked land valuation reports except for the months of April, 2019, May, 2019 and June, 2019. Without valuation reports, it was not possible to ascertain the accuracy of the assessed stamp duty paid for the transferred parcels of land.

In addition, the audit review established that the land valuer in charge of three (3) Counties of Homa Bay, Migori and Kisii is based in Kisii, and does not conduct site visits at the time of effecting a transfer and attaching of land values. Therefore, the land registrar relies on land values declared by venders or those on sale agreements in order to make assessments for the purpose of payment of stamp duty fees.

## LAND SETTLEMENT FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Disclaimer of Opinion

##### 1025 Unsupported Balances

The statement of cash flows reflects a balance of Kshs.11,275,052,477 described as adjustments in working capital whose workings were not provided for audit review. Further, and as previously reported, the statement of changes in net assets as at 30 June, 2019 reflects transfers to and from accumulated surplus totalling to Kshs.11,665,052,516. However, Management did not provide details of where the balances were transferred to or from, and supporting schedules for the balances transferred were also not availed for audit verification.

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

##### 1026 Receivables from Non-Exchange Transactions

As disclosed in Note 9 to the financial statements, the statement of financial position reflects a balance of Kshs.12,491,957,849 under receivables from non-exchange transactions. The following observations were noted;

###### 1026.1 Accuracy of the Opening Balances

As reported in the previous year, the receivables balance excludes opening balances of various items as summarized below;

Item	Amount (Kshs.)
Land Loans Issued	278,975,885
Rescue Loan Issued	550,019
Land Loans Principal Billed	(610,055,404)
Billed amount settlers	3,494,524,091
Development Loans Principal Billed	(189,149,529)
Rescue Loans Principal Billed	(240,198)
Cane Development Costs - Suspense	(5,139,967)
Other Recoverable expenses	9,820,460
General Debtors	32,353,374
Trade Investment	59,263,387
Advances	10,567,668
Suspense Debit Items	64,507,005
Loan Repayment Collection	(2,161,547,241)
Agency Accounts (debits)	257,000

Although Management wrote to The National Treasury requesting for authority to write-off the balances, the approval has not been granted.

### **1026.2 Long Outstanding Imprest**

The receivables balance also includes imprest balance of Kshs.22,952,980 out of which imprest totalling Kshs.3,007,300 was due but had not been surrendered as at the time of audit. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to the duty station. Regulation 93(6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate. Although Management has written to the relevant institutions for recoveries to be effected from the officers' dues and remitted to the Fund, progress made has not been disclosed.

The Fund Management is therefore in breach of the law.

### **1026.3 Long Outstanding Land and Development Loans**

The receivables balance further includes amounts of Kshs.6,983,399,323 and Kshs.70,931,965 in respect of land loans receivables and development loans receivables respectively. However, a review of the supporting schedules indicated that these loans were issued to settlers from the year 1962 but remained outstanding as at 30 June, 2019. No explanation has been provided for the long outstanding balances on land and development loans.

### **1026.4 Long Outstanding Interest Receivable**

The receivables balance in addition, includes interest receivable balance of Kshs.5,264,673,581 which has accumulated over the years on loans issued to settlers since 1962 and whose recoverability remains doubtful as at 30 June, 2019. In the circumstance, the accuracy, completeness validity and recoverability of the receivables from non-exchange transactions balance of Kshs.12,491,957,849 as at 30 June, 2019 could not be confirmed.

### **1027 Inaccuracy of Trade and Other Payables from Exchange Transactions**

As disclosed in Note 11 to the financial statements, the statement of financial position reflects a balance of Kshs.397,676 under trade and other payables from exchange transactions. However, and as previously reported, the balance excludes unsupported opening balances as detailed below;

<b>Item</b>	<b>Amount (Kshs.)</b>
Refundable Deposits from Customers	93,343,385
Provisions	11,676
Agency Accounts (credits)	125,425
Other Creditors	3,150,139
Accrued Interest on Loan	301,500
Reserve for Bad Debts	6,602,797
Suspense Credit Items	(122,806,862)
Fund Drawn from Treasury	5,153,814

Management has not explained the circumstances which led to a debit balance in payables, an indication that the creditors were overpaid.

In the circumstances, the accuracy, completeness and validity of the trade and other payables from exchange transactions balance of Kshs.397,676 as at 30 June, 2019 could not be confirmed.

### **1028 Non-Resettlement of Internally Displaced Persons**

As per sales agreement dated 3 October, 2012, the Fund purchased land, Kisima Njoro L.R. No. 9216 at a cost of Kshs.396,984,000 for resettlement of Internally Displaced Persons (IDPs). However, during a physical verification of the farm in the month of September, 2019, it was noted that the land had not been surveyed or sub-divided and therefore, the beneficiaries had not been resettled.

Consequently, the objective for which the land was acquired had not been achieved as at 30 June, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1029** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1030** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

# STATE DEPARTMENT FOR INFORMATION COMMUNICATION TECHNOLOGY-VOTE 1122

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Adverse Opinion

#### 1031 Variances Between the Financial Statements and Trial Balance

The balances reported in the financial statements as at 30 June, 2019 and the supporting balances as per the trial balance differed as detailed below:

	<b>Account Balance</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>Amount as per Trial Balance (Kshs.)</b>	<b>Difference (Kshs.)</b>
1.	Bank balances	111,631,734	1,158,198,194	(1,046,566,460)
2.	Liabilities	0	4,511,344,223	(4,511,344,223)
3.	Cash clearance account	0	(5,555,491,743)	5,555,491,743
4.	Fund balance	148,219,341	28,357,423,752	(28,209,204,411)

No satisfactory explanation or reconciliation between the two (2) set of records were provided. In the circumstances, it has not been possible to confirm the accuracy and correctness of the financial statements for the year ended 30 June, 2019.

#### 1032 Unexplained Adjustments to the Financial Statements

Whereas the Management presented revised financial statements, the adjustments between the first set of financial statements and the final revised set were not supported with the relevant documents to justify the amendments. Details of the unsupported adjustments are as summarized below:

<b>Component</b>	<b>Initial Financial Statements (Kshs.)</b>	<b>Revised Financial Statements (Kshs.)</b>	<b>Total Variance (Kshs.)</b>	<b>Explained Variance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Domestic Travel and Subsistence	34,375,342	41,159,224	<b>6,783,882</b>	0	6,783,882
Foreign Travel and Subsistence	5,439,874	6,107,019	<b>667,045</b>	38,902	628,243

<b>Component</b>	<b>Initial Financial Statements (Kshs.)</b>	<b>Revised Financial Statements (Kshs.)</b>	<b>Total Variance (Kshs.)</b>	<b>Explained Variance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Acquisition of Assets	3,048,423,975	3,047,781,086	<b>642,889</b>	0	642,889
Prior year Adjustments	(2,851,784)	1,693,071	<b>4,544,855</b>	0	4,544,855

In addition, the statement of assets and liabilities reflects an unexplained prior year adjustment balance of Kshs.1,693,071 which has not been explained/reconciled. In the circumstances, it has not been possible to confirm the accuracy and correctness of the financial statements for the year ended 30 June, 2019.

### **1033 Proceeds from Foreign Borrowing**

As disclosed in Note 2 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.12,747,095,693 in respect of proceeds from foreign borrowings. The amount relates to payments made on behalf of the State Department to various Contractors by the lending institutions. This balance is made up of Kshs.712,997,115, Kshs.1,744,690,132 and Kshs.10,289,408,396 made to contractors by KBC Bank NV Belgium (Financier) relating to County Connectivity Project (CCP), China EXIM Bank relating to National Optic Fibre Backbone Infrastructure (NOFBI) (II) Expansion Project and UNICREDIT S.P.A respectively relating to Konza Technocity Project. However, no details in respect to the date the payments were made by the Banks, details of authorization (whom and the date) to the Banks payments and bank debit advices. In addition, documentation and details of how the contractors were procured were not provided for audit review.

Consequently, the accuracy, validity and existence of proceeds from foreign borrowings totalling Kshs.12,747,095,693 for the year ended 30 June, 2019 could not be ascertained.

### **1034 Use of Goods and Services**

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.222,350,725 in respect of use of goods and services. However, included in the balance are payments that were posted to incorrect expenditure accounts as shown below:

<b>Account Name (Incorrect)</b>	<b>Amount (Kshs.)</b>	<b>Nature</b>	<b>Correct Account Name</b>
Hospitality, Supplies and Services	160,000	Training fees	Training
Domestic Travel and Subsistence	2,761,594	Air tickets	Foreign travel
Domestic Travel and Subsistence	133,872	Allowances to staff during training	Training
Specialized Materials	500,000	Allowances for staff for facilitation	Hospitality, supplies and services

The above misclassifications have not been explained or adjusted in the financial statements leading to misstatement of various account balances as at 30 June, 2019.

In the circumstances, the accuracy and completeness of balances of Kshs.222,350,725 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be ascertained.

### **1035 Accounts Receivables**

As disclosed under Note 9 to the financial statements, the statement of assets and liabilities reflects account receivables balance of Kshs.132,470,289 which includes Kshs.132,314,063 in respect of clearing accounts. The clearing accounts balances relate to AIE's advanced to Ministries, Departments and Agencies for purposes of procurement of IT equipment which had not been accounted for as at 30 June, 2019. However, the balance of Kshs.132,314,063 excludes Kshs.193,218,304 outstanding from The National Treasury which had been advanced by 12 May, 2019.

No explanation was provided on how the balance of Kshs.193,218,304 had been accounted for in the financial statements.

Further, the amount outstanding in respect of the State Department for Public Service as reflected in the books of the State Department for Information Communication Technology was Kshs.46,186,028 while in the books of the State Department for Public Service was Kshs.81,668,693 resulting to an unexplained and unreconciled difference of Kshs.35,482,665.

Consequently, the accuracy and completeness of accounts receivables balance of Kshs.132,470,289 as at 30 June, 2019 could not be ascertained.

### **1036 Accounts Payables**

The deposits bank account reconciliation statement reflects a cash book balance of Kshs.95,882,683 as at 30 June, 2019 and amounts paid in the cash book but not yet reflected in the bank statement amounting to Kshs.34,316,389. The deposit account balance for the previous year, as at 30 June, 2018, was Kshs.3,100,249 which increased to Kshs.95,882,683 as at 30 June, 2019. The increase in the deposit balance and transactions thereof was as a result of a deposit of AIE received from the Ministry of Interior and Coordination of National Government amounting to Kshs.577,960,000 for purchase of ICT components of National Integrated Information Systems, (NIIMS) project.

The following were noted in respect of the transactions in this account:

- a) The Department's communication via letter MICT/CONF.A/18/31 dated 21 February, 2019 through which the Department requested for AIE was not availed for audit review.
- b) The breakdown of the payments/expenditure that are in line with the detailed critical infrastructural components budget as per the AIE notification that was submitted by the State Department of Interior and Coordination of National Government were not provided for audit verification and review.
- c) Detailed approved workplan and procurement plan for the utilization of the AIE requested matching workplan to the expenditure were not provided for audit review.
- d) The surrender or absorption summary for the AIE included a payment voucher for Kshs.255,000,000 for monies transferred back to the State Department of Interior and Coordination of National Government. However, no request for refund or any other supporting documentation other than the payment voucher were availed for audit verification.
- e) The NIIMS registration started on 2 April, 2019 and ended on 25 May, 2019. However, there were payments and expenditure for activities undertaken long after the closure of the exercise, some of which were in relation to the negotiation process.

The total payments made to the internet service providers amounted to Kshs.132,250,290. The State Department owns and controls the National Optic Fibre Backbone Infrastructure (NOFBI) which provides internet to these service providers. However, the service providers have not been charged for the use of this infrastructure. No explanation has been provided for this anomaly.

- f) An amount of Kshs.6,060,000 was paid to East and Southern Africa Management Institute to undertake capacity building for various officers and an additional Kshs.17,177,600 was paid as subsistence allowance to officers attending the said training. However, no evidence of travel and attendance of the training including the clearance certificates have been availed for audit verification. Further, no approved work plan has been provided to demonstrate that this activity, with a total cost of Kshs.23,237,600, was part of critical infrastructure components of the NIIMS project which were transferred from the State Department of Interior and Coordination of National Government to the State Department for Information Communication Technology and actually included in the work plan implementation schedule for the period under review.

Consequently, the accuracy and validity of the accounts payable balance of Kshs.95,882,683 as at 30 June, 2019 could not be confirmed.



## **Other Matter**

### **1037 Unresolved Prior Year Matters**

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular to resolve the issues.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1038 Unauthorized Expenditure - Training Expenses**

The statement of receipts and payments and Note 4 of the financial statements reflects a balance of Kshs.222,350,725 in respect of use of goods and services which reflects an amount of Kshs.26,517,290 for training expenses for the year ended 30 June, 2019. The training expenses include a payment of Kshs.1,003,380 for the provision of conference facilities for stakeholders' workshop on Ajira Implementation Roadmap in Counties, it was, however supported by a proforma invoice and a commitment letter that was not approved by the Head of Procurement and without a Local Service Order (LSO) thereby making the expenditure un authorized.

#### **1039 Acquisition of Assets - Financial Assets**

##### **1039.1 Inappropriate Expensing of Information and Communications Technology Authority (ICTA) Assets**

The acquisition of assets amount of Kshs.3,047,781,086, as reported in the statement of receipts and payments and Note 7 of the financial statements, includes an amount of Kshs.1,744,690,183 in relation to the National Optic Fibre Backbone Infrastructure (NOFBI) that has been reported under Domestic Public Non-Financial Enterprises and Kshs.712,997,115 in relation to County Connectivity Project (CCP) that has been reported under purchase of specialized plant and machinery amount of Kshs.1,127,837,099. However, even though CCP and NOFBI projects are being implemented and supervised by the Information and Communications Technology Authority (ICTA), the payments of Kshs.712,997,115 and Kshs.1,744,690,132 relating to CCP and NOFBI respectively were made by the State Department and the resultant assets have not been reflected in the accounting records of the Information and Communications Technology Authority but rather the amounts have been expensed under the State Department of ICT and Innovations accounting records as shown under Note 7 of the financial statements - acquisition of assets. Due to this, it is therefore not possible to verify the compliance or otherwise to quantify the

value of assets and establish the location of the assets created out of the payments made on account of these two infrastructures.

In addition, included in the acquisition of assets of Kshs.3,047,781,086 are payments amounting to Kshs.2,457,687,298 made by financiers to two (2) contractors in respect of CCP and NOFBI (II) Expansion.

However, the documents in relation to how the two (2) Contractors were identified, procured and awarded the contracts were not availed for audit verification and hence the validity of the payments as a charge to public funds is not confirmed. Further, the contracts availed for audit examination did not include the annexes which presumably contained the terms and conditions of the contract including timelines, deliverables and payment schedules. Therefore, it was not possible to verify the compliance or otherwise to the contractual obligation, and the propriety and validity of the payments made on account of these contracts so far.

### **1039.2 Domestic Public Non-Financial Enterprise**

The acquisition of assets balance of Kshs.3,047,781,086 as disclosed in Note 7 to the financial statements includes a balance of Kshs.1,744,690,183 (2017/2018 – Kshs.2,960,484,692) in respect of financial assets described as Domestic Public Non-Financial Enterprise whose nature of assets and breakdown was not provided for audit verification. The expenditure is allegedly in respect of NOFBI whose first phase was initiated in 2010 and completed in 2012 with subsequent extensions in scope and geographical coverage being automatically granted to the Contractor without undertaking any procurement process in line with the Public Procurement and Asset Disposal Act, 2015. Some of the extensions are yet to be completed and commissioned.

The Management is therefore in breach of the law.

### **1039.3 National Optic Fibre Backbone Infrastructure (NOFBI) and County Connectivity Project (CCP) Structure**

The State Department for Information Communication Technology was undertaking two (2) projects namely NOFBI and CCP. The projects do not have a defined structure that allocates responsibility of ensuring delivery by the contractors. The contract is between the State Department and the contractor but the payment voucher is initiated by ICT Authority for works done, and the payments are made by The National Treasury. No documented inspection and acceptance reports have been provided to support any of the payments made amounting to Kshs.7,578,324,633 in respect of NOFBI and Kshs.1,337,832,556 paid in respect of CPP over the last three years. No evidence has been provided for audit verification to show that Use Acceptance Testing (UAT) has ever been undertaken on the project.

Further, whereas each of the two (2) projects are expected to have a Project Manager, no appointment letters were availed for audit verification in respect of the two (2) projects. In addition, no appointment letters for members of the Inspection and Acceptance Committee for both NOFBI and the CCP were provided for audit verification.

In view of the foregoing circumstances, the value for money for the expenditure of Kshs.8,916,157,189 as at 30 June, 2019 could not be confirmed.

#### **1039.4 National Optic Fibre Infrastructure (NOFBI) – Loan Repayment**

The NOFBI project that is being implemented by the State Department for Information Communication Technology in conjunction with Information and Communications Technology Authority (ICTA) and is being funded by Export Import Bank of China for RMB 1,110,000,000 is made up of two (2) loans. Loan one of RMB 460,000,000 signed on 08 October, 2012 and a second loan amounting to RMB 650,000,000 dated 19 May, 2016. Although ICTA has started funding the repayment of the loan through the opening and operation of the ESCROW account that is being funded through periodic disbursement from The National Treasury, the loans as well as the resultant assets acquired with the loans have not been recorded in the Authority's financial statements or accounting records.

Under the circumstances, the legality, propriety and justification of the loans totalling RMB 1,100,000,000 (Kshs.16,500,000,000) whose repayment by the ICT Authority has been funded by The National Treasury to date amounting to Kshs.727,929,220 and, in effect the Kenyan tax payers cannot be ascertained.

#### **1039.5 Non-Billing of the National Optic Fibre Backbone Infrastructure (NOFBI)**

The NOFBI project network has presumably been operational since 2014 and has been used by most of the data service providers in the Country. However, although the financing agreement indicated that the Government would sell out excess capacity commercially to the public and bill them to finance the loan repayment, there has been no billing done for the last five years it has been in operation. Further, the service provision framework agreement between the NOFBI Project Managers and the Internet Service Providers has not been implemented. The Government has therefore, been funding the operations of commercial entities without recovering the cost which amounts to lack of prudent use of public resources.

In addition, no records have been provided detailing the users that have been connected to NOFBI for the last five (5) years, their utilization levels, and the amount payable by each.

## **1040 Acquisition of Assets – Non-Financial Assets**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.3,047,781,086 in respect of acquisition of assets which includes Kshs.1,127,837,099 in relation to purchase of specialized plant, equipment and machinery. Included in the balance of Kshs.1,127,837,099, is an amount of Kshs.218,760,630 relating to assets which were procured on behalf of and transferred to various MDAs by the State Department of Information Communication Technology, and Kshs.546,049,432 relating to IT assets funded through use of AIEs issued by the State Department for Information Communication Technology directly to the various MDAs who undertook the procurement.

However, the following observations were made:

### **1040.1 Non Compliance with Presidential Directive**

The State Department for Information Communication Technology undertook the function of purchasing ICT equipment and related services on behalf of MDA's in contravention of the Presidential Directive Ref: OP/CAB.39/1A of March 2018, that required the procurement to be centralized at the Information, Communication and Technology Authority (ICTA).

### **1040.2 Delays in the Inspection of Goods and Services**

Payments in respect of procurement of ICT equipment made on behalf of MDA totalling Kshs.3,578,476 indicated that the goods were ordered, delivered and acknowledgement of receipts to the suppliers made before the inspection of the equipment to confirm conformity. The inspection was done after an inordinately long period ranging from seven (7) to forty-nine (49) days.

There was no explanation from the Management for the unconditional acceptance of the equipment without undertaking inspection and in line with Public Procurement guidelines.

### **1040.3 Transfer of Shared Services Funds to MDAs as AIE**

Analysis of payment details for the State Department reflects an amount totalling to Kshs.1,104,600,648 in respect of Shared Services which relate to purchasing ICT equipment by the State Department on behalf of MDAs. Included in this balance is Kshs.546,049,432 transferred to MDAs in form of AIEs contrary to the Presidential directive and Treasury Circular No.ES.1/03/'N'(2) of 19 June 2018. The directive required that all ICT procurement in the Ministries, Departments and Agencies (MDAs) including State Corporations be consolidated and centralized under the Information Communication and Technology Authority (ICTA) in order to ensure economies of scale and optimize the shared services strategy.

Although Management has explained that the AIEs were meant to pay for the running contracts that were domiciled in various MDAs before the consolidation of the ICT budget, no documentation was provided in support of the request for the AIEs. The returns provided did not indicate the existence of running contracts in the respective departments.

In the absence of satisfactory documentation and explanation, it was not possible to ascertain that the transfer of AIE to various MDAs was done in compliance with the circular issued after the Presidential Directive.

#### **1040.4 Unfair and Improper Sourcing of Suppliers**

Following the consolidation of procurement of ICT equipment and related services for the entire Government, the State Department for Information Communication Technology identified fifty four (54) products and fifty four (54) suppliers were awarded framework contracts to supply each of the identified products to the entire Government for a period of two (2) years each corresponding to the products identified.

However, the framework contracting was not done in line with Section 114 of the Public Procurement and Asset Disposal Act, 2015, as only one supplier was selected instead of the mandatory minimum of seven (7). This eliminated competition necessary to ensure prices for commodities procured are comparable to the market value. This also eliminated equitability, value for money and justification and fairness in the procurement of ICT related products.

An analysis of the acquisition of assets revealed that total Purchase Orders issued by the State Department of ICT for the financial year ended 30 June, 2019 in respect of purchase of ICT equipment and related services was Kshs.383,266,408.85 out of which Kshs.350,771,66.80 relates to procurement done on behalf of other Government Ministries, Departments and Agencies. Further, analysis indicates that 76.93% of the supplies were awarded to seven (7) suppliers for a duration of two years.

Consequently, the justification on the value for money, fairness and equity in the procurement of public assets cannot be confirmed.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

##### **1041 Lack of Audit Committee**

During the year under review, the State Department for Information Communication Technology operated without an Audit Committee as required by Section 73(5) of the Public Finance Management Act, 2012. The mandate of the

Audit Committee is to provide oversight functions such as review of the systems established to ensure sound financial management and internal controls that comply with policies, rules, regulations and procedures.

Although Management has explained that the Ministry established the audit committee within the financial year 2017/2018 where appointment letters for the Chairman and Members were signed on 18 December, 2018, no document was availed to show that the State Department's Audit Committee held meetings during the year.

## **DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR INFORMATION COMMUNICATION TECHNOLOGY**

### **EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (IDA CREDIT NO. 5638- KE) – INFORMATION AND COMMUNICATION TECHNOLOGY AUTHORITY**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**1042** There were no material issues noted during the audit of the financial statements of the Project.

##### **Other Matter**

##### **1043 Slow Project Funds Absorption**

The Project was started in November, 2015 with an estimated completion date of December, 2021. However, as reflected under the funding summary, out of the total commitment of Kshs.2,979,795,000 by IDA and the Government of Kenya, only Kshs.202,154,268 or 6.7% had been released to the Project as at 30 June, 2019. Under the circumstances, and due to the low absorption of funds, the Project is unlikely to fully achieve the intended objectives.

##### **1044 Budgetary Performance**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts of Kshs.125,558,385 against budgeted receipts of Kshs.171,361,336 resulting in a shortfall of Kshs.45,802,951 or 27% of the total budget. Similarly, the actual expenditure for the year amounted to

Kshs.124,499,336 against the budgeted receipts of Kshs.171,361,336 resulting in an under-expenditure of Kshs.46,862,000 or 27%. The under-expenditure mainly occurred under rehabilitation of Eldoret-Lokocho, Nadapal OFC and purchase of goods and services. As a result of the large budget deficit, the Project Management did not implement all programmes and work plans fully as approved in the budget, thus delaying provision of services to the Kenyan citizens.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 1045 Annual Work Plan and Budget

The statement of comparative budget and actual amounts as presented in the financial statements reflects an original budget of Kshs.200,000,000 and a revised budget of Kshs.171,361,336. However, a no objection letter for the Annual Work Plan and budget as required by the donor under Section II F (1) of the Financing Agreement was not provided for audit verification. Management was therefore in breach of the law.

#### 1046 Recruitment of Project Staff

The statement of receipts and payments reflects an expenditure of Kshs.26,976,113 being payment for Project staff salaries during the year under review. However, no documents were made available for audit verification to confirm how the staff were recruited, such as advertisement details, shortlisting, interviews, evaluation reports on successful candidates, approval from the donor or an appointment letter except for a contract document for each staff. Management was therefore in breach of the World Bank guidelines sections A (4) and 11A (2) of the Financing Agreement on recruitment of staff.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1047** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **STATE DEPARTMENT FOR BROADCASTING AND TELECOMMUNICATIONS-VOTE 1123**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Adverse Opinion**

#### **1048 Cash and Cash Equivalents**

As disclosed in Notes 11.1 and 11.2 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.333,544,555 under cash and cash equivalents. The balance includes bank balances of Kshs.70,481,242, Kshs.44,193 and Kshs.262,976,060 under recurrent, development and deposits accounts respectively and cash in hand of Kshs.43,059 as at 30 June, 2019. However, the June, 2019 bank reconciliation statement for the recurrent bank account reflects Appropriations- in- Aid receipts in cashbook amounting to Kshs.589,794 dating back to 26 February, 2018 which had not been recorded in the bank statement.

Further, the reconciliation statement reflects payments in bank statement not in cash book totalling Kshs.1,481,503 which has been outstanding from as far back as February, 2017.

Consequently, the completeness and accuracy of the cash and cash equivalents balance of Kshs.333,544,555 as at 30 June, 2019 could not be confirmed.

#### **1049 Accounts Receivables**

The statement of assets and liabilities reflects a balance of Kshs.87,012,746 under accounts receivables. The balance, as disclosed in Note 12 to the financial statements, includes government imprests of Kshs.4,575,300 all of which were overdue for surrender. This is contrary to Regulation 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Regulation 93 (6) further provides that in the event the imprest holder fails to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

The balance also includes salary advances of Kshs.500,383 out of which Kshs.366,095 was advanced to two (2) officers who have since passed on. The recoverability of the advances could therefore, not be confirmed. Further, the receivables balance of Kshs.87,012,746 includes a district suspense balance of Kshs.81,937,063 which is net of Kshs.577,279 whose nature and purpose was not explained. Further, the district suspense balance of Kshs.81,937,063, as disclosed



in Annex 5 to the financial statements, includes an amount of Kshs.65,184,350 that dates back to 2015/16 financial year.

In the circumstances, the accuracy and recoverability of the accounts receivables balance of Kshs.87,012,746 as at 30 June, 2019 could not be ascertained.

#### **1050 Variances Between Financial Statements and Trial Balance**

The following differences were noted between the figures in the financial statements and the balances in the IFMIS generated trial balance:

<b>Item</b>	<b>Financial Statements (Kshs.)</b>	<b>IFMIS Trial Balance (Kshs.)</b>	<b>Difference (Kshs.)</b>
Imprests	4,575,300	3,641,207	934,093
Debtors and Prepayments	-	239,450	(239,450)
Cash in Hand	43,059	9,099,026,108	(9,098,983,049)
District Suspense	81,937,063	49,668,702	32,268,361
Deposit Account	-	44,582,050	(44,582,050)
Other Current Assets	-	329,670	(329,670)
Salary Advance	500,383	658,714	(158,331)
Development Bank Account	44,193	365,117,284	(365,073,091)
Recurrent Bank Account	70,481,242	3,989,979,403	(3,919,498,161)
General Deposits Account	262,976,060	251,575,352	11,400,708

The variances between the two sets of figures have not been explained or reconciled.

Consequently, the accuracy and completeness of the financial statements could not be confirmed.

#### **1051 Pending Bills**

Note 17 to the financial statements indicates that the State Department had Pending Bills amounting to Kshs.777,832,350 as at 30 June, 2019. However, the pending bills figure includes payments totalling Kshs.18,627,280 already made to a media house and captured in the ledger as having been paid though the amount still appeared in the pending bills listing as having not been reconciled. Further, as disclosed in Appendix II to the financial statements, the reported amount for pending bills excludes pending bills of Kshs.249,932,483 which did not have the requisite documentations and Kshs.7,959,592 for which the State Department did not have the budgetary provision. Failure to settle bills in the year in which they relate adversely affects the implementation of the subsequent year's budgeted programmes as the pending bills form a first charge to that year's budget provision.

In view of the foregoing, the accuracy, validity, completeness and propriety of the reported pending bills of Kshs.777,832,350 could not be ascertained.

## **1052 Unresolved Prior Year Issues**

### **1052.1 Cash and Cash Equivalents**

As previously reported, the cash and cash equivalents balance of Kshs.58,707,018 reflected in the statement of assets and liabilities as at 30 June, 2018 included bank balances of Kshs.20,020,521 and Kshs.38,659,849 under recurrent and deposits accounts respectively and cash in hand of Kshs.26,648.

The bank reconciliation statement for the recurrent bank account had unrepresented cheques amounting to Kshs.66,491,679 whose clearance status could not be confirmed as the bank statements were not provided. Out of the unrepresented cheques of Kshs.66,491,679, Kshs.241,269 were stale as at 30 June, 2018. Further, the recurrent account bank reconciliation statement reflected payments in bank statements not in cash book totalling Kshs.1,436,558 for which no explanation was provided for non-inclusion in the cash book. Also, the recurrent account reconciliation statement reflected uncredited receipts amounting to Kshs.46,332,522 that had no proof of having been banked as at the time of the audit and no explanation was provided for non-banking of this cash.

As a result, the completeness and accuracy of the cash and cash equivalents balance of Kshs.58,707,018 as at 30 June, 2018 could not be confirmed.

### **1052.2 Accounts Payables - Deposits and Retention**

As previously reported, the statements of assets and liabilities reflected a balance of Kshs.38,659,849 under accounts payables as at 30 June, 2018 all of which had been outstanding as at 30 June, 2017 and earlier. The analysis provided in support did not include the date of contract and there were no supporting documents to authenticate the accuracy and validity of each of the disclosed balances.

Further, the cash book for deposits account reflected Kshs.1,740,000 and Kshs.792,440 paid to a media house on 23 November, 2017 and 7 February, 2018 respectively. However, the analysis of accounts payables showed that the payments were made to WASREB: - Kshs.1,740,000, EPZ Authority Kshs.384,000 and Kenya Dairy Board Kshs.408,440.

Consequently, the accounts payables balance of Kshs.38,659,849 as at 30 June, 2018 could not be ascertained.

### **1052.3 Use of Goods and Services**

As previously reported, the statement of receipts and payments for the year ended 30 June, 2018 reflected payments of Kshs.1,135,144,411 in respect to use of goods and services. However, during the audit review, payment vouchers were not provided as documentary evidence for the expenditure. Further, the procurement plan for the year was not provided for audit verification. This is contrary to

Regulation 115 (2) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to prepare a procurement plan every year as a basis for procurement activities to be undertaken by a government entity in the fiscal year.

Consequently, the accuracy, validity and propriety of the payments of Kshs.1,135,144,411 for use of goods and services could not be confirmed.

#### **1052.4 Transfers from The National Treasury**

As previously reported, the statement of receipts and payments for the year ended 30 June, 2018 reflected transfers from The National Treasury of Kshs.2,346,558,857 being Exchequer releases. However, bank statements supporting the receipts were not availed and therefore, it was not possible to confirm the actual receipts.

In the circumstances, the transfers from The National Treasury balance of Kshs.2,346,558,857 for the year ended 30 June, 2018 could not be confirmed.

#### **1052.5 Transfers to Other Government Units**

As previously reported, the transfers to Other Government Units balance of Kshs.1,378,175,000 as at 30 June, 2018 could not be verified as the reported balance for individual Agencies did not agree with the records of the Agency as shown below:

<b>Agency</b>	<b>Balance per Financial Statement (Kshs.)</b>	<b>Balance per Agency Financial Statements (Kshs.)</b>	<b>Difference (Kshs.)</b>
Kenya Broadcasting Corporation	854,100,000	842,500,000	11,600,000
Kenya Year Book Editorial Board	59,325,000	88,075,000	(28,075,000)
Kenya Institute of Mass Communication	207,455,000	207,487,527	(32,527)

The differences have not been explained or reconciled and under the circumstances, the accuracy and completeness of the transfers to other government units balance of Kshs.1,378,175,000 as at 30 June, 2018 could not be confirmed.

#### **Other Matter**

#### **1053 Under Collection of Appropriations-In-Aid (AIA)**

The summary statement of appropriations- recurrent and development combined reflects budgeted proceeds from sale of assets of Kshs.1,174,000,000 against actual receipts of Kshs.667,902,570 hence a shortfall of Kshs.506,097,430 or 43%.

Included in the budgeted receipts of Kshs.1,174,000,000 is Kshs.1,000,000,000 which was to be collected by the Government Advertising Agency. However, the Agency collected Kshs.497,902,570 or 50% of the target.

Further, the Agency was owed a total of Kshs.893,173,664 by various State Agencies for advertising services rendered for the period 2016/2017 to 2018/19. This outstanding amount was expected to supplement the publicity and advertising budget. However, the recovery has been very slow and the records for the amounts owed were not properly maintained as the balances contained in the schedule provided for audit could not be traced in the ledger. In addition, non-collection of revenue negatively affected implementation of budgeted programmes and activities thereby affecting service delivery to the citizens.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 1054 Use of Goods

##### 1054.1 Failure to Conduct Media Monitoring on Distribution of MyGov Publication

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects a balance of 3,024,349,426 in respect of use of goods and services. Included in the balance are payments amounting to Kshs.2,711,653,966 for printing, advertising and information supplies and services out of which Kshs.2,090,141,617 relates to payments made to four (4) local media houses for publication of MyGov Newspaper. However, it was observed that there was a mismatch between the amounts paid to the media houses and their respective market share of print readership as contained in a media monitoring report carried out by a research firm for the fourth quarter of the year 2018 as shown in the table below:

Media House	Amount (Kshs.)	Market Share of Print Readership (%)
Daily Nation	272,696,280	60
The Standard	800,996,960	34
The People Daily	680,409,600	2
The Star	336,038,777	1.5
<b>Total</b>	<b>2,090,141,617</b>	

In addition, it was noted that the Government Advertising Agency has not carried out a media monitoring exercise to determine the number of copies published and distributed by each media house, which should have formed the basis for any contractual negotiations on amounts to be paid for placing of Government and associated advertising in the print media.

In the circumstances the propriety and value for money on the Kshs.2,090,141,617 paid to the media houses could not be confirmed.

#### **1054.2 Uchumi House Office Space**

The balance of Kshs.64,866,176 for rentals of produced assets includes an amount of Kshs.7,785,275 paid for lease of office space at Uchumi House for the Department for Information Services. However, the Lease Agreement between the State Department and the managing agents of the property was not provided for audit verification. Although Management explained that delay in execution of the lease agreement was as a result of variance between the rental charges offered by the landlord and the rate recommended by the State Department for Housing, Urban Development and Public Works, the impasse had not been resolved as at the time the audit report was finalized.

In the circumstances, it was not possible to confirm the validity and propriety of rent payments totalling Kshs.7,785,275 for occupation of Uchumi House.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1055** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## STATE DEPARTMENT FOR SPORTS-VOTE 1132

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 1056 Unreconciled Cash and Cash Equivalents

The statement of assets and liabilities reflects a bank balance of Kshs.7,105,350,072 which as disclosed under Note 10 to the financial statements is made up of bank balances of Kshs.1,186,306 in the recurrent account, Kshs.373,463,827 in the deposits account, Kshs.3,744,161 in World Youth Championship 2017 account, Kshs.6,706,955,778 in the Sports, Arts and Social Development Fund (SASDF) collection account and Kshs.20,000,000 in the SASDF development account. However, no explanation was provided for the failure to clear long outstanding reconciling items under the accounts as indicated below:

<b>Description</b>	<b>Recurrent Account (Kshs.)</b>	<b>Deposits Account (Kshs.)</b>	<b>World Youth Championship 2017 Account (Kshs.)</b>	<b>SASDF Account (Kshs.)</b>
Receipts in bank statement not in cash book	1,065,500	-	274,239	-
Receipts in cash book not in bank statement	692,792,542	203,122,355	-	-
Payments in bank statement not in cash book	3,143,055	-	702,552	-
Payments in cash book not in bank statement	895,828,343	-	1,031,986	39,936,608

The supporting schedule for the balance of Kshs.3,143,055 payments in bank statement not in cash book under the recurrent account shows that the balance was over stated by Kshs.1,764,058 being payments made in the bank in the month of July, 2019 which was not within the financial reporting period. In addition, the cash book opening balance as at 1 July, 2018 for the World Youth Championships account stood at Kshs.38,538,335 while the audited financial statements for the year ended 30 June, 2018 reflects a balance of Kshs.2,602,661. Consequently, the opening balance is overstated by Kshs.35,935,674 and no plausible explanation was provided for the discrepancy.

In view of the foregoing, the accuracy and completeness of the cash and cash equivalents balance of Kshs.7,105,350,072 as at 30 June, 2019 could not be confirmed.

## **1057 Unexplained District Suspense Movement**

The statement of financial assets and liabilities reflects accounts receivables balance of Kshs.1,066,705 which includes an amount of Kshs.102,541 relating to district suspense account. However, the movement of this account balance from Kshs.20,756,326 reported as at 30 June, 2018 to Kshs.102,541 as at 30 June, 2019 was not supported.

Under the circumstances, accuracy, and completeness of the account receivables balance of Kshs.1,066,705 could not be confirmed.

## **1058 Pending Bills**

As disclosed in Note 16.1 to the financial statements, the State Department for Sports had pending bills totalling Kshs.134,092,005 as at 30 June, 2019, that were not settled during the financial year 2018/2019 but were instead carried forward to 2019/2020 financial year. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged. A review of the pending bills for the year ended 30 June, 2019 revealed the following anomalies:

### **1058.1 Undisclosed Prior Year Pending Bills**

A review of the payment vouchers revealed expenditure of Kshs.130,630,995.20 paid as pending bills during the year ended 30 June, 2019. However, these vouchers were not included in the schedule of pending bills as at 30 June, 2018. Further, Management has not provided any explanation as to why these bills had not been disclosed as pending bills as at 30 June, 2018.

### **1058.2 Pending Bills not Cleared for Payment by the Internal Audit**

Included in the Kshs.134,092,005 pending bills balance are pending bills amounting to Kshs.86,963,950 not cleared by Internal Audit for payment due to lack of adequate supporting information and approvals.

From the foregoing, the authenticity of the pending bills closing balance of Kshs.134,092,005 as at 30 June, 2019 could not be ascertained.

## **1059 Related Party Transactions**

### **1059.1 Utilities, Supplies and Services - Sports Kenya**

The statement of receipts and payments reflects a balance of Kshs.1,126,806,731 under use of goods and services. Included in this balance is Kshs.33,354,287 for utilities, supplies and services out of which Kshs.33,177,721 was paid on behalf of Sports Kenya. It was, however, noted that this amount was part of Sports Kenya's budget and the State Department did not provide any plausible reasons why they were undertaking responsibilities of Sports Kenya.

## **1059.2 Transfer of Funds to Various Sports Federations**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.2,811,569,626 under transfers to other Government units. Included in this amount is Kshs.1,402,631,041 transferred to Sports, Arts and Social Development Fund (SASDF) to cater for specific sports events and other related activities. However, the amount was disbursed from the State Department for Sports and not from SASDF as indicated in the approvals by the Oversight Board on 12 April, 2019. Although, the funds were disbursed to various federations for specific events, no returns or receipt confirmations from the recipient federations were availed for audit verification. Further, no explanation was provided on why the State Department was carrying out SASDF functions.

## **1059.3 Bank Balance – Unrecognized Liability**

The State Department operated two (2) bank accounts No.1000404671 and No.1000404868 on behalf of the Sports, Art and Social Development Fund (SASDF). The two bank accounts reflected a total balance of Kshs.6,726,955,778 as at 30 June, 2019. However, the amount was not recognized as a liability in the statement of assets and liabilities as at 30 June, 2019 despite the fact that the State Department was holding the money on behalf of SASDF.

## **1060 Failure to Maintain an Assets Register**

The statement of receipts and payments for the year ended 30 June, 2019 reflects a balance of Kshs.10,877,873 under acquisition of assets. However, the State Department did not maintain an assets register contrary to Section 143(1) of the Public Finance Management Act, 2012 on assets management. Further, Annex 3 on Summary of Fixed Assets Register shows that out of the reported net fixed assets, an amount of Kshs.1,812,044,124 (about 99% of the net assets) related to buildings and structures. However, the State Department does not own any buildings or structures since it is operating in rented office space. In addition, the State Department had ten (10) vehicles whose logbooks were not in the name of the State Department thereby casting doubts on their ownership.

In the circumstances, the amount of Kshs.10,877,873 reflected in the financial statements in respect of acquisition of assets as at 30 June, 2019 cannot be confirmed.

## **1061 Unresolved Prior Year Matters**

### **1061.1 Unsupported Expenditure on Supply, Delivery and Installation of Security, Access Control, Communications, Audiovisual and Pitch Lighting Systems in Various Stadiums**

As reported in the previous year, on 14 September, 2017 the State Department of Sports (SDS) awarded a contract to a company at a contract sum of USD



15,892,980.63 (Kshs.1,609,037,145). The contract was for the design, supply, testing, commissioning and supervision of security, access control, communications, audiovisual and pitch lighting systems.

The works were to be completed within a period of four (4) months and involved remodeling of five (5) Stadiums which included Jomo Kenyatta Stadium in Machakos, Moi Kinoru Stadium in Meru, Kipchoge Keino Stadium in Eldoret, Nyayo Stadium in Nairobi and Kasarani Stadium in Nairobi, and ten (10) training pitches that were earmarked for use during the CHAN 2018 Championships. The event was however relocated to Morocco due to the slow progress of the works.

A review of the State Department's payment records for the year ended 30 June, 2018 disclosed that the company was paid a 20% advance payment of USD3,178,596.13 (Kshs.330,537,997) vide P.V. No.0618 dated 30 January, 2018. The advance payment was based on a security guarantee issued on 30 October, 2017. It was however noted that the security guarantee was valid up to 28 February, 2018 and had therefore expired by the time of the audit in November, 2018 and no evidence was presented to confirm its re-validation.

In view of the foregoing, there is a risk of not recovering the advanced amount of Kshs.330,537,997 as the security guaranteeing the amount had expired but had not been renewed. It is also not clear when and if the project will be completed considering that the funding was withdrawn by The National Treasury.

#### **1061.2 Irregular Payments to Members of Parliament (MPs)**

As previously reported, an amount of Kshs.2,461,872 was on 29 June, 2018 transferred by the State Department to the National Sports Fund for the purpose of catering for MPs during the FIFA World Cup Games held in Russia in July, 2018. The funds were meant to cater for two (2) MPs expenses during the final two (2) weeks of the games (1 – 17 July, 2018). The payments were based on requests from the Clerk of the National Assembly Ref. No. KNA/DCS/SCT/2018 (023) of 14 June, 2018 and Ref. No. NA/WCC/2018/VOL.1/02 of 18 June, 2018. However, the Members of the National Assembly serve under the Parliamentary Service Commission (PSC) and all their expenses should have been financed by the PSC.

In the circumstances, the State Department should pursue a refund of Kshs.2,461,872 irregularly paid to the two (2) Members of Parliament.

#### **1061.3 Excess – Development Appropriation Vote**

As previously reported, a review of the summary statement of development appropriation for the year ended 30 June, 2018 revealed that development vote expenditure amounted to Kshs.2,280,773,796 against a budget of Kshs.2,246,899,981 resulting to an excess vote of Kshs.33,873,815. The over expenditure was mainly attributed to acquisition of assets where a total of Kshs.1,812,044,124 was spent against a budget of Kshs.1,748,211,106 resulting to an over expenditure of Kshs.63,833,018 or about 4%.

Though the Management explained that this over utilization resulted from adjustments in the supplementary budget after expenditure had already been incurred, there was no evidence to show subsequent approval from The National Treasury or Parliament as required.

#### **1061.4 Un-Budgeted Disbursement and Unauthorized Over- Expenditure**

As reported in the previous year, an amount of Kshs.404,444,538 was transferred by the State Department as special grants to National Sports Fund. However, the National Sports Fund had not budgeted for these funds. Further, the Fund's Management were not involved in the procurement process for payments made from this funding. In addition, included in this amount was Kshs.63,390,000 meant for the Commonwealth Games but the National Sports Fund spent a total of Kshs.130,553,340 for this event resulting to unauthorized over expenditure of Kshs.67,163,340. The over expenditure was funded through reallocation of funds meant for World Rally Championships held in Naivasha without the approval of The National Treasury.

In the circumstances, it was not possible to ascertain if transfer of special grants to National Sports Funds amounting to Kshs.404,444,538 was lawful and whether the resultant expenditure on Commonwealth Games totalling Kshs.130,553,340 was a proper charge to public funds together with the resulting unauthorized over expenditure of Kshs.67,163,340.

#### **Other Matter**

#### **1062 Budget Control and Performance**

The State Department for Sports had budgeted for receipts totalling Kshs.11,300,200,541 but realized Kshs.10,873,497,759 resulting to a shortfall of Kshs.426,518,832 or 4%. Further, the State Department had budgeted to spend Kshs.11,300,200,541, but actual expenditure amounted to Kshs.4,153,207,452 resulting to an under expenditure of Kshs.7,146,993,089 or 63%. The under expenditure was mainly on transfers to other Government units and acquisition of assets of Kshs.7,078,921,965 or 72% and Kshs.5,463,238 or 33% respectively. The under expenditure of Kshs.7,146,993,089 or 63% of the budgeted expenditure implies that the State Department did not achieve its goals as planned and this may have hindered the citizens from accessing some critical services from the State Department during the year under review.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1063** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1064 Inadequate Staffing**

As at the time of audit (October, 2019), the State Department for Sports was inadequately staffed. The staff establishment availed for audit reflected 1,531 members of staff against only 164 members of staff in post resulting to a shortfall of 1,367. Further, the State Department did not demonstrate any efforts being taken to reverse this trend.

In view of the forgoing, the State Department is not able to effectively and efficiently carry out its mandate as intended and normal operations of the State Department are critically affected.

## **THE NATIONAL SPORTS FUND**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Qualified Opinion**

##### **Basis for Qualified Opinion**

#### **1065 Long Outstanding Trade and Other Payable**

Note 21 to the financial statements reflects Kshs.71,243,793 in relation to outstanding trade and other payables as at 30 June, 2019. The age analysis provided showed that bills amounting to Kshs.61,710,457 had remained unpaid for over 90 days contrary to the provisions of the Fund's Service Charter which states that payments to Suppliers shall be within sixty (60) days after receipt of invoices.

The Fund is in breach of its own Service Charter despite the fact that the unpaid pending bills may attract penalties and interest which is a nugatory expense.

#### **1066 Payment for Un-Occupied Office Space**

Included in the general expenses balance of Kshs.34,982,929 (Note 16) for the year ended 30 June, 2019 is Kshs.19,817,302 relating to office rent. Records supporting this expenditure revealed that National Sports Fund leased additional office space on the seventh floor Wing A at Flamingo Towers from 1 November, 2017. It has however been observed that this office space has never been utilized since the lease date. A review of the matter during the year ending 30 June, 2019 revealed that National Sports Fund (NSF) became defunct upon establishment of

the Sports Amendment Act, 2018 that created a new fund, the Sports, Arts and Social Development Fund (SADF). The new fund was operationalized through the PFM (Sports, Arts and Social Development Fund) Regulation, 2018. It was, however, noted that the defunct Fund continued to keep unoccupied rented offices at Flamingo Towers at an annual cost of Kshs.19,817,302. As at the time of audit during the month of December, 2019, a vacate notice had not been issued to the landlord as per the terms of the lease.

In view of the foregoing, the Fund has not obtained value for money from the cumulative expenditure of Kshs.30,471,113 (inclusive of Kshs.10,653,811 paid in 2017/2018) for the unoccupied space up to 30 June, 2019.

### **1067 Transition of Fund Assets**

Note 22 to the financial statements of the Fund has disclosed Property, Plant and Equipment balance of Kshs.48,870,046 as at 30 June, 2019. Included in this figure is Kshs.4,802,438 being value for motor vehicles belonging to the Fund that had irregularly been taken over and were being used by the State Department for Sports Development. This is contrary to the provisions of the PFM Regulations, 2015 which require that only after successful transition and subsequent handing over and receipt by respective Accounting Officer, can the assets be taken over. All the other assets remain domiciled at the National Sports Fund offices. The security/conditions of assets left behind in the unoccupied offices could not be ascertained.

### **1068 Unsupported Expenditure**

Note 15 to the financial statements reflects Kshs.51,883,365 as grants and subsidies made up of disbursements as listed below, to sports organizations by the Fund during the year under review.

<b>Codes</b>	<b>Details</b>	<b>Type</b>	<b>Amount (Kshs.)</b>
7250	Funds Disbursed to Sports Organization	Expense	21,000,000
7251	Sports Disbursement-Commonwealth	Expense	541,947
7252	Sports Disbursement-World Rally Championship	Expense	1,497,356
7253	Sports Disbursement-International Competitions	Expense	28,844,062
	<b>Total Expensed</b>		<b>51,883,365</b>

The basis for the above disbursements could not be confirmed as no supporting documents were availed for audit verification.

In the circumstances, the grants and subsidies amounting to Kshs.51,883,365 expended on financing the above various organizations could not be ascertained as a proper charge to public funds.

## **1069 Unresolved Prior Year Audit Matters**

The following matters reported in the previous year were still outstanding as at 30 June, 2019:

### **1069.1 Special Project Fund - Grants and Subsidies**

As previously reported, the State Department for Sports Development made transfers totalling Kshs.404,444,538 to the National Sports Fund, stated as special grants for the purpose of payment of various activities on behalf of the Department. A review of supporting records for the grants revealed the following anomalies:

#### **1069.1.1 Commonwealth Games (2018) - Gold Coast**

The statement of financial performance for the year ended 30 June, 2018 reflected a grants figure of Kshs.351,276,792 which included Kshs.130,553,340 for the Commonwealth Games. However, only Kshs.63,390,000 was received by the Fund from the State Department for this event, resulting to a deficit of Kshs.67,163,340, which was financed through reallocation of funds meant for the World Rally Championships without approval from The National Treasury as required.

#### **1069.1.2 World Rally Championship Expenditure**

The Fund received Kshs.225,800,000 from the State Department for the World Rally Championships out of which Kshs.144,996,500 was spent on the African Rally Championship held at Naivasha from 14 to 18 March, 2018 in preparation for the World Rally Championship, 2020. A review of the supporting documents in respect of the expenditure incurred, disclosed that the procurement process was carried out by the State Department without involvement of the Fund. Further, procurement of goods and services totalling Kshs.3,708,176 was done through direct procurement contrary to Section 103 of the Public Procurement and Asset Disposal Act, 2015.

#### **1069.1.3 Un-Budgeted for Expenditure**

On 7 June, 2018 the Fund contracted an individual to provide events management services during a ministerial team building event held in Nyeri from 11 to 16 June, 2018 at a fee of Kshs.3,374,000. Part payment of Kshs.1,687,000 was made on 14 June, 2018 vide P.V. No. NSF/0623/18. It was however, noted that this event related to the State Department for Sports Development which has a separate budget for such activities.

In the circumstances, the propriety of the payment amounting to Kshs.3,374,000 could not be confirmed.

## **Other Matter**

### **1070 Budget Control and Performance**

#### **1070.1 Receipts**

The actual receipts amounted to Kshs.221,586,936 against an approved budget of Kshs.1,697,750,500 resulting to an under collection of Kshs.1,476,163,436 or 90%.

The budget shortfall in revenue of Kshs.1,476,163,564 was due to anticipated betting and lottery tax revenue that was transferred to the newly established Sport, Arts and Social Development Fund.

#### **1070.2 Expenditure**

The Fund underspent its approved budget of Kshs.1,668,868,650 by Kshs.1,495,839,436 or 90%.

The under expenditure of Kshs.1,495,839,436 or 90% of the budgeted expenditure implies that the Fund may not have achieved its goals as planned and this may have hindered Kenyan citizens from accessing critical services from the Fund during the year under review.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1071** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **1072 Lack of Board of Trustees**

The Fund operated without a Board from 12 June, 2017 after expiry of the term of previous Board Members. Under the circumstances, the Fund was unable to constitute Board Committees such as the Audit Committee, Finance Committee, Human Resource Committee, and Sports Evaluation Committee to provide oversight to the Management's activities in line with good corporate governance practices.

### **1073 Lack of Substantive Chief Executive Officer (CEO)**

The Fund has not had a substantive CEO since inception contrary to the provisions of the Sports Act, 2013. All the Officers who have occupied the position of CEO have been on an acting capacity. It was noted that the current CEO has been acting since April, 2017.

## **SPORTS, ARTS AND SOCIAL DEVELOPMENT FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **1074 Unsupported Disbursements**

Note 9 to the financial statements reflects Kshs.1,362,694,433 being disbursements to various sporting federations and other sports organizations to support sports and arts developments at Kshs.1,352,548,048 and Kshs.10,146,385 respectively. Although the funds were disbursed for specific events, no expenditure returns and receipt confirmations were availed for audit verification.

In the circumstances, it was not possible to confirm whether the amount was actually received by the stated beneficiaries.

##### **1075 Disbursements to Kenya Open Golf Limited**

The statement of financial performance reflects Kshs.1,362,694,433 as grants and subsidies comprising of disbursements to sports federations for sports and arts developments out of which Kshs.250,140,000 was disbursed to Kenya Open Golf Limited. It was, however, observed that Kenya Open Golf Limited is a limited Company and had not been registered with the Commissioner of Sports as required in order to qualify for funding.

In the circumstances, the disbursement of Kshs.250,140,000 to the Kenya Open Golf Limited is therefore irregular and not a proper charge to public funds.

#### **Other Matter**

##### **1076 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects an approved receipts budget and actual on comparable basis of Kshs.8,525,000,000 and Kshs.8,134,586,819 respectively resulting to an under-funding of Kshs.390,413,181 or 5 % of the budget. Similarly, the Fund expended Kshs.1,371,064,317 against an approved budget of Kshs.8,525,000,000 resulting

to an under-expenditure of Kshs.7,153,935,683 or 84% of the approved budget. Although Management has explained that the underspending arose because the Fund operated only for the last two (2) quarters of the year under review, the huge under absorption, affected the planned activities and impacted negatively on service delivery to the public which is an indication of the Fund's failure to fulfill its mandate of supporting the development and promotion of sports and arts, besides enhancing social development.

### **1077 Unresolved Prior Year Matters**

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board templates and firmed by The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1078 Failure to Execute the Fund's Mandate**

The Sports Act, 2013 stipulates that the Fund should offer support to the sporting organizations in terms of training and capacity building on key areas such as Government Regulations, Public Financial Management Act, 2012, and Public Procurement and Asset Disposal Act, 2015. During the year under review, no training was conducted to sports federations.

In the circumstances, the Management did not execute its mandate fully as provided under the statute and the funds disbursed during the year may not have been utilized within the provisions of the law.

#### **1079 Value for Money for Disbursed Fund**

According to the Public Finance Management (Sports, Arts and Social Development Fund) Regulations, 2018, the Fund is responsible for monitoring the use of funds disbursed to sporting organizations. The Fund disbursed a total of Kshs.1,362,694,433 to various federations and sports organizations. However, it was noted that the Management did not carry out any monitoring activity on the use of disbursements during the year under review as the Fund lacked adequate staff.

In the circumstances, it has not been possible to confirm whether the funds were utilized for the intended purposes or value for money was obtained.



## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1080 Lack of Audit Committee**

The Fund did not constitute any Audit Committee during the year under review as required. In the absence of an Audit Committee, the operations of the Funds were not reviewed. The various departments and sections such as finance, human resource, IT and administrations were not evaluated during the year ending 30 June, 2019.

Consequently, the Management may not have instituted adequate structures to ensure proper and adequate internal controls exist and are effective to safeguard public resources.

#### **1081 Lack of a Substantive Chief Executive Officer**

The Fund has been operating without a substantive Chief Executive Officer (CEO) since inception in the year 2018. However, an acting CEO was appointed vide Letter Ref. SDSD 261/VOL.I. dated 12 February, 2019 but the appointment expired on 30 June, 2019. No renewal of the same has been done nor any process of recruitment initiated to fill the position.

Lack of a substantive CEO may have a negative impact and hamper the operations and functionality of the Fund.

#### **1082 Lack of Policy Documents**

The Fund has not developed several crucial policy documents to guide its operations such as strategic plan, human resource policies, IT strategies, internal control manuals, and accounting manuals.

In absence of such key policy documents and lack of a strong internal control system, the Fund may not effectively execute its mandate.

# STATE DEPARTMENT FOR CULTURE AND HERITAGE-VOTE 1134

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1083 Cash and Cash Equivalents

##### 1083.1 Variance Between Integrated Financial Management Information System (IFMIS) Generated Trial Balance and Financial Statements

The cash and bank balances from IFMIS generated Trial Balance differed with the financial statements balances as follows:

Item	Codes	Account/ Cash	IFMIS Trial Balance (Kshs.)	Financial Statements (Kshs.)	Difference (Kshs.)
Bank Balances	6530000	Recurrent	1,358,280,986	309,889	1,357,971,097
	6540000	Development	127,827,672	77,700	127,749,972
	6550000	Deposits	43,828,373	26,426,654	17,401,719
Cash Balances	6580000	Cash in Hand	2,925,797,122	304,437	2,925,492,685
<b>Total</b>			<b>4,455,734,153</b>	<b>27,118,680</b>	<b>4,428,615,473</b>

Management has not explained or reconciled the variances.

#### 1083.2 Long Outstanding Balances in Bank Reconciliation

The recurrent bank account reconciliation statement as at 30 June, 2019 reflects unexplained long outstanding payments in cash book not in bank statements and payments in bank statements not in cash book amounting to Kshs.537,359 and Kshs.189,655 respectively.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.27,118,680 reflected in the financial statements as at 30 June, 2019 could not be confirmed.

#### 1084 Acquisition of Assets

##### 1084.1 Motor Vehicles not Registered in Department's Name

Annex 4 to the financial statements discloses a summary of fixed assets worth Kshs.224,274,001 as at 30 June, 2019. Included in the fixed assets are seventeen (17) motor vehicles owned by the State Department for Culture and Heritage that are not registered in the Department's name.

In the circumstances, the ownership and security of the seventeen (17) vehicles included in the fixed assets balance of Kshs.224,274,001 could not be ascertained.

## 1084.2 Construction of Civil Works

Included in the acquisition of assets balance of Kshs.70,874,612 as disclosed in Note 9 to the financial statements is Kshs.40,000,000 being Development Grant transferred to the National Museums of Kenya for rehabilitation and upgrade of Tom Mboya Mausoleum in Rusinga Island, Homabay County. The National Museums of Kenya awarded the construction tender to a local firm on 25 April, 2019 at a contract sum of Kshs.45,457,740 thereby exceeding the budget by Kshs.5,457,740, without prior approval of the State Department for Culture and Heritage who was the initiator of the project.

Consequently, the accuracy of acquisition of assets figure of Kshs.70,874,612 as at 30 June, 2019 could not be confirmed.

## 1085 Unsupported Retention

Included in the accounts payables balance of Kshs.26,426,654 is Kshs.4,098,684 recorded as retention money for contractors. However, the retention amount has been outstanding from 2008/2009 financial year but supporting documents were not made available for audit verification.

In the circumstances, it has not been possible to ascertain the accounts payables balance of Kshs.26,426,654 as at 30 June, 2019.

## 1086 Pending Bills

Note 16.2 to the financial statements reflects pending bills amounting to Kshs.41,675,655 as at 30 June, 2019 arrived at as follows:

	<b>Amount (Kshs.)</b>
Opening Pending Bills	23,560,673
Additions during the year	74,934,927
<b>Sub-total</b>	<b>98,495,600</b>
Less Paid during the year	(56,819,945)
<b>Pending Bills as at 30 June, 2019</b>	<b>41,675,655</b>

Included in the pending bills additions of Kshs.74,934,927 is an amount of Kshs.48,532,854 being undisclosed pending bills from earlier years. No explanation was given on why the bills did not form the first charge in the previous year and why they were omitted in the previous year's records. Further, no supporting documents were made available for audit scrutiny for the undisclosed pending bills brought forward.

Further, included in the pending bills of Kshs.41,675,655 is an amount of Kshs.2,514,648 not supported by payment vouchers and invoices.

In view of the foregoing, it has not been possible to ascertain the legality and propriety of the previous year's undisclosed pending bills amounting to

Kshs.48,532,584 including the payments of pending bills of Kshs.56,819,945. It has also not been possible to ascertain the accuracy and completeness of the closing pending bills of Kshs.41,675,655 as at 30 June, 2019.

## **1087 Prior Year Unresolved Issues**

### **1087.1 Transfers to Other Government Units**

As previously reported, the statement of receipts and payments for the year ended 30 June, 2018 reflected Kshs.2,817,534,350 in respect of transfers to other Government Units. However, six (6) entities confirmed receipts totalling Kshs.1,416,648,100 against transfers of Kshs.1,483,183,950 resulting into an unexplained variance of Kshs.66,535,850. Management did not explain or reconcile the variances during the year under review.

### **1087.2 Pan African Federation of Film Makers (FEPACI)**

As previously reported a Memorandum of Understanding (MOU) was signed on 23 December, 2013 between the then Ministry of Sports, Culture and the Arts and FEPACI. According to the MOU, the Ministry was to provide financial resources at Kshs.84,000,000 annually for four (4) years with effect from 2014/2015 in respect of management and operations of the Secretariat Office in Kenya. The funds were to be disbursed and utilized under the terms and conditions governing the management of public funds. As at the time of audit carried out in December, 2018, the Ministry had disbursed a total of Kshs.334,421,573 as shown below:

<b>Financial year</b>	<b>Amount (Kshs.)</b>
2014/2015	85,985,637
2015/2016	64,000,000
2016/2017	84,681,554
2017/2018	99,754,382
<b>Total</b>	<b>334,421,573</b>

Accordingly, the Ministry was required to monitor and guide the operations of FEPACI as per the addendum to the MOU. However, no evidence was availed indicating that the Ministry carried out its monitoring role. Further, the following irregularities were noted:

#### **1087.2.1 Unauthorized Bank Account**

FEPACI operated a bank account with the Commercial Bank of Africa without the approval of The National Treasury contrary to Section 28(1) of the PFM Act, 2012. The Secretariat was therefore, in breach of the law.

### **1087.2.2 Closure of FEPACI Operations in Kenya**

FEPACI closed its operations in Kenya on 30 June, 2018 and at the time of closure, the Federation had a bank balance of Kshs.29,338,898 and cash in hand balance of Kshs.45,526. No documentary evidence was availed to show that the balances were refunded back to the State Department of Culture and Heritage as required. Further, as at the date of closure of its operations in Kenya on 30 June, 2018, an amount of Kshs.1,858,640 being receivables due from unsurrendered imprests, rent, water and electricity deposits were still outstanding. The unsurrendered imprests included Kshs.1,044,134 issued as per diem to the Secretary General and others. In addition, as at the closure of operations on 30 June, 2018 FEPACI had accrued trade and other payables amounting to Kshs.16,296,026. No explanation was given on how these debts would be settled.

### **1087.2.3 Procurement of Goods and Services**

An audit review of FEPACI expenditure revealed that an amount of Kshs.23,710,787 was not supported. Further, FEPACI did not prepare procurement plans during the four (4) years of operations as required by Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015. In the circumstances, the propriety of the expenditure incurred of Kshs.23,710,787 could not be confirmed.

### **1087.2.4 Irregular Per Diem Payments to a Consultant**

An amount of Kshs.928,881 was paid to an individual being per diem and airfare while attending FEPACI meetings in South Africa. However, it was noted that the payee was a consultant and therefore did not qualify for per diem payments for the two trips he made to South Africa on 25 September, 2015 and 27 October, 2015. The payment was therefore ineligible.

### **1087.2.5 Audit of FEPACI Financial Statements by a Private Firm**

FEPACI did not submit its financial statements to the Auditor-General for audit as required by Section 81(4) of the Public Finance Management Act, 2012 despite a clear clause in the MOU that funds so disbursed were to be utilized under the terms and conditions governing the management of public funds. During the four (4) years of operations, FEPACI hired a private firm and paid audit fees totalling Kshs.3,289,594 without seeking the approval of the Auditor-General. As a result, the amount is not a proper charge to public funds.

In view of the foregoing, the four (4) years operations of FEPACI have not been within the Public Finance Management Act, 2012 and the accountability of the Kshs.334,421,573 disbursed to the Secretariat could not be confirmed as at the time of the audit.

### **1087.3 Uzalendo Festival and Renovation of Three (3) Monuments**

As previously reported, an amount of Kshs.28 million was disbursed to the National Museums of Kenya by the State Department of Culture and Arts to finance Uzalendo Festival which was to be held at Uhuru Gardens for three (3) days from 10 December, 2016 at a cost of Kshs.20 million while the balance of Kshs.8 million was to cater for the renovations of several monuments. The receipts and invoices to support the total expenditure of Kshs.28 million were not availed for audit. A review of the position in 2018/2019 revealed that the supporting documents were still outstanding.

### **1087.4 Unsupported Pending Bills**

As previously reported, an amount of Kshs.6,782,758 was paid on 27 June, 2017 to the Standard Group Ltd as balance for advertisement of the Smithsonian Kenya Mambo Poa Festival and hosting Radio Talk Shows held in May, 2014 and June, 2014. It was then noted that the invoices worth Kshs.7,868,000 attached to the payment voucher dated back to the year 2014/2015 and had not been appearing in the list of pending bills.

Under the circumstances, the validity and propriety of the expenditure of Kshs.6,782,758 cannot be confirmed.

### **Other Matter**

### **1088 Budget Control and Performance**

Actual revenue realized amounted to Kshs.4,145,824,305 against a budget of Kshs.4,360,365,245 resulting to a shortfall of Kshs.214,540,940 or 5%. Actual expenditure amounted to Kshs.4,144,958,654 against the approved budget of Kshs.4,360,365,245 resulting in an under expenditure of Kshs.215,406,591 or 5%. The shortfall in budgeted receipts and under expenditure implies that some activities of the State Department were not achieved as planned.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **1089 Inadequate Staffing**

As at the time of audit in October, 2019, the staff establishment availed for audit revealed that the State Department's official establishment was 1531 members of staff. However, it was noted that only 247 members of staff were in position resulting to a shortfall 1284 and implying that the State Department was under staffed. Further, it was noted that out of 247 in post, 142 are aged 50 years and above. The Department did not demonstrate any efforts taken to correct the situation. From the forgoing, the State Department is not able to effectively and efficiently carry out its mandate as intended and normal operations of the State Department are critically affected.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1090 Lack of a Risk Management Policy**

The State Department does not have a risk management policy. Failure to develop a risk management policy means that the entity does not have a framework for the management of risk and hence it is not possible to adequately identify, assess and control risk. As a result, it is not possible to define the entity's risk appetite and set the risk tolerance levels by identifying boundaries against unacceptable exposure to risk.

#### **1091 Disaster Recovery Strategy**

The State Department lacks a Disaster Recovery Strategy and backups stored in a secure off site locations. Data Recovery Strategic Plan could secures the State Department's ability to provide basic services or its financial commitments, identify the financial problems and place the department in a sound and sustainable financial condition as quickly as possible, to avoid the risk of loss of data which would otherwise adversely affect service delivery.

## STATE DEPARTMENT FOR ENERGY-VOTE 1152

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 1092 Land Without Title Deeds

As reported in previous years, the State Department does not have title deeds for eight (8) parcels of land it occupies measuring a total of 21.42 hectares and with book value of approximately Kshs.180,700,000 as detailed out below:

No.	Land Parcel	Size (Hectares)	Location (County)	Approximate Value (Kshs.)	Condition
1.	Kericho Energy Centre	0.8	Kericho	15,000,000	Developed and fenced
2.	Kisii Energy Centre	1	Kisii	12,000,000	Developed and fenced
3.	Migori Energy Centre	0.4	Migori	2,200,000	Developed and fenced
4.	Bukura Energy Centre	2	Kakamega	3,500,000	Developed and fenced
5.	Uasin Gishu Energy Centre	0.8	Uasin Gishu	12,000,000	Developed and fenced
6.	Kitui Energy Centre	10.4	Kitui	53,000,000	Developed and fenced
7.	Wambugu Energy Centre	4	Nyeri	80,000,000	Developed and fenced
8.	Mitunguu Energy Centre	2.02	Meru	3,000,000	Developed and fenced
	<b>Total</b>	<b>21.42</b>		<b>180,700,000</b>	

Available information indicates that the process of acquiring titles for some of the land parcels has been underway for a significantly long period of time. According to the Management, an Inter-Ministerial Committee was formed during the year under review, to help fast track the issuance of the title deeds from the Ministry of Lands. However, by the time of concluding this audit, the title deeds were yet to be issued.



In the absence of ownership documents, it has not been possible to confirm the rightful ownership of these parcels.

## **Other Matter**

### **1093 Pending Bills**

During the year under review, the State Department for Energy reported pending bills amounting to Kshs.13,878,074 (2017-2018: Kshs.133,624,202). This balance was carried forward to 2019/2020 financial year. Failure to settle pending bills in the year in which they relate adversely affects the implementation of the subsequent year's budgeted programmes as the pending bills form a first charge to that year's budget provision.

### **1094 Budget Control and Performance**

As reflected in the summary statement of appropriation - recurrent and development combined, the State Department for Energy had a budgeted revenue of Kshs.61,179,444,470 but received Kshs.50,395,527,863 resulting to under collection of Kshs.10,783,916,607 or 18%. Further, the State Department for Energy projected to spend Kshs.61,862,081,856 on various budget lines but actually incurred an expenditure amounting to Kshs.50,109,572,531 resulting to an overall budget under absorption of Kshs.11,752,509,325 or 19%.

In the circumstances, the State Department may not have implemented all its planned activities creating a negative impact on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1095** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

### **1096 Lack of Risk Management Policies**

According to Section 165(1) of the Public Management Finance Act, 2015, a National Government entity should develop risk management strategies which should include fraud prevention mechanisms, a disaster recovery plan and a system of risk management and internal control that builds robust operations. An audit review of the State Department's policies revealed that it has not developed effective risk management policies to assist the State Department in forecasting

and evaluation of risk and identification of procedures which would assist in avoiding the risks or minimizing their impact. Consequently, the State Department for Energy may not be in a position to objectively assess and manage its risks, in the event that it experiences an adverse exposure.

#### **1097 Lack of an Audit Committee**

Section 174(1) of the Public Finance Management (National Government) Regulations, 2015, provides that each National Government entity shall establish an Audit Committee. Further, according to the guidelines set out in Gazette Notice No.2691 of 26 April, 2016, the main function of the Audit Committee of a National Government is to support the Accounting Officer with regard to his responsibilities over risk, control, governance and associated assurance. However, it was observed that the State Department does not have an Audit Committee and whereas an advertisement for its establishment was made in the media on 15 October, 2019, no Audit Committee had been established by the time of concluding this audit. In absence of an Audit Committee, it was not possible to confirm whether there was effective oversight over the financial reporting, risk management as well as governance.

#### **1098 Incomplete Fixed Assets Register**

According to the summary of fixed assets register at Annex 2, the State Department for Energy had fixed assets with a total historical cost of Kshs.241,292,790,533. However, review of the detailed fixed assets register revealed that the State Department for Energy did not maintain comprehensive records relating to cost, disposals, depreciation, accumulated depreciation, location of the asset, tagging and the officer responsible for each asset among other details as required under Section 143 (2) of Public Finance Management Regulations, 2015.

In the absence of a comprehensive register of assets, it could not be confirmed the completeness of the reported assets and that the assets were properly safeguarded.

### **DONOR FUNDED PROJECTS**

#### **KENYA ELECTRICITY MODERNIZATION PROJECT (IDA CR. NO. 55870 KE)**

##### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**1099** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **1100 Budget Control and Performance**

The statement of comparison between the budget and actual amounts indicates that the Project expected to receive Kshs.62,885,000 but actual receipts amounted to Kshs.223,766,283 or over 255% of the expected receipts. Similarly, the budgeted payments amounted to Kshs.62,885,000 but an amount of Kshs.75,797,754 was utilized resulting to an over-expenditure of Kshs.12,912,754 or budget utilization of 121%.

Further, the Project is reflected to have received Kshs.144,242,280 from The National Treasury which had not been budgeted for. Management has indicated that the amount was erroneously wired to their account and constitutes Other Pending Payables to be refunded to the Ministry.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1101** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1102** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA ELECTRICITY EXPANSION PROJECT (IDA CR. NO.4743-KE)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1103** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **1104 Project Account Closure and Transfer of Bank Balance**

A review of the Project financing agreement, together with the closure and cancellation of the credit account on 2 August, 2018, indicate that the Project was closed by the World Bank. However, the balance of Kshs.3,385,425 which was in

the account at the time of closure had not been transferred back to The National Treasury as at 30 June, 2019. Although, according to Management, guidance has been sought from The National Treasury on how to close the Project, it is not clear why this has not been finalized.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1105** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1106** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## PETROLEUM DEVELOPMENT LEVY FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**1107** There were no material issues noted during the audit of the financial statements of the Fund.

#### Other Matter

#### **1108 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,127,000,000 and Kshs.1,147,386,300 resulting to an over-collection of Kshs.20,386,300 being interest income. Similarly, the Funds spent Kshs.1,318,614,137 against the approved budget of Kshs.1,127,000,000 resulting to an over-absorption of Kshs.191,614,137 or 17% of the budget.

Management has not explained the reason for material deviations as required under IPSAS 24 and as per the reporting template.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1109** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1110** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## KENYA ENERGY-SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**1111** There were no material issues noted during the audit of the financial statements of the Programme.

#### Other Matter

##### **1112 Budget Control and Performance**

The budgeted receipts of the Fund for the year under review amounted to Kshs.250,000,000 but actual receipts were Kshs.3,229,900 resulting to a deficit of Kshs.246,770,100 equivalent to 99% of the budget. In the absence of sufficient receipts, the Fund spent a portion of its accumulated surplus to finance its expenditure for the year totalling Kshs.71,775,972.

The Fund did not therefore execute some of its intended activities which in turn implies that citizens were denied services. No explanations have been provided for the Fund's failure to fully implement the budget as approved by the National Assembly.

##### **1113 Production of Energy Crops for Bio-Fuels**

Audit review of the strategic objectives of the Fund as described in its action plan for the 2008-2018 period indicated that one of the main objectives of the Fund, namely production of energy crops for bio-fuels, was not achieved. Although the

Fund has, through the State Department of Energy, identified croton and jatropa crops for production of bio-diesel, significant investment in their cultivation and processing is yet to be made in spite of the Fund's activities being set to end in 2029.

As a result of the financing shortfall, many projects and activities planned for the year under review were not implemented, and the Fund may not attain its goals and objectives.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1114** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1115** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA OFF-GRID SOLAR ACCESS PROJECT FOR UNDERSERVED COUNTIES (IDA CR. NO. 6135-KE)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1116** There were no material issues noted during the audit of the financial statements of the Project.

#### **Other Matter**

##### **1117 Budget Control and Performance**

The summary statement of comparative budget and actual amounts reflects final receipts of budget and actual on comparable basis of Kshs.300,000,000 and nil respectively, resulting to an under-funding of Kshs.300,000,000 or 100% of the budget. As a result, the project utilized the previous years balance savings to finance current activities amounting to Kshs.163,558,180. The underfunding may

affect the planned activities and projects which will impact negatively on service delivery for the public.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**1118** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

##### **Conclusion**

**1119** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR ENERGY**

#### **BOGORIA SILALI GEOTHERMAL PROJECT (LOAN NO.2013.66.103)- GEOTHERMAL DEVELOPMENT COMPANY LIMITED**

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Unqualified Opinion**

**1120** There were no material issues noted during the audit of the financial statements of the Project.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

**1121** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1122** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## MULTINATIONAL - KENYA SECTION OF INTERCONNECTION PROJECT OF ELECTRIC GRIDS OF NILE EQUATORIAL LAKES COUNTRIES (ADF LOAN NO. 2100150022643) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**1123** There were no material issues noted during the audit of the financial statements of the Project.

#### Emphasis of Matter

##### **1124 Expiry of Loan Agreement**

The Loan Agreement between the Republic of Kenya and the African Development Bank (ADB) became effective on 20 September, 2010 and expired on 31 December, 2017. However, the Project has stalled at 61% level of completion since the Kenya Electricity Transmission Company (KETRACO) terminated the services of the main contractor for non-performance in April, 2016. Further, no funds have been received from the Bank since 2016. Analysis of the Project's cash and pending bills records as at 30 June, 2019 revealed a funding shortfall amounting to Kshs.733,209,258.

No evidence has been presented to show that the Loan Agreement has been renewed or other source of funds identified. As a result, the status of the Project, including plans on its revival and completion, is not clear.

##### **1125 Outstanding Arbitration on Terminated Contract**

An arbitration case filed in April, 2016 between the contractor and KETRACO in respect to termination of the works contract has not been finalized. On 30 July, 2019, the Tribunal issued their award in favour of the contractor. However, Management is of the opinion that the decision made by the Arbitrator is against public policy and intends to present an appeal to have the award set aside. As at



30 June, 2019 the Company had incurred legal fees totalling Kshs.101,791,087 on the matter.

In the circumstances, it is not possible to confirm when the matter will be resolved.

#### **1126 Longstanding Pending Bills**

As at 30 June, 2019, the Project had, since inception, incurred various costs on works and services totalling Kshs.4,661,273,441 as disclosed in Note 9.1 and detailed in Annex 2A to the financial statements. The amounts certified as payable as at 30 June, 2019 amounted to Kshs.3,453,000,803 out of which bills totalling Kshs.3,006,460,944 had been paid with the remainder of Kshs.446,539,858 owed to the terminated contractor amounting to Kshs.416,993,484, and to other parties amounting to Kshs.29,546,374. It is expected that bills owed to the contractor will have to wait for the final decision on the arbitration case between the two parties. Management has not explained when the bills owed to other parties will be paid.

#### **1127 Longstanding Wayleave Compensation Expenses**

Compensation owed to landowners for wayleaves acquired since inception of the Project amounted to Kshs.1,722,348,174, as disclosed in Note 9.2 and detailed in Annex 2B to the financial statements. The amounts certified as payable amounted to Kshs.1,665,169,644 out of which payments totalling Kshs.1,338,656,642 were made over time leaving Kshs.326,513,002 unpaid as at 30 June, 2019. Management has indicated that the outstanding amounts were not paid on time due to lack of budgetary allocation from The National Treasury, protracted negotiations with, or absence of, certified land owners, and court injunctions filed by interested parties. The plan to settle the bills has not been disclosed.

I have not qualified my opinion in respect to these matters.

#### **Other Matter**

#### **1128 Under-Absorption of Budgeted Funds**

During the year under review, the Project had budgeted for counterpart Government receipts totalling Kshs.100,000,000 but received only Kshs.75,531,103 equivalent to 76% of budgeted receipts. Further, the Project incurred expenditure totalling Kshs.46,355,066 against the Kshs.100,000,000 budget, attaining an absorption rate equivalent to 46% of the budget.

In view of the low absorption of funds, some of the Project's plans for the year were not executed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 1129 Unrealized Investment in the Project

As previously mentioned, cumulative expenditure incurred on the Project as at 30 June, 2019 totalled Kshs.4,661,273,441 as shown in the statement of receipts and payments for the year then ended. The Project was expected to have been completed by 31 December, 2017 but was assessed at 61% level of completion at the time it stalled in April, 2016. No additional works have been carried out since.

Because of the delay in completing the works, taxpayers have not received the services envisioned at the launch of the Project. Further, should remedial action not be taken immediately, additional costs may have to be incurred to bring the Project to completion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1130** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## MULTINATIONALKENYA-TANZANIAPOWERINTERCONNECTION PROJECT (KENYANCOMPONENT) (ADF LOAN NO.2100150032846) - KENYA ELECTRICITY TRANSMISSION COMPANY LTD

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**1131** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### 1132 Pending Bills – Goods and Services

As disclosed in Annex 2A, the Project Management has contracted works and services amounting to Kshs.3,303,669,940. The amounts certified as payable

amounted to Kshs.1,216,625,175 out of which bills amounting to Kshs.1,088,153,258 was paid leaving an outstanding pending bill of Kshs.128,471,917. The unpaid bills are likely to lead to penalties or litigation with the consequent risk of wasteful expenditure.

### **1133 Long Outstanding Wayleave Compensation**

As disclosed in Annex 2B, the expected compensation to landowners amounted to Kshs.740,936,855 for wayleaves acquired since inception of the Project on 5 December, 2012. The amounts certified as payable totaled to Kshs.238,519,493 out of which Kshs.159,354,536 was paid leaving an unpaid balance of Kshs.79,164,957. The Management has attributed failure to pay the amount due to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions on disputed cases.

### **1134 Delayed Project Implementation**

According to the Project's physical progress, the Isinya-Namanga transmission line under Lot K1 contracted at Kshs.16,262,400 was at 42% complete by 30 June, 2019. The Project is behind schedule considering that the expected completion date was April, 2020 and significant work remains to be done. The Project may not be completed as per the expected completion date and this may result in delayed delivery of services to the public and possible cost overruns.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1135** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1136** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**LAST MILE CONNECTIVITY PROJECT (LOAN NO.2100150032195) – KENYA POWER AND LIGHTING COMPANY PLC**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**1137** There were no material issues noted during the audit of the financial statements of the Project.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

**Conclusion**

**1138** There were no material issues relating to lawfulness and effectiveness in use of public resources.

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

**Conclusion**

**1139** There were no material issues relating to effectiveness of internal controls, risk management and governance.

**LAST MILE CONNECTIVITY PROJECT II (LOAN NO.2000200000152) – KENYA POWER AND LIGHTING COMPANY PLC**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

**1140** There were no material issues noted during the audit of the financial statements of the Project.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

**Conclusion**

**1141** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

- 1142** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **EASTERN ELECTRICITY HIGHWAY PROJECT (IDA CREDIT NO. 5148-KE; AFD LOAN NO: CKE 1030 01B AND ADF LOAN NO: 2100150027845) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED**

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

- 1143** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **1144 Pending Bills – Goods and Services**

As disclosed in Annex 2A, the Project Management has contracted works and services amounting to Kshs.44,151,972,936. The amounts certified as payable amounted to Kshs.34,249,094,191 out of which bills amounting to Kshs.25,677,533,152 was paid leaving an outstanding pending bill of Kshs.8,571,561,039. The unpaid bills are likely to lead to penalties or litigation with the consequent risk of wasteful expenditure.

#### **1145 Long Outstanding Wayleave Compensation**

As disclosed in Annex 2B, the expected compensation to landowners amounted to Kshs.2,365,517,091 for wayleaves acquired since inception of the project on 31 December, 2012. The amounts certified as payable totaled to Kshs.2,553,999,281 out of which Kshs.2,067,970,732 was paid leaving an unpaid balance of Kshs.297,546,358. The Management has attributed failure to pay the amount due to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions on disputed cases.

## **1146 Undrawn Balances**

The Project had an approved budget of USD 441,000,000, UA 75,000,000, EUR 91,000,000 and counterpart funding by Government of Kenya of Kshs.8,585,000,000 all equivalent to Kshs.74,297,805,000. The Project was envisaged to be completed by 30 September, 2020. However, as at 30 June, 2019, there was an undrawn balance of Kshs.45,296,338,652 or approximately 61% of the Project funding with a total pending bills and wayleave compensation of Kshs.8,869,107,397 hence it is likely that the funding might not be fully absorbed. Consequently, the huge unutilized funding balance may lead to locking out of other projects that could have delivered services to the Kenyan citizens.

The Management attributes the apparent slow absorption to the anticipated costs derived from the Project appraisal document and the savings realized after the tendering process and awards to various contractors while wayleave financing is based on actual valuations which is currently lower than the estimates.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1147** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1148** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **RURAL ELECTRIFICATION IN FIVE REGIONS PROJECT (CR. NO.11/597KE, 1407PKE) – RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1149** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matters**

### **1150 Delays in Project Implementation**

According to information reflected in the annual report and financial statements, the Project's expected commencement date was 23 September, 2013 while the expected completion date is indicated as 31 December, 2020.

However, the statement of comparative budget and actual amounts indicates that the Project received Kshs.27,044,114 against the approved budget of Kshs.920,000,000, resulting to an underfunding of Kshs.892,955,886 or 97% variance between the budget and actual amounts. Further, the Project spent an amount of Kshs.27,044,114 out of the budgeted expenditure of Kshs.920,000,000. Management has attributed the underfunding and the low absorption to delays in relation to opening of the letters of credit and from challenges related to conditions set out by the financier.

Under the circumstances, the objectives of this Project whose completion date is due on 31 December, 2020, may not be achieved thus denying the intended beneficiaries the envisaged services.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1151** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1152** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT (JICA LOAN NO. KE-P28) – KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1153** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **1154 Pending Bills – Goods and Services**

The Project Management has contracted works and services amounting to Kshs.10,177,077,245, as disclosed in Annex 2A. The amounts certified as payable amounted to Kshs. 6,821,337,940 out of which Kshs.6,701,050,167 was paid leading to an unpaid pending bill of Kshs.120,287,773. The unpaid bills are likely to lead to penalties or litigation, with the consequent risk of wasteful expenditure.

### **1155 Long Outstanding Wayleave Compensation**

As disclosed in Annex 2B, the expected compensation to landowners amounted to Kshs.2,922,439,175 for wayleaves acquired since inception of the project in February, 2016. The amounts certified as payable totalled to Kshs.1,728,237,712 of which Kshs.1,381,840,872 was paid leaving an unpaid balance of Kshs.346,396,840. Management attributed failure to pay the amount to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1156** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1157** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **220KV AND 132KV TRANSMISSION LINES AND SUBSTATIONS (EXIM BANK OF INDIA FUNDED) PROJECTS - KENYA ELECTRICITY TRANSMISSION COMPANY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1158** There were no material issues noted during the audit of the financial statements of the Project.



## **Emphasis of Matter**

### **1159 Liquidation of Contractor**

The contractor for Lot 1A 220KV Turkwel- Ortum- Kitale substations was contracted on 16 April, 2013 with a contract sum of USD19,972,680 later revised to USD18,100,120. According to information provided by Management the contractor had achieved an overall completion status of 78%. In July, 2018, the courts in India ordered that the contractor be liquidated and resulting from this the contractor has had challenges in completing the Project due of lack of finances. According to Management, another contractor is in the process of being identified as a replacement to take over the remaining works. Consequently, the Project may not be completed on time and may also experience cost overruns.

My opinion on this matter is not qualified.

## **Other Matter**

### **1160 Pending Bills – Goods and Services**

The Project contracted works and services at a cost of Kshs.6,241,368,839, as disclosed in Annex 2A. The amounts certified as payable amounted to Kshs.5,348,831,303 out of which Kshs.5,260,692,720 was paid, leaving an unpaid balance of Kshs.87,730,872. Management has attributed failure to pay this pending bill to liquidation of the main contractor.

### **1161 Long Unpaid Wayleave Compensation**

The expected compensation to landowners for wayleaves acquired since inception of the project amounts to Kshs.958,943,467, as disclosed in Annex 2B. The amounts certified as payable amounted to Kshs.818,289,510 of which Kshs.642,119,654 was paid leaving unpaid balance of Kshs.176,113,456. Management has attributed failure to pay this amount to lack of budgetary allocation from National Treasury and long negotiations among land owners, Kenya Electricity Transmission Company and the County Government of Kajiado.

### **1162 Delayed Project Implementation**

The Lot 1A- 220KV Substations at Turkwel, Ortum & Kitale and Lot 3A- 132/33KV Machakos-Konza-Kajiado-Namanga Transmission Line reported a 78% and 60% completion rate respectively by 30 June, 2019.

The Lot 1A project is suspended and significant work remains not done. Works have not started at the main strategic substation in Turkwel which may lead to underutilization of the project. Lot 3A was expected to be complete by 30 December, 2019 hence the project is behind schedule and may delay delivery of services to the public. The projects may also experience cost overruns.

### **1163 Budgetary Control and Performance**

The Project budgeted for receipts of Kshs.845,115,000 but only received Kshs.619,192,501, resulting to a 27% under-realization of receipts. Further, the Project incurred expenditure amounting to Kshs.334,011,618 against a budget of Kshs.845,115,000, resulting to an overall budget absorption of only 40%.

In view of the above, the Project's expenditure budget for 2018/2019 was largely not implemented which may lead to delay in achieving the planned activities and overall objectives of the Project.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1164** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1165** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA ELECTRICITY MODERNIZATION PROJECT (IDA CR. NO. 55870 KE) - RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1166** There were no material issues noted during the audit of the financial statements of the Project.

#### **Other Matter**

#### **1167 Delays in Project Implementation**

The Project commenced on 29 June, 2015 and its expected completion date is 30 December, 2020. However, during the year under review the only activity

implemented on the Project was acquisition of non-financial assets totalling Kshs.20,314,420. The implementation of this Project is significantly delayed, considering that there is only one and half years to the expiry of the five-year duration, on 30 December, 2020. The Management has not explained how it intends to complete the Project within the remaining timeline.

#### **1168 Budget Control and Performance**

According to the statement of comparative budget and actual amounts, the Project's final budget for the year, was Kshs.321,000,000. However, no amount was advanced to the Project resulting to minimal activities during the year under review amounting to Kshs.20,320,656 from past savings of Kshs.81,642,691. Under the circumstances, the objectives of this Project whose completion date is almost due, may not be achieved and the intended beneficiaries may not receive its benefits.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**1169** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**1170** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **NAIROBI RING TRANSMISSION LINE PROJECT (AFD CREDIT NO.CKE 6012 01G AND EIB CREDIT NO.25367/KE) – KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**1171** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **1172 Pending Bills – Goods and Services**

As disclosed in Annex 2A, the Project Management has contracted works and services amounting to Kshs.14,169,783,209. The amounts certified as payable totalled to Kshs.11,530,940,435 out of which Kshs.11,442,076,953 was paid leaving an outstanding pending bill of Kshs.88,863,482. The unpaid bills are likely to lead to penalties or litigation with the consequent risk of wasteful expenditure.

### **1173 Long Outstanding Wayleave Compensation**

As disclosed in Annex 2B, the expected compensation to landowners amounted to Kshs.2,553,999,281 for wayleaves acquired since inception of the project in October, 2012. The amounts certified as payable totalled to Kshs.2,553,999,281 out of which Kshs.2,393,712,536 was paid leaving an unpaid balance of Kshs.160,286,745. The Management has attributed failure to pay the amount due to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions on disputed cases.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1174** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1175** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **POWER TRANSMISSION SYSTEM IMPROVEMENT PROJECT (ADF LOAN NO.2100150023752) - KENYA ELECTRICITY TRANSMISSION COMPANY LTD**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1176** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **1177 Pending Bills – Goods and Services**

As disclosed in Annex 2A, the Project Management has contracted works and services amounting to Kshs.7,942,138,556. The amounts certified as payable totalled to Kshs.6,594,318,673 out of which Kshs.6,298,399,539 was paid leaving an outstanding pending bill of Kshs.295,919,135. The unpaid bills are likely to lead to penalties or litigation with the consequent risk of wasteful expenditure.

### **1178 Long Outstanding Wayleave Compensation**

As disclosed in Annex 2B, the expected compensation to landowners amounted to Kshs.2,219,867,628 for wayleaves acquired since inception of the project on 16 April, 2013. The amounts certified as payable totalled to Kshs.1,906,194,914 out of which Kshs.1,605,940,256 was paid leaving an unpaid balance of Kshs.300,524,658. The Management has attributed failure to pay the amount due to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions on disputed cases.

### **1179 Slow Project Implementation**

The transmission lines under Lot 1 (Nanyuki-Nyahururu, Olkaria-Narok, Lessos-Kabarnet) and Lot 2 (Mwingi-Kitui-Wote-Sultan Hamud) were behind schedule at 87% and 85% completion rate with an outstanding balance of Kshs.33,583,689 and Kshs.55,578,800 respectively as a result of the main contractor's insolvency. These works, whose completion was scheduled for 30 June, 2019 were re-scheduled to April, 2020, following the engagement of another contractor to complete the remaining works, which are quite significant. This Project may therefore, not be completed within the scheduled timeline and may delay the expected services to the public and may also lead to cost overruns.

### **1180 Budgetary Control and Performance**

The Project had budgeted receipts of Kshs.825,000,000 but actual receipts amounted to Kshs.747,585,968 or 91% of the budgeted receipts while actual expenditure amounted to Kshs.373,123,971 which was approximately 45% of the budgeted expenditure of Kshs.825,000,000.

Further, the project made payments of Kshs.66,181,980 for the purchase of goods and services which was not budgeted.

In view of the above, the Project's expenditure budget for 2018/2019 was largely not implemented which may lead to delay in achieving the planned activities of the Project. The circumstances under which the Management incurred expenditure of Kshs.66,181,980, without a budget are not clear.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1181** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1182** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **MENENGAI GEOTHERMAL PROJECT (AfDB LOANS NO.2100150026101 & 5565130000101 AND GRANTS NO.5565155000401 AND AFD GRANT NO.CKE 1038.01K) - GEOTHERMAL DEVELOPMENT COMPANY LIMITED**

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**1183** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **1184 Pending Bills**

Notes 9.1 and 9.2 to the financial statements reflects pending accounts payable totaling Kshs.315,596,000 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1185** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1186** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **RURAL ELECTRIFICATION SCHEME - KENYA POWER AND LIGHTING COMPANY PLC**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Unqualified Opinion**

**1187** There were no material issues noted during the audit of the financial statements of the Project.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### **Conclusion**

**1188** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1189** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA DEVELOPMENT OF SOLAR POWER PLANT IN GARISSA PROJECT (GCL NO.2015 (10)) - RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Unqualified Opinion**

**1190** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **1191 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.57,705,489 against a budget of Kshs.130,263,853 resulting to underfunding of Kshs.72,558,364 or 56%. However, the Project spent an amount of Kshs.123,838,769 against the approved budget of Kshs.130,263,853 resulting to an under expenditure of Kshs.72,563,064 or 56% of the budget. The Management has attributed the under expenditure to budget reduction during Supplementary Budget II.

In the circumstances, the citizens have not received the services as planned.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1192** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1193** There were no material issues relating to effectiveness of internal controls, risk management and governance.



# STATE DEPARTMENT FOR LIVESTOCK-VOTE 1162

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1194 Inaccuracies in the Cash and Cash Equivalents

##### 1194.1 Differences Between the Cashbook Balances and Balances Reflected in the Financial Statements

The statement of financial position reflects cash and cash equivalents balance of Kshs.52,776,057, which as disclosed in Notes 12A and 12B to the financial statements includes amounts of Kshs.52,659,770 and Kshs.116,287 relating to bank and cash balances, respectively. A review of the respective cash books and bank reconciliation statements during the year and as at 30 June, 2019, revealed differences between amounts reflected in the cash books and balances reported in the financial statements as detailed below:

<b>Bank Account</b>	<b>Balance as per the Financial Statements (Kshs.)</b>	<b>Balance as per the Cash Book (Kshs.)</b>	<b>Variance (Kshs.)</b>
Recurrent Account No.1000210109	26,510,799	24,059,403	2,451,396
Development Account No.1000209957	964,180	892,935	71,245
Deposits Account No.1000212632	25,184,792	25,494,077	309,285

These differences between the cash book balances and the balances reflected in the financial statements were not explained.

##### 1194.2 Long Outstanding Reconciling Items

The bank reconciliation statements as at 30 June, 2019 had long outstanding balances across the three accounts that had not been resolved as at the time of audit as summarized below:

<b>Type of Account</b>	<b>Payments in Cash Book not in the Bank Statement (Kshs.)</b>	<b>Receipts in the Bank Statement not in Cash Book (Kshs.)</b>	<b>Payments in the Bank Statement not in the Cash Book (Kshs.)</b>	<b>Receipts in the Cash Book not Recorded in the Bank Statement (Kshs.)</b>
Recurrent	8,517,091	93,900,289	75,667,492	-
Development	13,534,700	1,750,219	10,108,180	6,260,798
Deposit	270,670	1,240,895	800,000	50,924
<b>Total</b>	<b>22,322,461</b>	<b>96,891,403</b>	<b>86,575,672</b>	<b>6,311,722</b>

Further, included in the recurrent account bank reconciliation statement are receipts in bank not in the cash book amounting to Kshs.93,900,289, which differs with the supporting schedule amount of Kshs.89,199,000 by Kshs.4,701,289 which has not been reconciled or explained.

In addition, the development bank reconciliation statement includes under payments in the cash book not in the bank statement amounts described as balancing overcast, amounting to Kshs.53,751, and receipts in cash book not in the bank statement amounts totalling Kshs.2,415,535 and described as either overcasts or under casts. No reason was given for failure to have the old reconciling items investigated and cleared from the bank reconciliation statement

Although the State Department uses the Integrated Financial Management Information System (IFMIS), all its cash books for the year ended 30 June, 2019 were manual and prone to errors, inaccuracies and possible manipulations of figures and balances brought forward in subsequent months. It was noted that some of the reconciling items related to un-remitted or overdue taxes owed to the Kenya Revenue Authority, which attracts fines and penalties.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.52,776,057 as at 30 June, 2019 could not be confirmed.

### **1195 Unauthorized Reallocation of Expenditure**

Audit review of accounts analysis and ledger reports revealed that expenditure totalling Kshs.101,367,909 relating to the various items were charged to construction and civil works and purchase of specialized plant, machinery and equipment although they did not qualify to be charged as such.

Further, the State Department incurred expenditure totalling Kshs.12,500,000 on consultancy services and Kshs.3,000,000 on production of Sustainable Land Management (SLM) documentary and charged item 2211000 on specialized material and supplies instead of item 2211300 on other operating expenses and item 2210500 on printing, advertising, information supplies and services respectively.

Further, a review of the development appropriation account revealed that the State Department for Livestock charged expenditure in respect of the Big 4 Agenda under account code 1003, which had been defined for Mainstreaming Sustainable Land Management (SLM) in Agro-Pastoral Land Project, a project which had ended and whose account code should have been closed.

No satisfactory reasons were given for the misallocation of the expenditures.

### **1196 Unsupported Accounts Receivables**

The statement of financial position reflects a balance of Kshs.640,290,011 under accounts receivables - outstanding imprests. As disclosed in Note 13 to the financial statements, the balance includes an amount of Kshs.8,563,194, described as clearance account, which was neither supported with documentary evidence nor analyzed.

Consequently, the accuracy of the accounts receivable balance of Kshs.640,290,011 could not be confirmed.

### **1197 Unsupported Accounts Payables - Deposit and Retentions**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.25,184,792 under accounts payables - deposit and retentions. The balance, however, differs with the amount reflected in the Trial Balance of Kshs.73,687,382, resulting in an unexplained variance of Kshs.48,502,590. In addition, the balance of Kshs.25,184,792 excluded retention fee for various contractors totalling Kshs.3,508,464.

In the circumstances, the accuracy and completeness of account payables - deposit and retentions balance of Kshs.25,184,792 as at 30 June, 2019 could not be ascertained.

### **1198 Unsupported Expenditure**

The statement of receipts and payments reflects an expenditure of Kshs.1,580,215,899 under acquisition of assets which includes an amount of Kshs.5,000,000 relating to acquisition of a tractor at the Rabbit Institute. Although the tractor was physically verified at the Institute, the related procurement documents including invoice, delivery note, payment voucher and log book were not provided for audit review. Further, agricultural machinery and equipment acquired at Kshs.4,000,000 was similarly not supported with any procurement documents.

In addition, the expenditure of Kshs.1,580,215,899 also includes an amount of Kshs.3,669,763 expended at the Isiolo Mobile Pastoral Training Field Station under purchase of certified seed, breeding stock and live animals. However, no documentary evidence was provided to show how the amount had been spent.

### **1199 Acquisition of Assets**

#### **1199.1 Lack of Fixed Assets Register**

The State Department for Livestock, with its directorates and various stations did not maintain a fixed asset register for its assets to record necessary information such as date of acquisition, type of asset, condition, cost, accumulated depreciation, net book value and location in respect of the assets owned. In addition, the State Department did not take an inventory of the fixed assets as at 30 June, 2019. Consequently, the existence, completeness and accuracy of the

fixed assets balance of Kshs.2,101,091,150 as at 30 June, 2019 could not be ascertained.

### **1199.2 Additions During the Year**

The statement of receipts and payments reflects an amount of Kshs.1,580,215,899 under acquisition of assets. However, this amount differs with the additions, during the year figure of Kshs.1,422,705,999 as disclosed in Annex 2 to the financial statements. The difference of Kshs.157,509,900 between the two sets of records was not reconciled or explained.

### **1200 Ineligible Expenditure**

A review of the State Department for Livestock payment documents revealed that, on 18 June, 2019, a firm was paid Kshs.4,835,234 vide payment voucher number 0674 under the Standard and Market Access Programme. However, the expenditure was later found and deemed to be ineligible according to the provisions of the financing agreement between the European Commission and the Government of Kenya. The State Department did not get value for money for the avoidable expenditure of Kshs.4,835,234 incurred.

### **Other Matter**

#### **1201 Pending Bills**

As disclosed under Note 17.1 and Annex 1 to the financial statements, the State Department for Livestock had pending bills totalling Kshs.95,966,300 as at 30 June, 2019 that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.

#### **1202 Failure to Close the Mainstreaming Sustainable Land Management Project**

As previously reported, the project management unit of the Mainstreaming Sustainable Land Management in Agro-Pastoral Production Systems of Kenya Project indicated that the above project came to an end in June, 2017 and that the handing over documents were signed by the Director, Livestock Production and sent to the United Nations Development Programme (UNDP) for signature. A review of the audit report for the year ended 30 June, 2017 showed that the project had pending bills amounting to Kshs.5,110,830 as well as a balance of Kshs.821,799.50 held in the Project bank accounts. However, no approved final Project completion and handing over report was provided for audit review. Consequently, it has not been possible to confirm the Project's completion status.

#### **1203 Land Without Ownership Documents**

As reported in the previous years, the Government, through Gazette Notice No. 890 dated 5 March, 1957, allocated 1,400 acres of land in Ngong, Kajiado County,

to the Department of Veterinary Services for construction of a veterinary training school, establishment of a veterinary farm and installation of related facilities. However, information and documents available indicates that the land measures 1,500 acres.

Further, information and records at the Ministry of Agriculture, Livestock, Fisheries and Irrigation and Ministry of Land and Physical Planning indicates that some Government agencies and private organizations have irregularly taken possession of 509 acres of the land. The State Department has to-date not obtained title of ownership of the land from the Ministry of Lands and Physical Planning.

In addition, information available indicates that the State Department for Livestock owns 124,000 hectares of land comprising Isiolo Mobile Pastoral Training Field Station in Isiolo County as of 30 June, 2019. However, ownership documents were not made available for audit review.

In the above circumstances, the ownership, actual size and value of these pieces of land could not be confirmed.

#### **1204 Pending Legal Litigation**

As reported in the previous years, a review of legal files revealed that the State Department for Livestock has had two protracted legal suits which has led to significant outstanding bills and contingent liabilities compounded by huge interests and penalties. The two cases are summarized as follows:

##### **1204.1 Halal Meat Products Limited**

Halal Meat Products Limited vs Ministry of Agriculture, Livestock, Fisheries and Irrigation: State Department for Livestock- High Court Civil Case No.1655/1986 whose court determination amounted to Kshs.5.242 billion and out of court negotiations final amount of Kshs.4 billion after a cap on interests. However, contract documents for Halal Meat Product Limited were not provided for audit review.

##### **1204.2 Associated Architects**

Associated Architects Vs Ministry of Agriculture, Livestock, Fisheries and Irrigation: State Department for Livestock – High Court Civil Case No. 488/2013 whose accrued interest balance is Kshs.25 million. The contract agreement provided for audit review dated 4 February, 2009 indicate that M/s Associated Architects was awarded a contract through direct procurement for consultancy services on construction of Mifugo House for the Ministry of Livestock Development at a contract sum of Kshs.84,505,999.99. However, it is not clear, and no satisfactory explanation was provided on why the consultant should be paid the contract sum, yet no construction was under taken.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### **1205 Delay in Completion of a Biosafety Level 3 Laboratory**

The Directorate of Veterinary Services entered into a contract with a contractor on 12 February, 2016 for construction of a Biosafety Level 3 Laboratory at Kabete Veterinary Farm at a contract sum of Kshs.69,012,866. The project's initial completion date was 20 December, 2016 which was subsequently revised to 30 May, 2018. However, as at the time of the field inspection in September 2019, the works had not been completed and handed over to the State Department for Livestock. No satisfactory reason was given for failure to complete the works within the period stipulated in the contract.

#### **1206 Delay in Completion of Kitchen and Dining Block at AHITI – Nyahururu**

The State Department for Livestock through AHITI- Nyahururu awarded a contract to a contractor for the construction of a kitchen and dining block at a sum of Kshs.39,638,476. The construction works started on 14 December, 2016 and were to be completed within a duration of about 28 weeks on 28 June, 2017. However, at the time of the field inspection in September 2019, the progress report availed indicated that the project was 61.5% complete. Electrical installations, plumbing, fittings and other finishing works were yet to be done and construction had stalled.

#### **1207 Weakness in Imprest Management and Controls**

A review of the manual imprests register revealed that some officers in the State Department had consistently taken imprests amounting to Kshs.78,390,720 during the year under review, which were sometimes overlapping and multiple in nature contrary to Regulation 93(4)(b) of the Public Finance Management (National Government) Regulations, 2015. The Regulation requires that before issuing a temporary imprest to an officer, the Accounting Officer should ensure that the applicant has no outstanding imprests.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Basis for Conclusion

#### **1208 Lack of an Enterprise-Wide Risk Management (ERM) Policy and Process**

During the year under review, the State Department for Livestock did not have a well-documented enterprise wide-risk management policy and process in place to effectively guide the State Department's risk management processes at large.

## **1209 Non-Functional Audit Committee**

Although the State Department for Livestock constituted an Audit Committee, the committee did not convene or hold regular meetings during the year. No minutes of the Audit Committee were provided for audit review to confirm that the internal audit unit's annual work plan and reports were tabled and discussed by the Audit Committee.

## **1210 Incomplete Ledger Details - Payee and Description**

The statement of receipts and payments reflects expenditure totalling to Kshs.6,097,730,343 for the year 2018/2019. However, the account analysis/ledger report generated from IFMIS and provided to support each individual expenditure item lacked details of payees and in some cases, there was no proper payment description against the payments made. In the circumstances, the risk of multiple payments to a payee or an individual for the same services, supplies, goods or works could not be ruled out.

## **DONOR FUNDED PROJECTS**

### **SMALLHOLDER DAIRY COMMERCIALIZATION PROGRAMME (IFAD LOAN NO. 678-KE AND GRANT NO. 815-KE)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1211** There were no material issues noted during the audit of the financial statements of the Programme.

#### **Other Matter**

#### **1212 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects total receipts of Kshs.588,223,275 against a budget of Kshs.635,384,115 resulting in a revenue shortfall of Kshs.47,160,840 or 7.4% of the Budget. The revenue shortfall was as a result of delays in exchequer and loan disbursements.

This may have negatively impacted on the achievement of programme activities as it resulted in underfunding of the annual budget by Kshs.43,595,570 representing 6.9% of the approved budget.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1213** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1214** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## REGIONAL PASTORAL LIVELIHOODS RESILIENCE PROJECT (IDA CREDIT NO. KE 53880-KE)

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### **1215 Loan from External Development Partners**

The statement of receipts and payments reflects an amount of Kshs.1,250,002,850 under loan from external development partners and controlled by the entity and nil amount in respect of direct payment made by the development partners. However, disclosed in Note 8.4 to the financial statements, are loans received in cash and controlled by the entity of Kshs.1,150,002,850 (US\$11,423,033.56) and an amount of Kshs.100,000,000 paid directly to suppliers by the development partners. These cash transactions and direct payments have not been explained satisfactorily.

#### Emphasis of matter

#### **1216 Special Account Statement**

The special account statement reflects an amount of Kshs.1,151,222,050 (US\$11,423,033.56) as having been withdrawn and transferred to the Project during the year, which differs with the amount of Kshs.1,150,002,850 shown in the financial statements by Kshs.1,219,200. The discrepancy between the two sets of records has not been reconciled or explained.



My opinion is not modified in respect of this matter.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **1217 Ineligible Expenditure**

Examination of payment records maintained by the Project Implementation Unit (Headquarters) revealed that an amount of Kshs.656,064 was paid to an officer vide a payment voucher number 2306 dated 15 April, 2019 in respect of subsistence allowance for attending the 9<sup>th</sup> meeting of the Technical Working Group on rules of Origin at Addis Ababa, Ethiopia between 24 October, 2018 to 3 November, 2018.

However, a travel clearance approval by the Head of the Public Service referenced OP/CAB.304/018 dated 18 October, 2018 indicated that the subsistence allowance expenditure was to be met and paid by the State Department for Livestock. The officer was therefore irregularly paid from the Project's funds contrary to Article III Section 5(9)(b) of the Financing Agreement which states that, "the bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations". This expenditure cannot be linked to the approved work plan and project activities hence it is deemed irregular and ineligible.

## REPORT ON EFFECTIVENESS INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1218 Unaccounted for Project Vehicles**

Examination of the motor vehicle register revealed that the project has eight 4x4 vehicles in Nairobi. However, a verification exercise carried out on 14 October, 2019 revealed that three (3) vehicles with registration numbers; GKB 056R, GKB 035R, and GKB 059R were not physically available for verification and their existence could not be confirmed.

Further, work tickets for these vehicles were not provided for audit verification and therefore, their movement and use could not be accounted for. This is contrary Regulation 139(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015.

# **VETERINARY SERVICES DEVELOPMENT FUND**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1219 Unsupported Employee Costs**

The statement of financial performance reflects an amount of Kshs.30,338,354 under employee costs for the year ended 30 June, 2019, which is a substantial increase over the previous year's amount of Kshs.590,258. As disclosed under Note 8 to the financial statements, the amounts relate to travel, motor car, accommodation, subsistence and other allowances. The expenditure should ideally be classified as operating expenses as the amounts were not supported by payrolls or schedules showing the names and particulars of the employees who were paid. Further, unlike in the previous years, the schedule does not disclose any employee related costs - salaries and wages the amount paid.

As a result, the validity, completeness and accuracy of the expenditure could not be ascertained.

### **Other Matter**

#### **1220 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.70,000,000 and Kshs.103,225,471 respectively resulting to an over-funding by Kshs.33,225,471 or 47% of the budget. Similarly, the Fund expended Kshs.63,158,395 against an approved budget of Kshs.70,000,000 resulting to an under-expenditure of Kshs.5,841,605 or 9% of the budget.

The overfunding implies that the budgeting process may not have considered all the revenue streams of the Fund.

#### **1221 Unresolved Prior Year Matters**

In the audit report of the previous year, several paragraphs were raised based on various matters affecting the running the Fund. The matters have remained unresolved and have yet to be deliberated on by the Public Accounts Committee.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1222** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1223 Field Inspections to Border Points - Malaba, Busia, Lunga Lunga & Taita Taveta**

Field inspections to the boarder points revealed several shortcomings and operational challenges as outlined below:

##### **1223.1 Limited Systems Access**

The officers stationed at the border posts indicated that they had no access to the Kenya Electronic Single Window System at the border posts, which in turn affected effective execution of their duties. The inspection of documents through the system was being processed at the headquarters rather than at the border posts and was mostly focused on documentation rather than the quality of products being imported into the Country.

Sometimes power outages severely affects work, as officers are unable to access internet and emails from headquarters which they rely on mostly to verify and confirm the correctness, approval status and authenticity of import documents.

##### **1223.2 Lack of Inspection Tools and Equipment**

The stations lacked the requisite tools and equipment like test kits, screening kits and sampling equipment among others to inspect the animals, animal feed, animal products and feed mills.

##### **1223.3 Insufficient Inspection Staff**

The border stations had few staff numbers and some were not formerly appointed, qualified or well trained to undertake their work as inspectors.

##### **1223.4 Lack of Approved Station Budget and Work Plans**

The border points and stations do not have approved station budgets and work plans to guide them in their operations and for financial control purposes.

In the circumstances, Management has not explained measures it intends to take to address the general weakness in the internal controls and governance in the operations of the Fund.

#### **1224 Lack of Fixed Assets Register**

As disclosed in Note 15 to the financial statements, the statement of financial position reflects a balance of Kshs.29,651,732 under property, plant and equipment. However, the assets were not supported by a fixed assets register with updated details such as the nature of asset, acquisition date, cost, depreciation

rate and amount, disposals, serial/title number and location. Further, the analysis or breakdown for respective costs, values and depreciation schedules of the various classes of assets were not provided for audit review.

In absence of the fixed assets register, it has not been possible to confirm whether the Management has taken proper custody and safeguard of its assets.

#### **1225 Lack of an Enterprise Wide Risk Management (ERM)**

The Fund did not have a well-documented enterprise wide risk management process and policy in place during the year under review, to effectively guide the Fund in risk management processes.

#### **1226 Lack of Internal Audit Function**

The Fund did not have an Internal Audit Function and Audit Committee to review and appraise its existing internal controls with a view to enhancing the Fund's operational efficiency, governance and compliance. There was no Internal Audit Charter or a detailed internal audit manual to guide the audit operations. No internal audit reports for the year under review and prior years were provided for audit review.

# **STATE DEPARTMENT FOR CROP DEVELOPMENT-VOTE 1165**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Disclaimer of Opinion**

#### **1227 Unsupported Prior Year Adjustments**

The statement of assets and liabilities reflects a prior year adjustment of Kshs.514,214,380, which has been disclosed in Note 16 to the financial statements as adjustments on bank accounts and cash in hand balances. It is described as total amounts of the State Department's prior period's brought forward balances that were not rolled over to 2018/2019 financial year. However, the amount of Kshs.514,214,380 was not supported by any verifiable documents. Consequently, the validity of the amount of prior year adjustments of Kshs.514,214,380 cannot be ascertained.

#### **1228 Use of Goods and Services**

##### **1228.1 Unsupported Expenditure on Procurement of Subsidized Fertilizer**

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.7,380,394,463 on use of goods and services for the year ended 30 June, 2019 which includes other operating expenses amounting to Kshs.5,602,863,435. The latter balance includes the cost of procurement of subsidized fertilizer amounting to Kshs.2,773,060,000. However, details of the types of fertilizer and quantities procured in the year were not provided for audit review. In addition, the criteria used in deciding how much fertilizer was to be procured including the type was not explained.

Further, the State Department had transferred Kshs.2,773,060,000 to the Kenya Commercial Bank where it had opened letters of credit for each of the suppliers from whom the fertilizer was ordered. Computations from the bank statements provided by the Kenya Commercial Bank for each of the suppliers showed that there were funds held in the letters of credit accounts awaiting payment upon delivery of the fertilizer by the suppliers which amounted to Kshs.896,425,265 as at 30 June, 2019.

Additionally, there was cash held at the Cooperative Bank of Kenya under letters of credit for suppliers of fertilizer amounting to Kshs.40,842,965 as at 30 June, 2018. Management explained that Kshs.40,246,500 was released to one of the suppliers but no evidence or documentation was provided to support the payment.

The certificate of bank balances as at 30 June, 2019 for the Kenya Commercial Bank and Co-operative Bank letters of credit accounts were not provided for audit review.

Under the circumstances, the validity of the expenditure of Kshs.2,773,060,000 on procurement of fertilizer cannot be confirmed.

#### **1228.1.1 Delayed Delivery of Ordered Fertilizer**

The State Department for Crop Development ordered 885,000 bags of various types of blended fertilizer of 50 Kgs, each equivalent to 44,250 Metric Tons at a total cost of Kshs.2,773,060,000. The fertilizer was ordered locally from eight (8) firms that are registered under the Access to Government Procurement Opportunities (AGPO) and was to be distributed to the farmers through various National Cereals and Produce Board depots, and sold at prices set out in the distribution guidelines provided by the State Department. By the end of the year, the Board had received 613,070 bags of fertilizer equivalent to 30,654 Metric Tons whose value was Kshs.1,876,634,735. The delivery was therefore less by 271,930 bags or 13,597 Metric Tons worth Kshs.896,425,265, which did not get to the farmers within the intended period.

#### **1228.1.2 Non - Adherence to Eligibility Criteria for Farmers Under the Fertilizer Subsidy Programme**

The Ministry's issued a Circular Ref: MOALF/LCD/9/41/Vol. XVIII dated 14 March, 2019 which gave guidelines on distribution of subsidized fertilizer, under which farmers were to be vetted before being registered, to ensure that only eligible farmers accessed the subsidized fertilizer. However, no minutes were provided to confirm that vetting was carried out by the Vetting Committee as provided in the guidelines. An examination of the farmers' registers maintained at depots revealed various inconsistencies including missing national identification numbers (IDs), incorrect national ID numbers and duplication/sharing of ID numbers, farmers' telephone contacts and duplication/sharing of telephone numbers as well as missing land identification (Title Deed) numbers.

#### **1228.1.3 Uncollected Credit Sales**

There was no provision for sales of the subsidized fertilizer on credit terms in the agency agreement that was signed between the Ministry of Agriculture, Livestock and Fisheries - State Department for Crop Development and the National Cereals and Produce Board. However, 6,160 bags of 50 Kg each of NPK Blend 7:27:10:0 fertilizer worth Kshs.113,000,000 that were dispatched from Thika Depot between 14 June, 2019 and 21 June, 2019 were sold on credit to the County Government of Murang'a. An amount of Kshs.39,162,000 of this debt had been paid by the end of the year under review, resulting in an outstanding balance of Kshs.73,838,000. Although the Management explained that the County Government of Murang'a had given an undertaking to settle the debt, this could not be confirmed due to lack of documents and records.

#### **1228.2 Unsupported Insurance Costs**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.7,380,394,463 under use of goods and

services which includes insurance costs of Kshs.309,554,440. The insurance costs further include an amount of Kshs.47,802,469 that was paid to a local company for an insurance cover for 323,402 farmers under the Crop Area Yield Insurance that was taken in the 2017/18 financial year. However, the necessary procurement records including the professional opinion prepared by the Head of Procurement Unit and approval by the Accounting Officer, the letter of contract award to the winning bidder and the contract agreement, were not provided for audit review. Under the circumstances, the validity and propriety of the expenditure of Kshs.47,802,469 cannot be confirmed.

### **1228.3 Unreconciled Expenditure on Use of Goods and Services**

The statement of receipts and payments reflects a total expenditure of Kshs.7,380,394,463 under use of goods and services which differs with the corresponding total expenditure of Kshs.7,381,202,613 disclosed in Note 6 to the financial statements. The resulting difference of Kshs.808,150 has not been reconciled or explained.

### **1229 Misclassification of Expenses as Other Grants and Transfers**

The State Department incurred an expenditure of Kshs.94,644,539 on other grants and transfers during the year, which as disclosed under Note 9 to the financial statements includes an amount of Kshs.89,796,923 on grants to small businesses, cooperatives and self-employed persons. However, included in the amount of Kshs.89,796,923 is an ineligible expenditure of Kshs.76,474,699 relating to surrender of imprests by staff for various expenses not connected to grants to small businesses, cooperatives and self-employed persons. Consequently, the accuracy of the expenditure of Kshs.94,644,539 on other grants and transfers cannot be confirmed.

### **1230 Receipts**

#### **1230.1 Unreconciled Proceeds from Foreign Borrowings**

The statement of receipts and payments reflects proceeds from foreign borrowing amounting to Kshs.1,117,414,844 which relate to direct payments to three (3) donor funded projects namely; Drought Resilience and Sustainable Livelihood Programme (DRSLP), Kenya Cereal Enhancement Programme (KCEP) and Small-Scale Irrigation and Value Addition Project (SIVAP). The State Department's ledger, however, reflects proceeds amounting to Kshs.1,152,885,166 for the year ended 30 June, 2019 and thus, resulting in an unexplained variance of Kshs.35,470,322 between the financial statements and the ledger. In addition, a review of the financial statements of SIVAP showed loans from foreign borrowings amounting to Kshs.404,562,642 while the ledger reflects an amount of Kshs.332,829,072, resulting in a variance of Kshs.71,733,570 that has not been reconciled or explained.

Consequently, the accuracy and completeness of the proceeds from borrowings as disclosed in these financial statements of Kshs.1,117,414,844 cannot be confirmed.

### **1230.2 Unsupported Proceeds from Sale of Assets**

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects receipts of Kshs.3,634,883 under proceeds from sale of assets. The balance includes an amount of Kshs.3,612,883 under receipts from sales of inventories, stocks and commodities and comprised Appropriations-in-Aid (AIA) amounting to Kshs.2,931,123 received from Telkom Kenya whose purpose Management did not explain, as well as an amount of Kshs.681,760 that was unsupported. Consequently, the validity and accuracy of proceeds from sale of assets figure of Kshs.3,634,883 cannot be confirmed.

### **1231 Unreconciled Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other government units totalling Kshs.5,775,206,465 which includes an amount of Kshs.371,123,286 that was transferred to Agricultural Sector Development Support Programme. However, the Programme received Kshs.391,950,999, as disclosed in its financial statements for the year ended 30 June, 2019. The resulting variance of Kshs.20,827,713 has not been supported or explained.

### **1232 Cash and Cash Equivalents**

#### **1232.1 Unexplained Variance in Bank Balances**

The statement of assets and liabilities reflects cash and cash equivalents totalling Kshs.2,363,830,159 which includes bank balances of Kshs.2,359,845,917 as at 30 June, 2019. The bank balances in turn includes account balances of Kshs.53,985,375, Kshs.169,686,836 and Kshs.156,798 for Kenya Climate Smart Agriculture Project (KCSAP), National Agricultural and Rural Inclusive Growth Project (NARIGP) and Small-Scale Irrigation and Value Addition Project (SIVAP), respectively as disclosed under Note 12A to the financial statements. These account balances however differ with the bank balances of Kshs.86,503,959, Kshs.202,355,397 and Kshs.90,943 reflected in the records of Kenya Climate Smart Agriculture Project (KCSAP), National Agricultural and Rural Inclusive Growth Project (NARIGP) and Small -Scale Irrigation and Value Addition Project (SIVAP) by Kshs.32,518,584, Kshs.32,668,561 and Kshs.65,855 respectively. No reconciliations or explanations have been provided for these variances.

Consequently, the completeness and accuracy of the bank balances of Kshs.2,359,845,917 as at 30 June, 2019 cannot be confirmed.

#### **1232.2 Unexplained Variance in Cash in Hand**

The statement of assets and liabilities reflects cash balances of Kshs.3,984,242 as at 30 June, 2019 which comprises of Kshs.1,642 and Kshs.3,982,600 held at



the Headquarters of the State Department, and the National Agricultural and Rural Inclusive Growth Project (NARIGP) respectively, as disclosed under Note 12B to the financial statements. However, the supporting board of survey report for NARIGP reflects a balance of Kshs.217,756, resulting in an unexplained difference of Kshs.3,764,844.

Consequently, the accuracy of the cash balances of Kshs.3,984,242 as at 30 June, 2019 cannot be confirmed.

### **1233 Unsupported Account Payables – General Deposits**

As disclosed under Note 14 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.2,062,548,927 under accounts payables which includes an amount of Kshs.133,572,499 in respect of general deposits. This amount includes retention monies totalling Kshs.16,690,262 which have not been supported with a list of the contractors and retention certificates. Further, the balance of general deposits includes balances of Kshs.2,675,916, Kshs.105,189,508 and Kshs.21,066,236 under International Food Fund Demonstration Farm Fund and the 2KR Kibos/Mwea Japan Fund respectively, have also not been supported by any verifiable records and documents.

Consequently, completeness and accuracy of the general deposits balance of Kshs.133,572,499 as at 30 June, 2019 cannot be ascertained.

### **1234 Pending Bills**

As disclosed under Note 28.1 to the financial statements, the State Department for Crop Development had pending bills totalling Kshs.4,092,406,664 as at 30 June, 2019 that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.

### **1235 Differences Between the Summary Statement of Appropriation Combined and Statement of Budget Execution by Programmes and Sub-Programmes**

The summary statement of appropriation combined reflects total actual payments on comparable basis figure of Kshs.22,359,289,678 which differs with the total payments of Kshs.22,413,928,103 reflected in the statement of budget execution by programmes and sub-programmes, resulting in a difference of Kshs.54,638,430.

In addition, budget under-utilization of Kshs.9,839,233,063 reflected in the summary statement of appropriation combined differs with the figure of Kshs.9,784,594,638 shown in the statement of budget execution by programmes and sub-programmes, resulting in a variance of Kshs.54,638,425 that has not been reconciled or explained.

## **1236 Prior Year Matters**

**The following issues raised in the audit report for 2017/2018 have not been addressed as detailed below:**

### **1236.1 Procurement of Agriculture Data and Information Management System**

The expenditure of Kshs.11,023,798,608 under acquisition of assets included an amount of Kshs.278,786,348 incurred on research, studies, project preparation, design and supervision. Included in the expenditure on research, studies, project preparation, design and supervision, was an amount of Kshs.11,659,600 paid to a company for supply, delivery, installation, testing and commissioning of a web-based Agriculture Data and Information Management System. The contract between the State Department and the company was entered into during the year 2016/2017, and the contractor had been paid Kshs.26,137,600 or 90% of the contract price as at 30 June, 2018.

The contract provided that the supplier was to receive the payment upon training, implementation, pilot rollout and commissioning of the system. Although 90% of the contract price had been paid, implementation and commissioning of the system had not been undertaken. In addition, partial training and piloting was only done in Bungoma County. The minutes and correspondences to show which other counties were to benefit were not provided for audit review.

There were no activities undertaken for the project during the year under review and the project appears abandoned.

### **1236.2 Procurement, Delivery and Distribution of Fertilizer**

The statement of receipts and payments for the year ended 30 June, 2018, reflected an expenditure of Kshs.6,244,824,717 under use of goods and services which included an amount of Kshs.4,879,592,284 in respect of operating expenses. The latter balance in turn included an amount of Kshs.3,639,979,568 incurred on the procurement of fertilizer. The State Department advertised for an open national tender for procurement of various types of fertilizer. Contracts were signed on 17 January, 2017 between a trading company and nine firms registered under the Access to Government Procurement Opportunity (AGPO) Program, for delivery of imported and locally blended fertilizer, respectively on “as and when required” basis.

**The following irregularities were noted:**

#### **1236.2.1 Irregular Revision of the Budget for the Fertilizer**

The total budget and allocation for fertilizer for 2017/2018 financial year was 168,480 metric tonnes of fertilizer worth Kshs.5,038,730,000, comprising 38,000 metric tonnes worth Kshs.1,294,500,000 for the 2017 short rains season and

130,480 metric tonnes worth Kshs.3,744,230,000 for the 2018 long rains season. The total budget was later revised upwards to Kshs.5,569,300,200. However, there was no revision in the quantity of fertilizer required. The reason given for the revision of the financial budget was that the State Department had earmarked to clear the National Cereals and Produce Board (NCPB) debts which amounted to Kshs.7.99 billion as at 30 June, 2018. However, no documentary evidence was provided to indicate that the revision of the budget upwards was related to amounts owing to NCPB.

#### **1236.2.2 Fertilizer Ordered Beyond the Budget**

The State Department ordered 932,000 bags of various types of fertilizer of 50 kilograms each, with the total weight of 46,600 metric tonnes. Out of these amounts, 40,000 metric tonnes were ordered from an export trading company, while the balance of 6,600 metric tonnes were ordered from Access to Government Procurement Opportunities (AGPO) firms. The total value of fertilizer ordered by the State Department was Kshs.2,393,092,810.

In addition, the National Cereals and Produce Board (NCPB) was assigned to order 115,700 metric tonnes of various types of fertilizer by the State Department in the year. The State Department had already in the meantime entered into a contract with the Supplier, the export trading company at a cost of Kshs.5,509,776,750. However, the NCPB ordered 103,183.5 metric tonnes of fertilizer only, leaving a balance of 12,516.5 tonnes outstanding at a cost of Kshs.5,719,134,745. No reasons were given for the revision of the contract prices by Kshs.209,357,995 considering the order was less by 12,516.65 tonnes.

Further, out of the 46,600 metric tonnes procured by the State Department from the trading company, 9,991.75 metric tonnes of Diamonium Phosphate (DAP 18:46:0) fertilizer worth Kshs.562,190,809 were procured on 8 May, 2018 as per Invoice No. ML 780150. However, details of Local Purchase Orders raised by either the State Department or the National Cereals and Produce Board were not seen. It was, therefore, not clear which of the two entities was responsible for the procurement. The State Department paid for the consignment through payment voucher number 0255 dated 8 November, 2018. This amount was not included in the pending bills for the year 2017/2018.

The total fertilizer ordered by the two entities in the period amounted to 149,775.25 tonnes, all at a cost of Kshs.8,112,227,555 which was shared between the State Department - Kshs.2,393,092,810 and the National Cereals and Produce Board - Kshs.5,719,134,745, respectively. This procurement exceeded the budget amount of Kshs.5,569,300,200 by Kshs.2,542,927,355.

No reason was given for failure by the State Department to order the full amount of 168,480 tonnes of fertilizer as in the approved budget. No explanation was provided for the revised cost of the fertilizer.

### **1236.2.3 Under Delivery of Fertilizer in the Year 2017/2018**

During the year 2017/2018, the State Department received 920,274 bags of various types of fertilizer, while the National Cereals and Produce Board received 1,619,178 bags. All these were handled by NCPB in Mombasa. All the bags were said to weigh 50 kilogrammes each, which translates to 126,972.60 tonnes. The delivery was therefore less by 22,802.65 metric tonnes or 456,053 bags of the order. No reasons were given for the failure to deliver the order in full. No sanctions were imposed on the suppliers for the failure to deliver the full contracted amount.

### **1236.2.4 Unreconciled Amount Paid for the Fertilizer**

The State Department paid an amount of Kshs.1,491,656,363 for the delivery of 29,187.35 metric tonnes of fertilizer or 583,747 bags of fertilizer each weighing 50 kilogrammes.

Out of the fertilizer procured, ordered and delivered to the State Department of Agriculture of 46,013.70 tonnes, only 29,187.35 tonnes were paid for, while 16,826.35 tonnes had not been paid for according to the information provided for audit review.

It was explained that a bill of Kshs.175,811,328 incurred by the State Department for Agriculture procured 3171.2 metric tonnes of UREA fertilizer from the export trading company was not settled due to lack of funds and Management further explained that the payment was voided in the IFMIS on 30 June, 2018. Further, in a letter dated 18 October, 2018 another inputs trading company resubmitted an invoice No. 11025 requesting to be paid Kshs.175,811,328 for the UREA fertilizer. The State Department had no contract with the inputs trading company.

In addition, the ledgers indicate that an amount of Kshs.3,639,979,568 was paid in respect of the fertilizer delivered, while other records available shows an amount of Kshs.1,491,656,363 only as having been paid, resulting in unreconciled and unexplained difference of Kshs.2,148,323,205.

### **1236.2.5 Unreconciled Distribution Records of Fertilizer to NCPB Depots**

Records provided for audit on distribution of fertilizer revealed that 1,200,000 bags of DAP, 1,014,000 bags of CAN, 100,000 bags of NPK, 50,000 bags of Blend 4 and 24,000 bags of Blend 9 fertilizers were distributed to various counties for both the short rains in October, 2017 and long rains in February, 2018. The distribution schedule provided by the State Department, showed that 1,200,000 bags of DAP and 1,014,000 bags of CAN were delivered to NCPB and the State Department required NCPB to have the fertilizer distributed to various depots spread across the Country. Records at NCPB on the other hand shows that NCPB was required to distribute 1,400,000 bags of DAP and 1,014,000 bags of CAN of the fertilizer supplied by the export trading company. In addition, it was noted that NCPB could only account for 1,398,977 bags of DAP fertilizer as 1,013 bags had not been delivered to the NCPB. No reconciliation between the data by the State

Department and the data by the NCPB in respect of the same supply of fertilizer was provided.

Further, it was not clarified how the additional 200,000 bags of DAP fertilizer were introduced into the system. It was also not clarified how the 100,000 bags of NPK, 50,000 bags of Blend 4 and 24,000 bags of Blend 9 fertilizers were distributed. In addition, the CAN fertilizer delivered by the trading company was said to be of poor quality and at some point its loading and distribution had been suspended until quality issues had to be sorted out. The fertilizer was said to be caked and attempts to make it free flowing was unsuccessful. It was not, however, clarified how the quality issue was sorted out as it was eventually distributed.

Further, NCPB had hired an independent company to carry out weights and quality survey on the fertilizer. It was not clarified why NCPB had failed to seek the services of the Kenya Bureau of Standards. It was also not explained why the independent company failed to raise the observed weaknesses of weight and quality on time.

#### **1236.2.6 Unaccounted Revenue from Sale of Fertilizer**

The State Department for Agriculture did not prepare a statement of revenue for the year 2017/2018. It was indicated that The National Treasury had not appointed the Accounting Officer, State Department for Agriculture as a Receiver of Revenue. However, the National Cereals and Produce Board was to bank all revenue realized from sale of local blends of fertilizer that were procured by the State Department from AGPO firms at the Kenya Commercial Bank for onward transmission to the State Department's account at the Central Bank of Kenya.

The State Department indicated that NCPB had an accumulated sales receipt of Kshs.1,137,911,500 as at 30 June, 2018, while NCPB reported revenue amounting to over Kshs.1,400,000,000. It was indicated that the amount was used to offset debts owed to the NCPB as the State Department had failed to settle its obligations related to subsidy claims by NCPB. This however, is contrary to the requirements of Section 76 of the Public Finance Management Act, 2012 which stipulates that, "a receiver of the national government revenue may authorize a public officer employed by the national government or any of its entities to be a collector of revenue for the national government and remit it to the receiver". The State Department explained that The National Treasury had not appointed 'a receiver of revenue' for this kind of revenue for the year, and consequently it was left to the National Cereals and Produce Board.

The State Department indicated that as at 30 June, 2018, it had 236,217 bags of various types of fertilizer outstanding in the depots of NCPB. This implies that at least 2,303,235 bags of various types of fertilizer had been sold, which would indicate that the NCPB had collected over Kshs.2.3 billion on sale of fertilizer. Under the circumstances, the total revenue collected could not be confirmed.

### **1236.2.7 No Formal Agreement Between the State Department and the National Cereals and Produce Board on Distribution of Fertilizer**

The assignment contract provided that the State Department was to refund the National Cereals and Produce Board the subsidy on imported fertilizer. The National Cereals and Produce Board sold fertilizers to farmers at subsidized prices of Kshs.1,500 for a 50kg bag for all planting fertilizer (DAP, NPK 23:23:0, NPK 17:17:17) blends and all top-dressing fertilizer (CAN, UREA): and Kshs.1,300 for a 50Kg bag of Sulphate of Ammonia (SA). Although the imported fertilizer for the short rains as well as the blended fertilizers that the State Department procured from AGPO firms were delivered directly to the depots of the National Cereals and Produce Board located in various parts of the country, it was noted that no agreement was signed between the State Department and the National Cereals and Produce Board about the handling of the fertilizer stocks as well as the sales proceeds. No evidence was provided to show that the State Department carried out any reconciliations for sales made and quantity delivered by, or outstanding from each of the suppliers as at 30 June, 2018. However, it was indicated that as at 30 June, 2018, there were 236,217 bags of various types of fertilizer in various depots.

### **1236.3 Outstanding Pending Bills**

Disclosed under Annex 1 to the financial statements for 2017/2018 were pending bills amounting to Kshs.1,013,115,765 as at 30 June, 2018 which were not settled in 2017/2018 but carried forward to 2018/2019 financial year. However, supporting documents for the pending bills, including invoices, local purchase orders and/or local service orders as well as contract agreements were not provided to support the list of the pending bills. In addition, pending bills of undetermined value, relating to procurement and receipt of various types of fertilizer in the year 2017/2018 were not disclosed in the Annex.

Further, out of an amount of Kshs.418,184,136 that was disclosed in the pending bills balance as at 30 June, 2017, payments amounting to Kshs.72,211,928 were made in the year 2017/2018 leaving an outstanding balance of Kshs.345,972,208. Management did not explain the status of the balance of Kshs.345,972,208 which was not carried forward in the list for 2017/2018. Consequently, the accuracy and validity of the disclosed pending bills balance of Kshs.1,013,115,765 as at 30 June, 2018 could not be confirmed.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1237** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1238** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## REVENUE STATEMENTS - STATE DEPARTMENT FOR CROP DEVELOPMENT

### REPORT ON THE REVENUE STATEMENTS

#### Basis for Disclaimer of Opinion

##### **1239 Accuracy of the Arrears of Revenue**

The statement of arrears in revenue reflects revenue arrears of Kshs.475,147,096 as at 30 June, 2019. The amount relates to revenues realized from sale of subsidized fertilizer by the National Cereals and Produce Board on behalf of the State Department for Crop Development through an Agency Agreement signed between the Ministry of Agriculture, Livestock and Fisheries and the Board. However, the amount reported by the State Department differs with the amount of Kshs.754,808,617 being proceeds from sale of the fertilizer reported in the revenue statements of the National Cereals and Produce Board by Kshs.279,661,521. No reconciliation or explanation has been provided for the arising difference. In addition, supporting documents for the reported arrears were not provided for audit verification.

Consequently, the completeness and accuracy of the reported arrears of revenue balance of Kshs.475,147,096 could not be confirmed.

##### **1240 Unremitted Revenue**

The statement of comparison of budget and actual amounts reflects a final budget of Kshs.475,147,096 against nil receipts for the financial year 2018/2019. However, as disclosed in Note (a) under the statement, the revenue was not realized because the National Cereals and Produce Board did not surrender the receipts collected to the State Department. No satisfactory explanation was provided for failure by the National Cereals and Produce Board to surrender the revenue collected. Further, as disclosed in Note (b) under the statement, revenue amounting to Kshs.456,662,652, collected in the financial year 2016/2017, had not been remitted to the Exchequer account as at 30 June, 2019.

In addition, no evidence was provided that the State Department for Crop Development informed the Cabinet Secretary in charge of Finance of the difficulty in collecting revenues due to the National Government as required under Regulation 64(2) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, it could not be confirmed that adequate safeguards existed and were applied for the prompt collection and proper accounting of the national government revenue.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1241** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1242** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **DONOR FUNDED PROJECTS**

**KENYA CEREAL ENHANCEMENT PROGRAMME - CLIMATE RESILIENT AGRICULTURAL LIVELIHOOD WINDOW (IFAD GRANT NO. 2000000623, IFAD LOAN NO. 2000001121 & ASAP TRUST GRANT NO. 2000001122)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1243** There were no material issues noted during the audit of the financial statements of the Programme.



## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 1244 Other Grants and Transfers

The statement of receipts and payments reflects under other grants and transfers amounts of Kshs.395,481,424 for direct transfers and Kshs.228,452,076 for transfers/payments made by third parties. As disclosed under Note 8.12 to the financial statements, the balance of funds with the implementing partners as at the year-end was Kshs.268,214,879 and included Kshs.38,000,000 and Kshs.29,282,288 that had been transferred to the Centre for Training and Integrated Research in ASAL Development (CETRAD) and Kenya Meteorological Department (KMD) in the previous year. Out of the amounts transferred to CETRAD and KMD as indicated, only Kshs.2,110,740 and Kshs.4,618,843, respectively had been spent with no expenditure being incurred in the year under review. This is an indication that the resources provided by the Programme were not used effectively by the two institutions and thus resulting in delayed provision of services to the intended beneficiaries.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1245** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME (ADF LOAN NO. 2100150028345)

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Adverse Opinion

#### 1246 Unreconciled Non-Financial Assets Expenditures

The statement of receipts and payments for the year ended 30 June, 2019 reflects expenditures totalling Kshs.591,604,017 incurred on purchase of non-financial assets, as further disclosed in Note 8.10 to the financial statements. The balance includes Kshs.565,754,465 spent on construction of civil works. However, the Programme's Integrated Financial Information Management System (IFMIS) data reflects payments totalling Kshs.629,896,901 against civil works while the State Department for Crops Development's (IFMIS) trial balance as at 30 June, 2019 reflects expenditure totalling Kshs.608,415,401 on the item.

The three sets of records have not been reconciled. As a result, it is not possible to confirm the accuracy and completeness of the expenditure totalling Kshs.565,754,465 shown in the statement of receipts and payments as having been incurred on civil works during the year under review.

#### **1247 Un-accounted for Transfers to Other Government Entities**

The statement of receipts and payments for the year ended 30 June, 2019, in addition, reflects expenditure totalling Kshs.61,343,608 incurred on purchase of goods and services. The balance includes Kshs.4,000,000 spent from Authority to Incur Expenditure(AIEs) transferred to Kenya Agricultural and Livestock Research Organization (KALRO) for implementation of activities specified in a Memorandum of Understanding signed with the Programme. However, documents to support the expenditures including details on actual items funded by the AIEs, have not been presented for audit.

As a result, the occurrence and validity of the expenditure amounting to Kshs.4,000,000 cannot be confirmed.

#### **1248 Unreconciled Transfers from Government Entities**

The statement of receipts and payments for the year ended 30 June, 2019 reflects receipts totalling Kshs.27,334,588, being transfers from government entities. The balance, as disclosed in Note 8.3 to the financial statements, reflects government counterpart funds received by the Programme during the year under review. However, records available at the State Department for Crops Development shows transfers totalling Kshs.24,460,352 were received during the year. The difference amounting to Kshs.2,874,236 between the receipts balance reflected in the statement of receipts and payments and that shown in the Department's records has not been explained. As a result, it is not possible to confirm the accuracy of transfers from government entities totalling Kshs.27,334,588 reflected in the statement of receipts and payments for the year ended 30 June, 2019.

#### **1249 Undisclosed Fixed-Asset Balances**

Disclosed under Annexure 3 to the financial statements is a summary statement being an abstract of the Programme's fixed assets register. However, the abstract reflects nil asset balances for both current and prior years. In addition, the summary does not show historical costs of assets, additions, disposals and closing balances at the end of the financial year under review. Further, the summary does not indicate the respective values of assets. In the circumstance, it is not possible to confirm ownership and valuation of assets purchased by the Programme as at 30 June, 2019.

#### **1250 Unconfirmed Retention Money Balances**

The statement of receipts and payments for the year ending 30 June, 2019 reflects accumulated expenditure totalling Kshs.1,785,599,799 under acquisition of non-

financial assets. However, Management do not maintain a retention monies register for civil works that the project executes.

In the absence of a retention monies register, it is not possible to confirm the retention monies payable to contractors at the end of their respective defects liability periods.

### **1251 Unreconciled Loan Receipts**

The statement of receipts and payments for the year ended 30 June, 2019 reflects loan receipts from external development partners totalling Kshs.66,957,355. However, the special account statement shows the sum of Kshs.124,101,876 as having been withdrawn from the special account and transferred to the Project's bank account during the year under review. No explanation or reconciliation has been provided for the difference totalling Kshs.57,144,521 between the two sets of records.

### **1252 Unconfirmed Opening Cash and Cash Equivalents Balance**

The statement of financial assets as at 30 June, 2019 reflects cash and cash equivalents balance totalling Kshs.47,362,768, as further disclosed in Note 8.13 to the financial statements. However, the opening balance of cash-in-hand totalling Kshs.21,477,511 was not explained in the previous year. As a result, it is not possible to confirm the completeness and accuracy of the closing balance totalling Kshs.47,362,768 reflected in the statement of assets and liabilities as at 30 June, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **1253 Budgetary Underperformance and Unbudgeted Expenditures**

#### **1253.1 Shortfall in Receipts and Under-Expenditure**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts and expenditure amounting to Kshs.685,895,961 and Kshs.660,602,627 against final budgets of Kshs.807,450,832 and Kshs.826,927,190 for receipts and expenditures, respectively. Therefore, the Programme recorded a shortfall in receipts amounting to Kshs.121,554,871 and under-expenditure amounting to Kshs.166,324,564 equivalent to 15% and 20% of the respective budgets for the year under review.

No plausible explanation has been provided for the underperformance.

Further, the statement reflects an unsupported adjustments to the original budget amounting to Kshs.424,120,900 and Kshs.448,545,700 for receipts and expenditures respectively. In the absence of an explanation for the adjustments, their validity could not be confirmed. As a result, the validity of the budgeted receipts and expenditure balances amounting to Kshs.807,450,832 and

Kshs.826,927,190 respectively reflected in the statement of comparative budget and actual amounts for the year ended 30 June, 2019 cannot be confirmed.

### **1253.2 Unbudgeted Expenditure -Training Expense**

The statement of receipts and payments for the year under review reflects expenditure totalling Kshs.61,343,608 in respect to purchase of goods and services. The balance includes Kshs.8,630,950 relating to training expenses as disclosed in Note 8.8 to the financial statements. However, the Programme's records indicate that included in the balance were expenditures totalling Kshs.651,300 not budgeted for or included in the annual work plan, as explained below:

- i. Kshs.499,500 incurred on development of terms of reference for consultants, under the Rural Livelihoods Adaptation to Climate Change in the Horn of Africa Project for a retreat held in KALRO Thika from 15<sup>th</sup> to 19<sup>th</sup> July, 2019.
- ii. Kshs.151,800 incurred in respect of Kenya National Secretaries Association, Annual General Conference for Office Administrators held on 13<sup>th</sup> and 14<sup>th</sup> June, 2019.

### **1254 Unsatisfactory Implementation of Projects**

The Programme's status report dated 30 June, 2019 indicated that various projects on construction of livestock markets, rehabilitation of irrigation schemes, water supply and other civil works, were implemented during the year under review. However, a sampled audit of twenty (20) projects valued Kshs.1,192,229,802 and for which payments totalling Kshs.634,217,650 had been made as at 30 June, 2019, revealed several anomalies that included stalled works and completion delays, as highlighted below:

#### **1254.1.1 Stalled ProjectsDrilling and Equipping Chepel Borehole in West Pokot County**

An audit inspection carried out on 14 September, 2019 revealed that:

- i. The project site was abandoned by the contractor and the works were incomplete;
- ii. the contractor did not pay unskilled labourers before he abandoned the works;
- iii. the site was not fenced as provided for in the bills of quantities;
- iv. a water storage tank and stand were not installed on the site as provided for in the bills of quantities.

### **1254.1.2 Construction of Koiser Water Pan in Baringo County**

An audit inspection carried out on 17 September, 2019 revealed that:

- i. The project site was abandoned by the contractor and as a result, the works were not completed;
- ii. the intake tower was lower than the required height and therefore could not collect water as expected;
- iii. the spillway was not completed;
- iv. construction of water troughs was not completed and steel covers were not installed;
- v. piping to the water trough was not done;
- vi. the contractor did not pay dues owed to unskilled labourers before he abandoned the site; and
- vii. the water pan was not fenced as provided for in the bills of quantities.

### **1254.1.3 Rehabilitation Kiboi Irrigation Scheme**

An audit inspection carried out on 17 September, 2019 revealed that:

- i. Only one (1) of the two (2) signboards costed in the bills of quantities was erected;
- ii. timber used to build the project's offices was not treated as prescribed in the bills of quantities and
- iii. electrical wiring of the offices costed in the bills of quantities, was not done.

### **1254.1.4 Drilling and Equipping of Nomboria Borehole in Samburu County**

A site inspection visit carried out on 19 September, 2019 revealed that:

- i. Fencing of the borehole site was done with a very light wire gauge (less than three millimetres) and therefore the fence did not serve its intended purpose well;
- ii. the water trough was set up too high and therefore some livestock could not reach it to access water;
- iii. two (2) solar panels malfunctioned after they were blown off by the wind;
- iv. the project was not formally handed over to the community after completion;

- v. the borehole and other infrastructure were put to use by the community but were not properly maintained;

#### **1254.1.5 Construction of Nomotio Hay Shed in Samburu County**

A site inspection visit carried out on September 19, 2019 revealed that several project assets were vandalized. Part of the hay shed, doors and windows to the guard house and toilets, fencing wire and part of the roof to the tank shed were all missing. Similarly, a 10,000-litre capacity water tank included in the bills of quantities for installation by the contractor was missing. The hay shed too was vandalized and was not put to its intended use.

In addition, unskilled laborers working on the Project were not paid by the contractor before he left the site. Furthermore, available information indicated that the project was not handed over to the Community by the contractor reportedly because he was not paid for all the work done.

#### **1254.2 Drilling and Equipping of Kalikwon Shallow Well in West Pokot County**

The contract for drilling and equipping of Kalikwon Shallow Well in West Pokot County was awarded at a sum of Kshs.5,517,327. The project commenced in April, 2018 and was due for completion after one (1) year. On 15 July, 2019, the contractor requested that the contract period be extended for 90 days. The request was granted and the completion date set for 16 September, 2019.

The status report presented for audit indicated that the contractor had been paid Kshs.1,771,863 as at 30 June, 2019, which was 32% of the contract sum. The report also indicated that the project was at 36% level of completion.

The following are the audit observations made in respect to the project:

##### **1254.2.1 Variation of Works and Contract price above 25% of Bid Price**

In July, 2018 the project manager approved new works for construction of a toilet and a fence at an additional cost of Kshs.815,400 and Kshs.1,312,150, respectively. The variation was 33% of the original bid price of Kshs.6,400,100, which was far beyond the threshold of 25% allowed in the Public Procurement and Disposal Act, 2015.

##### **1254.2.2 Expired Performance Guarantee**

Examination of project records revealed that the performance guarantee provided by the contractor was valid up to 31 December, 2018 beyond which any demand in respect of the guarantee would be null and void. However, the contractor continued to undertake the works after the guaranteed period lapsed. This exposed the project to additional performance risks in the event of default by the contract.

### **1254.2.3 Anomalies in Work done**

A site inspection visit carried on 14 September, 2019 revealed that:

- i. The contractor abandoned the site before completing the works;
- ii. the water pump installed was not tested to confirm whether it was functional;
- iii. there was no storage tank and stand on site as provided for in the bills of quantities;
- iv. fencing was done with low quality wire of less than the three millimeters thickness;
- v. no solar panel or solar pumps were installed;
- vi. the contractor did not pay the unskilled laborers before he left the site;
- vii. the sign board prescribed in the bills of quantities was not installed;
- viii. water troughs with reinforced concrete and steel covers, and toilets, were not completed;

### **1254.3 Construction of Lmesiyoi Dam in Samburu County**

The contract for Lmesiyoi Dam in Samburu County was awarded at a sum of Kshs.14,307,353. The works commenced on 17 October, 2017 and were due for completion after one (1) year. However, the project stalled as a result of a directive dated 31 July, 2019 issued by the National Environmental Management Agency. The directive suspended the works pending issue of an Environmental Impact Assessment. A status report provided for audit showed that by the time the works were suspended, the contractor had been paid Kshs.2,646,465 which was equivalent to 18% of contract sum. Work done was reported at 20% of the contracted works.

The Project's records indicated that the performance guarantee was valid up to 08 April, 2019 beyond which any demand in respect of the guarantee would be null and void. However, the contractor continued executing the works but did not renew his performance guarantee. This raised, the risk of financial loss in the event of performance default by the contractor.

### **1254.4 Construction of Simailele Irrigation Scheme in Turkana County**

The contract for Simailele Irrigation Scheme in Turkana County was signed in October, 2013 at a sum of Kshs.213,748,219 and the site handed over to the contractor one month later.

The project was to be executed in twelve months. However, the contractor, on various occasions, filed requests for extension of the contract period which were approved and the final completion date set for 31 August, 2019.

According to the status report presented for audit review, as at 30 September, 2019, the contractor had been paid Kshs.136,957,783. Unpaid certificates totaled Kshs.76,790,435 and 80% of the works had been completed. The following unsatisfactory matters were observed in relation to the project:

#### **1254.4.1 Failure to Charge Liquidated Damages**

Although the extended contract period lapsed on 31 August, 2019, the contractor did not finish the works in due time. The status report presented for audit indicated that 81% of the works were certified within the extended contract period. However, the Project did not levy liquidated damages on the contractor for the delay as provided for under clause 4.12 of the general conditions of the contract.

#### **1254.4.2 Expiry of the Consultancy Contract**

The consultancy contract expired on 30 September, 2018. At the time, only 24% of the contracted works had been done, as indicated in the minutes of the site meetings held in November, 2018. Payments made to the consultant totaled Kshs.23,730,000. Further, although the works were ongoing, there was no evidence showing that the contract had been extended.

#### **1254.4.3 Project Verification**

A site Inspection visit carried out on 11 September, 2019 revealed that:

- i. Only one piece of machinery was deployed to the site as the contractor had scaled down operations citing delay in payment for work done.
- ii. kitchen accessories provided for in the bills of quantities and paid for at Kshs.200,000 under payment certificate No. 3 were not installed;
- iii. the 3<sup>rd</sup> and 4<sup>th</sup> sub-main canals were not done;
- iv. the dyke was done to 1.9 kilometers in length and not 2.1 kilometres as provided for in the bills of quantities; and
- v. two 10,000-litre tanks and water collection gutters were not installed though paid for under payment certificate No.5.

#### **1254.5 Construction of Kaminia Irrigation Scheme in West Pokot County**

The works for Kaminia Irrigation Scheme in West Pokot County were contracted at a sum of Kshs.247,391,993 on 31 May, 2017 and the site handed over to the contractor on 08 September, 2017.



The works were to be executed in twelve (12) months' starting from 20 September, 2017. However, the completion date was extended severally on request by the contractor. The end date was finally set for 25 March, 2019 when the contractor was notified that the extended contract period had expired and was issued with a notice for deduction of liquidation damages.

The status report presented for audit indicated that payments to the contractor totaled Kshs.90,571,862.61 and therefore unpaid works amounted to Kshs.156,820,130 with 80% of works done.

The following unsatisfactory matters were observed in relation to the project:

#### **1254.5.1 Expiry of Advance Payment Guarantee**

Advance payments totalling to Kshs.24,739,199 were made to the contractor under certificate No. 5. Out of this sum, Kshs.9,000,000 was eventually recovered from works executed to leave a balance of Kshs.15,739,199 unpaid. However, the unconditional bank guarantee amounting to Kshs.24,739,199 issued by the contractor expired on 22 May, 2019 and was not renewed.

#### **1254.5.2 Failure to Charge Liquidated Damages**

After expiry of the extended contract period on 25 March, 2019, Clause 4.12 of the general conditions of the contract allowed Management to demand of liquidated damages from the following day. However, there was no evidence of Management having activated the Clause.

#### **1254.5.3 Expiry of the Consultancy Contract**

The consultancy contract expired on 30 September, 2018. Only 24% of the contracted works had been done at the time as indicated in the Minutes of the site meetings held in November, 2018. Payments made to the consultant totalled Kshs.23,700,000 equivalent to 99% of the contract sum amounting to Kshs.24,730,000.

Further, there was no record showing that the contract was extended to cover the ongoing works.

#### **1254.5.4 Project Verification**

An audit inspection to the irrigation scheme on September 13, 2019 revealed that:

- i. the works were at 92% level of completion as confirmed by the resident engineer and the contractor;
- ii. the works were ongoing with the contractor still on site; and
- iii. all major works for the 17 components had been done except for the following;

- Component 16 – Kochiy Water Pipeline intended to serve the community living outside the scheme had not been laid;
- fencing of the project office was only partly complete.

#### **1254.6 Construction of Nakwapua Commercial Pasture and Demonstration Centre**

The contract was awarded to a construction company at a sum of Kshs.10,227,043. The scope of works included fencing of commercial and demonstration plots of land, bush clearing, ploughing, harrowing and construction of toilets. However, the audit inspection noted the following:

##### **1254.6.1 Slow Progress of Work**

The project commenced on 06 June, 2018 and was to be executed in four months' time. However, the records presented for audit indicated that it was at 5% works completion rate in June, 2019 with the contracted project duration having lapsed. Further, the contractor abandoned the site and was subsequently issued with a notice for termination of contract on 16 August, 2019.

##### **1254.6.2 Expiry of Performance Bond**

The contractor presented a performance bond valued at Kshs.1,022,705 on award of the contract as required under Clause 4.15 of the general conditions of contract. Although the clause provided that the performance bond would be valid upto twenty eight (28) days from the date of issue of the completion certificate, the performance bond expired on 21 January, 2019. This exposed the project to financial and other risks in the event of performance default by the contractor.

##### **1254.6.3 Failure to Levy Liquidated Damages**

The project was due for completion on 06 October, 2018. However, the notice of contract termination issued to the contractor on 16 August, 2019 indicated that the contractor abandoned the project site with only 5% of the contracted works done. In addition, expenditure records indicated that no liquidated damages were charged to the contractor for the delayed works. Had the relevant clause been invoked, the project would have claimed Kshs.4,260 for each day the works were delayed.

#### **1254.7 Drilling and Equipping Kasirma Borehole**

The contract for this project was awarded at a sum of Kshs.8,230,544. The scope of works included; drilling of a borehole, testing, pumping, and equipping the borehole with a solar pumping system, constructing a platform for a 10,000 litre plastic tank, and a water kiosk, livestock water trough and fencing and installing a gate at the borehole area. The audit inspection revealed the following anomalies:

#### **1254.7.1 Slow Progress of Work**

The works commenced on 03 April, 2018 and were to take four months (4) with the completion date set for 03 August, 2018. However, at the end of this period, only 25% of the project scope had been completed. The contract period was extended by three months to 04 November, 2018 at which point the works completed were valued at 40% of the scope.

#### **1254.7.2 Termination of Contract**

The contractor was issued with the final notice of contract termination on 25 June, 2019. The contract period lapsed on 04 November, 2018 with no formal request for extension from the contractor. There was no evidence to show actions taken by the Management against the contractor for failing to fulfil the contract.

#### **1254.7.3 Failure to Levy Liquidated Damages**

Expenditure records indicated that the contractor was not asked to pay liquidated damages for failure to complete the works in time.

#### **1254.7.4 Project Verification**

An audit inspection on 16 September, 2019 revealed that:

- i. The contractor abandoned the site before he completed the works;
- ii. no water storage tank was installed on site as provided for in the bills of quantities;
- iii. fencing for the borehole site was done using inferior wire of a gauge less than three millimetres;
- iv. solar panels prescribed and costed in the bills of quantities were not installed;
- v. a water kiosk and water troughs were not built.

#### **1254.8 Construction of Nakwapua Sub-Surface Dam**

The contract for Nakwapua Sub-surface dam was awarded at a sum of Kshs.4,358,96 and the works commenced on 23 November, 2017. They were expected to end on 23 March, 2018. At the time of the audit in September 2019, payments totalling Kshs.2,383,432 had been made to the contractor with 60% of works certified as complete. However, the following anomalies were noted during the audit:

##### **1254.8.1 Stalled Project**

Site meeting minutes dated 11 June, 2019 indicated that the contractor abandoned the site in February, 2018 without notifying the employer. The construction works had since stalled.

### **1254.8.2 Extension of Contract Period**

As previously mentioned, the works were, abandoned at 60% level of completion. There was no evidence of the contract period having been extended or Management taking action to remedy the situation. Further, no liquidated damages were levied on the contractor for the delayed works.

### **1254.8.3 Un-approved Additional Works**

Available records indicated that the contractor, through a notice dated 23 May, 2019, requested for reimbursement of Kshs.1,057,752 being costs incurred on additional works. The works included, hiring of a compressor to excavate the dam foundation, hiring armed security personnel and additional dam outlet pipes. However, there was no record showing that the additional works were authorized by the project manager.

Overall, unsatisfactory implementation of the projects undertaken during the year under review has put to risk the funds invested in the projects and is likely to hamper the local communities from accessing critical services envisioned under the Programme.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **1255 No Internal Audit Function**

The Programme is implemented by the State Department for Crops Development and therefore the internal audit unit of the Department is expected to carry out internal control assessments on the Programme's activities. However, there is no evidence that such assessments have been carried out as yet. As a result, the Programme's internal control environment is weak and the situation has hampered efficient and effective execution of Programme activities.

#### **1256 Inactive Audit Committee**

The State Department for Crops Development has established an audit committee for the Programme. However, the committee did not convene or hold regular meetings during the year under review as required under Section 155(5) of the Public Finance Management Act, 2012. As a result, oversight over the project's activities was, to a significant extent, weak and ineffective.

# **SMALL-SCALE IRRIGATION AND VALUE ADDITION PROJECT (ADF LOAN NO.2000130014530 AND GRANT NO.5570155000751)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1257 Unconfirmed Transfers from Government Entities**

The statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.12,621,586 as transfers from government entities being counterpart funds received by the Project from the Government of Kenya (GoK) during the year. However, documentary evidence in support of the disbursements was not presented for audit and as a result, the accuracy and validity of the balance could not be confirmed.

Further, Notes 8.7 and 8.8 to the financial statements reflects Kshs.12,621,586 as GOK counterpart funding incurred on compensation of employees (Kshs.6,270,500) and purchase of goods and services (Kshs.6,351,086) respectively. However, Integrated Financial Information System (IFMIS) data for the year ended 30 June, 2019 reflects the Project's GOK total expenditure as Kshs.17,700,021 and not Kshs.12,621,856 shown in the statement of receipts and payments. No plausible explanation has been provided for the difference amounting to Kshs.5,078,165 between the two sets of records.

In view of these anomalies, the accuracy and completeness of expenditure amounting to Kshs.12,621,568 shown as GOK counterpart funding in the statement of receipts and payments for the year under review cannot be confirmed.

#### **1258 Unconfirmed Appropriations-in-Aid**

The statement of receipts and payments for the year ended 30 June, 2019 reflects Appropriations-in-Aid (A-I-A) balance totaling Kshs.385,078,782 referenced to Note 8.6. to the financial statements which, however, reflects nil balances against miscellaneous receipts. The A-I-A balance is analyzed in Notes 8.4 and 8.5 to the financial statements as relating to grants of Kshs.52,249,710 and loans amounting to Kshs.332,829,072 received as direct payments from the African Development Bank, being expenditure incurred on acquisition of non-financial assets.

No plausible explanation has been provided for the anomaly in the presentation of the grants and loans.

As a result, it is not possible to confirm the accuracy of the Kshs.385, 078,782 A-I-A balance reflected in the statement of receipts and payments for the year under review.

## **1259 Doubtful Expenditure on Bicycles and Motorcycles**

Audit review of the IFMIS records for the Project indicated that assorted bicycles and motorcycles costing Kshs.2,392,668 were purchased for the Project on 30 June, 2019. However, the respective tender documents, user requisitions, stores receipt and issue vouchers were not presented for audit. Physical verification carried out on diverse dates at the Project's offices both at the Head Office and in regional offices revealed that no bicycles or motorcycles were delivered to the Project's stores. Management have asserted that they did not procure any such items during the year under review.

In the circumstances, the occurrence and validity of the expenditure amounting to Kshs.2,392,668 reported to have been incurred on acquisition of bicycles and motor cycles for the Project during the year under review has not been confirmed.

### **Emphasis of Matter**

## **1260 Unreconciled Special Account Receipts**

The statement of receipts and payments for the year ended 30 June, 2019 reflects proceeds from domestic and foreign grants totaling Kshs.29,326,969 and loan receipts from external development partners totaling Kshs.19,483,860. Both amounts are shown in Notes 8.4 and 8.5 to the financial statements as grants and loans received in cash from the African Development Bank. The Project's special account statements, however, reflect Kshs.29,356,095 (\$291,260) and Kshs.19,505,213 (\$194,159) respectively as amounts withdrawn from the special accounts and credited to the Project's local account. The two sets of records had not been reconciled at the time of the audit in September, 2019.

My opinion is not qualified in respect to this matter.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

## **1261 Unsatisfactory Implementation of Projects**

The audit included visits to several sites at which construction of irrigation systems is ongoing. Significant shortcomings were observed in execution of some of the works. These included delays in completion of works, alleged flawed designs, stalled works, and unearned payments made to consultants and contractors, as shown in the following instances:

### **1261.1 Kaboson Irrigation Scheme in Bomet County**

The progress of work report for July, 2019 indicated that only 48% of works had been completed with 95% of the contract duration having lapsed. Therefore 52% of works were to be completed in the remainder 5% of the contract period. In

addition, the quality of works done on the sedimentation tank was low. For instance, the steel cover installed on the water tank was covered in rust even as the works were ongoing.

Further, a 4-wheel-drive motor vehicle cited in the bills of quantities for procurement by the contractor for use by the works supervisor had not been purchased at the time of the audit inspection. Also, the consulting engineer appointed to supervise the works at a cost of Kshs.35,825,000 left the site after his time-based contract lapsed before construction works were completed.

#### **1261.2 Makanyanga Irrigation Scheme in Tharaka-Nithi County**

Construction works for Makanyanga Irrigation Scheme commenced on 10 July, 2017 and were expected to be completed on 06 November, 2017. However, the contractor was granted two extensions up to 31 August, 2018 but by the time of expiry of the extended contract period, the portion of works done was assessed at 60% of the contracted scope.

The consulting engineer was paid the entire contract sum totalling Kshs.41,992,003 and his time-based contract had since lapsed. His final completion report dated March, 2019 indicated that the contractor had all along executed the works in a slow manner characterized by frequent, unauthorized stoppages.

The works were still ongoing in 2019 with an intern engineer from Machakos Agricultural Training Centre having been appointed as supervisor on temporary terms. In the absence of an experienced consulting engineer, the risk of the works not meeting the specified standards in the respective contract has increased.

#### **1261.3 Buuri Irrigation Scheme in Meru County**

Consultancy services for Phase I design and feasibility study for this Project were awarded to a consultancy firm at a contract sum of Kshs.20,186,000. The contract commenced on 16 April, 2018 and was set to be completed on 31 October, 2019. At the time of the inspection in September, 2019, the consultant had received payments totalling Kshs.16,148,800 equivalent to 80% of the contract sum.

However, in spite of the payments, the final designs had not been completed at the time of the audit in September, 2019. No plausible explanation was provided for the delay and unearned advance payments made to the consultant.

#### **1261.4 Ruungu Irrigation Scheme in Tharaka-Nithi County**

The works contract valued at Kshs.162,780,486.93 was to run for one year to 18 July, 2018. The consultant's report for June, 2019 indicated that 80% of the works had been done. In addition, interim certificates valued at Kshs.146,982,687 or 90% of the contract value had been issued out of which Kshs.103,356,802 had been paid.

The consulting engineer's contract was awarded at Kshs.29,093,000 exclusive of taxes. It was to last for one year to 18 July, 2018. However, with the works still ongoing as at 30 September, 2019, the consultant had reportedly been persuaded to continue supervising the works pending negotiations for additional fees.

In addition, the audit observed that Thingithu River from which water for irrigation was to be abstracted was dry. Therefore, a reliable source of water for the Scheme was not apparent. Further, the Water Resources Management Authority (WARMA) was reported to have declined to issue the Scheme with a license to abstract water from the seasonal river until a reservoir or dam was built to retain sufficient volume of water. In view of this situation, the objectives of the Project may not be attained.

#### **1261.5 Kirumi Kiamunjari Irrigation Scheme in Tharaka-Nithi County**

The contract for construction of Kirumi Kiamunjari Irrigation Scheme in Tharaka-Nithi County was awarded at a sum of Kshs.254,707,660.29. It was to be executed over one year to September, 2018. However, the contractor was awarded a six-month extension period which expired on 01 March, 2019. A month later, the contractor filed an application for a new extension to 05 July, 2019 which was also granted. The monthly progress report dated May, 2019 indicated payments totalling Kshs.118,729,081 or 47% of the contract sum had been made to the contractor while the proportion of completed works was assessed at 45%.

Audit verification of the Project in September, 2019 revealed that the works were incomplete. However, the consultant supervising the Project had withdrawn from the Project following expiry of his time-based contract. In his stead, the County Irrigation Engineer had been appointed to supervise the Project.

#### **1261.6 Rubiru Irrigation Scheme in Murang'a County**

The works contract was awarded at Kshs.264,808,138 and work set to start on 28 July, 2017. The contract was to last for twelve months to 28 July, 2018. However, this was later revised to 29 December, 2018. The consultancy contract was to run for fifteen months to 28 October, 2018.

Project records indicate that the contractor contended that the feasibility study (design survey) on the Project was not done properly and would therefore require redesigning. He submitted a quotation for a new type of pipes (referred to as HDPE) which raised total costs for piping for the 12,220m length of the conveyance pipeline to Kshs.230,205,248 from Kshs.122,200,000 quoted in the contract. This amounted to an increase of Kshs.108,005,248 equivalent to 188% of the cost of the original (UPVC) pipes. The new costs could not be met from the existing contract and therefore the contractor was asked to execute the original design. Available information indicates the Project Coordination Unit has since sought to terminate the contract.



The audit observed that the Project stalled after the contractor abandoned the site and sued the Project Coordination Unit over his contractual terms. The main works such as water intakes and the sedimentation tank had not been done.

## REPORT ON EFFECTIVENESS INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1262 Failure to Deposit GOK Counterpart funds in the Project Account**

Audit review of accounting records indicated that during the year under review, the State Department for Crops Development upon receipt of the Exchequer Release for Government of Kenya (GOK) counterpart funds did not transfer the funds to the Project bank accounts. Instead it spent the sum through the Department's accounts. Further, although payments made from all GOK counterpart funds were processed through IFMIS and the Project Coordinator was designated as the AIE holder, the Department did not create an account for the Coordinator in the system. As a result, he could not authorize payments in IFMIS. No plausible explanation has been provided for this omission.

#### **1263 Failure to Maintain a Retention Monies and Deposits Register**

In the year under review, the Project did not maintain a retention monies and deposits register. In addition, examination of payment vouchers relating to civil and construction works revealed deductions for retention monies for works certificates paid. However, no funds were set aside to pay for the retention monies upon completion of the defects liability period. Further, no disclosures have been made in the financial statements for the retention monies and deposits held as at 30 June, 2019.

#### **1264 Lack of Internal Audit and Inactive Audit Committee**

The Project is implemented by a Project Control Unit under the State Department for Crops Development. The Internal Audit Unit in the Department is expected to conduct internal control assessments and audits on the Project regularly. However, this has not been done and as a result, the Management of the operational and other risks facing the Project is inadequate. Further, although the Department has established an Audit Committee for the Project, the Committee did not convene any meeting during the year under review. As a result, its key functions such as resolving external audit queries and implementing recommendations thereof, were not executed.

# **RICE BASED MARKET ORIENTED AGRICULTURAL PROMOTION PROJECT**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1265** There were no material issues noted during the audit of the financial statements of the Project.

### **Emphasis of Matter**

#### **1266 Project Closure**

During the year under review the Project remained inactive and the only transactions were related to bank charges. The Project ceased operations in the year 2016/2017 but it had not been wound up as required in the financing agreement. The bank account was, however, closed after year end, on 3 October, 2020 and the remaining balance in the account of Kshs.344 was surrendered to the State Department for Crop Development and Agricultural Research.

A new Project, Capacity Development Project for Enhancement of Rice Production in Irrigation Schemes (CaDPERP) was being implemented in Kirinyaga, and Kisumu as an upscale of the previous project. The above notwithstanding, the Management continues to maintain the bank account with only Kshs.364 and to prepare and present the financial statements for audit solely based on the cumulative balances, with no current operations. The statements of financial assets as at 30 June, 2019 equally reflects nil balances.

My opinion is however not modified based on the effects of the above matter.

### **Other Matter**

#### **1267 Lack of Supporting Documents**

As reported in the previous year, the statement of receipts and payments reflects cumulative receipts totalling Kshs.191,050,000 which constitutes direct payments by Japan International Cooperation Agency (JICA) of Kshs.130,980,000 and transfers from Government entities of Kshs.60,070,000. The statement also reflects total cumulative expenditure to date of Kshs.191,049,861.

However, over the years and as had been reported in the previous year, the Project Management did not provide for audit review, the following key information and documentation as requested:

- a) Supporting schedules and analyses showing the constitution of the cumulative expenditure to date;

- b) Approved project budget for the period and the entire project's life;
- c) The original and revised (if any) project proposal;
- d) Analysis and support documentation of all GOK funds disbursed and JICA funds donated and utilized for the entire project;
- e) Transfers (disbursements) from the Government entities and JICA clearly showing the date(s) disbursed and received;
- f) Relevant exchange conversion rates for the funds which were received in foreign currency.

Consequently, it has not been possible to confirm the completeness, accuracy and validity of the figures reflected in the statement of receipts and payments for the year ended 30 June, 2019.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1268** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1269** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## NATIONAL AGRICULTURAL AND RURAL INCLUSIVE GROWTH PROJECT (IDA CREDIT NO. 5900-KE)

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 1270 Omissions in the Statement of Comparative Budget and Actual Amounts

The statement of receipts and payments for the year ended 30 June, 2019 reflects transfers from government entities totaling Kshs.108,225,830, and payments

totalling Kshs.63,589,766 incurred on acquisition of office furniture and general equipment and refurbishment of buildings. However, these receipts and payments are not reflected in the statement of comparative budget and actual amounts under actual receipts and actual expenditures respectively.

In view of the omissions, the completeness and accuracy of the statement of comparative budget and actual amounts for the year ended 30 June, 2019 cannot be confirmed.

### **Emphasis of Matter**

#### **1271 Unreconciled Loan Receipts**

The statement of receipts and payments for the year ended 30 June, 2019 reflects loan receipts totaling Kshs.1,495,897,389 received from external development partners during the year. However, the special account statement as at 30 June, 2019 shows external loan receipts totaling Kshs.1,497,481,602 as having been deposited in two accounts namely Account No.1000317857-Kshs.1,052,751,555 (US\$10,400,000) and Account No.1000263962 – Kshs.444,730,047 (US\$ 4,388,896) during the year under review. The difference amounting to Kshs.1,584,213 between the two sets of records had not been reconciled at the time of the audit.

My opinion is not qualified in respect of this matter.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **1272 Undisbursed GoK Counterpart Funds**

Schedule 2, Section IV Part A (2) of the Financing Agreement specifies the categories of eligible expenditures that may be funded out of the proceeds of the Financing Agreement. It also prescribes the allocation of the amounts of financing to each project category and the ratio of expenditure to be financed for eligible expenditure in each category. The GOK portion has been set as 9% of the cost of each year's activities. However, examination of records revealed that the Government of Kenya (GOK) did not deposit the required counterpart funds in the Project's bank account during the year under review.

Under-funding of the Project's activities is likely to constrain its capacity to fulfill its objectives.

### **1273 Failure by Some Counties to Contribute to the Project**

Schedule 2, Section I Part C(1) of the Financing Agreement requires the Project to enter into a participation agreement with each eligible county government, detailing mutual responsibilities for the implementation of the program and other terms and conditions as may be approved by the Association. Further, Section V(6) of the Agreement states that the participating County Governments shall provide the remaining 10% funding for specified elements of the Project.

However, audit of records in respect to transfers from other government entities during the year under review revealed that Makueni, Trans-Nzoia, Kiambu, Turkana, Samburu, Nandi, Murang'a, Nakuru, Homa Bay, Migori, Nyamira, and Kirinyaga Counties did not remit the agreed annual sum amounting to Kshs.6,500,000. In the absence of the expected funding, the Project's objectives in these counties are unlikely to be realized.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1274** There were no material issues relating to effectiveness of internal controls, risk management and governance

## **KENYA CLIMATE SMART AGRICULTURE PROJECT (IDA CREDIT NO. 5945 – KE)**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Adverse Opinion**

#### **1275 Receipts Through the Special Accounts**

As disclosed in Note 6.3. to the financial statements, the statement of receipts and payments reflects credit from the World Bank in the year 2018/2019 totalling Kshs.1,374,562,000. This figure, however, differs with the amounts of Kshs.1,402,977,690 which constitutes Kshs.373,880,778 (US\$3,700,000) and Kshs.1,029,096,913 (US\$9,999,970) received through the two (2) Special Account No.1000319356 and No.10000357231 for the Project. No reconciliation or explanation was provided for the resultant difference of Kshs.28,415,690.

In the circumstances, the completeness and accuracy of the receipt of Kshs.1,374,562,000 reflected in the financial statements could not be confirmed.

## **1276 Transfers to Kenya Agricultural and Livestock Research Organization (KALRO)**

As disclosed in Note 6.6. to the financial statements, the statement of receipts and payments reflects an amount of Kshs.17,286,373 as having been transferred to KALRO during the year under review. However, Note 6.12 to the financial statements reflects an amount of Kshs.170,000,000 as having been advanced to KALRO out of which an amount of Kshs.17,286,373 was spent during the year, leaving a balance of Kshs.152,713,627 as at 30 June, 2019. No explanation was provided for reflecting an amount of Kshs.17,286,373 in respect of transfer to KALRO in the statement of receipts and payments on one hand and advances totalling Kshs.170,000,000 to KALRO in the disclosures under Note 6.12. to the financial statements.

In addition, the Advances to KALRO balance of Kshs.152,713,627 as reflected in the statement of assets and liabilities was not supported by verifiable documentary evidence such as bank statements and certificate of bank balances as at 30 June, 2019. Consequently, the validity, completeness and accuracy of the balance could not be confirmed.

Further, a review of KALRO's financial statements for the year ended 30 June, 2019 however revealed that the organization received an amount of Kshs.50,000,000 only in 2018/2019 financial year in respect of the Project. The resultant difference of Kshs.120,000,000 between the amount disclosed in Note 6.12. to the financial statements and KALRO's financial statements has not been reconciled or explained.

## **1277 Transfers to County Governments**

The statement of receipts and payments further reflects an amount of Kshs.450,887,640 as having been transferred to the County Governments during the year under review. However, available records indicate that an amount of Kshs.1,029,096,913 (US\$9,999,970) was disbursed to the Counties during the year.

Further, and as disclosed in Note 6.13 to the financial statements, the statement of financial assets and liabilities reflects a balance of Kshs.583,383,590 in respect of Advances to Counties. The balance was however not supported by verifiable documentary evidence such as bank statements and certificate of bank balances as at 30 June, 2019. No explanation was provided for this anomaly.

Consequently, the validity, completeness and accuracy of the balance could not be confirmed.

## **Other Matter**

### **1278 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,983,863,402 and Kshs.1,443,093,395 respectively resulting to an under-funding of Kshs.1,540,770,007 or 52% of the budget. Further, of the receipted amount of Kshs. 1,443,093,395, only Kshs.642,446,864 was absorbed resulting to an under absorption of Kshs. 800,646,531 or 55% of the receipts.

The Management has attributed the under absorption to delays in the procurement of goods and services. The underfunding affected the planned activities and programmes which may have impacted negatively on service delivery and the public did not received the services as planned.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1279 Kondabilet Harambee Dam in Elgeyo Marakwet County**

A firm was awarded a contract to desilt Kondabilet Harambee Dam in Elgeyo Marakwet County at a contract sum of Kshs.16,420,351. The contract was signed on 12 April, 2019 for a contract period of 120 days. However, the following irregularities were observed:

##### **1279.1 Unprocedural Payment of Works**

Although the contractor was paid Kshs.11,128,739 (67.77% of the contract sum) on 10 May, 2019, the interim payment certificate provided for audit examination did not disclose or describe details of work done and paid for. Further, it was not explained what the project inspection and acceptance team used to confirm the amount paid against the actual work done without a detailed bills of quantities to establish the basis for the payment.

In addition, the site visit by the technical inspection team was done on 25 April, 2019, while an invoice was raised on 26 April, 2019 and a certificate of work done was raised on 29 April, 2019, an indication that an invoice was raised after site visit by the technical team.

##### **1279.2 Incomplete Priced Bills of Quantities**

The bill of quantities (BQs) prepared did not list or factor in the breakdown of the works to be done including; the length of spillway, measurements of the depth of desilting, cutting away of soil, the height of embankment and layers of compacting soil amongst others. A statement to describe works in the BQs stated that work to

be done was desilting the water dam, ensure the top embankment was erosion free and stone pitching of spillway, without any basis of measurements. This was contrary to Section 60(1) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the propriety in the use of public funds cannot be confirmed and value for money may not have been achieved.

#### **1280 Failure to Provide Land Transfer Documents**

Examination of procurement records and a site visit at Leshau Pondo Sub-County in Nyandarua County revealed that the Project purchased five (5) acres of land for construction of a water pan at a contract sum of Kshs.2,200,000. However, transfer documents and title deed for the parcel of land were not provided for audit review to confirm transfer of ownership of the land to the County Government of Nyandarua.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **1281 Lack of Internal Audit Reports**

Schedule 2, Section V(4) of the Financing Agreement requires the recipient, not later than four (4) months after the effective date, to designate Project Internal Auditors at National Project Coordinating Unit (NPCU) and each County Project Coordinating Unit (CPCU) under terms of reference and with qualifications satisfactory to the Association. However, during an audit inspection carried out in the month of September, 2019 at various County Coordinating Offices, five (5) counties namely; Kakamega, Siaya, Busia, Nyandarua, and Garissa did not provide for audit review internal audit reports, an indication that the project internal auditors had not been designated as required under the Financing Agreement.

### **ENABLE YOUTH KENYA PROGRAM – (ADF LOAN NO. 2100150038895)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1282** There were no material issues noted during the audit of the financial statements of the Program.



## **Emphasis of Matter**

### **1283 Unreconciled Special Account Receipts**

The statement of receipts and payments for the year ended 30 June, 2019 reflects a sum of Kshs.20,201,745 as loan receipts received during the year from the African Development Fund. Note 8.4. to the financial statements indicates that the foreign currency equivalent amount received into the Program's special account during the year totalled US\$ 195,659. However, the actual special account statement as at 30 June, 2019 indicates that loan receipts from the Fund totalled US\$ 178,328 (Kshs.18,098,509) in the year under review. The difference amounting to Kshs.2,103,236 between the two sets of records had not been reconciled at the time of this audit.

My opinion is not qualified in respect to this matter.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1284 Low Absorption of Funds**

A review of the statement of comparative budget and actual amounts for the year ended 30 June, 2019 indicates that actual expenditure totalled Kshs.12,736,890 or 42% of the year's estimate amounting to Kshs.30,201,745. The Program's budget implementation report was not presented for audit review and therefore it is not possible to confirm the extent to which budgeted activities were implemented.

Failure to absorb budgeted funds is likely to hamper the Program from attaining its objectives.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1285** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **AGRICULTURAL SECTOR DEVELOPMENT SUPPORT PROGRAMME II (SIDA GRANT NO.51110109)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1286** There were no material issues noted during the audit of the financial statements of the Programme.

### **Emphasis of Matter**

#### **1287 Unreconciled Special Account Statement**

As disclosed under Note 8.4 to the financial statements, the statement of receipts and payments reflects proceeds from domestic and foreign grants controlled by the Programme of Kshs.545,484,583 . However, the special account statement reflects a figure of Kshs.546,117,761 as having been withdrawn and disbursed during the year resulting to unreconciled variance of Kshs.633,178. The Management should endeavour to reconcile the Programme financial statements with the Special Account balances.

My opinion is not qualified in respect of this matter.

### **Other Matter**

#### **1288 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,457,737,478 and Kshs.941,450,736 respectively resulting to an under-funding of Kshs.516,286,742 or 35% of the budget. Similarly, the Programme spent Kshs.469,490,561 or 50% of the receipts of Kshs.941,450,736. The underfunding could have adversely affected the planned activities and could have impacted negatively on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1289 Failure to Open a Designated Programme Bank Account**

All receipts and payments in respect of the Programme were being handled directly through the Ministry's account. The Management did not open the bank account to credit all receipts and make all payments relating to the Programme during the year under review.

Consequently, transactions recorded in these financial statements are those that were disclosed by the Ministry.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1290** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR CROP DEVELOPMENT

### CENTRE OF EXCELLENCE IN SUSTAINABLE AGRICULTURAL AND AGRIBUSINESS MANAGEMENT (CREDIT NO.5798-KE) - EGERTON UNIVERSITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**1291** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### 1292 Pending Bills

Note 9.1 to the financial statements reflects pending bills totalling Kshs.16,386,825 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 1293 Delayed Disbursements

The Project deliverable verification report availed for audit review as at 30 June, 2019 revealed that out of Kshs.228,812,100 (USD 2,288,121) verified and

qualifying for disbursement, only Kshs.83,000,000 or USD 830,000 was withdrawn leaving a balance of Kshs.145,812,100 (USD 1,458,121) undisbursed. This is an indication of delays in the Project meeting the disbursement linked indicators and results. Management has not provided an explanation for the delay which may negatively impact on the achievement of the intended objectives.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1294** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## STRATEGIC FOOD RESERVE TRUST FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Disclaimer of Opinion

#### 1295 Revenues from Non-Exchange Transactions

As disclosed in Note 6 to the financial statements, the statement of financial performance reflects receipts of Kshs.1,533,966,822 in respect of Transfers from Other Government Agency during the year. However, this amount differs with the amounts received from the National Government and transfers from other Government entities of Kshs.7,570,298,629 as detailed below:

Source	Details	Amount (Kshs.)
Exchequer - National Treasury	Budget Support – To procure maize	4,020,298,629
Exchequer - National Treasury	Payment of debts owed to farmers	2,130,520,241
AIE - State Department of Devolution	Payment for arrears owed to farmers	1,419,479,759
<b>Total Receipts in the Year</b>		<b>7,570,298,629</b>

Under the circumstances, the accuracy and completeness of the reported revenue from non-exchange transactions balance of Kshs.1,533,966,822 could not be confirmed.

## **1296 Procurement of Maize**

### **1296.1 Procured Maize During the Year**

The Fund had budgeted to purchase 2 million bags of maize from local farmers for the 2018/2019 crop season at a price of Kshs.2,500 per 90 kg bag all amounting to Kshs.5,000,000,000. Out of the budgeted amount, an expenditure of Kshs. 979,701,371 was to be met from sales proceeds of old stocks of maize, while the balance of Kshs.4,020,298,629 was to be financed through Exchequer issues. The Fund however purchased 417,951 bags of maize of 90kg each at a total cost of Kshs.1,044,205,017 as disclosed in Note 8 to the financial statements, which translated to a budget utilization of only 20%.

### **1296.2 Additional Funds for Debt Payments**

During the year, the Fund received an amount of Kshs.2,130,520,241 to cater for payment of debts owed to maize farmers for earlier deliveries. In addition, an AIE of Kshs.1,419,479,759 was also disbursed from the State Department for Devolution and ASAL for payment of arrears due to farmers, making a total receipt of Kshs.3,550,000,000. Examination of records indicated that an amount of Kshs.2,618,939,976 was spent on payment of farmers' arrears for the 2017/2018 crop season, leaving a balance of Kshs.931,060,024 that has not been accounted for in the financial statements.

### **1297 Storage Cost**

The statement of financial performance reflects an expenditure of Kshs.432,766,953 on fumigation and storage charges for the year ended 30 June, 2019. Invoices that were verified during the audit to support the transactions indicated a closing stock of 3,414,518 bags of 90kgs each, which is equivalent to 6,146,132 bags of 50kgs each while supporting schedules to the financial statements disclosed a closing stock of 6,279,685 bags of 50kgs each. Although Management explained that the difference of 133,553 bags was the closing stock of the unsold imported maize, the accuracy of the reported expenditure on fumigation and storage costs could not be confirmed.

### **1298 General Expenses**

The statement of financial performance reflects an expenditure of Kshs.54,347,656 under general expenses. The supporting schedules for the reported balance was, however, not provided for audit review. In addition, examination of payment vouchers related to the expenditure revealed that the Fund made payments amounting to Kshs.10,609,200 directly to various staff for accommodation and travelling costs for various workshops, retreats, meetings and other field activities instead of issuing the officers with temporary imprests as required under Regulation 93 of Public Finance Management (National Government) Regulations, 2015.

The expenditure was also not supported with receipts or work tickets for transport expenses, invitation letters to attend the meetings and workshops, signed schedules to confirm attendance and reports and minutes of deliberations held.

Consequently, the accuracy and validity of the expenditure could not be confirmed.

## **1299 Inventories**

The statement of financial position reflects an amount of Kshs.11,159,473,495 under inventories. As disclosed in Note 17 to the financial statements, the inventories comprised maize and powdered milk. The following unsatisfactory matters were observed:

### **1299.1 Condemned Maize**

Note 17 to the financial statements reflects an amount of Kshs.10,459,473,495 being the closing stock of maize. However, a detailed analysis and valuation report of the stocks in support of the balance was not provided for audit verification. Further, a review of records of the maize stock at the National Cereals and Produce Board (NCPB) disclosed that the Ministry of Public Health had ascertained that out of six (6) million bags of maize in stock as at 30 June, 2019, maize in 176,265 bags valued at Kshs.342,482,895 was found to contain high levels of aflatoxin and was therefore not fit for human consumption.

In addition, maize stocks held in Kisumu and Moi's Bridge silos were found to be damaged by heat as a result of being stored in the silos for more than two (2) years. The silos at the Kisumu depot had 35,905 bags while Moi's Bridge silos had 525,818 bags all valued at Kshs.998,743,494. Though the Fund gave authority to NCPB to sell the maize at Kshs.780 per bag, the initial cost was Kshs.1,778 per bag thus resulting in a total loss of Kshs.560,599,554, excluding storage and fumigation charges.

### **1299.2 Unaccounted for Maize**

Nakuru depot stock summaries records as at 30 June, 2019 indicated that there were 387 bags of imported maize valued at Kshs.626,940. However, physical verification disclosed that there was no stock of imported maize at the depot. The stock of the imported maize could therefore not be accounted for.

### **1299.3 Powdered Milk**

Disclosed under Note 17 to the financial statements, is powdered milk stock from the New Kenya Creameries Cooperative (New KCC) amounting to Kshs.700,000,000 that has been outstanding for over three (3) years. Supporting documentation in support of the inventory balance was not provided for audit.

In view of the above matters, the existence and accuracy of the reported balance of Kshs.11,159,473,495 for inventories could not be confirmed.

### **1300 Receivables from Exchange Transactions**

The statement of financial position reflects a receivables balance of Kshs.10,276,377,296. It was, however, noted that an amount Kshs.11,295,302,968 being subsidy component on imported maize brought forward from the previous year and which was not paid during the year under review, was not included in the receivables balance as at 30 June, 2019.

Further, and as disclosed in Note 18 to the financial statements, the reported total receivables balance of Kshs.10,276,377,296 includes Kshs.175,000,000 that was transferred to the National Cereals and Produce Board for purchase of gunny bags. Although the Board acknowledged receipt of the amount, the Fund did not provide any payment vouchers or expenditure returns for audit verification to show that the gunny bags were bought. Therefore, it was not possible to confirm that the funds were put to the intended use by the Board.

In addition, the reported receivables balance includes an amount of Kshs.6,865,220,613 relating to receivables from the State Department for Special Programmes. However, the amount has been outstanding in the books of the Fund for a long time and its recoverability is therefore, doubtful.

The balance of the receivables also includes an amount of Kshs.1,157,864,523 disclosed as subsidy component on imported maize in spite of the fact that there was no imported maize during the year. It is therefore, not clear how the amount was arrived at.

Consequently, the recoverability and accuracy of the reported receivables from exchange transactions balance of Kshs.10,276,377,296 could not be confirmed.

### **1301 Trade and Other Payables from Exchange Transactions**

As disclosed in Note 19 to the financial statements, the statement of financial position reflects trade and other payables balance of Kshs.12,942,778,768, which includes Kshs.13,181,494,364 brought forward from the previous financial year. The balance of Kshs.13,181,494,364 was not supported and differed with the previous year's audited financial statements balance of Kshs.4,710,132,542 by Kshs.8,471,361,822.

Further, the reported balance is net of a prior year adjustment of Kshs.1,720,222,259 whose nature was not explained or supported. Further, the supporting schedules for the trade payables balance, reflected debts that have remained outstanding since 2014 and whose supporting documents were not provided for audit scrutiny. No satisfactory explanation was provided on why the Management has not settled the long outstanding liabilities.

In addition, Note 19 to the financial statements, reflects an amount of Kshs.2,618,939,976 that was transferred to the National Cereals and Produce Board (NCPB) to cater for pending bills. However, records maintained by the Board

reflected an amount of Kshs.2,495,415,105 as having been received to pay pending bills for purchase of maize for 2017/2018 financial year, leaving an unreconciled balance of Kshs.123,524,871.

Under the circumstances, the validity and accuracy of the trade payables from exchange transactions balance of Kshs.12,942,778,768 could not be confirmed.

### **1302 Irregular Payment of Pending Bills**

The trade and other payables from exchange transactions balance of Kshs.12,942,778,768, as disclosed under Note 19 to the financial statements, is net of Kshs.1,800,000,000 that was paid to one company during the year under review on account of pending bills. However, the payment was made without authorization of the Strategic Food Reserve Oversight Board as required under Regulation 14 of the Public Finance Management (Strategic Food Reserve Trust Fund) Regulations, 2015. Further, no payment voucher(s) or any other supporting documents were provided for audit verification.

### **1303 Accuracy of the Financial Statements**

The financial statements as presented for audit are inaccurate and in some cases misleading as enumerated below:

#### **1303.1 Statement of Financial Performance**

The comparative figures reflected in the statement of financial performance differ with the audited figures for the financial year 2017/2018. A footnote to the statement indicates that the cost of sales was restated by Kshs.3,533,772,933. However, it is not clear what was being restated and how the amounts were arrived at. Further, the figures in the statement are different from the figures appearing in the disclosure notes to the financial statements as shown in Notes 8, 9, 14 and 15.

#### **1303.2 Statement of Financial Position**

A review of the statement of financial position revealed that several accounts' balances have been revised without a Note to explain the prior year adjustments. Trade and other payables figures were adjusted upward by Kshs.4,658,392,970. The reserves and accumulated deficit balances were also revised. In general, the opening balances are inaccurate and inexplicable. In addition, the creditors balances for the year under review are inaccurate as the balance of Kshs.4,172,621,560 described as importers of maize creditors was accounted for under the balance of Kshs.13,181,494,364 disclosed as opening balance under Note 19 to the financial statements.

Under the circumstances, the statement of financial position is incorrect and misleading.



### 1303.3 Statement of Changes in Net Assets

The statement of changes in net assets was restated and no support documentation was provided to support the restatement. In addition, the statement shows a transfer to reserves of Kshs.6,150,818,866 that was not supported with Notes or any other supporting documentation.

### 1303.4 Statement of Cash flows

The cash flow statement prepared does not comply with the reporting guidelines issued by the Public Sector Accounting Standards Board. Under the circumstances, it is not clear whether all the transactions of the Fund have been captured during the year.

### 1303.5 Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts was also not prepared in accordance with the requirements of the Public Sector Accounting Standards Board (PSASB). It is not clear what the budget was as all figures provided are the actual figures. Consequently, it is not reliable as a source of information. The statement of comparison of budget and actual amounts reflects a budget figure of Kshs.7,684,785,688 which is the same amount as the actual expenditure while the performance difference has been disclosed as Kshs.1,419,479,759. This is contradictory and hence misleading.

### 1303.6 Notes to the Financial Statements

The Notes to the financial statements are also incomplete and in some of the Notes the figures have no comparatives or have figures that are not in agreement with the corresponding figures reflected on the face of the financial statements. Consequently, they are not useful in disclosing the transactions of the Fund during the year.

### 1303.7 Restatement and Casting Errors of Comparative Balances

The financial statements for the year ended 30 June, 2019 include restated comparative figures as shown below:

<b>Component</b>	<b>Restated Figure for 2017/2018 (Kshs.)</b>	<b>Audited Figure for the Year Ended 30 June 2018 (Kshs.)</b>	<b>Variance (Kshs.)</b>
Purchases	20,353,837,593	46,104,511,751	25,750,674,158
Accumulated Capital Reserves	46,587,162,751	64,874,935,811	18,287,773,060
Accumulated Deficit	(43,756,489,113)	(47,248,450,759)	3,491,961,646
Board Expense	41,831,286	0	41,831,286
Total Current Liabilities	17,839,887,333	13,181,494,364	4,658,392,969

However, no disclosure notes and explanations have been included in the financial statements to support the restated comparative year figures and the restated balances were not supported by any documents.

In addition, casting errors were noted in the financial statements as shown in the table below:

<b>Component</b>	<b>Comparative Figure in the Financial Statements (Kshs.)</b>	<b>Casted Figure (Kshs.)</b>	<b>Variance (Kshs.)</b>
Total Expenses	6,882,529,993	40,491,402,795	33,608,872,802
Total Non-Current Assets	20,670,560,970	30,807,999,415	10,137,438,445
Total Trade Payables (Note 19)	4,710,132,546	8,318,343,571	3,608,211,025
Total Net Assets and Liabilities	2,830,763,638	2,830,673,638	90,000

Consequently, the accuracy and validity of the comparative figures as reported could not be confirmed.

### **1304 Inconsistencies Between Financial Statements and Disclosure Notes**

The statement of financial performance reflects an expenditure of Kshs.1,044,205,014 under repairs and maintenance of motor vehicles while the corresponding Note 9 reflects Kshs.432,766,952 for the expenditure. The comparative year's balance of receivables from exchange transactions as disclosed on the statement of financial position is Kshs.18,160,523,581 while Note 18 discloses a balance of Kshs.8,023,085,136.

The financial statements also include a disclosure on cost of sales under Note 22 which does not support the financial statements for the period ended 30 June, 2019. Further, the statement of financial position does not include cost of sales. The reason for deviation from the previous year's format has also not been disclosed.

### **1305 Other Information to the Financial Statements**

#### **1305.1 Chairman's Statement**

According to the 2018/2019 financial year reporting template issued by Public Sector Accounting Standards Board, the Chairman's statement should be included in the annual report and financial statements submitted for audit. However, the financial statements submitted for audit did not include the Chairman's statement. Further, there was no evidence that the financial statements were discussed and adopted by the Board of Directors (Strategic Food Reserve Oversight Board).

## **1305.2 The Board of Directors**

The information on the Board of Directors does not include photographs of two (2) of the directors as required under the revised reporting template. In addition, the data on the Principal Secretary – State Department for Devolution was not revised or updated to reflect the correct information about the current Principal Secretary.

## **1305.3 Statement of Trustees Responsibilities**

Paragraph one (1) of the statement of trustees' responsibilities indicates that the financial statements are prepared in accordance with Section 14 of the State Corporations Act while paragraph three (3) states that preparation of the financial statements conforms to the State Corporations Act. This is misleading because the Fund derives its mandate from the Public Finance Management (Strategic Food Reserve Trust Fund) Regulations, 2015.

## **1305.4 Unresolved Prior Year Audit Matters**

Various matters reported in the prior year under basis for disclaimer of opinion section of the audit report remained unresolved as at 30 June, 2019. The action taken by the Management on the issues was not disclosed under the progress on follow up of auditor's recommendation section of the financial statements as required by the Public Sector Accounting Standards Board (PSASB) since the section was omitted from the financial statements.

## **1306 Expired Agency Agreement**

The Government of Kenya on behalf of Strategic Grain Reserve Fund entered into a contract with the National Cereals and Produce Board (NCPB) for procurement of maize, storage and management of stocks on 19 October, 2016 and the agreement was to remain in force for a duration of 2 years. It was however, noted that a new agreement was not entered into after the previous agreement lapsed. This implies that there was no valid agency agreement between the two entities and they have continued to rely on an unenforceable agreement.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1307** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1308** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## COMMODITIES FUND

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Adverse Opinion

##### **1309 Loans and Related Issues**

##### **1309.1 Variance Between Loans Repaid and Loans Receipted**

The statement of financial position reflects current receivables from exchange transactions-Loans and advances of Kshs.343,020,000 (2018: 829,483,000) and long-term receivables from exchange transactions-Loans and advances of Kshs.423,113,000 (2018: Kshs.7,854,811,000) as disclosed under Note 16(iii) and 16(iv) respectively. However, an analysis of extracts of loan repaid schedules reflects total loan repayments of Kshs.3,410,147,914.29 while the total bank receipts of loan repayments by the farmers amounted to Kshs.2,003,326,274.91, resulting to a difference of Kshs.1,406,821,639.38. The loan movement which is largely attributable to provision for loans and advances during the year amounted to Kshs.9,113,571,000 against total opening loan balance of Kshs.8,684,294,000.

Further, the bank statements did not include unique loan numbers or identifier against repayment receipts. It is not possible to corroborate loan repayments in the system with the loanees' bankings making it difficult for reconciliation to be done.

In the circumstances, it has not been possible to determine the loan and advances issued and repaid on the basis of the provisions made during the year.

##### **1309.2 Long Outstanding Reconciliation Loan Balances**

The statement of financial position reflects current and long-term receivables from exchange transactions-Loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note 16(iii) and 16(iv). An

extract of amount received in the system and the bank receipts reflects unidentified receipts amounting to Kshs.13,463,098.91 which dates back to 2017 when the Management migrated to the new system. However, Management has not investigated what the balances relate to or made recommendations for clearance from the books. No explanation was provided for the non-reconciliation and identification of farmers' loan repayment.

### **1309.3 Freezing of Interest on Loans**

The statement of financial position reflects current and long-term receivables from exchange transactions-Loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note 16(iii) and 16(iv). A review of extracted loans data revealed that the Fund had frozen interest on 62,731 loans with outstanding principal balance of Kshs.261,053,043 and interest balance of Kshs.141,997,009. The Fund does not have proper guidelines or policy to regulate the freezing of interests. The loans included 63 loans on coffee portfolio with a total balance of Kshs.91,451,530 issued during the year, out of which 34 loans with a loan balance of Kshs.59,593,738 had the interests frozen.

### **1309.4 Loans with Outstanding Balances Reflected as Cleared in the System**

The statement of financial position reflects current and long-term receivables from exchange transactions-Loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note 16(iii) and 16(iv).

The above balances excludes the principle loan balance amounting to Kshs.595,062,000 which has been cleared. The above loan balance had accumulated interest of Kshs.2,203,538,506 out of which only Kshs.7,417,810 had been repaid resulting to Kshs.2,196,120,696.52 cleared without supporting documents.

No explanation was provided on how the accumulated interest was cleared and the corresponding repayments.

### **1309.5 Amortization of Loans**

The statement of financial position reflects current and long-term receivables from exchange transactions-Loans and advances of Kshs.343,020,000 and Kshs.423,113,000 respectively and as disclosed under Note 16(iii) and 16(iv). The Fund's credit policy manual provides that for all loans disbursed, repayment would be on a reducing balance method. However, it was observed that the management treated loans differently with some loan balances being amortized contrary to provisions of the credit policy. Approved loans totalling Kshs.1,769,626,283 with balances totalling to Kshs.967,028,087 were amortized using straight line method during the loan period contrary to the credit policy manual.

Under the circumstances, the accuracy and completeness of the account balances of Kshs.343,020,000 reflected in the statement of financial position could not be confirmed.

### **1310 Write-off of Receivables from Non-Exchange**

As disclosed under Note 17 to the financial statements, the statement of financial position reflects a balance of Kshs.45,455,000 under receivables from non-exchange transactions which includes an amount of Kshs.34,753,000 indicated as funds held by intermediaries yet the amount was fully provided for during the year. Examination of records held by the Fund revealed that these loans were disbursed to farmers through intermediaries. However, no details were provided on the specific farmers given the loans by the intermediaries. In addition, it is not clear how the provision was made and how the loans will be collected. Further, management made provision on receivables from non-exchange contracts of Kshs.34,753,000 without any justifiable reason. The validity of the provision could not therefore be confirmed.

### **1311 Misclassification of Expenditure**

As disclosed under Note 9 to the financial statements, the statement of financial performance reflects an amount of Kshs.114,432,000 in respect to employee costs. A review of the account revealed that the above balance which includes travel, accommodation, subsistence and other allowances amounting to Kshs.25,135,049. The above expenses are operational expenses and do not relate to employee costs.

In the circumstances, the employee costs have been overstated by Kshs.25,135,049 while the general expenditure has been reduced by a similar margin.

### **1312 Revenue Shortfall and Unauthorized Expenditure**

The statement of comparison of budget and actual amounts reflects approved receipts budget and actual on comparable basis amount of Kshs.853,753,000 and Kshs.549,870,000, respectively, resulting to shortfall in receipts of Kshs.303,883,000 or 36%. Further, the Fund's approved expenditure budget was Kshs.757,577,000 while the actual expenditure was Kshs.9,372,289,000, resulting to over-expenditure of Kshs.8,614,712,000 or 1137%. There is no evidence that the Management sought for any authorisation to overspend excessively over an above the approved budget.

The underfunding and underperformance affected the planned activities and has impacted negatively on service delivery to the public.

## **Other Matter**

### **1313 Unresolved Prior Year Matters**

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements. However, Management has not resolved the issues or disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board templates and firmed by The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1314 Legal Case by Kibos Sugar & Allied Industries**

The receivables from exchange transactions - loans, advances and interests' balances totaling Kshs.787,183,000 as at 30 June, 2019 includes loan advances amounting to Kshs.133,972,375 advanced to Kibos Sugar & Allied Industries.

It was noted that the Company has never repaid any of the stated loans. Further the Company sued the Commodities Fund and the Agriculture and Food Authority in the High Court of Kisumu vide Petition No. 19 of 2019, in which it denied receiving any money by the Fund. However, the petitioner acknowledged that the loans were instead advanced by the Kenya Sugar Board and not Commodities Fund. It is not clear how the loan will be paid and why the Company resorted to legal action. Further no accrued interest has been made on the amount advanced.

In the circumstances, the Fund may not realise the amount classified as loans.

#### **1315 Irregular Procurement of General Insurance Services**

The provision of general insurance services was procured vide Tender No. COMFUND/T/02/2018/19 dated 12 March, 2019 and thirteen (13) bidders responded. The evaluation was based only on premium and excess on the quoted amount. The lowest bidder as per the evaluation was awarded the contract for a sum of Kshs.861,323.

The criteria set by the procurement unit was that, the evaluation and final ranking of the bid would consider the scope of the cover in relation to the premium which was to have a weight of 70% and excess which was to have a weight of 30%. The cost of items not priced would be assumed to be included in other costing in the proposal. The award was to be made to the lowest evaluated bidder.

The Procurement Act provides for both technical and financial evaluation with regard to such services. It was noted that only financial evaluation was done. It was therefore not possible to ascertain the capability of the winning firm without assessing its technical capability.

In the circumstances, the Management contravened Section 46(4)(a) of the Public Procurement and Asset Disposal Act, 2015.

### **1316 Employee Costs - Staff Establishment Shortfall**

The Fund had forty-four (44) employees against staff establishment of one hundred and fifty-four (54) during the year under review, resulting in a shortfall of staff totalling to one hundred and ten (110) or 71%. The Management had serious challenges of staffing especially in procurement, transport and credit control units.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **1317 Functionality of the Board of Trustee**

The Crops Act, No.13 of 2013, which created the Fund did not adequately expound the mandate of the Fund's Board of Trustees as well as its powers and responsibilities. The Fund is not established as a body corporate having perpetual succession and a common seal and may not, in its corporate name, sue and be sued, which hinders its operations. Consequently, the Fund's Board of Trustees ability to work independently and effectively in the absence of clear laws on its mandate, powers and responsibilities is doubtful.

#### **1318 Weakness of the Internal Controls**

##### **1318.1 Missing Numbers in Loans Issued**

The Fund operated through a Microsoft Navision System in the daily operations. However, examination of records on the loans issued revealed a series of Loan Number (LN)\_00000001 to LN\_00159265. However, it was noted that there were 17,676 gaps in the issuance of the loans which could not be accounted for. The gaps in the loan series were neither invalidated nor cancelled in the system. No documentary evidence was provided to show how the missing gaps in loans issuance arose. The gaps in the system could have led to issuance of some loans and deleting of the same loan amounts without a trail of repayments.

##### **1318.2 Issuance of Multiple Account Numbers to Loan Account Holders**

Examination of the farmers' loans accounts and identification numbers revealed that the Commodities Fund was issuing different account numbers to the same farmer. A sample of forty-seven (47) loans accounts had same identification number but different accounts. No explanation was provided for issuance of different account numbers to the same farmer.

##### **1318.3 Missing Loan Records**

An analysis of the Navision System (Loan Management System) revealed missing loan records totalling 30,027 which might have been deleted from the system



without explanation. These series were system generated and unique for each loan issued. The analysis of these numbers revealed gaps in numbering. In addition, no record was provided to show how much those loan records represented since they were deleted completely from the system. No explanation was provided for the missing loan records which could translate into loss of funds.

In the circumstances there was no audit trail of the number of loans issued to the farmers.

### **1319 Ineffective Debt Recovery**

The statement of financial performance reflects general expenses totalling Kshs.9,197,022,000 and which includes provision for bad debts of Kshs.9,113,574,000 as disclosed under Note 13 to the financial statements. Although the loan balances have been outstanding for a long time, and the provision was made as per the Fund's policy, no meaningful effort appears to have been made towards full recovery of the loan balances.

## **AGRICULTURAL INFORMATION RESOURCE CENTRE REVOLVING FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Adverse Opinion**

### **1320 Compliance with the Public Sector Accounting Standards Board on Presentation**

The International Public Sector Accounting Standards, (IPSAS)<sup>1</sup> requires that, the financial statements disclose all the necessary information that is useful to the user. However, the financial statements submitted for audit lacked a header on all the pages, indicating the name of the entity being audited as required under the guidelines issued by the Board.

Further, the background information on page 2 of Other Information to the financial statements, indicates that the Agricultural Information Resource Centre is a Semi-Autonomous Government Agency created under Legal Notice No.163 of 25 June, 1993 with a Board of Directors to oversee its activities. However, the financial statements submitted for audit were signed by the Principal Secretary and Head of Accounting Unit, State Department for Crop Development instead of the Chairman of the Board of Directors and Board Secretary. There is no evidence that the financial statements were discussed and approved by the Board of Directors since the Statement of Directors' Responsibilities was not signed.

In addition, although the Board of Directors are listed under non-financial information to the financial statements, their passport size photographs and a concise description of each director's date of birth, key qualifications and work experience have not been provided as required under the guidelines issued by the Public Sector Accounting Standards Board.

Consequently, the annual report and the financial statements for the year ended 30 June, 2019 do not comply with the Public Sector Accounting Standards Board.

## **1321 Inaccuracies in the Financial Statements**

### **1321.1 Lack of General Ledger**

Management did not avail a general ledger and the balances in respect of various accounts reflected in the trial balances did not agree with the balances in the financial statements.

As a result, the accuracy of the financial statements could not be ascertained.

### **1321.2 Statement of Financial Performance**

A review of the statement of financial performance reflects revenue from exchange transactions of Kshs.21,017,074. However, examination of the cash book, revealed that revenue totalling Kshs.15,318,724 was collected during the year under review resulting to an unexplained variance of Kshs.5,698,350. Further, only an amount of Kshs.4,270,820 was supported by the official receipt vouchers (F.O 17), leaving the balance of Kshs.16,736,254 unsupported.

Further, the statement reflects general expenses balance of Kshs.2,192,615 while the re-casted amount of the corresponding disclosure under Note 8 to the financial statements is Kshs.3,565,615 resulting to unreconciled variance of Kshs.1,373,000.

Consequently, the accuracy, completeness and validity of the balances reflected in the statement of financial performance for the year ended 30 June, 2019 could not be confirmed.

### **1321.3 Statement of Financial Position**

The statement of financial position reflects a balance of Kshs.2,160,000 under reserves and an accumulated surplus balance of Kshs.8,593,361. However, the statement of changes in net assets reflects, on comparable basis, corresponding balances of Kshs.23,919,175 and Kshs.18,292,508, resulting to variances of Kshs.21,759,175 and Kshs.9,699,147 respectively.

Further, statement of financial position reflects property, plant and equipment net book value of Kshs.1,364,820. As disclosed under Note 13 to the financial statements, the total cost of the property, plant and equipment is indicated as

Kshs.38,347,572 as at 30 June, 2019. The following unreconciled variances were noted between the financial statements and the assets register:

<b>Description</b>	<b>Assets Register Balance (Kshs.)</b>	<b>Statement of Financial Position Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Plant and machinery	18,617,930	12,940,825	5,677,105
Computer & equipment	44,818,280	19,442,287	25,375,993
Furniture & fittings	1,470,460	1,964,460	(494,000)
Motor vehicles	11,200,000	4,000,000	7,200,000
<b>Total</b>	<b>76,106,670</b>	<b>38,347,572</b>	

In addition, the statement of financial position reflects receivables from exchange transactions and current liabilities balances of Kshs.7,850,200 and Kshs.889,569 while the supporting schedules balances amounts to Kshs.3,380,874 and Kshs.886,111 respectively leaving unreconciled variances of Kshs.4,469,321 and Kshs.3,458 respectively not supported.

Consequently, the accuracy, completeness and validity of the balances reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

#### **1321.4 Statement of Changes in Net Assets**

The statement of changes in net assets opening total balance of Kshs.58,377,628 as at 1 July, 2018 carried forward from the previous year was omitted from the total balance of Kshs.42,211,683 as at 30 June, 2019. No explanation was provided for the omission. Further, the statement includes depreciation reserves of Kshs.17,028,930.01 and transfers to the accumulated surplus totalling to Kshs.20,721,939. However, the balances were not supported.

Under the circumstances, the accuracy and completeness of the balances reflected in the statement of changes in net assets as at 30 June, 2019 could not be ascertained.

#### **1321.5 Statement of Cash Flows**

The statement of cash flows reflects, under cash flows from investing activities nil amounts in respect of increase in debtors and creditors balances. However, the opening balance of current debtors' balance of Kshs.10,505,140 decreased by Kshs.2,654,964 to Kshs.7,850,200 while current liabilities balance of Kshs.1,025,146 decreased by Kshs.135,577 to Kshs.889,569 reported as at 30 June, 2019.

Further, cash flows from financing activities included an amount of Kshs.5,939,700 in respect of decrease in government grants which was not supported.

Consequently, the accuracy and completeness of balances reflected in the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

## **Other Matter**

### **1322 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.41,400,000 and Kshs.27,672,728 respectively resulting to an under-funding of Kshs.13,727,272 or 33% of the budget. Similarly, the Fund expended Kshs.22,548,410 against an approved budget of Kshs.30,604,000 resulting to an under-expenditure of Kshs.8,055,590 or 26% of the budget. The underfunding and underperformance affected the planned activities and impacted negatively on service delivery to the public.

A comparison of the approved annual recurrent expenditure estimates for the Centre under the State Department for Crop Development was Kshs.56,920,314. The variance between the two (2) records was not reconciled or explained.

### **1323 Prior Year Matters**

In the audit report of the previous year, several issues were raised in the Auditor-General's report. However, the Management has not disclosed the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1324** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1325** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# STATE DEPARTMENT FOR FISHERIES, AQUACULTURE AND THE BLUE ECONOMY-VOTE 1166

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1326 Financial Statements Inaccuracies

##### 1326.1 Cash and Cash Equivalent

The statement of assets and liabilities reflects cash and cash equivalents balances of Kshs.62,171,105 made up of bank balances of Kshs.61,868,827 held in four (4) bank accounts and cash in hand balances of Kshs.302,278 as shown under Note 9A and 9B to the financial statements. However, the revised IFMIS trial balance reflects credit balances for recurrent, development and deposit bank accounts of Kshs.264,641,258, Kshs.634,330,805 and Kshs.89,130,208 respectively. Further, the Central Bank of Kenya Account No. 30861002 reflects an amount of Kshs.28,957,192 while the same has not been reflected in the IFMIS trial balance. In addition, cash in hand balance of Kshs.302,278 differ with the IFMIS trial balance figure of Kshs.1,637,691,980 by an amount of Kshs.1,637,389,702 as summarized below;

<b>Account</b>	<b>Revised Financial Statements (Kshs.)</b>	<b>Revised IFMIS Trial Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Recurrent Bank Balance	61,801	(264,579,457)	264,641,258
Development Bank Balance	942,373	(634,330,805)	635,273,178
Deposit Bank Balance	31,907,461	(89,130,208)	121,037,669
Central Bank of Kenya Account No.30861002	28,957,192	0	28,957,192
<b>Total Bank Balances</b>	<b>61,868,827</b>		
Cash in hand	302,278	(1,637,691,980)	1,637,389,702

The variances have not been reconciled casting doubt on the accuracy and completeness of cash and cash equivalents balance of Kshs.62,171,105 as at 30 June, 2019.

##### 1326.2 Other Inaccuracies between the Financial Statements and the Trial Balance

Further comparison between the financial statements and the supporting trial balance revealed variances of Kshs.615,399,024 which were not explained or reconciled as analysed below; -

<b>Details</b>	<b>Financial Statements (Kshs.)</b>	<b>IFMIS Trial Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
System Required Liabilities	0	(8,029,677)	8,029,677
Cash Clearing Account	0	(607,369,347)	607,369,347
<b>Total Variance</b>	0	<b>(615,399,024)</b>	<b>615,399,024</b>

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019, could not be confirmed.

### **1327 Unsupported expenditure**

The statement of receipts and payments reflects an amount of Kshs.641,394,950 under use of goods and services. As disclosed under Note 4 to the financial statements, the amount includes Kshs.11,295,260 relating to rentals of produced assets. The expenditure of Kshs.11,295,260 relates to the amount paid for office space at 13<sup>th</sup> Floor of the National Hospital Insurance Fund (NHIF) Building for the Kenya Fisheries Service (KFS) for the financial year 2018/2019 and the last two (2) quarters of the financial year 2017/2018.

However, out of the total expenditure of Kshs.11,295,260, only an amount of Kshs.4,428,147 relating to the occupancy period for two (2) quarters effective from 01 February to 30 April, 2018 and 01 May to 31 July, 2018 were supported with documentary evidence of cash book entries and payment vouchers maintained by the State Department. The remaining amount of Kshs.6,867,113, though traceable from the IFMIS records was not supported with documentary evidence such as payment vouchers.

An audit verification exercise carried out on 25 November, 2019 revealed that the office space remained unoccupied for twenty-one (21) months from 01 February, 2018 to date and only the boardroom was found to be in use. Although the State Department has explained that the payment was made to reserve the office space and delay in occupancy was occasioned by unavailability of budget to procure furniture, this explanation is not satisfactory in regard to the time and expenditure incurred. This contravenes Regulation 43(d) of Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to manage, control and ensure that policies are carried out efficiently and wastage of public funds is eliminated.

Consequently, the propriety of the expenditure of Kshs.11,295,260 incurred on rentals of produced assets. could not be ascertained.

### **Other Matter**

#### **1328 Pending Accounts Payable**

As disclosed in Note 15.1 to the financial statements the State Department had pending bills totalling Kshs.266,319,936 as at 30 June, 2019 which were not settled

during the year under review but instead were carried forward to 2019/2020 financial year. Had these bills been settled and the expenditure charged to the relevant items of account for 2018/2019, the statement of receipts and payments for the year ended 30 June, 2019 would have reflected a deficit of Kshs.241,404,953 instead of the surplus of Kshs.24,914,983 now shown.

### **1329 Budget Control and Performance**

During the year under review, the State Department had actual receipts totaling to Kshs.1,363,336,563 against estimated receipts of Kshs. Kshs.2,270,260,146 resulting in a shortfall of Kshs. 906,923,583 or 40%. Further, actual expenditure for the year amounted to Kshs.1,338,421,580 against a budget of Kshs.2,200,260,146 resulting in an under expenditure of Kshs.861,838,566 or 39%. Management has attributed the under collection, mainly under proceeds from foreign borrowings, to delay in submission of payment certificate by the project consultants while the underutilization was caused by delay in uploading development budget to the Integrated Financial Management System (IFMIS). The State Department may have failed to achieve its planned development and operational objectives impacting negatively on service delivery to the citizens of Kenya.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1330 Procurement of Goods from Unqualified Firms**

The statement of receipts and payments reflects an amount of Kshs.641,394,950 under use of goods and services, which includes expenditure relating to routine maintenance services of other assets of Kshs.4,593,482 and specialized materials and services of Kshs.85,445,298 as disclosed in Note 4 to the financial statements. An examination of payment records at the Mombasa Office revealed that a firm was paid Kshs.276,312 for maintenance services that involved fixing of floor tiles and repair of a submersible pump. The firm presented a Tax Compliance Certificate (TCC) number KRANER8309392017 dated 20 September, 2017 whose expiry period was indicated as 22 June, 2019. However, a verification from the KRA website TCC checker shows that the certificate had expired on 19 September, 2018, implying that the compliance certificate was a forgery.

In addition, procurement and payment records show that another firm was issued with a local purchase order number 2466456 dated 29 March, 2019 and paid Kshs.1,130,000 for supply of fishing gears at the Mombasa Office. However, the firm provided an invalid TCC number KRAMSN5900842017 which had expired on 06 April, 2018. These procurements, therefore, contravened Section 55(1)(f) of the Public Procurement and Asset Disposal Act, 2015.

### **1331 Failure to Observe Two Third (2/3) Basic Salary Rule**

The statement of receipts and payments reflects an amount of Kshs.266,783,423 under compensation of employees. As disclosed under Note 3 to the financial statements, the amount includes Kshs.160,955,966 relating to basic salaries for permanent employees. An examination of the payroll from July, 2018 to June, 2019 of the State Department revealed that fourteen (14) officers were paid net salary totalling Kshs.424,512 while a third (1/3) of their basic salary was totalling Kshs.526,073, resulting in an over deduction of Kshs.101,561. The net salaries were, therefore, less than a third (1/3) of their basic salary contrary to Section C.1(3) of the Public Service Commission - Human Resource Policies and Procedure Manual.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**1332** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **REVENUE STATEMENTS - STATE DEPARTMENT FOR FISHERIES, AQUACULTURE AND THE BLUE ECONOMY**

#### **REPORT ON THE REVENUE STATEMENTS**

##### **Unqualified Opinion**

**1333** There were no material issues noted during the audit of the revenue statements of the State Department.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**1334** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**1335** There were no material issues relating to effectiveness of internal controls, risk management and governance.



## **DONOR FUNDED PROJECT**

### **KENYA MARINE FISHERIES AND SOCIO-ECONOMIC DEVELOPMENT PROJECT (IDA CREDIT NO. V1310-KE)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**1336** There were no material issues noted during the audit of the financial statements of the Project.

##### **Emphasis of Matter**

##### **1337 Receipts through the Special Account**

The statement of receipts and payments for the year ended 30 June, 2019 reflects proceeds from domestic and foreign grants which include Kshs.50,988,970 paid to the Project through the special account controlled by the entity. However, the special account statement shows withdrawals and disbursements to the Project during the year totalled Kshs.30,387,623. The difference amounting to Kshs.20,151,347 between the two (2) sets of records has not been explained.

My opinion is not modified in respect of this matters.

##### **Other Matter**

##### **1338 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.152,795,960 against a budget of Kshs.180,988,970 resulting to underfunding of Kshs.28,193,010 or 16%. However, the Project spent an amount of Kshs.123,838,769 against the approved budget of Kshs.169,999,296 resulting to an under expenditure of Kshs.46,160,527 or 72% of the budget. The Management has attributed the under expenditure to delay in the submission of payment certificate by consultants, delayed Exchequer releases and slow procurement process.

In the circumstances, the citizens have not received the services as planned.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**1339** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1340** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **STATE DEPARTMENT FOR IRRIGATION-VOTE 1167**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1341 Unaccounted for Proceeds from Sales of Assets**

The statement of receipts and payments reflects an amount of Kshs.365,938,792 against proceeds from sale of assets which, as disclosed in Note 4 to the financial statements relates to receipts from sale of certified seeds and breeding stock by the National Irrigation Board. However, the financial statements of the National Irrigation Board reflect related sales of Kshs.221,943,021 during the year, resulting in a variance of Kshs.143,995,771, which has not been reconciled or explained. Further, the breakdown of the proceeds as per individual ledger transactions has not been provided to support the receipts.

Under the circumstances, the accuracy and completeness of the proceeds from sales of assets amounting to Kshs.365,938,792 cannot be confirmed.

#### **1342 Unreconciled Transfers to Other Government Units**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflect an amount of Kshs.6,826,614,028 under transfers to other government units. The amount relates to funds transferred to the National Irrigation Board out of which Kshs.5,510,537,964 relates to a disbursed development grant. The development grant amount differs with the amount reflected in the financial statements of the National Irrigation Board of Kshs.5,770,665,379, resulting in an unreconciled variance of Kshs.260,127,415.

In the circumstances, the accuracy of the transfers to other government units of Kshs.6,826,614,028 could not be confirmed.

#### **1343 Unaccounted for Fuel**

The statement of receipts and payments reflects an amount of Kshs.81,884,076 under use of goods and services, and as disclosed in Note 6 to the financial statements, the amount includes an amount of Kshs.4,733,650 incurred on fuel oil and lubricants. Examination of the expenditure incurred on petrol, diesel, oil and lubricants revealed that expenditure amounting to Kshs.3,269,254 was not supported by documents and records to show how the fuel was consumed.

Under the circumstances, the completeness and accuracy of the expenditure of Kshs.4,733,650 incurred on petrol, diesel, oil and lubricants cannot be confirmed.

### 1344 Unauthorized Reallocation of Expenses

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.1,177,456,537 under acquisition of assets. Included in the expenditure is an amount of Kshs.9,035,914 relating to domestic travel. No approval was sought for the reallocation of funds, and no explanation was given for posting domestic travel expenditure to acquisition of assets.

Under the circumstances, the expenditure on acquisition of assets is not correctly stated.

### 1345 Inaccurate Cash and Cash Equivalents

The statement of assets and liabilities reflects a balance of Kshs.166,789,222 as cash and cash equivalents as at 30 June, 2019. Examination of bank reconciliation statements and the cash books revealed cash and cash equivalents of Kshs.178,242,758 as that date as detailed below:

<b>Bank Account</b>	<b>Cashbook (Kshs.)</b>	<b>Financial Statements (Kshs.)</b>	<b>Variance (Kshs.)</b>
Recurrent - 1000384115	1,835,053	1,487,823	347,230
Development - 1000384123	15,484,942	10,575,854	4,909,088
Deposits - 1000384131	160,922,763	154,725,545	6,197,218
<b>Total</b>	<b>178,242,758</b>	<b>166,789,222</b>	<b>11,453,536</b>

The resulting variance of Kshs.11,453,536 has not been reconciled or explained. In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.166,789,222 as at 30 June, 2019 cannot be confirmed.

### 1346 Unsupported Accounts Payables

Disclosed in Note 11 and 15.2 to the financial statements is pending accounts payables amounting to Kshs.154,725,545 as at 30 June, 2019 due to third parties. However, Management has not availed a detailed analysis of this balance and an Annex 3 referred to in Notes 15.2. to the financial statements in support of these payables, have not been attached to these financial statements. In addition, a prior year pending accounts payables balance of Kshs.85,535,580 has not been supported by any documentary evidence. Further, the State Department did not maintain individual creditors ledger on pending accounts payables during the year under review, making it difficult to perform age analysis of these payables.

As a result, the completeness and accuracy of the pending accounts payables balance of Kshs.154,725,545 as at 30 June, 2019 cannot be ascertained.

## **Other Matter**

### **1347 Pending Bills**

As disclosed under Note 15.1 to the financial statements, the State Department for Irrigation had pending bills totalling Kshs.14,399,818 as at 30 June, 2019 that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to, adversely affects the provisions of the subsequent year to which they have to be charged.

### **1348 Lack of Payee Details on IFMIS Report**

The statement of receipts and payments reflects total expenditure of Kshs.8,296,013,796 for the year ended 30 June, 2019. However, the IFMIS general ledger report on expenditure item lacked details of payees against the payments. Under the circumstances, the payments cannot be posted in the cash book and confirmed in the bank statement for lack of payee details.

### **1349 Wasteful Expenditure**

As reported in the previous year's report, the state department incurred expenditure of Kshs.26,915,000 comprising of procurement of branded caps and tops, polo shirts, men's shirts and corporate uniform on the aborted launching of the Thwake Multi-Purpose Development Project. The Project was to be launched in 2017/2018 financial year, but to date, it has not been launched. A visit to the stores in December, 2018 revealed that the procured items were still lying in the store and had not been issued. The expenditure of Kshs.26,915,000 is, therefore, wasteful and could have been avoided.

### **1350 Failure to Maintain a Complete Assets Register**

Disclosed under Annex 4 to the financial statements is a summary of fixed assets register which shows that the State Department had assets with a historical cost of Kshs.7,395,922,890 as at 30 June, 2019. However, the opening balance of the assets figure of Kshs.6,218,466,353 differs with the last year's closing balance of Kshs.6,221,276,816 by Kshs.2,810,463. In addition, a review of addition of assets during the year revealed that additions amounting to Kshs.216,779,247 were omitted from the summary of fixed assets.

Further, a review of the assets register provided for audit verification revealed that the register had not been fully updated with details such as the nature of the asset, acquisition date, cost, serial/title number, location, additions and disposals during the year. The register besides being incomplete is not secure in that it is maintained in an excel sheet which is prone to manipulation.

As a result, the accuracy, completeness and valuation of the fixed assets schedule cannot be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **1351 Projects Management**

##### **1351.1 Non-Payment, Stalled and Terminated Water Pans/Small Dams – Water Projects Under National Water Harvesting and Ground Water Exploitation Programme**

The Projects status report as at 30 June, 2019 indicates that in the year 2016/2017, the Management awarded tenders for construction of water pans/small dams in various counties through an open tender. Included in the status report are thirty-six (36) complete projects with a contract sum of Kshs.510,487,758 out of which payments of Kshs.159,513,151 have been made to date, resulting in unpaid certified works of Kshs.350,974,607. No satisfactory explanation has been provided for failure to pay the outstanding amount yet there were budgetary provisions for the same. In addition, eight (8) projects with a contract sum of Kshs.78,809,649 were terminated and no action has been taken to re-advertise and give the works to new contractors.

Consequently, stakeholders may not get value for their resources and public funds may go to waste if these projects are not completed and put to their intended use.

##### **1351.2 Stalled Project - Construction of Lekasuyuni Water Pan in Laikipia North, Laikipia County**

A contract was awarded for the construction of Lekasuyuni Water Pan in Laikipia North, under the National Water Harvesting and Ground Water Exploitation Program at a contract sum of Kshs.12,539,395 in the financial year 2016/17. Records available indicate that construction of the dam which has a design capacity of 20,320 cubic meters was stopped by the National Youth Service (NYS) due to conflict over ownership of the land between the NYS and the community after 80% of the reservoir had been excavated. It is not clear how the project was designed; a contract signed and works commenced up to 80% completion without establishment of land ownership.

Further, a review of payment voucher No.1284 of 30/6/2019 showed that the contractor was paid an amount of Kshs.6,327,840, representing about 50% of the contract sum. The amount paid was explained by the Management to have been arrived at based on the signed reports of the inspection and acceptance team that inspected the site in March, 2018. However, no inspection reports and certified works certificate were provided to support the payment. Consequently, the propriety of the expenditure of Kshs.6,327,840 cannot be confirmed.

### **1351.3 Non-Payment, Stalled and Dry Boreholes - Water Projects for Schools and Micro Irrigation Projects**

The projects status report as at 30 June, 2019 indicates that the Management awarded tenders for construction of boreholes in various counties in the year 2016/2017 through open tender for National Water Harvesting and Ground Water Exploitation Program Water for Schools and Micro Irrigation Projects. Included in the report are fourteen (14) complete projects with a contract sum of Kshs.101,358,768 out of which payments totalling Kshs.45,446,171 have been made to date resulting in unpaid certified works of Kshs.55,912,597. No satisfactory explanation has been provided for failure to pay the outstanding amount yet there were budgetary provisions for the same.

Further, a review of the status report shows forty-four (44) stalled projects with a combined contract sum of Kshs.342,115,980 out of which payments totalling Kshs.16,722,487 have been made to date. No explanation has been given on when these projects will be completed and put to use. Management has not levied liquidation damages on the contractors for delay in completion of these projects.

In the circumstance, stakeholders may not get value for their resources and public funds may go to waste if these projects are not completed and put to their intended use.

### **1351.4 Unsupported Expenses on Drilling and Equipping of Boreholes and Construction of 20,000 Litres Elevated Steel Water Tanks in Schools**

**1351.4.1** Examination of the project payment records on various dates revealed that contractors for the above works were paid amounts totalling Kshs.5,281,200 in respect of preliminary bills which were not supported with verifiable documents.

Consequently, the validity and propriety of the expenditure totalling Kshs.5,281,200 cannot be confirmed.

**1351.4.2** The State Department awarded a contract for the drilling and equipping of a borehole and construction of a 20,000 litres elevated steel water tank at Olashapani Primary School in Narok South Constituency at a contract sum of Kshs.7,443,450. During the year under review, Kshs.2,519,950 was paid vide payment voucher No.1217 dated 30 June, 2019. Available records in support of the above payment indicate that, the contractor drilled up to a depth of 276 meters where the borehole was found to be of low yield and the water was highly mineralized. The borehole was capped and the contractor was to be given a new site. The contractor requested payment for cost of mobilization/demobilization, statutory requirements and the drilling of 276 meters. The certified works at the time of stoppage according to Certificate No.1 issued by the resident engineer was Kshs.2,267,955.

Its however not clear why the State Department increased the payment to Kshs.2,519,950 resulting in an unexplained variance of Kshs.251,995.

**1351.4.3** Examination of the contract records for the drilling and equipping of borehole and construction of elevated steel water tanks at Rugakori Primary School in Gachoka Constituency revealed that, the contractor under Item 4.4 of the Bills of Quantities (BQs) was to supply, deliver to the site, and mount on the tower platform centre a 20m<sup>3</sup> capacity high quality strong external flanged fabricated steel panel tank, complete with fittings at a cost of Kshs.850,000. However, a plastic water tank of 10,000 Litres at a price of Kshs.500,000 was delivered instead. No supporting documentations for the variations of works were availed for audit review.

**1351.4.4** The Contract for the drilling and equipping of borehole and construction of elevated steel water tanks in Lenana School, Dagoreti South Constituency was awarded to a company on 9 March, 2017 at a contract sum of Kshs.6,953,940 inclusive of tax. The contract was signed on 21 April, 2017 and the site was handed over to the contractor on 10 July, 2017 for commencement of works. However, a status report on the project as at 30 June, 2019 was not availed for audit review.

### **1351.5 Construction Works at Lenana Model Golf Course and Installation of Irrigation System**

A contract for construction of Lenana Model Golf Course and Installation of an irrigation system was signed on 30 May, 2018 at a contract sum of Kshs.14,974,541. Examination of payment voucher No.1269 dated 30 June, 2019 revealed payment amounting to Kshs.6,213,421 for installation of irrigation system under community-based irrigation programme. No certificate or invoice from the company to confirm the amount paid was attached to the payment voucher. It is, therefore, not clear what formed the basis for the paid amount. Further, Local Service Order (LSO) supporting the payment was generated from IFMIS and signed on 1 July, 2019 after the end of 2018/2019 financial year.

Consequently, the validity and propriety of the expenditure amounting to Kshs.6,213,421 cannot be confirmed.

### **1351.6 Jilia Earth Dam Ganze, Kilifi County**

The Contract for construction of Jilia Earth Dam was awarded to a contractor at a contract sum of Kshs.27,043,863 under the National Water Harvesting and Ground Water Exploitation Programme. Information available indicates that the inspection and acceptance committee had recommended that the contractor be paid Kshs.22,824,917 contrary to an approved payment certificates of Kshs.17,802,330.

No explanation has been provided for the variation of Kshs.5,022,587 between the inspection report and the payment certificates. In addition, Management did not deduct retention money from the certified works.



Further, an amount of Kshs.1,970,000 was paid for preliminaries and general items. However, no supporting documents were provided for the same.

## **1352 Procurement Management**

### **1352.1 Unsupported Procurement of Goods**

Examination of payment records during the year under review indicates that goods worth Kshs.6,556,350 were procured through request for quotations by the State Department. However, the Management has not availed for audit review, original quotation forms, approved budget for the purchase of the items, user departments/sections requisition forms and evaluation reports.

In the circumstances, it was not possible to determine if the procurement of these items was done in accordance to provisions of the Public Procurement and Asset Disposal Act, 2015 and its regulations.

### **1352.2 Procurement Without User Request**

A firm was paid a sum of Kshs.1,990,000 for supply of 10,000 file folders at a unit cost of Kshs.199. No documentary evidence was provided to show that the user department had requested for the folders. The stores department also did not document the optimal stock, re-order levels, minimum and maximum stock to hold.

### **1352.3 Irregular Award of Contract for Conference Facility**

The State Department sourced for a conference facility to hold a team building activity for the senior officers and the procurement department through request for quotations method. The contract was awarded to the highest bidder at a cost of Kshs.1,352,500 yet the lowest bidder was Kshs.787,500 without any justifiable reason. Further, the firm was paid Kshs.1,462,500 instead of Kshs.1,352,500, resulting in unexplained overpayment of Kshs.110,000.

### **1352.4 Irregular Procurement of Air Tickets**

On 30 May, 2019, a firm was paid an amount of Kshs.772,360 for air tickets for officers who had travelled to Zambia to attend a conference. Although, the tickets were procured through request for quotation method, the quotations from the firms were not stamped to authenticate their validity. Further, Management has not explained why the contract was awarded to the second lowest bidder with a quote of Kshs.722,360 instead of the lowest bidder who had quoted Kshs.620,920 resulting in a difference of Kshs.101,440.

In addition, a firm was paid Kshs.1,132,930 during the year under review for air-tickets for officers who travelled to Istanbul Turkey to attend Turkey-Africa Economic and Business Forum. However, the payment voucher was not supported by relevant documentary evidence making it difficult to confirm whether the expenditure is a proper charge to public funds.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1353 Non-Functional Audit Committee**

The State Department constituted an audit committee during the year under review. However, the committee did not convene or hold regular meetings during the year contrary to the requirements under Regulation 179 of the Public Finance Management (National Government) Regulations, 2015 which requires an audit committee to meet at least once in every three (3) months.

Management is therefore in breach of regulation.

## **STATE DEPARTMENT FOR AGRICULTURAL RESEARCH-VOTE 1168**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1354** There were no material issues noted during the audit of the financial statements of the State Department.

#### **Other Matter**

##### **1355 Pending Bills**

Note 11.1. to the financial statements reflects pending bills amounting to Kshs.14,101,280 as at 30 June, 2019. Subsequent to the year end, bills totalling Kshs.7,271,280 were settled, leaving an outstanding balance of Kshs.6,830,000. Had the pending bills of Kshs.14,101,280 been charged to the account and paid during the year under review, the State Department would have realized a deficit of Kshs.14,051,675 in its statement of receipts and payments instead of the surplus indicated of Kshs.49,605.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1356** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

##### **1357 Non-Functional Audit Committee**

The State Department for Agricultural Research constituted an audit committee during the year under review. However, the committee did not convene any meetings during the year, contrary to Regulation 179 of the Public Finance Management (National Government) Regulations, 2015 which requires an audit committee to meet at least once in every three months.

## **DONOR FUNDED PROJECT**

### **STRENGTHENING FERTILIZER QUALITY AND REGULATORY STANDARDS IN KENYA PROJECT**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**1358** There were no material issues noted during the audit of the financial statements of the Project.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Basis for Conclusion**

##### **1359 Project Completion Status**

According to the financing agreement dated 23 July, 2014, (Schedule II - Conditions of the Grant Agreement) the Project ought to have been concluded by 30 June, 2017. The grant period was however extended through a letter from AGRA dated 19 February, 2018, for a period of six (6) months effective from January to June, 2018, after which the unspent fund balance was to be refunded to AGRA. However, the Management did not carry out or execute any activity during the extension period granted despite the availability of funds amounting to Kshs.7,315,322.

Further, the Project has ceased operations and has not been active for over a year while the handing over of the Project and its assets to the parent Ministry of Agriculture, Livestock, Fisheries and Irrigation – State Department for Agricultural Research has not been done. In addition, the closing balance of Kshs.7,315,322 has not been surrendered to AGRA contrary to Clause 7 of the Financing Agreement which states that, “any unused grant funds not spent or committed for purposes of the Project must be promptly returned to the donor at the end of the grant period”.

In the circumstances, the Management was in breach of the Financing Agreement.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**1360** There were no material issues relating to effectiveness of internal controls, risk management and governance

## **STATE DEPARTMENT FOR CO-OPERATIVES-VOTE 1173**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1361** There were no material issues noted during the audit of the financial statements of the State Department.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1362** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1363** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **STATE DEPARTMENT FOR TRADE-VOTE 1174**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1364 Cash and Cash Equivalents**

The statement of assets and liabilities reflects bank balances of Kshs.22,632,381. However, examination of the State Department's cashbooks, bank statements and bank reconciliation statements for the month of June, 2019, revealed the following anomalies:

##### **1364.1 Receipts in Bank Statements not in Cashbook**

The bank reconciliation statements for the recurrent and deposits bank accounts reflected receipts in the bank but not recorded in the cashbooks totalling Kshs.1,183,840 as at 30 June, 2019. Although the Management has explained that receipts totalling Kshs.1,169,303 have now been updated in the cash books, the recurrent and deposit cash books have not been provided to confirm the postings.

##### **1364.2 Receipts in Cash Book not in Bank Statements**

The bank reconciliation statements for the recurrent, development and deposits bank accounts for the month of June, 2019 reflect receipts in cash books but not in the bank statements totalling Kshs.272,057,297 some dating back to the year 2016. Although the Management explained that receipts totalling Kshs.261,944,309 were cleared in the month of July, 2019, the bank reconciliation statements for the recurrent, development and deposit accounts for the month of July, 2019 were not provided to confirm the clearance. Further, no explanation has been provided for failure to clear the remaining outstanding balance of Kshs.10,052,158.

##### **1364.3 Payment in Bank Statements not in Cash Book**

The bank reconciliation statements for the recurrent and development accounts reflect payments in bank statements not in cashbook totalling to Kshs.37,887,574 some of which have remained outstanding since 2016. Although the Management explained that payments totalling Kshs.27,835,416 had since been cleared, the recurrent and development cash books and respective bank reconciliation statements for the periods the amounts were cleared have not been provided for audit verification. Further, no explanation has been provided for failure to clear the remaining outstanding balance of Kshs.10,112,988.

#### **1364.4 Payment in Cash Book not in Bank Statements**

The bank reconciliation statements for the recurrent, development and deposits bank accounts reflected payments in cashbook not in bank totalling Kshs.307,776,819 out of which payments totalling, Kshs.40,027,065 had remained unrepresented in the bank for over six (6) months and hence stale. Although the Management explained that Kshs.230,470,194 of the payments were cleared as per the February, 2020 bank reconciliation statement, it is not clear how stale cheques amounting to Kshs.40,027,065 were cleared yet they had not been reversed in cash books.

Consequently, it has not been possible to confirm that the bank balances figure of Kshs.22,632,381 as reflected in the statement of assets and liabilities is fairly stated.

#### **1365 Unsupported Adjustments on Acquisition of Assets**

The statement of receipts and payments reflected a figure of Kshs.50,885,399 for acquisition of assets. However, supporting documents and journal entries in support of adjustment of the figure by Kshs.24,507,436 from the Kshs.75,392,835 reported in the first set of financial statements submitted for audit were not provided.

Under the circumstances, the accuracy of acquisition of assets balance of Kshs.50,885,399 could not be confirmed.

#### **1366 Unsupported Communication, Supplies and Services Expenditure**

The statement of receipts and payments reflects expenditure on use of goods and services amounting to Kshs.595,243,227. Included in this amount as disclosed in Note 5 to the financial statements is Kshs.16,679,574 in respect of communication, supplies and services whose analysis or breakdown and supporting documentation was not provided for audit review.

Consequently, the accuracy and completeness of communication, supplies and service balance of Kshs.16,679,574 could not be confirmed.

#### **1367 Non-Compliance with Reporting Template**

The financial statements presented for audit did not comply with the annual reports and financial statements reporting template prescribed by the Public Sector Accounting Standards Board (PSASB). The following prior year issues are not disclosed in the progress on follow up of auditor recommendations.

- i) Unsupported scholarship and other educational benefits expenditure of Kshs.28,040,000.

- ii) Variations between balances reflected in the financial statements, the Trial Balance and Information Financial Management System (IFMIS) figures.

In the circumstances, the financial statements do not comply with International Public Sector Accounting Standards -1 on presentation of financial statements.

## **Other Matter**

### **1368 Pending Bills**

Note 16.1 to the financial statements reflects pending bills totalling Kshs.36,500,026 which were not settled during the year under review but were instead carried forward to 2019/20. Management has cited liquidity problems due to inadequate Exchequer releases as the main reason for non-payment of the pending bills. Failure to settle bills in the year in which they relate adversely affects the implementation of the subsequent year's budgeted programmes as the pending bills form a first charge to that year's budget provision.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1369 Delayed Completion of Contract - Kenya Institute of Business Training (KIBT)**

The State Department for Trade engaged a contractor for the proposed partitioning of offices for Kenya Institute of Business Training (KIBT) at Parklands Complex at a contract sum of Kshs.146,600,150. The six (6) months' contract period commenced on 17 September, 2018 and the expected completion date was 17 March, 2019.

An examination of the project file revealed that the contractor sought and obtained several contract completion period extensions from 17 March, 2019 to 17 May, 2019, then to 30 June, 2019 and 24 September, 2019. However, audit inspection of the Project carried out in October, 2019 revealed that the contractor was still on site carrying out partitioning works at the fourth floor of the complex. Similarly, partitioning works on ground and first floors were yet to commence. It is imperative to note that despite the several revisions of the completion dates, the contractor had not delivered at the expected time. This is a clear indication of weak contract administration which can lead to substantial losses to the Department in the event the Project stalls.

Failure to discharge the contract fully in time as agreed in the contract contravenes the agreement terms and this may leave the Department exposed and at the convenience of the contractor.



Further, an audit inspection carried out on 31 October, 2019 revealed that the underground room (basement two) was flooded. The water in the lower basement was almost overflowing to the upper basement floor while the lower basement floor and walls appeared to have cracks which allowed water to the underground rooms. In addition, there were roof leakages at the amphitheater section of the building which had not been repaired as at the time of the inspection. The cause of the flooding was not explained neither did Management explain the measures put in place to ensure that the building is safeguarded against water and moisture leakage to the underground floors.

Consequently, the Department may not have achieved the set performance targets and benefited from the use of the building, thus affecting service delivery.

### **1370 Unaccounted for Authorities to Incur Expenditure (AIEs) to Foreign Missions**

The statement of assets and liabilities reflects accounts receivable balance of Kshs.23,541,573 which as disclosed under Note 11 to the financial statements included Kshs.23,276,010 being AIEs sent to foreign missions not accounted for or surrendered by the AIE holders as at 30 June, 2019. Evidence of communication on the unutilized balances from the AIE holders to the accounting officer as required under Section 117(1) of Public Finance Management (National Government) Regulations, 2015 was not provided. In addition, the funds were not surrendered to The National Treasury for re-voting as required under Section 117(2) of Public Finance Management (National Government) Regulations, 2015.

In the circumstance, the regularity of the unaccounted for AIEs held by foreign missions could not be confirmed.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1371** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# STATE DEPARTMENT FOR INDUSTRIALIZATION-VOTE 1175

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1372 Unreconciled Cash and Bank Balances

The statement of assets and liabilities as at 30 June, 2019 reflects bank balances amounting to Kshs.39,774,514 for four (4) bank accounts maintained by the State Department and Kshs.135,503 cash in hand as shown under Note 9A and 9B to the financial statements respectively. However, the balances differed with the figures in the revised trial balance as summarized below;

Account	Financial Statements (Kshs.)	IFMIS Trial Balance (Kshs.)	Variance (Kshs.)
Recurrent Bank Balance	17,615,086	(45,112,504)	(62,727,590)
Development Bank Balance	13,600,000	305,608,814	292,008,814
Deposit Bank Balance	7,436,572	(23,459,479)	(30,896,051)
Cash in hand	135,503	178,911,327	178,775,824

Management has not explained or reconciled the variances casting doubt on the accuracy of the cash and cash equivalents balance of Kshs.39,910,016 as at 30 June, 2019.

### Other Matter

#### 1373 Pending Bills

Note 15.1 to the financial statements reflects pending bills amounting to Kshs.6,146,291 that were not settled in the year under review but were carried forward to 2019/2020 financial year. Failure to settle bills in the year to which they relate will adversely affect the implementation of the subsequent year's budgeted programmes as the pending bills form a first charge to that year's budget provision.

#### 1374 Budget Control and Performance

As reflected in the summary statement of appropriation - recurrent and development combined, the State Department for Industrialization had a budgeted revenue of Kshs.6,620,013,830 but received Kshs.5,663,574,763 resulting to under collection of Kshs.956,439,067 or 14%. Further, the State Department projected to spend the budgeted revenue of Kshs.6,620,013,830 on various budget lines but actually incurred expenditure totalling to Kshs.5,613,944,851 resulting to an overall budget under absorption of Kshs.1,006,068,979 or 15%.

In the circumstances, the State Department may not have implemented all its planned activities creating a negative impact on service delivery to the public.

## **1375 Unresolved Prior Year Matter**

### **1375.1 Transfer to Other Government Units and Other Grants and Transfers**

As previously reported, the statement of receipts and payments for the year ended 30 June, 2018 indicated that the State Department transferred Kshs.3,838,242,202 to other Government units and paid other grants and transfers amounting to Kshs.140,771,700, all totalling to Kshs.3,979,013,902. However, details extracted from the financial statements for the same period of the respective Government units and entities reflected grants received from the State Department totalling Kshs.3,857,791,878 resulting into an unexplained and unreconciled variance of Kshs.121,222,024.

In the absence of reconciliations, it has not been possible to confirm the accuracy of the figure for transfers to other Government units and other grants and transfers as at 30 June, 2018.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1376** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1377** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **DONOR FUNDED PROJECTS**

### **KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT IDA CREDIT NO. 5526-KE AND IDA GRANT NO. TFOA3418-KE**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1378** There were no material issues noted during the audit of the financial statements of the Project.

## **Other Matter**

### **1379 Budget Control and Performance**

The statement of comparative budget and actual amounts reveals that the Project had budgeted to receive a total of Kshs.60,000,000 from External Development Partners but actual receipts amounted to Kshs.36,326,115 only resulting into a shortfall of Kshs.23,673,885 or 39% of the total budgeted receipts. Similarly, the Project had budgeted to spend an amount of Kshs.60,000,000 but actual expenditure was Kshs.49,699,291 against the receipts of Kshs.36,326,115 thereby exceeding the available fund by Kshs.13,373,176. The Project utilized past savings to finance the current activities. In particular, the Project spent an amount of Kshs.2,240,000 on compensation for employees without a budget. The under-utilization of funds implies that the project may therefore not be achieving its planned goals and objectives.

Management has attributed the under-funding to the reduction of the grants due to the process of transferring the Project from the State Department of Industrialization to the state Department of Petroleum and Mining.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1380** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1381** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA INDUSTRY AND ENTREPRENEURSHIP PROJECT (CREDIT NO.6268-KE)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1382** There were no material issues noted during the audit of the financial statements of the Project.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### 1383 Budget Control and Performance

During the year under review, the project incurred expenditure amounting to Kshs.6,640,000 on compensation of employees against nil budgetary provision resulting to unauthorised expenditure of Kshs.6,440,000 contrary to Section 68(1) of the Public Finance Management Act, 2012. Further, out of the budgeted amount of Kshs.124,977,348 only Kshs.23,874,144 equivalent of 19% of the total budget was utilized during the period resulting in unutilized balance of Kshs.101,103,204 or 81% of the total budget. Consequently, the achievement of the Project's objectives and outcomes could be delayed.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1384** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR INDUSTRIALIZATION

### KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT (IDA CREDIT NO.5812-KE) - MICRO AND SMALL ENTERPRISE AUTHORITY

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**1385** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### 1386 Budget Control and Performance

The statement of comparative budget and actual amounts reflects receipts budget and actual on comparable basis of Kshs.304,000,000 and Kshs.261,662,606

respectively resulting to an under-funding of Kshs.42,337,394 or 14% of the budget. Similarly, the Project spent an amount of Kshs.278,225,203 or 91% of the approved budget of Kshs.298,000,000. The under-funding could have affected the planned activities and impacted negatively on service delivery to the public.

In the circumstances, the public has not received the services as planned.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**1387** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1388** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# STATE DEPARTMENT FOR LABOUR-VOTE 1184

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1389 Inaccuracies in the Financial Statements

The State Department's financial statements submitted for audit on 30 September, 2019 reflected unsupported individual balances for various components which were later amended in the revised financial statements further resulting to material misstatements as summarized below: -

##### 1389.1 Statement of Receipts and Payments

Component	Financial Statements 30.09.2019 (Kshs.)	Revised Financial Statements (Kshs.)	Variance (Kshs.)	%
Other Receipts	816,850	1,349,030	532,180	65
Use of Goods and Services	1,250,995,346	1,376,790,747	125,795,401	10
Acquisition of Assets	125,926,072	122,535,545	3,390,527	2

##### 1389.2 Statement of Assets and Liabilities

Component	Financial Statements 30.09.2019 (Kshs.)	Revised Financial Statement (Kshs.)	Variance (Kshs.)	%
Cash balance	0	49,691	49,691	100
Account Receivables	17,418,553	16,837,312	581,241	3
Account Payables - Deposits	71,155,575	48,966,759	22,188,816	31

The initial financial statement figures were not supported and journal entries in support of the movement from the initial to the revised financial statements were not availed for audit verification.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the financial statements for the year ended 30 June, 2019.

### 1389.3 Cash and Bank Balances

The statement of assets and liabilities as at 30 June, 2019 reflects bank balances amounting to Kshs.73,044,493 for the four (4) accounts maintained by the State Department and a cash in hand balance of Kshs.49,691 as shown under Note 10A and 10B to the financial statements. However, the revised trial balance reflects credit balances for recurrent and development bank accounts of Kshs.129,700 and Kshs.73,436,582 respectively. Further, Deposit and Kenya Youth Employment and Opportunities Project (KYEOP) bank accounts had debit balances of Kshs.49,106,777 and Kshs.105,934,868 which differ from the financial statements balances of Kshs.48,966,759 and Kshs.22,197,041 by Kshs.140,018 and Kshs.83,737,827 respectively. In addition, cash in hand debit balance of Kshs.49,691 differs with the Trial Balance figure of Kshs.532,580 by a variance of Kshs.482,889 as summarized below;

	<b>Revised Financial Statements (a)</b>	<b>Revised IFMIS Trial Balance (b)</b>	<b>Variance (a-b)</b>
<b>Account</b>	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>
Recurrent Bank Balance	129,700	(129,700)	259,400
Development Bank Balance	1,750,993	(73,436,582)	75,187,575
Deposit Bank Balance	48,966,759	49,106,777	(140,018)
Kenya youth Employment and Opportunities Project (KYEOP)	22,197,041	105,934,868	(83,737,827)
<b>Total Bank Balances</b>	<b>73,044,493</b>		
Cash in Hand	49,691	532,580	(482,889)
<b>Total Cash and Cash Equivalent</b>	<b>73,094,184</b>		

Management has not reconciled the above variances and therefore the accuracy of cash and cash equivalents balance of Kshs.73,094,184 cannot be confirmed.

### 1389.4 Accounts Payables-Deposits and Retention

The statement of assets and liabilities reflects a balance of Kshs.48,966,759 under accounts payables-deposits and retentions while the trial balance, as at the same date, reflects a figure of Kshs.37,540,107 in respect of general deposits. The resultant variance of Kshs.11,426,652 between the two sets of records has not been explained or reconciled.

### 1389.5 Other Inaccuracies Between Financial Statements and Trial Balance

Further comparison between the financial statements and the supporting trial balance revealed total positive variances of Kshs.8,953,473 and negative variances totalling Kshs.495,629,663 that were not explained or reconciled as analysed below:



<b>Details</b>	<b>Financial Statements (a)</b>	<b>IFMIS Trial Balance (b)</b>	<b>Variance (a-b)</b>
	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>
Contractors Retention Money	0	(4,107,938)	4,107,938
Withholding Taxes	0	(4,845,535)	4,845,535
<b>Total Positive Variance</b>			<b>8,953,473</b>
System Required Liabilities	0	305,529,535	(305,529,535)
Cash Clearing Account	0	81,271,325	(81,271,325)
General Provision	0	105,825,795	(105,825,795)
Debtors and Advances-employees	0	659,807	(659,807)
Other Debtors and Prepayments	0	2,343,201	(2,343,201)
<b>Total</b>	<b>0</b>	<b>495,629,663</b>	<b>(495,629,663)</b>

In the circumstances, the accuracy and completeness of the State Department's financial statements could not be confirmed.

### **1390 Un-accounted for Disbursement to Consulate Offices**

The State Department disburses quarterly AIEs through the Principal Secretary, Ministry of Foreign Affairs to its Consular Offices in Qatar, Saudi Arabia, Geneva and the United Arab Emirates (UAE). During the year, a total of Kshs.128,655,030 was disbursed to the four (4) Consular Offices. However, the Management did not avail for audit verification expenditure returns in support of the disbursed amount.

In the circumstances, it has not been possible to confirm the propriety of the disbursed amount of Kshs.128,655,030.

### **1391 Outstanding Receivables**

Note 11 to the financial statements reflect accounts receivables totalling Kshs.16,837,312 in relation to outstanding imprests. However, the receivables were not supported by verifiable schedules. Further, the trial balance reflected an amount of Kshs.16,673,324 resulting in a variance of Kshs.163,992. In addition, a review of the imprest register revealed that some officers were issued with new imprests while still holding un-surrendered balances.

In the circumstances, it has not been possible to ascertain the accuracy of the receivables amount of Kshs.16,837,312.

### **Other Matter**

#### **1392 Pending Bills**

Notes 16.1 to the financial statements reflects pending bills amounting to Kshs.322,617,423 as at 30 June, 2019 which were not settled in the year under

review but carried forward to 2019/2020 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year's provisions to which they have to be charged.

### **1393 Delayed Construction of Research Institute Office Complex**

As reported in the previous year, the State Department embarked on construction of a Research Institute Office Complex Project which was commissioned in February, 2010 at an estimated cost of Kshs.480,000,000 at the Directorate of Safety Health. However, as at 30 June, 2019 the Project had not been completed and no records to confirm when the Project was expected to have been completed were availed despite an expenditure amounting to Kshs.343,458,956 having been incurred.

Further, during an audit inspection carried out in December, 2019, it was observed that no activities were ongoing at the site and the Project appeared to have stalled. No plausible reasons were given for the nine (9) years delay in completion of the Project whose primary objective was to enable the Directorate of Safety Health embrace changing dynamics in work environment relating to health and safety of workers.

### **1394 Construction of the National Employment Promotion Centre Kabete**

As previously reported, the construction of the proposed National Employment Promotion Centre at Kabete was awarded to a local company on 15 May, 2015 for a contract period of seventy-eight (78) weeks at a contract sum of Kshs.442,723,947. However, the Project stalled after an expenditure of Kshs.117,998,228 was incurred.

A physical audit inspection during the month of December, 2019 revealed that, though the contractor was on site, there was minimal activity going on and the structure depicted an abandoned site.

### **1395 Budget Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects that the State Department recorded actual receipts of Kshs.2,630,065,021 against budgeted receipts of Kshs.3,957,559,574 resulting in a shortfall of Kshs.1,327,494,552 or 34% of the budget. The shortfall on budgeted receipts adversely affected implementation of planned activities for the year under review and no satisfactory reasons were provided for the shortfall.

Similarly, the State Department had a total budgeted expenditure of Kshs.3,968,459,573 compared to the actual expenditure of Kshs.2,618,596,644 resulting in an under-expenditure of Kshs.1,349,862,929 or 34% of the budget. The under-expenditure implies that goals and objectives of the State Department were not achieved as planned for the fiscal year.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1396** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1397** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## DONOR FUND PROJECT

### KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT CREDIT NO.58120-KE

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**1398** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **1399 Budget Control and Performance**

The Project had budgeted to receive a total of Kshs.260,000,000 from External Development Partners but actual receipts amounted to Kshs.105,551,195 resulting into a shortfall of Kshs.154,448,805 or 59% of the total budgeted receipts. Similarly, the Project had budgeted to spend an amount of Kshs.260,000,000 but actual expenditure amounted to Kshs.176,230,917 or 64% leaving an amount of Kshs.83,769,083 or 32% which mainly occurred under purchase of goods and services which recorded an under-expenditure of Kshs.76,593,383. Due to huge under-collection of receipts, the Management utilized past savings to finance current activities amounting to Kshs.70,679,722.

The under-utilization of funds was attributed largely to delays in approvals from both the bank and informal sector skills and occupations survey. Under-utilization of funds implies that the Project did not achieve its planned goals and objectives.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1400** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1401** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR LABOUR**

### **KENYA YOUTH EMPLOYMENT OPPORTUNITIES PROJECT (CREDIT NO. 5812-KE) – NATIONAL INDUSTRIAL TRAINING AUTHORITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1402 Unsupported Payments**

As disclosed under Note 8.6 to the financial statements, the statement of receipts and payments reflects purchase of goods and services of Kshs.416,567,658 which includes training expenditure of Kshs.300,236,916. Included in training expenses is Kshs.1,752,279 paid to Kenyatta University out of which an expenditure amounting to Kshs.351,845 had not been supported with invoices. Further, comparison of payroll from the centers and payment schedules from headquarters resulted to unreconciled variance of Kshs.7,294,500.

In view of the foregoing, purchase of goods and services of Kshs.300,236,916 could not be confirmed.

### **Emphasis of Matter**

#### **1403 Non-Remittance of Erroneous Miscellaneous Receipts**

As disclosed under Note 8.4 to the financial statements, the statement of receipts and payments reflects miscellaneous receipts of Kshs.120,000. This amount has been explained to have been erroneously deposited in the Project account by the Ministry of Environment. The Management explained that the amount relates to conference income that should have been banked to the National Industrial Training Authority (NITA) account. The error had not been corrected by the time the audit exercise was concluded.

My opinion is not modified in respect to this matter

### **Other Matter**

#### **1404 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.928,187,007 and Kshs.793,474,648 respectively resulting to an under-funding of Kshs.134,712,359 or 15% of the budget. Similarly, the Project spent Kshs.518,719,342 or 35% of the approved budget of Kshs.928,187,007. Management has attributed the under absorption to non-recruitment of additional staff and late procurement process.

The under absorption could have affected the planned activities and could have impacted negatively on service delivery to the public.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1405** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **1406 Ineffective Project Monitoring and Evaluation**

The Management spent Kshs.300,236,916 on training expenses relating to stipend to beneficiary youth and fees for master craftsmen and formal training providers

for the months of June, 2018 to June, 2019. An audit inspection during the month of September, 2019 revealed that some stations were not opened throughout the working hours and attendance registers for both trainers and trainees were not maintained and updated daily as required. Further, in Mombasa County, with ninety-three (93) craftsmen based in all the eight (8) sub-counties, only one Project Coordinator was supposed to carry out physical spot checks and attendance monitoring by commuting to the sub-counties.

The feasibility of the coordination could not be confirmed or whether there are measures to ensure effectiveness of internal controls put in place to ensure the Project succeeds.

#### **1407 Untagged Fixed Assets**

The statement of financial assets reflects total assets of Kshs.109,141,639 as disclosed under Note 8.7 to the financial statements. Included in this figure are assets worth Kshs.9,113,180 that had not been tagged and serialized for ease of identification. Further, no evidence was made available to prove that the assets were verified quarterly as required by the Project implementation manual.

## **OCCUPATIONAL SAFETY AND HEALTH FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **1408 Unsupported Transfer of Appropriations-In-Aid**

The statement of financial performance reflects a balance of Kshs.48,903,401 under general expenses. Included in the balance, and as disclosed in Note 8 to the financial statements, is an amount of Kshs.4,125,000 described as transfer of AIA to the Ministry of Labour and Social Security and no further details were availed for audit verification.

In the circumstances, the propriety of the transfer of Appropriations-In-Aid amounting to Kshs.4,125,000 could not be ascertained

#### **1409 Long Outstanding Reconciling Items**

The statement of financial position as at 30 June, 2019 reflects cash and cash equivalents balance of Kshs.22,293,547. A review of the supporting bank reconciliation statements for the year ended 30 June, 2019 indicated that there were debits in the bank statement totalling Kshs.8,282,854 which were not reflected as payments in the cashbook, out of which Kshs.5,800,500 dates back to the financial year 2017/2018. Further, it is not clear how the amounts were

debited in the bank statement and not in the cashbook as payments are initiated by the Management before being cleared by the bank. In addition, the bank reconciliation statement reflects receipts in bank statement not in cashbook totalling Kshs.42,868,812. Although the Management has explained that these represent revenue banked at the Regions but whose returns were not submitted to the Headquarters, it was not clear why the returns had not been submitted.

In the circumstances, the completeness and accuracy of the cash and cash equivalents balance of Kshs.22,293,547 as at 30 June, 2019 could not be confirmed.

## **Other Matter**

### **1410 Budgetary Controls and Performance**

During the year under review, the Fund's actual receipts amounted to Kshs.60,951,446 against budgeted receipts of Kshs.70,570,000, resulting in a shortfall of Kshs.9,618,554 or 13% of the budgeted amount. Further, the Ministry's actual expenditure for the year amounted to Kshs.58,255,732 against budgeted expenditure of Kshs.70,570,000 resulting in an overall under expenditure of Kshs.12,314,268 or 17%. Failure to absorb the budget implies that the goals and objectives of the Fund were not achieved as planned and Citizens may have been denied critical occupational safety and health services.

### **1411 Unresolved Prior Year Matters**

Various prior year's audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year's audit issues. Further, the status of the unresolved prior year issues is not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

## **Basis for Conclusion**

### **1412 Late Submission of Financial Statements**

The financial statements for the year ended 30 June, 2019 were submitted for audit on 27 November, 2019, two (2) months after the statutory timeline of 30 September, 2019. This is contrary to Section 81(4)(a) of the Public Finance Management Act, 2012 which requires Accounting Officers to submit financial statements to the Auditor-General within three (3) months after the end of each financial year. Late submission of financial statements affects the execution of the planned audit.

Management was therefore in breach of the law.

#### **1413 Unaccounted for Imprests**

The statement of financial position reflects a balance of Kshs.1,759,200 being outstanding imprests which ought to have been accounted for on or before 30 June, 2019. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Regulation 93(6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with interest at the prevailing Central Bank Rate.

The Fund Management was, therefore, in breach of the law.

#### **1414 Construction of Research Institute Office Complex**

As previously reported, the construction of the Fund's Research Institute Office Complex Project which was commissioned in February, 2010 at an estimated cost of Kshs.480,000,000 was still incomplete as at 30 June, 2019. An audit inspection carried out in December, 2019, revealed that no activities were ongoing at the site stalled. Further, no reasons have been provided for the nine (9) years delay in completion of the project whose primary objective was to enable the Fund embrace changing dynamics in work environment relating to health and safety of workers.

In the circumstances, the Fund has not obtained the envisioned value for money from the Kshs.343,458,956 or 72% of the contract price already paid to various contractors as at 30 June, 2019.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **1415 Revenue from Registration of Workplaces (Licenses and Permits)**

As previously reported, the Fund did not maintain an updated data on the registered workplaces which forms the basis of licenses and permits revenue amounting to Kshs.55,484,392 for the year ended 30 June, 2019. The number of registered workplaces in the year under review was not availed for audit verification as Management indicated that the system had broken down and there was no backup mechanism in place.



# **STATE DEPARTMENT FOR SOCIAL PROTECTION-VOTE 1185**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1416 Unfavorable Dealings with Payment Service Providers (PSPs)**

The State Department, in line with the social pillar of Vision 2030, focuses on equity in access, control and participation in resource distribution for improved livelihoods of vulnerable groups, specifically orphans and vulnerable children, the elderly and persons with disabilities. Towards this end, the State Department engaged the services of four (4) financial institutions namely; Equity Bank, Co-operative Bank of Kenya, Kenya Commercial Bank (KCB) and Post Bank as intermediaries to transmit funds to the beneficiaries. A review of the contract agreements signed between the State Department and the individual service providers revealed the following anomalies;

#### **1417 Failure to Provide Cash Transfer Reconciliation Reports**

The contract agreements signed between the State Department and the individual Project Service Providers (PSPs) requires that the latter avails reconciliation reports showing the funds received and disbursed to the beneficiaries. During the year under review, a total of Kshs.24,520,726,909 was disbursed to beneficiaries but payrolls for each of the service providers and respective reconciliations were not provided by Management for audit review. Further, various reports including rejected credit reports, dormant accounts reports, performance reports, balance returned to principal by claw back, final reconciliation reports, total amount of money received from the State Department, total amount credited to beneficiary accounts, amount of funds withdrawn by beneficiaries on a monthly basis, non-collected amounts by beneficiaries and commission files both narrative and electronic detailing payments made, were not provided for audit review. Management has explained that it was unable to access the information, though it was enshrined in the contract, due to the confidentiality clause of the Banking Act.

Consequently, the accuracy and completeness of the total amount of Kshs.24,520,726,909 disbursed to the PSPs could not be ascertained as at 30 June, 2019.

#### **1418 Beneficiaries Tied to One Bank Service Provider**

The contractual agreement with the PSPs provides for the beneficiaries to identify a convenient bank of their own choice. However, information from field audit inspections revealed that some beneficiaries were coerced into enrolling into PSPs

they had not applied for. The affected beneficiaries stated that their accounts were opened at KCB without their consent.

#### **1419 Untitled Parcels of Land**

Review of documents and records related to land matters revealed that the State Department occupies thirty-five (35) parcels of land of different sizes and values that had no ownership documents. No evidence was provided to demonstrate efforts to acquire title deeds for these pieces of land to avoid the invasion by unauthorised persons.

Further, the State Department owns one hundred and eighty-six (186) permanent buildings erected on various parcels of land across the Country. A review of records availed for audit examination showed that out of the one hundred and eighty-six (186) buildings, one hundred and sixty-four (164) lacked ownership documents while the balance of twenty- two (22) which have allotment letters, others have titles, some are situated on Government land and, for others ownership documents were still being processed. This implies that the Department runs the risk of losing those developed buildings due to lack of requisite legal ownership documents, in the event the land is encroached upon.

In the absence of these legal documents, the ownership and accuracy of the parcels of land reported in the financial statements as at 30 June, 2019 could not be ascertained.

#### **Other Matter**

#### **1420 Pending Bills**

As disclosed in Note 13 to the financial statements, the State Department for Social Protection had pending bills totalling Kshs.49,525,400 as at 30 June, 2019, that were not settled during the financial year 2018/2019 but were instead carried forward to 2019/2020 financial year. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

#### **1421 Outstanding Imprests**

Included in the accounts receivables balance of Kshs.614,616,022 as at 30 June, 2019 is an amount of Kshs.2,319, 968 in respect of outstanding imprests due for surrender by 30 June, 2019. A review of the position in November, 2019 showed that an amount of Kshs.1,419,898 had been surrendered leaving an outstanding balance of Kshs.900,070. The recoverability of the outstanding accounts receivables balance remains in doubt and Management has not indicated measures put in place for recovery.

## **1422 Unresolved Prior Year Matters**

### **1422.1 Kabete / Getathuru Land - Directorate of Children Services Department**

As previously reported, ownership documents for Nairobi Children's Remand Home occupying 28.6 ha, were not availed for audit review despite the fact that the institution has existed since 1957 with only an allotment letter. Further, information available indicates that part of the land measuring 4.579 ha was being claimed by a private entity which was in possession of a title deed Ref: L.R. No. 22355 issued on 31 December, 2002. In addition, several other claimants to the land including M/s China Roads and Bridges Corporation, Kenya Power and Lighting Company and other individuals had also occupied portions of the land.

It has not been clarified how individuals and these companies acquired Government land or whether any payments were made for the same.

### **1422.2 Non-Commissioning and Handing Over of Rehabilitation of Dagoretti Girls School Dormitory Project**

As previously reported, the State Department awarded a construction company to undertake rehabilitation of a dormitory at Dagoretti Girls School at a contract sum of Kshs.21,370,280. The project had stalled at the upper slab level and the contractor had by September, 2017 abandoned the site. At the time the project stalled, the contractor had received payments totalling Kshs.9,731,997 or 45% despite completion level of only 20%. A review of the matter during the audit revealed that construction had been completed and the contractor paid the contract sum and part of retention money after completion of the contract. However, the project had not been commissioned and handed over to the institution due to lack of a sewerage system. Management has not explained why the structure was built without the necessary sewerage infrastructure.

From the foregoing, the intended beneficiaries are unable to get value for money from the resources spent on the rehabilitation project.

### **1422.3 Unpaid Cash Transfers Balances held by Postal Corporation of Kenya**

The State Department contracted Postal Corporation of Kenya (PCK) as an agent to disburse cash to the vulnerable beneficiaries throughout the Country. However, after the expiry of the contract between the State Department and the agent (PCK), a balance of Kshs.169,300,000 remained unpaid. A review of the matter during the year, revealed that the status had not changed and the amount of Kshs.169,300,000 due to the State Department was still outstanding. Management has not demonstrated efforts being made to recover this long overdue refund from PCK.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **1423 Grounded Motor Vehicles**

A review of the motor vehicles register produced for audit scrutiny revealed that fifty-two (52) motor vehicles with an undetermined value had been parked at various yards for several years with no indication of whether there were plans to repair or dispose the vehicles, which continue to depreciate in value. Further, as disclosed in Note 7 to the financial statements, the State Department acquired new motor vehicles worth Kshs.274,627,380 despite the existence of unused vehicles at the department's yards.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1424 Lack of Audit Committee**

During the year under review, the State Department operated without an Audit Committee, contrary to Section 73(5) of the Public Finance Management Act, 2012 which requires every National Government entity to establish an Audit Committee to provide oversight over management activities, ensure the integrity of the Department's financial information, enhance systems of controls, monitor and review of the internal audit process and ensure that risk management systems are in place.

#### **1425 Weak Succession Planning**

Audit review of payroll data and employees' personal files for the year under review revealed that the State department had 1,912 staff in its establishment by the end of June, 2019. Overall, the number of staff above the age of forty (40) years was 1,174 or 62%, whereas those below the age of forty (40) years totalled 738 or 38%. Consequently, the aging staff distribution within the State Department's ranks calls for prioritization of succession planning to ensure service sustainability is maintained by the State Department.

## **DONOR FUNDED PROJECTS**

### **NATIONAL SAFETY NET PROGRAM FOR RESULTS - PROGRAM NO. P131305**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**1426** There were no material issues noted during the audit of the financial statements of the Program.

##### **Other Matter**

##### **1427 Budget Control and Performance**

During the year under review, the Program's actual receipts amounted to Kshs.24,900,101,937 against the budgeted amount of Kshs.31,561,050,228 resulting in a receipts shortfall of Kshs.6, 660,948,291 or 21%. Similarly, the Program utilized a total of Kshs.29,672,007,133 or 94% of the approved budget of Kshs.31,555,350,228.

The under expenditure occurred under two main items namely; Cash transfer for Persons with Severe Disabilities and Hunger Safety Net Programme where an amount of Kshs.236,054,470 and Kshs.1,089,210,300 respectively was not utilized.

Management has not explained by way of notes, the material variances between the budget and actual amounts as provided.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**1428** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS IN INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Basis for Conclusion**

##### **1429 Lack of Audit Committee**

Regulation 74(1) of the Public Finance Management Act, 2012 requires every National Government entity to establish an Audit Committee to provide oversight over Management activities. Contrary to the above, Management did not avail any

documents in support of the existence of an Audit Committee such as appointment letters, membership, tabled reports or recommendation and follow-ups. Lack of an Audit Committee implies that the Program's activities were not internally appraised.

In the circumstances, the Program has not complied with the provisions of the Public Finance Management Act, 2012 in respect of establishment of an audit committee.

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

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Uqualified Opinion**

**1430** There were no material issues noted during the audit of the financial statements of the Programme.

#### **Emphasis of Matter**

**1431** 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 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.

#### **Other Matter**

#### **1432 Budget 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

**1433** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Basis for Conclusion

#### **1434 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.

#### **1435 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.

## **STATE DEPARTMENT FOR MINING-VOTE 1192**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **1436 Unsupported Fixed Assets Additions and Misallocation of Expenditure**

The statement of receipts and payments reflects Kshs.247,054,005 being payments for acquisition of assets and which represents assets acquired during the year under review. However, the supporting schedules provided for audit indicated that the bulk of the payments reported under the acquisition of assets related to purchase of air tickets, payment of allowances and imprest surrenders. Further, it could not be confirmed that the State Department complied with Section 43 of Public Finance Management Act, 2012 which prohibits reallocation of funds appropriated for capital expenditure and Section 43 (b) of Public Finance Management Regulations, 2015.

Under the circumstances, the accuracy of the acquisition of assets expenditure of Kshs.247,054,005 and the fixed assets balance of Kshs.464,024,300 as at 30 June, 2019, reflected under Annex 3 -Summary of Fixed Assets Register, could not be confirmed.

#### **Other Matter**

##### **1437 Pending Bills**

As disclosed under Notes 16.1 to the financial statements, the State Department had pending bills totalling Kshs.145,486,150 as at 30 June, 2019, that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

##### **1438 Stalled Head Office Refurbishment Project**

The statement of receipts and payments reflects expenditure totalling Kshs.593,673,831 for use of goods and services which as disclosed under Note 6 to the financial statements, includes Kshs.45,662,359 on routine maintenance of other assets. The latter amount includes a sum of Kshs.13,875,378 paid to contractors and sub-contractors undertaking refurbishment works at the Ministry's Head Office - Madini House. The twenty-four (24) months period refurbishment



works contract was signed in July, 2017 at a contract sum of Kshs.46,100,888. However, as at the time of concluding the audit in December, 2019, five (5) months after the original completion date, the works were yet to be completed and appeared to have stalled since the contractor was not on site. At the time the works stalled, a total of Kshs.20,997,055 had already been paid to the contractor.

In view of the foregoing, value for money on Kshs.20,997,055 paid to the contractor could not be confirmed. Further, Management has not indicated when the stalled works will be completed.

#### **1439 Irregular Award of Tender for Consultancy Services**

The State Department tendered for provision of consulting services to develop a gender mainstreaming strategy during the year under review. The tender attracted four (4) respondents who were evaluated and ranked in the order of marks awarded. However, a flawed formula used to determine the financial scores resulted in award of the contract to the higher of the two responsive bidders thus occasioning a loss of Kshs.1,786,400.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **1440 Unestablished Audit Committee**

The State Department did not have an Audit Committee in place as at the time of audit in December, 2019. Although an advertisement was placed in local newspapers in December, 2018, where qualified Kenyan citizens were invited to submit applications to serve in the State Department's Audit Committee, evidence of the progress of the selection process was not provided.

Consequently, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of the Audit Committee were not executed thus hindering good corporate governance at the State Department.

## **REVENUE STATEMENTS - STATE DEPARTMENT FOR MINING**

### **REPORT ON THE REVENUE STATEMENTS**

#### **Basis for Qualified Opinion**

#### **1441 Unsupported Transfers to the Exchequer Account**

The statement of receipts and transfers reflects non-tax receipts totalling Kshs.1,579,065,345 and an amount of Kshs.159,235,100 brought forward from the prior year. The statement, further, shows that a sum of Kshs.1,716,622,717 was

transferred to the Exchequer Account during the year. However, Kshs.458,258,892 of the transferred amount was not captured in the Integrated Financial Management Information System (IFMIS) ledger managed by The National Treasury. In their response, Management indicated that they did not have control over entries in the ledger and therefore could not explain the system's failure to capture the transfers.

In the circumstances, the accuracy and validity of the reported transfers to the Exchequer Account balance of Kshs.1,716,622,717 could not be confirmed.

## **1442 Revenue Arrears**

### **1442.1 Long Outstanding and Unreported 2018/19 Cement Levy from East Africa Portland Cement (EAPCC)**

The statement of arrears of revenue as at 30 June, 2019 reflects cement levy arrears totalling Kshs.1,016,146,970 owed by various companies. Included in the balance, is Kshs.280,329,449 owed by EAPCC accrued in the period 2014/2015 to 2017/2018. Further, the Company did not file a self-declaration assessment and was, therefore, not assessed for cement levy due in the year under review. As a result, no arrears have been reported against the Company in the financial year under review.

No plausible explanation was provided by Management as to why levies chargeable to the Company in the year under review were not assessed and included in the financial statements, and why the long outstanding arrears totalling Kshs.280,329,449 were not collected.

### **1442.2 Long Outstanding Cement Levy from Savanna Cement Company**

Similarly, out of the aggregate outstanding cement levy sum of Kshs.1,016,146,970, Kshs.285,625,707 was owed by Savanna Cement Company from the financial year 2016/2017. Although an agreement signed in August, 2017 between the State Department and the Company provided for a payment plan that required the Company to clear the arrears in twenty-four (24) monthly installments starting September, 2017, the Company has since contended that it has no mineral rights granted by the Ministry and is therefore, not liable to pay. Evidence of the State Department's effort to enforce the payment plan or seek the opinion of the Attorney-General on the matter was not provided.

### **1442.3 Long Outstanding Dues from Magadi Soda Company and Carbacid (CO2) Limited**

Out of the total reported arrears of revenue of Kshs.1,548,139,469 is Kshs.438,671,977 due from Magadi Soda Company which has accrued since the financial year 2015/2016. Although the State Department held meetings with the Company with a view to recovering the arrears, no significant progress was made.

The reported arrears also include a sum of Kshs.30,464,301 due from Carbacid (CO2) Limited. The arrears relate to the financial years 2017/2018 and 2018/2019. However, review of correspondences revealed that the Company Management had expressed their reservations to pay the royalties before a consensus on payment rates was reached.

#### **1442.4 Unrecovered Mining Royalties**

The statement of arrears of revenue reflects outstanding mining royalties totalling Kshs.56,423,141. Included in this balance, is the sum of Kshs.11,518,589 accruing from Africa Diatomite Industries Limited. Although the Company had earlier committed to offset the arrears, payments for the royalties had not been received and evidence of measures taken by the State Department to recover the amount owed were not provided for audit.

In the circumstance, the accuracy, completeness and recoverability of the aggregate arrears of revenue balance of Kshs.1,548,139,469 reflected in the statement of arrears of revenue could not be confirmed.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **1443 Mineral Exporters Without Permits**

The statement of receipts and transfers reflects Kshs.7,203,125 and Kshs.74,422,975 being receipts from mineral export levy and mining royalties respectively. The receipts are comprised of levies on sales of minerals and permits for mineral exports. Regulation 18 of the Mining Act (Dealings in Minerals) Regulations, 2017 provides that a person shall not export a mineral unless the person holds a permit granted by the Cabinet Secretary for that purpose while Regulation 19 provides that a person shall not be qualified to apply for a permit to export minerals unless such a person is a holder of a mining license, mining permit or a dealer's permit.

However, mineral export records at the Kenya Revenue Authority (KRA) for the year under review, revealed exports of minerals by persons and companies who, according to the State Department's data, were not holders of valid export, mining or dealers' permits as listed below:

<b>Mineral Export</b>	<b>No. of Unlicensed Exporters</b>
Gold	3
Gemstones	5
Salt	7
Soapstone	29

In the circumstances, it was not possible to confirm how the exporters were allowed to trade in the minerals without permits or how the permits, if any, may have been issued without payment of mineral export levies.

#### **1444 Un-Procedural Export of Mineral Samples**

During the year under review, the State Department granted licenses to several companies to export soils and crushed rocks as mineral samples with no commercial value and which, therefore, would not attract royalty payments. However, one company that exported ore residue samples of unknown quantity to Tanzania failed to submit results of tests and analyses of the exported samples to the State Department as required under Regulation 26 (5) of the Mining Act (Dealings in Minerals) Regulations, 2017. Further, export permits for the samples were not made available.

In view of the foregoing, it was not possible to confirm the chemical composition of the exported samples and the quantities and values thereof.

#### **1445 Uncollected Revenue**

##### **1445.1 Un-Assessed Royalties Due from Salt Mining Companies**

The First Schedule of the Mining Act, 2016 specifies salt as a mineral under the administration of the Act. However, during the year under review, there were at least seven (7) salt mining companies operating in Kenya without mining licenses and for which assessment for royalties due was not done. The companies extracted the salt in the coastal region and sold their products locally and abroad without export permits for the salt exports. Although Management indicated that the State Department had engaged the salt mining operators with a view to formalizing their operations as provided for in the Mining Act, 2016, delay in formalizing the operations hindered the State Department from collecting revenue from the companies.

##### **1445.2 Inconclusive Negotiations on Review of Titanium Royalties Regime**

In February 2014, the Government entered into a deed agreement with Base Titanium Company Limited to negotiate and review upwards royalty rates prescribed in the Special Mining Lease. Negotiations commenced soon thereafter and a number of proposals were advanced by both parties with Base Titanium eventually making its final proposal ("Bridge Proposal") that agreed to the royalty rate increase from 2.5% to 5%, effective 2014.

According to documents available at the State Department, including minutes of meetings between the two parties, an agreement was reached in November, 2018 to increase the royalty rate from 2.5% to 5% effective 1 July, 2018 for the remainder of the special mining lease which was to be formalized by a deed variation. However, at the time of concluding the audit in January, 2020, the deed of variation

had not been finalized. Management have indicated that they are still seeking input on the deed from relevant government offices. Had the deed variation been finalized on time, the State Department would have collected additional revenue totalling Kshs.519,564,262.

In view of the foregoing, it could not be confirmed that the Management complied with the provisions on responsibility for revenue management as provided under Regulation 64 of Public Finance Management (National Government) Regulations, 2015, which include application of adequate safeguards for prompt revenue collection and adequate measures including legal action where appropriate, to obtain payment.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1446** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STATE DEPARTMENT FOR PETROLEUM-VOTE 1193**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1447** There were no material issues noted during the audit of the financial statements of the State Department.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1448** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

##### **1449 Lack of Risk Management Policy**

Assessment of the internal control system in place at the State Department revealed that Management had not established a risk management policy to identify, mitigate and control operational and other risks that the Department may face from time to time. In addition, the Department had not carried out any risk assessments to identify and address key areas of concern and document specific controls in response to risks noted.

##### **1450 Lack of an Audit Committee**

Section 174(1) of the Public Finance Management (National Government) Regulations, 2015, requires every National Government entity to establish an Audit Committee. However, during the year under review, the State Department did not have an Audit Committee in place. Consequently, the oversight purposes and functions expected to be fulfilled by the Committee were not realized.

## **PETROLEUM DEVELOPMENT LEVY FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1451** There were no material issues noted during the audit of the financial statements of the Fund.

#### **Other Matter**

##### **1452 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,873,500,000 and Kshs.1,873,500,000 respectively. However, the Fund expended an amount of Kshs.1,637,570,568 resulting to an under-absorption of Kshs.235,929,432 or 27% of the budget. The under absorption affected the planned activities and could have impacted negatively on service delivery for the public.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1453** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1454** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **PETROLEUM TRAINING LEVY FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **1455 Undisclosed Accounts Receivables**

The statement of financial position reflects accounts receivables totalling Kshs.1,668,333,715 comprised of fines, penalties and levies due from mining exploration companies. However, the amount excludes a sum of Kshs.92,575,110

owed by a company that previously held Production Sharing Contracts (PSC) for blocks L1B, L16, L27 and L28 signed in May, 2012. As at the time of the audit, the company had surrendered all four (4) blocks in accordance with the contracts. Nonetheless, it was discharged from the four (4) blocks without having paid outstanding surface fees and training levies. The debt was reported in the Department's financial statements for the previous year but Management has not explained how they intend to recover the debt. Therefore, its exclusion from the financial statements for the year under review has led to misstatement of the accounts receivables balance of Kshs.1,668,333,715 by Kshs.92,575,110.

Further, the Government is entitled under production sharing contracts to charge interest at London Interbank Offered Rate (LIBOR) plus 300 basis points whenever fees and other accounts become overdue. However, during the year under review, as in previous years, no interest was charged on unpaid fees and late payments, inspite of delays or failures by the debtors to settle their accounts.

In addition, the accounts receivables amount of Kshs.1,668,333,715 is owed by seven (7) oil exploration companies that hold active licenses in eleven (11) oil exploration blocks, which has accumulated over several years. This is in spite of the State Department issuing demand notices to the oil companies. Failure by the Department to collect all levies provided for in the respective (PSC) has denied the Government revenue for financing public services.

Consequently, the accuracy and completeness of the receivables balance cannot be confirmed.

#### **1456 Mis-stated Outstanding Imprests and Clearing Accounts**

The statement of financial position reflects accounts receivables - outstanding imprests and clearance accounts totalling Kshs.60,127,322. The balance includes Kshs.1,500,000 which was transferred to the State Department's development account in March, 2018. However, the sum was transferred back to the Petroleum Training Levy Fund account in June, 2019. Therefore, its inclusion in the accounts receivables balance has misstated the balance as at 30 June, 2019 by Kshs.1,500,000.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1457** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1458** There were no material issues relating to effectiveness of internal controls, risk management and governance.



# **KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CREDIT NO.55260-KE AND GRANT NO.TFOA 3418)**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1459** There were no material issues noted during the audit of the financial statements of the Project.

### **Other Matter**

#### **1460 Budget Control and Performance**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects an approved budget and actual receipts on comparable basis of Kshs.449,980,659 and Kshs.473,168,052 respectively, thus exceeding the budget by Kshs.23,187,393 or 5% of the budgeted receipts. Similarly, the Project utilized an amount of Kshs.583,895,198 over the approved budget of Kshs.449,980,659 resulting into an over-expenditure of Kshs.133,914,534 or 30% of the budget. Management has attributed the over-expenditure to budget cuts occasioned by Government austerity measure during the Supplementary Budget II after the expenditure had been incurred.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1461 Breach of the Contract Terms**

The management appointed a Consultant for an independent audit of petroleum costs in Tullow Oil Kenya BV Production Sharing Contract. According to the contract documents, the Consultant was to receive payment upon submission of an interim report reviewed by a Cost Recovery Audit technical committee drawn from The National Treasury, Central Bank of Kenya, Kenya Revenue Authority, Office of the Auditor General, Commission on Revenue Allocation, Ministry of Petroleum and Mining, and the National Oil Corporation. However, a seven-member committee formed to review and approve all deliverables as well as ensure quality delivery by the Consultant was composed of officers entirely drawn from the State Department for Petroleum contrary to clause 3.0 of the contract.

Consequently, the Management was in breach of the contract terms.

#### **1462 Delays in Remitted Tax Deductions**

During the year under review, the Management made recoveries on withholding tax and value added tax (VAT) amounting to Kshs.1,349,357 with some deductions

dating back to October, 2018. Examination of available records showed that the deductions were made from amounts due to suppliers and consultants and recorded as payments to KRA. The deducted amount was however, yet to be remitted to Kenya Revenue Authority (KRA) at the time of conclusion of the audit contrary to Income Tax Act, Cap. 470.

In the circumstances, the Management was in breach of the law.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1463** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## STATE DEPARTMENT FOR TOURISM-VOTE 1202

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

##### 1464 Presentation of the Financial Statements

The financial statements prepared and submitted by the State Department were for a period of less than a year, that is, for nine (9) months. This fact was not disclosed on the financial statements contrary to the provisions of paragraph 66 of the International Public Sector Accounting Standards 1 which provides that when annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements, the reason for using a longer or shorter period and the fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement and related Notes are not entirely comparable.

##### 1465 Inaccurate Cash and Cash Equivalents

The statement of assets and liabilities and Note 10 A to the financial statements reflects a total of Kshs.158,460,405 under cash and cash equivalents. However, the balances differ with the balances reflected in the supporting trial balance as tabulated below:

<b>Bank Account No.</b>	<b>Balance as Per Trial Balance (Kshs.)</b>	<b>Balance as Per Financial Statement (Kshs.)</b>	<b>Difference (Kshs.)</b>
1000395548- Recurrent Account	-	14,622,503	(14,622,503)
1000395637- Development Account	-	2,276,844	(2,276,844)
1000395699 -Deposit Account	-	141,561,057	(141,561,057)
Cash in Hand	190,625,246	-	190,625,246
Cash in Transit	1,693,419,765	-	1,693,419,765

In view of the above unreconciled differences, it has not been possible to confirm the accuracy and completeness of the reported cash and cash equivalents balance of Kshs.158,460,405 as at 30 June, 2019.

#### **1466 Expenditure on Payment of a Pending Bill and Non-Disclosure**

As previously reported, the Ministry made a payment of Kshs.150 million during the 2016/17 financial year to a local law firm in respect of a pending bill from the former Ministry of Trade, Industrialization and Tourism. The payment was in respect of an initial bill of Kshs.12 million payable to a media firm but which was in contention as the firm continued to render the services after the contract period for advertising services by the firm had expired in June, 2004. The Attorney General vide letter Ref. A.G/CIR/3016/04 in 2006 observed that the Ministry was obligated to settle the claim since the Ministry agreed to participate in the disputed third phase of the Programme. As at 17 June, 2010, the bill had accumulated to Kshs.52,606,872 being outstanding amount plus 3% interest since 2004. In August, 2011, the Attorney General advised the Ministry of Trade, Industrialization and Tourism to pay the contractual amount but negotiate the interest payable even though there was no formal contract for Phase II but this advice was not adhered to.

The firm went to court for non-payment and by the judgement dated 24 July, 2012 ruled in favour, the firm was awarded Kshs.110,061,691 being the initial Kshs.12 million plus 26% interest since April, 2004. Part payment of Kshs.65 million was made in July, 2013 as interest continued to accumulate. As at December, 2016, the outstanding bill had accumulated to Kshs.210 million.

It was noted that there was lack of diligence on the side of the then Ministry officials in allowing the company to continue offering the services without a valid contract and also negligence in not adhering to the professional advice by the Attorney General to pay the outstanding amount and negotiate the interest payable in 2011. Had this advice been followed, this could have saved the Government the accumulated interest of Kshs.198 million.

In the 2017/2018 financial year, a further payment of Kshs.70 million was made. Despite the fact that the Ministry by then had paid Kshs.220 million against the Kshs.210 million accumulated balance as at December, 2016, the Ministry has since received an estimation statement from the Attorney General instructing the Ministry to pay a further amount of Kshs.62 million arising from the accrued interest. The same has not been disclosed in the financial statements.

Although the State Department has explained that Management have redirected the matter to the State Department for Trade through the Solicitor General, it could not be confirmed that the State Department for Trade had taken up the matter and there is risk of further loss of public funds through continued accumulated interest and penalties.

#### **Other Matter**

#### **1467 Unresolved Prior Year Matters**

The following matters reported in the prior year remained unresolved as at 30 June, 2019.

### **1467.1 Unrelated Expenditure on Various Items and Unrealistic Budget**

As previously reported, the Ministry's mandate entails spending mainly on items aimed at development of tourism policy and standards, development, promotion, and marketing of tourism, tourism research and monitoring, protection of tourism and regulations, tourism financing, tourism training, tourism recovery and supervision. However, Kshs.63,731,876 was spent on various heads/items which were not related to tourism recovery.

### **1467.2 Acquisition of Assets -Tourism Recovery**

As previously reported in the year ended 30 June, 2017, the Ministry spent an amount of Kshs.1,042,214,337 under expenditure item acquisition of assets (tourism recovery) sub-item; research, studies, project preparation, design and supervision. The scrutiny of the expenditure in the previous year revealed that an amount of Kshs.206,569,933 was incurred on items not related to tourism recovery. Further, most of the expenditure was recurrent in nature rather than development (acquisition of assets) as ought to have been the case. Consequently, it was not possible to confirm the propriety of funds amounting to Kshs.206,569,933 as then reflected in the financial statements.

### **1468 Budget Control and Performance**

The summary statement of appropriation-recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.4,667,695,321 and Kshs.3,764,909,831 respectively resulting to an under-funding of Kshs.902,785,490 or 19% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.4,667,695,321 and Kshs.3,748,929,316 respectively resulting to an under-expenditure of Kshs.918,766,005 or 20% of the budget. Based on the approved estimates, the underfunding and the under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

### **1469 Pending Bills**

Note 13.1 to the financial statements reflects pending bills totalling Kshs.39,073,194 as at 30 June, 2019. Management has not explained why the bills were not settled during the year they occurred. The Department is at risk of incurring significant interest costs and penalties with the continued delay in payment. Failure to settle bills during the year they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **1470 Office Lease Agreements**

The State Department engaged a contractor to carry out partitioning of offices at the Tourism Trust Fund Building at a contract sum of Kshs.138,500,657 without a formal lease agreement for the office space. In addition, the Department had occupied offices at NSSF building under unclear terms since the lease agreement was not provided for audit.

It could therefore, not be confirmed that the resources of the State Department were used in an effective, efficient, economical and transparent manner as required under Section 68(1) of Public Finance Management Act, 2012.

#### **1471 Unutilized / Irregular Payments for Ushanga Initiative**

An amount of Kshs.2,250,000 was paid to a hotel for Ushanga Initiative activities which had been planned to take place on 15 and 16 June, 2018 but which had not been undertaken as at 30 June, 2019. The payment was therefore contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which restricts payments in advance. Although Management explained that the event was cancelled and a refund requested, the amount had not been recovered as at the time this audit report was finalized. In addition, evidence that the hotel services were procured competitively was not provided for audit verification.

In the circumstances, the propriety and value for money on the expenditure could not be confirmed.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1472 Lack of an Audit Committee**

Section 73(5) of the Public Finance Management Act, 2012 provides that every national government public entity shall establish an Audit Committee whose composition and functions shall be as prescribed by the regulations. However, the State Department did not have an Audit Committee. In the absence of a functioning Audit Committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of an Audit Committee did not take place which may have hindered good corporate governance at the Department.

## STATE DEPARTMENT FOR WILDLIFE-VOTE 1203

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 1473 Undisclosed Prior Year Comparative Figures

The State Department for Natural Resources was reorganized in June, 2018 under Executive Order No.1 of 2018 creating the then Ministry of Tourism and Wildlife which lasted for three (3) months' ending 30 September, 2018. The Ministry was further reorganized through Executive Order No.1 of 2018 (revised) to the current State Department for Tourism and State Department for Wildlife with separate votes.

However, no formal separation was done to reflect what assets belongs to each Department in the two reorganizations. The State Department for Wildlife submitted accounts for nine (9) months.

In view of the foregoing, the accuracy, completeness and presentation of the financial statements as at 30 June, 2019 could not be ascertained.

#### 1474 Variances Between the Financial Statements and Integrated Financial Management Information System (IFMIS) Generated Financial Statements

Comparison between the financial statements and the IFMIS generated financial statements indicate the following unexplained and unreconciled variances.

Item	Figure as per Financial Statements (Kshs.)	Figure in the IFMIS Financial Statements (Kshs.)	Variance (Kshs.)
Accounts Payable-deposits	1,179,565	2,118,934,024	(2,117,754,459)
Accounts Receivable	1,172,780	596,510	904,836
Bank Balances	2,606,407	267,944	2,338,463
Cash Balances	1,482	2,120,670,674	(2,120,669,192)
Net Financial Assets	2,601,104	21,215,235,128	(21,212,634,024)

Consequently, it has not been possible to confirm the accuracy of the financial statements for the nine (9) months' period ended 30 June, 2019.

## **Emphasis of Matter**

### **1475 Unconfirmed Value of Assets**

Annex 2 to the financial statements, reflects the summary of fixed assets with a balance of Kshs.23,202,874 as at 30 June, 2019. However, accurate data for the assets was not availed for audit verification since after the re-organization of the Ministry of Environment and Natural Resources to create two (2) separate entities (Ministry for Environment and State Department for Natural Resources) the vesting of the assets to the two (2) entities remains outstanding. The State Department for Natural Resources was in 2018 further re-organized creating the Ministry of Tourism and Wildlife and again to the current State Department for Tourism and State Department for Wildlife which are two separate reporting entities with different votes.

In the circumstances, it has not been possible to reliably confirm the value of the assets relating to the State Department for Wildlife.

## **Other Matter**

### **1476 Pending Bills**

Note 13.3 to the financial statements reflects pending bills totalling Kshs.1,179,565 which were not settled during the year under review but were instead carried forward to 2019/20. Management has not provided reasons for non-payment of the pending bills. Failure to settle bills in the year in which they relate adversely affects the implementation of the subsequent year's budgeted programmes as the pending bills form a first charge to that year's budget provision.

### **1477 Non-Submission of Financial Statements for Wildlife Clubs of Kenya**

Under the background information on page 5 of the financial statements, Management has indicated that the Wildlife Clubs of Kenya was formed in 1968 as a charitable, Non-Governmental Organization.

Further, Annex 3 to the financial statements lists the Wildlife Clubs of Kenya as one of the entities under the State Department for Wildlife. Available information indicates that the Clubs received over 60% of its budget funding from the State Department for Wildlife from both recurrent and development votes. However, the Clubs has not submitted any financial statements to the Auditor-General for audit, despite receiving public funds amounting to Kshs.49,000,000 in 2018/2019 financial year and an undetermined amount paid in the previous years since 1968 when it was formed.

In addition, information available indicate that the financial statements for 2016/2017, 2017/2018 and 2018/2019 were audited by a private auditor not



appointed by the Auditor-General as provided in Section 23 of Public Audit Act, 2015.

Consequently, Management was in breach of the law.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1478** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1479** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR WILDLIFE

### KWS-KENYA ROADS BOARD PROJECT - KENYA WILDLIFE SERVICE

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**1480** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **1481 Budget Control and Performance**

The statement of comparative budget and actuals indicates that the Project received Kshs.708,635,422 against the approved budget of Kshs.551,250,000, therefore resulting to an over-collection by Kshs.157,385,422 or 29% of the approved budget. Further, the Project spent an amount of Kshs.425,088,444 or

77% of the budgeted amount of Kshs.551,250,000. In addition, Management has disclosed that the work plan for 2017/2018 with an approved budget of Kshs.551,250,000 was implemented in 2018/2019 while most of the works for the 2018/2019 work plan will be implemented in 2019/2020. Due to the low absorption, the public particularly the tourists who visit the National Parks may not have obtained value in respect of roads earmarked for routine maintenance.

Management has however, explained measures put in place to accelerate the implementation of its work plans which includes shortening the implementation contract period from six (6) months to three (3) months and fast tracking of the procurement processes to clear the backlog.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1482 Non-completion of Bridge Rehabilitation Works-Meru Park**

During the year under review, an amount of Kshs.29,455,734 was paid to a contractor for repairs and maintenance at Meru Park. Examination of documents availed for audit review indicated a payment was made in respect of Certificate No.3 for repairs and maintenance. However, the bill of quantities and contract agreement between KWS and the contractor indicated that the contractor was meant to rehabilitate two (2) bridges on the road. Physical inspection carried out on the road in September and October, 2019 revealed several unsatisfactory matters.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **1483 Poor Projects Management on Road Works**

##### **1483.1 Poor Workmanship on Voi - Sala Gate Road E682 –Tsavo East**

During the year under review, the Project Management awarded Contract No. KWS/OT/R&F/42/2017-2018 to a construction firm for road construction at a contract sum of Kshs.14,396,180 against a budget of Kshs.17,333,682. The Project estimated start date was 13 November, 2018 and end date of 13 February, 2019. The field visit carried out in early October, 2019 showed that the routine maintenance had been done on the Voi-Sala Gate Road E682. The Works included light grading, gravel patching and culverts constructed to drain water from the road. However, it was noted that the road level was generally lower as compared to the surrounding land level making some sections of the road to have poor drainage and water clogging on the road surface. Most of the road length did not have camber resulting in water clogging on the road surface. The drains in some sections of the road were no longer effective for draining water from the road

and the bill of quantities did not clearly give provisions for drainage works on the road.

The road may therefore, not serve the intended purpose for long and public resources may not have been applied lawfully and in an effective manner.

#### **1483.2 Poor Repairs and Maintenance on Road D213 and D210 – Ruma Park**

The Project Management awarded a Contract No. KWS/OT/R&R/58/2017/2018 for routine maintenance of roads in Ruma Park, to a construction firm, on 16 July, 2018 at a cost of Kshs.9,844,224 against a budget of Kshs.12,667,838 from 13 November, 2018 to 13 February, 2019 which had been completed by then. However, physical verification carried out on 1 October, 2019 on Wiga Junction–Kamato-Nyatoto road revealed that, it was in a dilapidated state and almost non-motorable due to lack of proper maintenance despite having been under routine maintenance by the same construction firm.

The circumstances, the park may not have obtained value in respect of the road earmarked for routine maintenance.

#### **1483.3 Non-Maintenance of Ruhuruing-Kanjora Road E580 - Aberdares National Park**

Inspections carried out in September, 2019 revealed that the road was last repaired and maintained in February, 2019 by a construction firm at a cost of Kshs.8,240,756 against a budget of Kshs.10,301,580. The road has not been attended to since then. Physical verification indicated that the road had overgrown vegetation and culverts were blocked making drainage of run off waters to spill on to the road base.

#### **1483.4 Non Rehabilitation of Kindani Bridge and Roje Weru Bridge**

Kindani Bridge had been washed off by the rains and vehicles were forced to bypass the bridge through a temporary road diversion. The road was constructed through a temporary road. Available records revealed that during the implementation stage, the span on ground was longer than what was provided for in the drawings and the height of the deck was lower hence the reason why the deck had been washed off. The contractor was supposed to rehabilitate the bridge but had not done so at the time of the inspection.

Further, Roje Weru Bridge was constructed with timber and was to be replaced with timber deck but was yet to be rehabilitated. The beams meant to replace the timber were ready but the contractor had not presented a quotation as had been requested for approval for rehabilitation. In addition, it was noted that replacing the bridge with equivalent timber deck would not last for long since timber was susceptible to decay as evidenced by the state of the current bridge.

Consequently, the bridge rehabilitation works were not done as per the specifications given and public resources may not have been applied lawfully and efficiently.

## MINISTRY OF TOURISM AND WILDLIFE-VOTE 1204

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 1484 Accuracy, Completeness and Presentation of Financial Statements

##### 1484.1 Unexplained Variances Between the Financial Statements and IFMIS Generated Trial Balance

A comparison between the financial statements and the trial balance items revealed variances in accounts payables-deposits, cash and cash equivalents, and accounts receivables which were not explained or reconciled as tabulated below:

Item	Figure as per Financial Statements (Kshs.)	Figure in the Trial Balance (Kshs.)	Variance (Kshs.)
Accounts Payables-Deposits	34,999,242	10,000,000	24,999,242
Cash and Cash Equivalents	48,393,370	1,231,079,035	(1,182,685,665)
Accounts Receivables – Outstanding Imprest And Clearance Accounts	1,331,527	877,193	454,334

##### 1484.2 Undisclosed Prior Year Comparative Figures

The State Department for Natural Resources was re-organized in June, 2018 under Executive Order No.1 of 2018 creating the Ministry of Tourism and Wildlife, and the Ministry of Environment and Forestry. The Ministry of Tourism and Wildlife operated under vote 1204 for a period of three (3) months ending 30 September, 2018, before it was further re-organized through Executive Order No.1 of 2018 (revised) to the current State Department for Tourism and State Department for Wildlife which have separate votes. However, the financial statements for the three (3) months period do not have comparative figures for prior year period to reflect account balances inherited from the State Department for Natural Resources.

In view of the foregoing, the presentation, accuracy and completeness of the financial statements as at 30 September, 2018 could not be confirmed.

#### 1485 Unsupported Bank Balances

The statement of assets and liabilities reflects a bank balance of Kshs.48,373,926 which represents funds held in various bank accounts operated by the Ministry as at 30 September, 2018. However, the balance was not supported by bank reconciliation statements, board of survey reports and certificates of bank balances as at 30 September, 2018. In addition, the Management did not give the status of

the bank accounts and the balances contained thereof as the Ministry is no longer in operation.

Under the circumstances, the completeness, existence and accuracy of the bank balances of Kshs.48,373,926 could not be ascertained.

#### **1486 Unsupported Accounts Receivables**

As disclosed in Note 8 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.1,331,527 under accounts receivables which comprise of government imprests, salary advances and clearance accounts of Kshs.309,300, Kshs.482,480 and Kshs.539,747 respectively. However, supporting schedules for the salary advances and the clearance accounts balances were not availed for audit review.

Under the circumstances, the recoverability and accuracy of the accounts receivables balance of Kshs.1,331,527 could not be confirmed.

#### **1487 Unconfirmed Value of Assets**

The statement of receipts and payments reflect an amount of Kshs.9,940,500 incurred on acquisition of assets in the period under review. However, the Ministry did not have an accurate record of all its assets, including non-current assets inherited from the State Department for Natural Resources in June, 2018. This was occasioned by the fact that the vesting of assets to the Ministry of Tourism and Wildlife, and Ministry of Forestry and Environment was not concluded after re-organization of the State Department for Natural Resources.

Under the circumstances, it was not possible to confirm the value of assets relating to the Ministry of Tourism and Wildlife as at 30 September, 2018.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

##### **1488 Late Submission of Financial Statements**

Contrary to the provisions of Section 68(2)(k) and 81(4) of the Public Finance Management (PFM) Act, 2012, the financial statements for the three (3) months' period ended 30 September, 2018 were submitted for audit on 9 March, 2020. This was over five (5) months after the prescribed deadline of 30 September, 2019. Management is in breach of the law to this extent.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1489** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **STATE DEPARTMENT FOR PUBLIC SERVICE AND YOUTH-VOTE 1211**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **1490 Unaccounted for Receipts**

The statement of receipts and payments reflects a total revenues figure of Kshs.3,103,670,982 comprised of transfers from The National Treasury and proceeds from sale of assets of Kshs.3,103,460,390 and Kshs.210,592 respectively. The amount excludes unquantified Appropriations-in-Aid (AIA) generated from commercial activities undertaken by the National Youth Service (NYS) and its various field stations. The activities include the textile factory at NYS headquarters, farming activities at Yatta, Naivasha, Tumaini and Mavoloni field stations and water packaging and distribution at Turbo field station.

Further, the bank statement for Director National Youth Service bank account held at the National Bank of Kenya shows receipts from various institutions totalling Kshs.49,351,256 out of which Kshs.42,194,387 relate to contracts for supply of security personnel to the institutions and Kshs.7,156,869 relate to receipts from othersources.

Although the receipts comprise AIA for the State Department for Public Service and Youth, the amount has not been included in the financial statements neither has these receipts been provided for audit examination.

Consequently, the accuracy and completeness of total revenues of Kshs.3,103,670,982 for the year ended 30 June, 2019 could not be confirmed.

##### **1491 Unsupported Expenditure on Training Expenses**

As disclosed in Note 4 to the financial statements, the statement of receipts and payments for the year under review reflects Kshs.1,088,880,899 under training expenses, out of which an amount of Kshs.191,221,670 paid during the year related to services purportedly rendered from prior years. However, a review of pending bills disclosed for the financial year 2017/2018 indicated that the same were not disclosed or included as pending bills. No sufficient explanation has been provided for failure to disclose the pending bills in the financial statements as required under Regulation 23 (1) (c) and (d) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the accuracy and propriety of use of goods and services expenditure amounting to Kshs.1,088,880,899 for the year ended 30 June, 2019 could not be ascertained.

## **1492 Unsupported Expenditure on Hospitality, Supplies and Services**

The statement of receipts and payment reflects a balance of Kshs.1,887,665,809 under use of goods and services. The balance includes an amount of Kshs.37,960,539 in respect of hospitality, supplies and services that has payments of Kshs.3,077,000, Kshs.1,350,000 and Kshs.3,715,000 in respect of selection panels for recruitment of Chairperson and Members of Commission on Administrative Justice, Salaries and Remuneration Commission and National Gender and Equality Commission respectively.

The following were noted in these payments:

### **1492.1 Commission on Administrative Justice (CAJ)**

Payment for facilitation allowances to Chairperson, Members and Secretariat of the selection panel includes an amount of Kshs.2,987,000 paid to eleven (11) officers of the supporting secretariat including the team leader who was paid Kshs.900,000 for a period of forty-five (45) days at a rate of Kshs.20,000 per day, four (4) members who were paid a total of Kshs.1,260,000 at a rate of Kshs.7,000 per day for forty-five (45) days, five (5) secretarial staff who were paid a total of Kshs.675,000 at a rate of Kshs.5,000 per day for twenty-seven (27) days and one (1) clerical officer who was paid Kshs.152,000 for thirty-eight (38) days at a rate of Kshs.4,000 per day. However, the following was observed:

- i. The Circular of Salaries and Remuneration Commission Ref. No. SRC/TS/AG/3/37 VOL. V (113) dated 19 June, 2018 on rates for payment of allowances for members of selection panels and secretariat staff provided for the rates payable but capped the allowance payable to be limited to the period specified in the letters appointing members of the panel. However, the secretariat staff were paid Kshs.1,832,000 for an additional thirty (30) days over and above the fifteen (15) days period worked by the selection panel in contravention of guidelines provided by Salaries and Remuneration Commission. Further, it should be noted that members of the secretariat are full time service employees who draw a monthly salary from the State Department for Public Service.
- ii. Although the payment was supported by a list of payees, no evidence was provided to show that the respective attendance registers for days worked on the exercise had been maintained rendering the payments doubtful. Further, the roles and responsibilities of each member of the secretariat has not been defined to justify the use of eleven (11) officers to serve six (6) panelists.

### **1492.2 Salaries and Remuneration Commission (SRC)**

Payment of facilitation allowances to support Secretariat of the selection panel includes an amount of Kshs.1,350,000 paid to five (5) officers of the supporting secretariat including the team leader who was paid Kshs.600,000 for a period of thirty (30) days at a rate of Kshs.20,000 per day, three (3) members who were paid a total of Kshs.630,000 at a rate of Kshs.7,000 per day for thirty (30) days, one (1) Clerical officer who was paid Kshs.120,000 for thirty (30) days at a rate of Kshs.4,000 per day. However, the following was observed:

- i. The Circular by Salaries and Remuneration Commission Ref. No. SRC/TS/AG/3/37 VOL. V (113) dated from 19 June, 2018 on rates for payment of allowances for members of selection panels and secretariat staff provided for the rates payable but capped the allowance payable to be limited to the period specified in the letters appointing members of the panel. The secretariat staff were however, paid Kshs.675,000 for an additional fifteen (15) days over and above the fifteen (15) days period worked by the selection panel in contravention of guidelines provided by Salaries and Remuneration Commission. Further, it should be noted that members of the secretariat are full time service employees who draw a monthly salary from the State Department for Public Service.
- ii. Although the payment was supported by a list of payees, no evidence was provided to show that respective attendance registers for days worked on the exercise had been maintained rendering the payments doubtful. Further, the roles and responsibilities of each member of the secretariat has not been defined to justify the use of five (5) officers to serve five (5) panelists.

### **1492.3 National Gender and Equality Commission (NGEC)**

Payment of facilitation allowances to Chairperson, Members and Secretariat of the selection panel includes an amount of Kshs.3,700,000 paid to ten (10) officers of the supporting secretariat including the team leader who was paid Kshs.1,000,000 for a period of fifty (50) days at a rate of Kshs.20,000 per day, five (5) members who were paid a total of Kshs.1,750,000 at a rate of Kshs.7,000 for fifty (50) days, three (3) secretarial staff who were paid a total of Kshs.750,000 at a rate of Kshs.5,000 per day for fifty (50) days and one (1) clerical officer who was paid Kshs.200,000 for fifty (50) days at a rate of Kshs.4,000 per day. However, the following was observed:

- i. The Circular by Salaries and Remuneration Commission Ref No. SRC/TS/AG/3/37 VOL. V (113) dated 19 June, 2018 on rates for payment of allowances for members of selection panels and secretariat staff provided for the rates payable but capped the allowance payable to be limited to the period specified in the letters appointing members of the panel. The secretariat staff however, paid Kshs.1,460,000 for additional twenty (20)



days over and above the thirty (30) days period worked by the selection panel in contravention of guidelines provided by Salaries and Remuneration Commission. Further, it should be noted that members of the secretariat are full time service employees who draw a monthly salary from the State Department for Public Service.

- ii. Although the payment was supported by a list of payees no evidence was provided to show that respective attendance registers for days worked on the exercise had been maintained rendering the payments doubtful. Further, the roles and responsibilities of each member of the secretariat has not been defined to justify the use of fourteen (14) officers to serve eight (8) panelists.

In the circumstances, it has not been possible to confirm the propriety of the expenditure amounting to Kshs.8,142,000 included in hospitality, supplies and services expenditure.

#### **1493 Irregular Payment of Token of Appreciation to Officers of the State Department**

On 25 June, 2018 the Senior Deputy Secretary wrote a Memo to the Principal Secretary requesting for consideration and approval for a payment of Kshs.4,640,000 to three hundred and thirty (330) officers of the State Department as a token of appreciation. The payment was in respect of provision of support services towards realization of various programmes, performance targets and other assignments. The approval was granted on 28 June, 2018. However, a review of details of the payment revealed that the payments were not made directly to the recipient's bank accounts but through thirteen (13) officers who in turn paid the recipients. In such a circumstance, it was not possible to confirm that the amounts benefited the planned beneficiaries and no explanation has been provided for charging the expenditure to employee benefits yet the amounts were not budgeted and paid to the beneficiaries, as it is the case with other employee benefits.

The Memo clearly stated that the request for approval was being made for a nominal payment of Kshs.1,000 per day for twenty (20) days. The same Memo further stated contradicting information that the required amount was Kshs.4,640,000. However, no explanation has been provided on the rate used, the total amounts requested and the number of beneficiaries.

Further, the approval for the payment was requested and granted in the financial year 2017/2018, but the payments were made in the subsequent financial year 2018/2019 yet there were no budgetary provisions thereby adversely affecting the budget for 2018/2019 financial year.

## **Other Matter**

### **1494 Unresolved Prior Year Matters**

In the previous year's audit report, several issues were raised under the Report on Financial Statements leading to a disclaimer of opinion. The issues raised included inability to confirm the accuracy of cash and cash equivalents balance as at 30 June, 2018, unsupported expenditures, unreported and unsupported pending bills, irregular procurement of goods and services, among others. Although the issues have since been discussed by the Public Accounts Committee (PAC), they remain unresolved as PAC is yet to give recommendations for implementation.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1495** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1496** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **NATIONAL YOUTH SERVICE – MECHANICAL AND TRANSPORT FUND**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Disclaimer of Opinion**

### **1497 Statement of Changes in Net Assets**

Paragraph 21 of IPSAS 1 – Presentation of Financial Statements - provides that a complete set of financial statements comprises, among other statements, the statement of changes in net assets. However, the financial statements submitted for audit did not include the Statement of changes in net assets. In the circumstances, the financial statements were not complete.

#### **1498 Inaccurate Comparative Balances**

The revised financial statements reflect various comparative figures which differed with the 2017/2018 financial year audited figures as follows:

<b>Item</b>	<b>Revised Financial Statements (Kshs.)</b>	<b>Audited Financial Statements (Kshs.)</b>	<b>Difference (Kshs.)</b>
Total Revenue	333,434,186	351,337,186	(17,903,000)
Total Expenses	652,609,539	504,227,904	148,381,635
Total Current Assets	1,803,142,765	2,306,628,736	(503,485,971)
Fund Balance	7,134,175,160	8,434,951,013	(1,300,775,853)

No explanation or supporting documentation have been provided to show that the financial statements for the financial year 2017/2018 were restated. Consequently, the accuracy of the balances reflected in the financial statements for the financial year ended 30 June, 2019 could not be confirmed.

#### **1499 Unsupported Adjustments in the Revised Financial Statements**

The supporting documents for adjustment of the following balances reflected in the revised financial statements were not provided for audit:

<b>Item</b>	<b>Initial Balance (Kshs.)</b>	<b>Revised Balance (Kshs.)</b>	<b>Difference (Kshs.)</b>
Inventories	601,564,368	255,027,237	346,537,131
Trade Payables	15,178,418	15,120,143	58,275

Consequently, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

#### **1500 Cash and Cash Equivalents**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.13,307,759 in respect of cash and cash equivalents. However, the bank reconciliation statement reflected an amount of Kshs.11,370,961 relating to receipts in bank not in cashbook which included Kshs.4,754,539 which had been outstanding for more than six (6) months. No explanation has been provided for failure to establish the source and purpose of the direct deposits.

Under the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.13,307,758 could not be confirmed.

#### **1501 Unsupported Income**

The statement of financial performance reflects total income of Kshs.358,423,947 as revenue earned during the financial year 2018/2019. Included in the revenue balance is Kshs.270,552,129, Kshs.12,502,869 and Kshs.74,131,789 relating to

domestic hire, hire of buses and hire of water rigs, plant and equipment respectively. However, the following observations were made:

#### **1501.1 Income from Domestic Hire**

The Fund has leased motor vehicles and transport equipment to the National Youth Service. However, no lease agreement, schedule or listing of distribution of the leased motor vehicles and machinery leased to each field station showing the duration of hire and rates charged for each vehicle or equipment were availed in support of the reported figure of revenue for domestic hire. Further, the invoices availed for audit review had no control numbers or any accountability references and therefore, the completeness and accuracy could not be established. In addition, there is no policy document or contract agreement between the National Youth Service and the Mechanical and Transport Fund showing the applicable rates and mode of leasing for the assets.

Under the circumstances, the accuracy and completeness of the amount of Kshs.270,552,129 relating to revenue from domestic hire could not be confirmed.

#### **1501.2 Income from Commuter Buses**

The buses operate as Public Service Vehicles but the mode of operation revealed that the daily receipts summaries used to record the revenue had no verification checks on the accuracy and reliability of the data by a responsible officer such as route commanders and the accountant in charge to reconcile the collections to the receipts. In addition, the money received as per the daily receipts summaries could not be traced in the miscellaneous receipts book on a daily basis or as a batch and hence the banking of the collections could not be verified.

Further, the bank deposits slips provided in support of the receipts did not show the date the funds were received from commuter buses or reconciled to the specific daily receipts to which they related to, making it difficult to confirm the accuracy and completeness of the recorded and the banked revenue. Although the schedule given to support the revenue earned from commuter buses agreed with the amounts recorded in the financial statements, the revenue recorded in the daily control sheets could not be reconciled to the bankings and the cash book.

As a result, the accuracy and completeness of the Kshs.12,502,869 reported revenue relating to hire of buses could not be ascertained.

#### **1501.3 Hire of Water Rigs, Plant and Equipment**

Information availed for audit examination in support of the income, revealed that income was recognized based on miscellaneous receipts issued and not amount invoiced contrary to the accruals principle of accounting which requires that revenue should be recognized when earned and not received. Further, the quotations and the invoices issued did not have control checks such as pre-numbering hence susceptible to manipulation or change without proper authority.

There were no official quotation receiving registers, acknowledgements and acceptance from the requisitioning entity marked on the documents as proof or confirmation of figures neither were there executed contracts in support of the amounts charged to various customers.

Consequently, the accuracy and completeness of the reported income from hire of water rigs, plant and equipment of Kshs.74,131,789 could not be confirmed.

### **1502 Unsupported and Unauthorized Council Expenses**

The statement of financial performance reflects an amount of Kshs.17,565,851 relating to council expenses. As disclosed under Note 12 to the financial statements, the amount constitutes payments for the full council meetings and sub-committee meetings retreat cost and induction of council members. However, information availed in support of the payments showing the dates, venues of the meetings, nature of the meetings, number of days, rates payable and invitation letters for the council members were not availed for audit verification.

Further, the expenditure related to the National Youth Service Governing Council and not the Mechanical and Transport Fund. The Fund's enabling legal framework and Legal Notice No. 15 of 2011 has no provision for the Governing Council and payments are therefore, not supported by any legal justification and approval from the Accounting Officer of the parent ministry.

As a result, the propriety, validity and accuracy of the expenditure of Kshs.17,565,851 relating to council expenses for the year ended 30 June, 2019 could not be confirmed.

### **1503 Sundry Creditors**

The statement of financial position as at 30 June, 2019 reflects a balance of Kshs.8,579,223 relating to sundry creditors. As reported in the prior years report, the balance has been outstanding for over five (5) years and there is no clear justification on why the amount has not been settled to date. Further, the balance which had been classified as a non-current liability in financial year 2016/2017 was re-classified to current liabilities in financial year 2017/2018 without any justification.

### **1504 Unsupported Commercial Debt**

The statement of financial position for the year ended 30 June, 2019 reflects a balance of Kshs.222,314,863 in respect of receivables from external operations. However, the breakdown of the commercial debts showing the outstanding invoices issued relating to the services rendered by the fund and the periods, were not availed for audit verification. Further, review of individual files provided in support of these debts, revealed that the terms of the quotation for equipment hire charges are strictly payable upfront before commencement of works. Therefore, the Fund Management should not authorize the works commencement before

payment is received. No explanation was provided to show how the equipment were mobilized for private works before receiving the payments.

It was also noted that the quotations and invoices issued have no control checks to ensure accountability as they have no sequence numbers, official receiving stamp and acceptance acknowledgement from the requisitioning entity. Further, the other debts receivables of Kshs.30,408,557 include an outstanding balance of Kshs.2,464,500 in respect of a customer, while summation of the invoices attached to the customer's file reflect a revenue of Kshs.2,635,584 with no receipts recorded to date. In addition, the amount recognized as revenue for the year under review for the particular customer was Kshs.2,239,940 resulting in an unexplained and unreconciled variance of Kshs.395,644.

Under the circumstances, the accuracy and validity of the commercial debts figure of Kshs.222,314,863 as at 30 June, 2019 could not be ascertained.

### **1505 Unauthorized Lending**

The statement of financial position reflects a figure of Kshs.1,287,669,763 relating to receivables from the National Youth Service. Included in the amount is Kshs.635,899,313 borrowed by the National Youth Service during the financial year 2017/2018 and yet to be refunded as at 30 June, 2019. It was also observed that an additional Kshs.74,196,000 was borrowed on 15 November, 2018 without proper authority from the Cabinet Secretary and refunded on 5 March, 2019.

Under the circumstances, the Fund is in breach of the Government financial regulations.

### **1506 Prepayments**

The statement of financial position reflects an amount of Kshs.38,488,596 relating to the closing balance of prepayments by clients as at 30 June, 2019. However, the figure of Kshs.40,996 for clients deposits reflected under Note 20 to the financial statements, have been carried forward for over four (4) years and no explanation has been provided on why services in respect of this prepayment have not been offered yet. Further, the breakdown and supporting documents for the prepayment of Kshs.4,880,005 relating to Embu County Government reflected under Note 20 to the financial statements has not been provided for audit verification.

Consequently, the accuracy and completeness of the figure for prepayments of Kshs.38,488,596 could not be confirmed.

### **1507 Inventory**

The statement of financial position as at 30 June, 2019 reflects a figure of Kshs.255,027,237 relating to inventories (spares). However, physical verification of stocks as at March, 2020 revealed that tyres of unquantifiable amount were being held in the stores since 2017 and had not been captured in the stores ledger cards or taken on charge in the inventory records. Under the circumstance, the

inventory, though belonging to the Fund had not been included in the total inventory value as at 30 June, 2019 and hence the stock value reported in the financial statement is understated and inaccurate.

Further, the inventory balance as at 30 June, 2019 includes spares procured in the financial year 2014/2015 amounting to Kshs.175,780,240 which have had no movement or consumption during the year 2017/2018 and 2018/2019 hence may be obsolete or have no use. There is need to adhere to assets management as per Regulation 139 of the Public Finance Management (National Government) Regulations, 2015.

In addition, the closing inventory of Kshs.255,027,237 for the year ended 30 June, 2019 has no supporting documents with regard to the quantities and the inventory valuation, neither was there evidence or disclosure of the criteria used to value the inventories reported in the statement of financial position in line with paragraph 15 of IPSAS 12 which requires that inventory be reported at the lower of cost or net realizable value.

Consequently, the accuracy and completeness of the figure of Kshs.255,027,237 for inventories could not be confirmed.

#### **1508 Non-Current Assets**

The statement of financial position as at 30 June, 2019 reflects a total non-current assets balance of Kshs.4,951,705,420 which includes an amount of Kshs.3,213,778,096 relating to plant and heavy machinery. However, the Fund's Management has not valued the plant and heavy machinery for financial reporting purposes since inception.

In addition, the statement of financial position as at 30 June, 2016 and the non-current assets movement schedule under Note 3 reflected a total net book value of Kshs.6,263,076,867 while the computed figure using appropriate rates showed a balance of Kshs.6,366,028,632. The resulting variance of Kshs.102,951,765 has not been analyzed or explained to date.

Further, and as previously reported in 2015/2016, the accumulated depreciation brought forward as at 1 July, 2016 of Kshs.2,178,510,682 included unsupported adjustments of Kshs.3,662,814.25 relating to plant and heavy machinery and unaccounted for depreciation of Kshs.94,168,883. No documentation has been provided in support of these adjustments to date.

Also, physical verification of assets owned by the Fund revealed that assets procured during the year at a cost of Kshs.12,962,212 which included ten (10) motor cycles, twenty-one (21) diesel generators and ten (10) water pumps could not be verified. Evidence that the Fund Management complied with the public procurement law and procedures to purchase the items and the distribution list for the items were not provided for audit verification. Logbooks or ownership documents for assets amounting to Kshs.43,821,753 were not availed for audit verification. Five (5) of the twenty-seven (27) buses used for commuter services

were not in use due to maintenance challenges hence grounded. No evidence has been provided to show that procurement of spares to reinstate the vehicles back in service is ongoing.

Consequently, the accuracy of the figure for net non-current assets of Kshs.4,951,705,420 could not be confirmed.

#### **1509 Procurement and Payment for Servicing of Motor Vehicles and Machinery**

The statement of financial performance reflects a figure of Kshs.54,803,862 relating to stores and service expenses for the year. Analysis of the ledger shows various payments to twelve (12) service providers totalling to Kshs.16,122,656 were made in the final week of the financial year. However, the details relating to requisitions, procurement process approvals, professional opinions and certificate of inspection and acceptance for services were not provided to the Fund.

Under the circumstances, the propriety, accuracy and authenticity of the expenditure of Kshs.16,122,656 could not be confirmed.

#### **1510 Stores and Service Direct Procurement Through Cash**

The statement of financial performance and Note 5 of the financial statements reflects an amount of Kshs.54,803,862 in respect of stores and services. Examination of the accounting records indicated that the Fund paid an amount of Kshs.8,042,746 for various supplies in cash through the Officer in Charge being direct payments for services without compliance with Section 104 of the Public Procurement and Asset Disposal Act, 2015. Further, the payments were not supported with appropriate user requisitions, approvals and certificate of inspection and acceptance for services rendered to the Fund. No explanation has been provided for non-compliance with the law on procurement for goods and services.

#### **1511 Prior Year Audit Issues**

Although a number of issues reported in the prior years' audit reports remained unresolved as at 30 June, 2019, Management did not disclose the progress on follow up of the auditor's recommendations on the matters in the financial statements as required by the Public Sector Accounting Standards Board. The matters remained unresolved as at 30 June, 2019.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1512** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain



sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1513** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## STATE DEPARTMENT FOR GENDER-VOTE 1212

### REPORT ON THE FINANCIAL STATEMENTS

#### Basis for Qualified Opinion

#### 1514 Accuracy and Completeness of the Financial Statements

##### 1514.1 Unexplained Variances Between Financial Statements and IFMIS Balances

A comparison between the financial statements for the year ended 30 June, 2019 and the supporting schedules generated from the Integrated Financial Management Information System (IFMIS) revealed various variances as shown below;

Item	Financial Statements (Kshs.)	IFMIS Supporting Schedule (Kshs.)	Variance (Kshs.)
Bank Balance	706,549	2,767,771,614	(2,767,066,065)
Cash Balance	0	7,970,692,008	(7,970,692,008)
Receivables – Imprests & Clearance	1,109,552	24,545,755	(23,436,203)
Payables	0	4,018,691,633	(4,018,291,633)
Prior Year Adjustments	4,207,522	0	4,207,522

Management has not explained or reconciled the variances.

##### 1514.2 Unsupported Prior Year Adjustments

The statement of assets and liabilities and the statement of cash flows for the year ended 30 June, 2019 reflects prior year adjustments amounting to Kshs.4,207,522. However, the justification for these adjustments and the documentary evidence to support the figures have not been provided for audit verification. Further, the prior year adjustments have not been done in line with the International Public Sector Accounting Standards which require restatement of all affected prior year balances in the financial statements.

##### 1514.3 Non-Compliance with Financial Reporting Guidelines

The financial statements presented for audit review contain an unsigned forward by the Cabinet Secretary in line with guidelines issued by the Public Sector Accounting Standards Board. The financial statements are therefore, not fully signed as required.

### **1515 Unsupported Routine Maintenance – Other Assets**

The statement of receipts and payments reflects an expenditure of Kshs.573,338,957 under use of goods and services which includes Kshs.13,774,341 incurred on routine maintenance – other assets. The latter balance includes cost of office partitioning works amounting to Kshs.8,512,000 undertaken by a contractor. However, the following documents were not made available for audit review; terms and conditions of contract, specifications of material for use, drawings and priced bills of quantities.

Consequently, the accuracy, propriety and validity of the routine maintenance – other assets expenditure of Kshs.13,774,341 for the year ended 30 June, 2019 could not be confirmed.

### **1516 Non-Disclosure of Retention Fees - Deposits**

The statement of assets and liabilities for the year ended 30 June, 2019 reflects a nil balance for deposits. However, whereas the Department undertook and paid for partitioning works costing Kshs.8,512,000 during the year under review, the records maintained does not show any retention withheld for the financial year 2018/2019. As a result, the accuracy of the nil balance for deposits in respect of the financial year ended 30 June, 2019 could not be ascertained.

### **1517 Outstanding Imprest**

The statement of assets and liabilities reflects a balance of Kshs.1,109,522 (2017/2018 - Kshs.4,040,670) as outstanding imprest for the year ended 30 June, 2019. These imprests should have been surrendered or recovered in full from the salaries of the defaulting officers with interest, as they were more than three months old as at the year end. The non-recovery or non-surrender has not been explained.

Further, the outstanding imprests amounting to Kshs.1,109,522 (2017/2018 - Kshs.4,040,670) as per the financial statements does not agree with the balances reflected in the trial balance and Imprest register of Kshs.7,810,615 (2017/2018 - Kshs.6,851,199) and Kshs.2,500,624 (2017/18 - Kshs.11,414,313) respectively. The resultant variances between the three sets of records have not been reconciled.

Under the circumstances, the completeness, accuracy and recovery of the outstanding imprests of Kshs.1,109,522 as at 30 June, 2019 could not be confirmed.

### **1518 Summary of Fixed Assets Register**

The summary statement of fixed assets reflects a fixed assets balance of Kshs.305,822,165 which includes intangible assets of Kshs.239,437,500 acquired during the year under review. However, the State Department did not

maintain an updated fixed asset register as required. Further, the brought forward fixed assets balance of Kshs.38,692,930 was not reconciled to the comparative acquisition of assets figure of Kshs.482,888,200 shown in Note 6 to the financial statements.

Under the circumstances, it has not been possible to confirm the completeness and accuracy of the fixed assets balance of Kshs.305,822,165 (2017/2018 - Kshs.38,692,930) as reflected in the financial statements for the year ended 30 June, 2019.

### **1519 Pending Bills**

Note 12 and Annex 1 of the financial statements, reflects pending bills of Kshs.107,300,408 as at 30 June, 2019, for supply of sanitary pads, that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged. Further, records to support the delivery of 1,761 packets of sanitary pads worth Kshs.48,780 were not produced for audit review. Consequently, the completeness and accuracy of the pending bills balance of Kshs.107,300,408 as at 30 June, 2019 could not be confirmed.

### **1520 Compensation of Employees**

The compensation of employees amounting to Kshs.205,404,606 for the year ended 30 June, 2019, includes an amount of Kshs.3,819,832 paid to a senior officer, Secretary- Gender Affairs. However, it was noted that the declaration of the vacant position of the Secretary- Gender Affairs was not processed through the Ministerial Human Resource Management Advisory Committee (MHRMAC) as per the requirements of Section B.3(3) of the Human Resource Policy and Procedure Manual, the officer's recruitment was not done through competitive process and the officer recruited did not possess the required qualification of strategic leadership development course at the time of recruitment. Further, the officer recruited on local agreement terms for a period of three years was placed at the maximum of the salary scale of that job group contrary to the requirement of Section C. (2) of the Human Resource Manual which requires that on first appointment, an officer will enter the salary structure at the minimum point of the respective salary scale. This resulted to salary overpayment of Kshs.1,853,103, including arrears of Kshs.145,243, in the year under review. The Local Agreement Form PSC 38, Employment on Contract Terms, submitted for audit review were both unsigned and undated.

In the absence of evidence that due process was followed in the declaration, recruitment and salary determination, the regularity, accuracy and validity of the amount of Kshs.3,819,832 paid as compensation to the officer included in the compensation of employees expenditure of Kshs.205,404,606 for the year ended 30 June, 2019 could not be confirmed.

## **1521 Wasteful Expenditure included in Domestic Travel and Subsistence**

The statement of receipts and payments reflects an expenditure of Kshs.573,338,957 under use of goods and services which includes Kshs.40,458,428 incurred on domestic travel and subsistence. As disclosed in Note 3 to the financial statements, the balance of Kshs.40,458,428 includes an amount of Kshs.1,074,000 incurred to facilitate a private function in respect of the launch of a book by a senior citizen at State House, Nairobi. The expenditure was paid in form of allowances, entertainment and hiring of vehicles of Kshs.814,000, Kshs.220,000 and Kshs.40,000 respectively. However, no evidence was provided to show whether the activity was included in the Department's annual work plan. Further, no authority was sought or obtained from Salaries and Remuneration Commission (SRC) as constitutionally required to guide on the payment of the allowances to the participants, and no documentation was provided to support how the entertainment groups and the service providers were identified and procured. In addition, it was not explained why public funds were used to facilitate a private function and how the Kenyan public got value for the amount spent. Further, the procurement method used for cash purchases was irregular as the purchases were in excess of the allowed threshold.

In these circumstances, it has not been possible to ascertain the propriety and value for money of the Kshs.1,074,000 included in the domestic travel and subsistence expenditure of Kshs.40,458,428 for the year ended 30 June, 2019.

## **1522 Outstanding Previous Year Audit Issues**

The following previous year audit issues remained unresolved as at 30 June, 2019.

### **1522.1 Presentation of the Financial Statements - Unsupported Adjustments**

As previously reported, adjustments made on the first set of submitted financial statements and the amended financial statements were not supported.

Thus it was therefore not possible to ascertain whether the financial statements presented a true and fair view as at 30 June, 2018. Further, in Note 7 to the statements, the comparative balance for the proceeds from foreign borrowings was not consistent with the previous year audited financial statements and the balance indicated in Note 3, proceeds from domestic and foreign grants was not reflected in the statements for the year ended 30 June, 2018.

### **1522.2 Misstatement of Social Security Benefits Account Balance**

As in the previous audit report, included in the total payments amount of Kshs.3,931,970,274 was an amount of Kshs.6,820,000 disclosed under Note 17 as Social Security Benefits. The amount refers to service gratuity paid to the former Accounting Officer after termination of contract of service on 30 May, 2018. According to the appointment letter, the officer was appointed as a Principal Secretary effective from 27 June, 2013 to 30 June, 2018 (both days inclusive) and

hence the payable gratuity was Kshs.6,095,773. Records held by the Department showed that gratuity paid to the officer amounted to Kshs.7,845,269 whereas the financial statements reflected an expenditure of Kshs.6,820,000 for the same item. The account balance was therefore understated by Kshs.1,025,269 which was wrongly charged to the basic wages.

### **1522.3 Cash and Cash Equivalents**

As previously reported, included in the statement of assets and liabilities and statement of cash flows was a bank balance of Kshs.166,852. Both the Central Bank Certificate of balance and the bank statement showed a figure of Kshs.986,547 while the cash book as at 30 June, 2018 reflected a balance of Kshs.166,852. The variance between the two amounts has not been reconciled or explained. Further, receipts amounting to Kshs.139,799 in the cash book comprising of R/D Loan Agencies of Kshs.50,969.85, unspent balance surrender of Kshs.67,465.08 and unspent AIE balances of Kshs.21,364 have not been supported. Consequently, the accuracy of the cash and cash equivalents balance of Kshs.166,852 as at 30 June, 2018 could not be confirmed.

### **1522.4 Communication Supplies and Services**

During the year ended 30 June, 2018, the Department procured airtime credit cards for the officers worth Kshs.1,335,000. Out of this payment, airtime worth Kshs.141,000 was procured through temporary imprest in contravention of the regulations on control over imprest. Airtime credit cards worth Kshs.1,194,000 for the months of July to September, 2017 was procured through direct procurement method but the Department has not provided evidence to show that the procurement was reported to the Public Procurement Regulatory Authority as required. Further, out of the total of Kshs.1,335,000 airtime given to officers, airtime worth Kshs.627,000 was provided to officers over and above their applicable entitlement contrary to regulations. As a result, the propriety of the airtime expenditure of Kshs.1,335,000 and recovery of the overpayment of Kshs.627,000 could not be ascertained.

### **1522.5 Domestic Travel and Subsistence**

Included in the domestic travel and subsistence allowance balance of Kshs.41,394,453 were irregular payments for taskforces allowances amounting to Kshs.5,028,000. The officers were paid when performing various tasks that were under their normal work obligations and in line of their duties. Further, the payments were made without the requisite authorities from the Accounting Officer. Also included in the domestic travel and subsistence is an amount of Kshs.500,000 paid to one thousand (1,000) participants during a Women Enterprise Fund (WEF) capacity building program as refunds for fare. However, it was not explained which criteria was applied to identify the participants and why an expense relating to WEF was included in the Department's financial statements and not the WEF financial statements. Consequently, the propriety of the total expenditure of Kshs.5,528,000 could not be confirmed.

## **1522.6 Pending Bills**

During the year under review the financial statements under Note 28.1 and Annex 1, reflects pending bills amounting to Kshs.222,945,974 as at 30 June, 2018. The following issues were noted;

### **1522.6.1 Procurement**

The State Department contracted various suppliers for supply and delivery of sanitary towels to public primary, special primary and secondary schools at a total cost of Kshs.420,618,059. The contracts were signed on 27 and 28 March, 2018 with deliveries expected between 27 April and 15 June, 2018. The expenditure on sanitary towels of Kshs.218,421,103 was reported as pending bills and paid in the subsequent financial year, 2018/2019. Further, some contractors were either overpaid or underpaid by Kshs.6,189,081 and Kshs.5,273,863 respectively. The overpayments and under payments were not explained.

### **1522.6.2 Deliveries**

Records held by the State Department showed that for the contractors paid, out of the expected quantities of 7,451,146 units only 7,050,460 units were supplied. The under supply of 449,186 units worth Kshs.12,447,742 which are past the due dates of deliveries as per the contracts have not been explained.

In view of the foregoing, the completeness and accuracy of the pending bills balance of Kshs.218,421,103 could not be confirmed as at 30 June, 2018.

## **1522.7 Un-Accounted for Fuel, Oils & Lubricants**

The State Department paid for supply of fuel worth Kshs.10,921,980 in the year ended 30 June, 2018. Although the procurement was done procedurally, the procured fuel was not accounted for in both the fuel registers and the motor vehicles work tickets. As a result, the expenditure of Kshs.10,921,980 on fuel, oils and lubricants had not been accounted for as at 30 June, 2018.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1523 Irregular Procurements**

##### **1523.1 Irregular Procurement Methods**

The State Department paid Kshs.8,512,000 for partitioning works of its offices. However, it was noted that whereas the restricted tendering method of procurement was used, none of the conditions stipulated in the Public Procurement and Asset Disposal Act, 2015 were satisfied and no explanation has been provided

for the use of the method. Further, the Department procured services for event organizing and paid Kshs.2,800,000. However, there was no explanation on which procurement method was applied and therefore, it was not possible to confirm whether value for money was achieved and that the department adhered to the existing laws as outlined in the relevant regulations.

### **1523.2 Uncompetitive Procurements**

The State Department paid Kshs.1,240,000 for the supply of toners and Kshs.690,000 for supply and delivery of photocopying papers. However, from the documents submitted for audit, it was noted that the three (3) firms invited to quote and which responded for each of the procurement have the same person as the contact person. In addition, the Department paid Kshs1,755,260 for supply and delivery of assorted furniture and Kshs.1,532,000 for supply and delivery of television sets. It was however observed that two (2) of the bidders in each of the procurement have a common director and their quotation documents had been stamped with the stamps of the two firms.

From the foregoing the competitiveness of the procurement process could not be confirmed and value for money may not have been obtained.

### **1523.3 Procurement without Specifications**

The State Department procured iPad tablets for Kshs.815,992. However, no specifications were stated in the said procurement. It was therefore not possible to establish how the evaluation was carried out for uniformity and what the inspection and acceptance committee relied on in its inspection and acceptance of the delivered items.

### **1523.4 Retrospective Procurements Approvals**

The State Department paid Kshs.800,000 for supply of tonners. However, while the professional opinion was issued on 3 May, 2019 recommending the awarding to the lowest bidder at a cost of Kshs.800,000, the purchase order had already been raised on 28 January, 2019.

Further, the State Department paid Kshs.754,000 on 30 June, 2019 for supply of branded items. However, while the professional opinion for this procurement was dated 24 June, 2019 and the purchase order raised on 30 June, 2019, the delivery was made on 21 June, 2019 implying that the delivery had long been made before the procurement process was completed. The inconsistency has not been explained. There was also no evidence that this purchase was competitively sourced since bids from other firms were not availed for audit scrutiny.

In the circumstances, the procurements were made contrary to Section 69 (2) of the Public Procurement and Asset Disposal Act, 2015.



### **1523.5 Procurement from Un-Prequalified Supplier**

The State Department paid Kshs.935,000 for provision of event organization services. However, the quotations opening committee minutes and evaluation reports were not availed for audit review. None of the firms who submitted their bids had been prequalified by the Department for the provision of these services and therefore, were ineligible to bid for the services. Further, information available shows that the firm awarded is in the business of supplying industrial chemicals and detergents.

### **1524 Improper Use of Government Vehicles**

A work ticket No. 896626 showed that the respective vehicle left Mombasa for Nairobi on 1 September, 2017 at 9.00 am and arrived in Nairobi at 22.40 pm. It was however noted that the same vehicle vide work ticket No. M896617 left Nairobi for Kenya School of Government - Kabete on 1 September, 2017 at 8.00 am and arrived at 1.20 pm and covered a distance of 107 km. It has not been explained how one vehicle had two (2) work tickets opened for it and was in two (2) different places at the same time. Further, sixteen (16) motor vehicle work tickets were not availed for audit review.

### **1525 Non-Compliance with Regulations and Executive Order Requirements**

There is no evidence that the State Department has complied with the Executive Order Number 2 of 2018 which require that all public procuring entities maintain and continually update and publicize, through official Government publications and platforms, the information required and detailed in the Order. No explanation has been given for the non-compliance with the Order. Further, the State Department did not comply with the mandatory reporting requirements to the Public Procurement Regulatory Authority (PPRA) within the stipulated timelines and format as prescribed in the Public Procurement and Asset Disposal Act, 2015 and Circular No. 01/2016 on 16 December, 2016.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

### **1526 Failure to Constitute an Audit Committee**

The State Department has not constituted an Audit Committee as required by Section 174(1) of the Public Finance Management Regulations, 2015 and Treasury Circular No. NT/IAG/GEN/055(163) of 26 April, 2016.

## **UWEZO FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Disclaimer of Opinion**

##### **1527 Presentation and Inaccuracy of the Financial Statements**

The statement of comparison of budget and actual amounts did not reflect the budget and actual amounts for revenue as required by the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) and The National Treasury. In addition, the statement reflects total expenses amounting to Kshs.243,584,574 while the statement of financial performance reflects total expenditure of Kshs.240,605,113. The variance of Kshs.2,979,461 has not been explained or reconciled.

Under the circumstances, it has not been possible to confirm the completeness and accuracy of the financial statements for the year ended 30 June, 2019.

##### **1528 Unsupported Constituencies Administration Costs**

The statement of financial performance and Note 16 to the financial statements reflects an amount of Kshs.115,568,891 as constituencies' administration costs which were not supported with the relevant documentary evidence in form of comprehensive expenditure returns.

Under the circumstances, the accuracy of the constituencies administration costs of Kshs.115,568,891 could not be confirmed.

##### **1529 Cash and Cash Equivalents**

The statement of financial position and Note 17 to the financial statements indicate an amount of Kshs.2,881,305,135 in respect of cash and cash equivalents. As reported in the previous year, the Fund maintained three (3) bank accounts for each of the 290 constituencies in Kenya distributed over nine (9) commercial banks which had a total bank balance of Kshs.2,333,718,282 as at 30 June, 2019. However, the following issues were noted in respect of the balance:

- (i) Management has availed the documents in support of the reported balances in form of bank reconciliation statements, bank balance confirmation certificates, board of survey reports and copies of cash books, for each of the three (3) bank accounts for only seventy-one (71) constituencies representing Kshs.573,877,689 or about 25%. However, for ninety-two (92) constituencies there was partial submission of supporting documentation and for one hundred and twenty-seven (127) constituencies, there were no documents submitted in support of the reported balances.

- (ii) The constituencies' reported bank balances were not based on the Fund's accounting records since they comprised the unreconciled bank balances as reflected in the respective bank balance confirmation certificates, instead of the reconciled cashbook balances. Further, the bank balances confirmation certificates and/or the bank statements for one hundred and twenty-seven (127) constituencies as noted above were not availed for audit purposes.
- (iii) The bank reconciliation statements for the bank accounts for nine (9) constituencies as shown below had stale unrepresented cheques of Kshs.1,801,139 as at 30 June, 2019. The Management had not initiated the process of reversing the cheques and no explanation has been provided for the non-reversal.

No.	Constituency	Account			Total (Kshs.)
		Main (Kshs.)	Administration (Kshs.)	Loan Repayment (Kshs.)	
1	Manyatta	100,000			100,000
2	Mwingi West	50,000	22,000		72,000
3	Kaiti	100,000			100,000
4	Makueni	100,000			100,000
5	Kikuyu	200,000		177,143	277,143
6	Tetu	410,000			410,000
7	Mwea			439,496	439,496
8	Rongai			150,000	150,000
9	Njoro	52,500			
	<b>Total</b>	<b>1,012,500</b>	<b>22,000</b>	<b>766,639</b>	<b>1,801,139</b>

- (iv) The reported bank balance of Kshs.7,548,545 for Marakwet West Constituency loan account included an amount of Kshs.1,522,395 appearing in the bank reconciliation statement as receipts in bank statement but not recorded in the cashbook that has been appearing in the reconciliation statements for this account since the year 2015. Management did not explain the sources of the receipts and why they have not been cleared for over five (5) years. In the absence of such determination, the accuracy of the reported bank balance of Kshs.7,548,545 for Marakwet West Constituency loan account could not be confirmed.

Under the circumstances, it has not been possible to ascertain the existence, accuracy, completeness and validity of the cash and the bank balance of Kshs.2,881,305,135 as at 30 June, 2019.

### 1530 Loans to Groups

The statement of financial position as at 30 June, 2019 and Note 19 to the financial statements reflects an amount of Kshs.3,992,873,484 as outstanding loans to

groups. The reported balance has been derived by taking the initial National Government capital grants amount of Kshs.5,854,400,004 and adding Kshs.445,000,000 transferred to the loan fund account and from the resultant total of Kshs.6,299,400,004 deducting the amount of monies held in; CBK Bank Account - Kshs.29,133,230, the loan repayment accounts - Kshs.1,318,113,323 and the main account - Kshs.959,279,966 all of which were not supported.

Further, there were no debtors' ledgers detailing loans issued by the Fund since inception and the repayments made over the years on account of any loan recovery nor were there comprehensive loan listings and/or aging analysis in support of the outstanding loans. In addition, no records of the loans advanced to groups including the evaluation and authority to issue loans were availed for audit review.

Consequently, the existence, accuracy, completeness, validity and recoverability of the loans to groups balance of Kshs.3,992,873,484 as at 30 June, 2019 could not be confirmed.

### **1531 Work-in-Progress**

As reported in the previous year, the statement of financial position reflects a balance of Kshs.19,522,765 under work-in-progress representing 40% part payment in respect of an Enterprise Resource Planning (ERP) software procured and contracted for in the financial year 2015/2016. The supply, installation and commissioning of the application is yet to be made even though the 40% part payment was made over four (4) years ago and recognized in the statements. Information available for audit, and as observed in the previous years' audit indicates that the implementation of the ERP which was contracted at a sum of Kshs.48,806,912 has been called off even though there is a valid contract between the Fund and the supplier. Further, the recoverability and utilization of the part payment of Kshs.19,522,765 is doubtful given that the Fund appears to have stopped the implementation of the software. The value for money received by the Fund in respect of the software could not therefore, be ascertained.

In the circumstances, the validity, existence and accuracy of work-in-progress balance of Kshs.19,522,765 could not be confirmed.

### **1532 Unsupported Balances**

The following balances reported in the statement of financial position, statement of cash flows and respective notes to the financial statements were not supported and no documents were provided for audit verification:

<b>Balance</b>	<b>Note</b>	<b>Amount (Kshs.)</b>
Trade and Other Payables	21	4,171,786
Non-Current Receivables	24	72,648,086
Adjustments on Cash and Cash Equivalents – Trade and Other Receivables	25	3,018,274

Under the circumstances it was not possible to confirm the completeness and accuracy of the stated balances as reflected in the financial statements.

### **1533 Financial Misconduct**

Records held by the Fund Management shows that on diverse dates between 30 July, 2017 and 30 January, 2018, cash amounting to Kshs.3,160,000 was fraudulently withdrawn from Bumula Constituency loan repayment account No. 01141536532902 in Bungoma County contrary to the head of secretariat's instructions on management of Uwezo Fund bank accounts vide letter reference number UWZ/2015/CIR/Vol.1(1) of 26 March, 2015 to sub-county youth officers, the requirements of the Principles of Public Service (Article 232), the National Values (Article 10), the Penal Code, the Public Finance Management Act, 2012 and the Public Officer Ethics Act.

Uwezo Fund Management has not availed any evidence either to show that the amount fraudulently withdrawn has been recovered or any legal or administrative action has been taken against the involved officers entrusted with management of the funds. The loss has also not been disclosed at the foot notes to the financial statements as required under Regulation 137 (2) (d) of Public Finance Management Regulations, 2015.

### **1534 Unresolved Prior Year Issues**

As disclosed under the progress on follow up of auditor's recommendations section of the financial statements, various prior year's audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year's audit issues.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1535** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1536** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

# **STATE DEPARTMENT FOR PUBLIC SERVICE-VOTE 1213**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1537 Unsupported Cash and Cash Equivalents**

As disclosed under Note 9A to the financial statements, the statement of assets and liabilities reflects an amount of Kshs.99,332,002 in respect of cash and cash equivalents which includes Kshs.281,361 relating to recurrent account. The bank reconciliation for the recurrent account reflects several transactions in relation to payments in cashbook not in bank statements amounting to Kshs.397,979,021 which do not bear crucial details such as dates and reference numbers. Further, the bank reconciliation contains unexplained transfers without details totalling to Kshs.3,312,995 reflected as receipts in cashbook not in bank statement and whose details like source of the receipts and the date cleared in the bank statement were not provide for audit review.

Consequently, the accuracy and completeness of the reported amount for cash and cash equivalents of Kshs.99,332,002 as at 30 June, 2019 could not be confirmed.

#### **1538 Unreconciled Accounts Payables - Deposits**

The statement of assets and liabilities and Note 11 to the financial statements reflects accounts payables of Kshs.98,531,269 relating to deposit and AIE balance received from the State Department for Information Communications and Technology (ICT). The State Department for Public Service received Kshs.189,621,513 through AIE No. B046854. However, a letter dated 23 August, 2019 sent to the Principal Secretary, State Department for ICT shows that Kshs.143,435,585 had been expensed as at 30 June, 2019 leaving a balance of Kshs.46,185,928 unspent. However, analysis of the accounts payables shows that the State Department for Public Service spent Kshs.107,952,821 compared to the actual expenditure reported of Kshs.143,435,585 by the State Department for ICT leading to a variance of Kshs.35,482,764 which has not been explained or reconciled.

#### **1539 Communication, Supplies and Services-Procurement of Fixed Data Internet Services**

The statement of receipts and payment as disclosed under Note 4 to the financial statements reflects a total amount of Kshs.1,366,359,069 for use of goods and services which includes an amount of Kshs.131,593,740 relating to communication, supplies and services. The State Department entered into a contract with an internet service provider for provision of wide area network links and internet services for the Huduma Centres, Huduma Kenya Secretariat and Huduma Data Centres across the Country at a monthly contract sum of

Kshs.5,759,168 and for a period of two (2) years starting on 6 June, 2017 to 5 June, 2019. However, the following anomalies were noted in relation to the payments:

#### **1539.1 Internet Provision (January, 2018 to March, 2018)**

A payment of Kshs.17,351,071 was made to an internet service provider on 30 June, 2019 for provision of internet services for the invoice period from January to March, 2018. The invoice from the service provider was raised and issued on 27 December, 2017 and should therefore have formed a charge to the financial year 2017/2018. This amount was not disclosed in the list of pending bills for the year ended 30 June, 2018 and hence was not part of the budget for the financial year ending 30 June, 2019. No evidence of approval of re-allocation of budget was provided for audit verification.

Further, according to the contract documents, the agreed monthly sum for provision of internet services was set at Kshs.5,759,168 all totalling to Kshs.17,277,504 per quarter, whereas the computed quarterly charge as per the invoice attached is Kshs.17,351,071 resulting to an overpayment of Kshs.73,567 for that period.

#### **1539.2 Internet Provision April, 2019 to June, 2019**

Examination of payments to the same service provider showed that an amount of Kshs.17,762,964 was paid through payment voucher No.4 on 30 June, 2019 for services provided during the period from April to June, 2019. The contract documents explicitly provided that the end date for provision of the services was 5 June, 2019. However, invoice No.3102003 dated 2 April, 2019 was for the whole month of June, 2019, including the twenty-five (25) days after the expiry of the contract period, resulting into a payment without a contract of Kshs.4,736,790.

Further, according to the contract document, the agreed monthly sum was set at Kshs.5,759,168 whereas the computed monthly charge as per the invoice attached was Kshs.5,920,988 resulting to an overpayment of Kshs.161,820 per month all totalling to Kshs.485,460 during the contract period.

#### **1539.3 Internet Service Provision (April, 2018 to March, 2019)**

Two (2) invoices dated 27 December, 2017 and 2 April, 2019 were raised and issued by the service provider to Huduma Kenya Secretariat for payment for the periods of service from January to March, 2018 and from April to June, 2019 respectively. The billing for the period between March 2018 and April 2019 was not provided. There was no evidence to show that the same was either paid or the amount was included in the pending bills as at 30 June, 2019.

#### **1539.4 Internet Service Provision (April, 2019 to June, 2019)**

The State Department on 6 June, 2017 entered into a contract with another internet service provider for provision of wide area network links and internet services for the Huduma Centres, Huduma Kenya Secretariat and Huduma Data Centres

across the Country at a monthly contract sum of Kshs.4,958,276 and for a period of two (2) years starting from 6 June, 2017 to 5 June, 2019. The payment of Kshs.14,874,828 was made on 30 June, 2019 in respect of the period from April, to June, 2019. However, the vendor issued an undated tax invoice for the period 1 April, 2019 to 30 June, 2019 which included a demand for payment for the whole month of June, 2019 including twenty five (25) days after the expiry of contract period on 5 June, 2019, resulting to an overpayment of Kshs.4,131,897. No extension of the contract to cover this period was provided for audit review.

#### **1540 Unsupported Routine Maintenance - Hire of Motor Vehicles**

Note 4 to the financial statements reflects an amount of Kshs.6,292,001 in respect of routine maintenance- vehicles and other transport equipment. The amount includes a payment of Kshs.1,472,000 for hire of twelve (12) cars for four (4) days. However, the contract between the State Department and the service provider detailing the rate payable per day for different vehicles was not attached to support the payment. As a result, it was not possible to ascertain whether the correct rates were charged, and that the vehicles requested and provided were as per requisition. Further, no accountable records showing or indicating the number of cars hired, vehicle engine capacity and registration numbers were availed for audit verification. Further, evidence of service delivery in form of certification of services rendered by the firm was not provided for audit verification.

Consequently, the accuracy, completeness and authenticity of the expenditure amounting to Kshs.1,472,000 incurred on hire of motor vehicles could not be confirmed.

#### **1541 Unsupported Expenditure on Africa Public Service Day Celebrations (APSD)**

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.1,366,359,069 under use of goods and services which includes an amount of Kshs.148,998,412 in respect of hospitality supplies and services. Information available indicates that on 22 May, 2019, The National Treasury granted the State Department for Public Service authority to access funds amounting to Kshs.101,454,747 meant for the African Public Service Day celebrations. The funds were budgeted under Headquarters Administrative Services - DPSM in the revised recurrent expenditure estimates for 2018/2019 financial year. However, out of the budget of Kshs.101,454,747 for the APSD only Kshs.8,132,883 can be traced to the ledger for hospitality, supplies and services. The balance of Kshs.93,321,864 has not been accounted for or reconciled.

#### **1542 Unapproved Expenditure on Purchase of ICT Equipment**

Review of the office and general expenses ledger shows that the State Department incurred an expenditure of Kshs.22,975,592 on acquisition of ICT equipment. The



expenditure includes amounts of Kshs.12,513,000, Kshs.4,183,000 and Kshs.6,279,592 charged to office and general supplies, other operating expenses and routine maintenance – other assets respectively. The expenditure ought to have been charged to the correct account code under acquisition of assets and proper authority sought from the State Department for ICT which procures all ICT equipment for MDAs and other public sector institutions. No explanation has been provided for the non-compliance with the reporting framework and government directive on harmonization of procurement of ICT equipment.

#### **Other Matter**

##### **1543 Pending Bills**

As disclosed under Notes 13.1 to the financial statements, the State Department for Public Service had pending bills totalling Kshs.195,553,371, as at 30 June, 2019, that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Basis for Conclusion**

##### **1544 Supply of Branded Shirts with Kitenge Decorations - Ankara Fabric**

On 26 June, 2019, the State Department paid a supplier Kshs.1,379,312 for supplying branded shirts with kitenge decoration - Ankara for use during the 7<sup>th</sup> Continental APSD celebrations which was to take place from 21 June, 2019. The professional opinion approved on 30 May, 2019 shows that the event took place between 21 and 23 June, 2019 while the delivery note No.2490 and S13 No.9091023 receiving the four hundred (400) branded T-shirts show that they were delivered and received at the stores on 27 August, 2019 and 28 August, 2019 approximately two months after the event had taken place. This is a clear indication that the promotional materials did not serve the intended purpose and hence it was not possible to confirm whether there was value for money on the expenditure. Further, the payment of Kshs.1,379,312 was made before the delivery, verification, inspection and acceptance of the materials.

##### **1545 Non-Maintenance of a Fixed Assets Register**

The statement of receipts and payments reflects Kshs.217,241,003 under acquisition of assets. However, the State Department has not provided the fixed asset register as at 30 June, 2019 in contravention of Section 143(1) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to maintain a register of assets under his or her control or possession.

## **1546 Construction and Civil Works**

As analyzed under Note 8 to the financial statements, the statement of receipts and payments reflects a figure of Kshs.217,241,003 under acquisition of assets which includes Kshs.155,177,023 in relation to construction and civil works. However, the following anomalies were noted relating to the expenditure;

### **1546.1 Renovation Works to Fourth and Fifth Floors at Harambee House**

On 20 April, 2015, the State Department entered into a contract for renovation and rehabilitation works on 4<sup>th</sup> and 5<sup>th</sup> floor Harambee House at a contract sum of Kshs.43,745,412 with a completion period of three (3) months starting April, 2015. Examined documents show that as at 22 January, 2016, the contractor was not at site and the works were not completed. The delay in completion resulted to a request for authority to extend the contract period which were granted twice. The first request for fifty-six (56) weeks to 31 August, 2016 and another for eighty-eight (88) weeks from 31 August, 2016 to 10 April, 2018. No explanation was provided for extension of a contract with initial period of twelve (12) weeks and extension of one hundred and forty-four (144) weeks even though there was no change in scope of the project.

Further, a downward variation was discussed and agreed by both parties from Kshs.43,745,412 to Kshs.39,756,931. Examination of payment voucher dated 30 June, 2019 of Kshs.28,974,373 paid to the contractor in relation to certificate No.2 dated 25 April, 2018 reveals that the inspection and acceptance certificate attached in support of the payment did not include key details such as contract date, contract title and actual delivery date, which are mandatory for any work certification.

In addition, the undated inspection and acceptance certificate shows that only two (2) officers instead of three (3) officers inspected and certified the works done before payment contrary to Section 48 of Public Procurement and Asset Disposal Act, 2015.

Further, the inspection report issued by the Ministry of Lands, Housing and Urban Development approving payment and the works was inspected and certified as complete by a six (6) member committee comprising of Officers from the State Departments for Public Works and State Department for Public Service as well as the contractor, on 5 April, 2018. A second certificate for the completed works from the State Department for Public Works was issued on 25 April, 2018 but the amount payable under the certificate was not included in the pending bills for the financial year 2017/2018. No explanation has been provided for failure to include the amounts payable in the list of pending bills payable. The approved re-allocation of the funds to enable payment of the amount has not been availed for audit confirmation.

### **1546.2 Proposed Renovation, Refurbishment and Partitioning Works on 12<sup>th</sup> Floor, Harambee House**

The Ministry of Public Service, Youth and Gender Affairs engaged a contractor on 28 February, 2018 for renovations, refurbishment and partitioning works at a contract sum of Kshs.22,306,365 for a period of four (4) weeks from 28 February to 28 March, 2018.

Examination of payment voucher dated 18 March, 2019 shows that the Contractor was paid Kshs.22,306,365 upon certification of practical completion and handing over works through certificate of practical completion dated 14 March, 2018. However, the approval and authority for payment to the Contractor were granted on 18 February, 2018 and 27 February, 2018 respectively, periods before the commencement of the works on 28 February, 2018 and even before the handing over certificate which was issued on 14 March, 2018.

Further, the certificate of practical completion attached in support of the payment, which was issued by a representative from County Works Office, Nairobi County was not dated and thus, it was not possible to ascertain the date on which the works were inspected and confirmed complete.

### **1546.3 Unsupported Payment on Refurbishment and Renovation Works at Harambee House**

The director of administration through unreferenced Internal Memo, requisitioned for refurbishment and renovation works for 11 Floor, Harambee House on 30 January, 2018 from the head of supply chain management unit who in turn sought concurrence with the Principal Secretary through professional opinion dated 28 February, 2018 (under item No.8). The professional opinion shows that the scope of works requested ranged from removal of old carpet, supply, delivery and fitting of new carpet, supply and fitting of window blinds to the new offices and supply, delivery and fitting of a window.

Examination of payment voucher dated 24 June, 2019 shows that the service provider was paid Kshs.1,378,100 for handling two (2) work items namely hacking of VIP and common washroom and carting away debris at Ksh.682,900 as well as undertaking electrical installation and fitting at Ksh.695,200. The two (2) work items paid for at Ksh.1,378,100 did not match the requisitioned works. No explanation was provided for the changes in the nature of the works billed and paid for as compared to the procurement. Although a job card No.009 dated 30 May, 2018 was attached in support to the payment voucher, no tangible evidence was availed for audit verification to show that the works done underwent inspection and acceptance process before payment was made, as required under Section 48 of the Public Procurement and Asset Disposal Act, 2015.

### **1547 Office and General Supplies and Services-Supply of Tonners, Envelopes and Spiral Pads**

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.1,366,359,069 under use of goods

and services which includes an amount of Kshs.106,223,848 relating to office and general supplies and services. The latter balance includes a payment of Kshs.2,064,000 to a supplier for supply and delivery of various items. The payment was made on 16 June, 2019 while the delivery as per the delivery note and invoice was done on 18 April, 2018. However, it was observed that one officer of the State Department was involved in quotation opening process, receiving of the goods into the stores and issuing of counter receipt voucher and was also involved in the inspection and acceptance committee in contravention of Section 44(h) of the Public Procurement and Asset Disposal Act, 2015.

Further, analysis of request for quotation forms attached to the payment voucher shows that the State Department floated quotations to four (4) suppliers on 12 January, 2018 who in turn quoted prices before the given submission deadline date of 18 January, 2018. However, details in the quotation opening report revealed that the opening Committee violated provisions of Section 78 of the Public Procurement and Asset Disposal Act, 2015 by opening three (3) of the four (4) quotations (No's 1, 3 and 4) on 18 January, 2018 at 9.30 a.m. while quotation No.2 (the winning bidder) was opened on the same day at 10.00 a.m. Further, quotation No.4 was confirmed opened by two (2) committee members contrary to the requirements of Section 44 of the Public Procurement and Asset Disposal Act, 2015 which requires at least three (3) members to be present.

#### **1548 Use of Expired Contract to Procure Maintenance of Computer Services**

The State Department procured routine service and preventive maintenance of printers and computers and paid Kshs.1,385,600 through six (6) payments made between February and June, 2019 using a contract whose applicability was set for the year starting from 1 December, 2016 to 30 November, 2017. In the circumstance therefore, the State Department ordered and paid for services using an expired contract.

#### **1549 Printing, Advertising and Information Supplies and Services**

Note 4 to the financial statements reflects a figure of Kshs.131,593,746 relating to communication supplies and services. Examination of the ledger for the expenditure indicated that Kshs.27,183,090 was paid to two (2) media houses for provision of advertising services for the recruitment of Chair persons and Members of Commission of Administrative Justice (CAJ), National Gender and Equality Commission (NGEC) and Salaries and Remuneration Commission (SRC) from the month of June to July, 2018. However, no evidence of approval from Government Advertising Agency (GAA) has been provided for audit verification to show that the State Department complied with Treasury Circular No. 09/2015 which requires the advertising entity to seek approval from GAA.

#### **1550 Acquisition of Assets - Refurbishment of Buildings**

The statement of receipts and payments together with Note 8 to the financial statements reflect an amount of Kshs.217,241,003 under acquisition of assets

which includes Kshs.23,044,901 relating to refurbishment of buildings. The amount includes a payment of Kshs.16,018,636 relating to design, generation of bills of quantities and fit out works for the proposed Garden City Huduma Centre. However, the following anomalies were noted in relation to this payment:

- i.) The State Department procured and shortlisted three (3) building works and Project Management consultants to design and generate bills of quantities as well as undertake fit out works of the proposed centre. This was subjected to a mini competition in line with the provisions of Section 114(3)(b) of the Public Procurement and Asset Disposal Act, 2015. The consultants had a framework contract with the State Department for consultancy and civil works even though the framework contract referred to in this case did not include Garden City as one of the centres.
- ii.) The construction was being undertaken in a space not owned or leased by Huduma Secretariat but whose availability was based on a Memorandum of Understanding (MOU) between the owners of Garden City Mall and the Secretariat which had no legal backing. The MOU was not enforceable in law as it did not create legal obligations on the part of either the landlord or the Secretariat.
- iii.) According to the correspondences attached in support of the payment voucher, the State Department for Public Works, quantities and contracts was to offer oversight services to the project on behalf of the Secretariat. However, this role has not been evidenced on key documentary records such as the approved drawings, site visit meeting minutes and the regular project status report. Consequently, it was not possible to confirm that the works done were evaluated, inspected and certified as complete before payment.
- iv.) The detailed bills of quantities generated by the three (3) firms subjected to mini competition pursuant to provisions of Section 114(3)(b) of the Public Procurement and Asset Disposal Act, 2015 were not standardized or approved by the State Department for Public Works for the measurement of work level and quality.
- v.) The invoice was issued on 15 May, 2018 and therefore the amount payable to the contractor should have formed a charge to the financial year 2017/2018 budget and if not paid should have been declared as a pending account payable as at 30 June, 2018. However, the invoice was not on the list of pending accounts payables totalling Kshs.967,434,264.69 as at 30 June, 2018 and hence was not part of the budget for the financial year ending 30 June, 2019. No evidence of approval of re-allocation of budget was provided for audit verification and therefore rendering the payment unauthorized.

Consequently, the propriety of the refurbishment of building payments totalling Kshs.23,044,901 for the year ended 30 June, 2019 could not be confirmed.

### **1551 Routine Maintenance Other Assets - Construction of Mandera Huduma Centre**

As disclosed in Note 4 of the financial statements, the statement of receipts and payments reflects an amount of Kshs.1,366,359,069 under use of goods and services which includes an amount of Kshs.183,605,977 relating to routine maintenance - other assets. The latter balance includes a payment of Kshs.17,048,582 in respect of construction of Mandera Huduma Centre. The payment represented approximately forty percent (40%) of the contract sum of Kshs.42,621,432. During the financial 2016/2017, the then State Department for Public Service and Youth Affairs had paid a down payment to contractor amounting to Kshs.25,572,858 representing sixty percent (60%) of the contract sum of Kshs.42,621,430.

The Management of Huduma Centres had requested for approval to procure qualified building contractors for building works for establishment of six (6) Huduma Centres including Mandera Huduma Centre using the restricted tendering method. Even though, Management used the restricted tendering method citing Section 102(1)(b) of the Public Procurement and Asset Disposal Act, 2015, no evidence was provided to demonstrate that there was time pressure or that the costs of evaluation of the tenders would be disproportionate to the value of the goods, works or services to be procured.

Further, the charging of development expenditure for construction of Mandera Huduma Centre to the recurrent account under use of goods and services without proper authority for reallocation is contrary to Section 43 of the Public Finance Management Act, 2012.

### **1552 Purchase of Office Furniture and General Equipment**

The statement of receipts and payments reflects a figure of Kshs.217,241,003 under acquisition of assets. Included in the figures is Kshs.13,549,180 relating to purchase of office furniture and general equipment. The figure of Kshs.13,549,180 includes Kshs.10,611,600 paid to a supplier for supply of furniture items. Although the letter requesting for payment by Huduma Kenya Secretariat refers to the amount as pending bills, the same were not disclosed in the list of pending bills for the financial year 2017/2018. Therefore, the authenticity of the payment of Kshs.18,314,430 approved in the letter and which includes the payment Kshs.10,115,600 for the supplier could not be confirmed.

Further, both the invoice and the delivery note are dated 16 May, 2018 but the inspection and acceptance was undertaken on 15 May, 2019. However, no explanation has been provided for appointment of the inspection and acceptance committee, carrying out inspection exercise and taking on charge the goods a year after they were received in contravention of Section 48(3) of the Public Procurement and Asset Disposal Act, 2015.

In addition, the invoice includes supply of two (2) medium colour printers each at a price of Kshs.120,000, totalling to Kshs.240,000 that were not taken on charge at the stores. No explanation has been given for the omission.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1553** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **STATE DEPARTMENT FOR YOUTH-VOTE 1214**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1554 Non-disclosure of Revenue**

The statement of receipts and payments reflects a balance of Kshs.8,548,730,775 as total revenues received during the financial year 2018/2019 which includes Kshs. 230,823,350 described as other revenues. The figure of other revenues excludes Kshs. 37,811,658 collected during the year and for which no evidence has been provided to show that it was surrendered to the Receiver of Revenue as required by Section 76(2) of the Public Finance Management Act, 2012.

Consequently, the accuracy and completeness of other revenues balance of Kshs.230,823,350 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

#### **1555 Unsupported Pending Bills Settlement**

The State Department requested for funding to finance payment of historical pending bills amounting to Kshs.1,324,101,782 incurred at the National Youth Service Headquarters and various field stations. The money was transferred to the Director General's account from which Authority to Incur Expenditure (AIEs) were issued to the field stations as per the request for funds. However, no evidence was attached to the payment documents to demonstrate that the pending bills settled were in the list approved by the Multi-Agency Pending Bills Committee.

#### **1556 Compensation of Employees**

##### **1556.1 Unsupported Basic Wages on Temporary Employees**

The statement of receipts and payments reflects total payments of Kshs.2,208,389,450 under compensation of employees which includes payments totaling Kshs.1,012,068,527 paid as basic wages for temporary employees. The latter balance includes a payment of Kshs.1,000,000,000 in respect of outstanding bills in form of wages, SACCOs and Huduma kitchen payments for the financial year 2017/2018. However, examination of the reported list of pending bills for the financial year 2017/2018 does not reflect this amount in the reported balance.

As a result, it was not possible to confirm the nature and basis of arriving at the figure of Kshs.1,000,000,000 paid as pending bills in form of wages during the year under review.



## **1556.2 Disparity in Gratuity Computation and Salary Payments**

An officer was engaged under local agreement on non-variable terms effective 4 July, 2017 with a salary of Kshs.144,928 for a period of two (2) years. The officer was paid gratuity of Kshs.1,056,771 in respect of the period served. However, the gratuity and the salaries paid were based on amounts that were different from the contract as detailed below;

- i. The total gratuity paid to the officer of Kshs.1,056,771 was calculated using four (4) tranches. The periods indicating total salary (gross) of Kshs.132,756 for the period of twenty-eight (28) days starting 4 July, 2017 to 31 July, 2017, Kshs.153,160 for the period of twelve (12) months starting 1 July, 2017 to 30 June, 2018, Kshs.157,160 for a period of nine (9) months starting from 1 July, 2018 to 31 March 2019 and Kshs.78,580 for a period of fourteen (14) days starting from 1 April, 2019 to 14 April, 2019, whereas clause 9 of the Local Agreement (Schedule to Agreement) explicitly provided for gratuity to be computed on the basis of thirty-one (31%) percent of the of the total monthly salary as per the agreement of Kshs.144,928 leading to overpayment of Kshs.96,671. No reason has been provided for the non-conformity to the Agreement.
- ii. Tranche No.1 of the schedule for gratuity calculation shows that it was for the period covering twenty-eight (28) days the Officer worked starting 4 July, 2017 to 31 July, 2017. A check on tranche No.2 on the other hand covered the same period consequently resulting to over-payment by Kshs.37,171.

No explanation has been provided for the variation of payments even though the contract had a fixed amount of payment and the overpayment was not satisfactorily explained.

## **1557 Accounts Receivables – Outstanding Imprest and Clearance Accounts**

The statement of assets and liabilities reflects a figure of Kshs.22,744,284 under accounts receivables which includes an amount of Kshs.3,499,272 in respect to district suspense being Authority to Incur Expenditure (AIEs) issued to various field stations. However, comparison of AIE returns against AIEs disbursed to various stations showed that a total of Kshs.2,325,199 remained unspent as at 30 June, 2019. The reported amount of Kshs.3,499,272 did not agree with the derived balance of Kshs.2,325,199 resulting to an unexplained difference of Kshs.1,174,073.

In addition, analysis of AIE returns reported in the general ledger shows a total of Kshs.1,333,891,908 being expensed during the financial 2018/2019. The figure differs with the amounts of the physically availed and verified AIEs issued to field stations during the financial year totalling Kshs.1,108,119,375. The resultant difference of Kshs.225,772,533, though reconciled, has not been supported with relevant documentations.

Under the circumstances, the accuracy and validity of account receivables balance of Kshs.22,744,284 and the AIE returns of Kshs.1,333,891,908 as at 30 June, 2019 could not be confirmed.

## **1558 Unsupported Routine Maintenance – Motor Vehicles and Other Transport Equipment**

### **1558.1 Payments to Mechanical Transport Fund**

The statement of receipts and payments reflects a balance of Kshs.5,327,148,756 in relation to use of goods and services which includes an amount of Kshs.172,256,919 under routine maintenance – vehicles and other transport equipment. The latter balance includes an expenditure of Kshs.7,007,380 for hire charges in respect of motor vehicles and machinery at Yatta field station for the months of December 2016, January, February and March, 2017 based on Mechanical and Transport Fund invoices.

However, the following inconsistencies were noted:

- i.) The amounts were not included in the pending bills for the State Department for Public Service and Youth during the financial year 2016/2017 and 2017/2018 and therefore, did not constitute an authorized charge in the current year's budget.
- ii.) There were no documentations to fully support the receipts of services rendered to the Department.
- iii.) The amount was not included in the receivables for Mechanical Transport Fund for the year 2017/2018 and therefore the origin of the bills could not be explained.
- iv.) The billings have disparities in the number of vehicles and machinery hired in addition the number of hours worked which had not been supported.

Further, the expenditure of Kshs.172,256,919 for routine maintenance – vehicles and other transport equipment includes an amount of Kshs.99,304,504 paid for hiring of motor vehicles and transport equipment relating to the financial years 2014 to 2016.

However, the following anomalies were noted in the payment;

- i. The pending bills were not disclosed under Annex III-Pending Accounts Payables to the audited financial statements as at 30 June, 2018 and no explanation has been provided for the anomaly.
- ii. The payment demand raised by the Officer in Charge of Mechanical and Transport Fund on 12 May, 2017 had AIE approved and used on 22 June, 2017 when the payment was approved. However, the actual payment was made on 29 June, 2019 which was two (2) years after approvals for

- payment. No documentation was provided to demonstrate how the AIE obtained in 2017 was utilized.
- iii. The payment of Kshs.99,304,504 was supported by invoices raised and addressed to Commanding Officers of various NYS field stations purportedly for services rendered in 2014/2015 and 2015/2016. However, the invoices were not supported with confirmation of receipts of services by the respective units as there were no approved requisitions or any documentation for confirmation of accuracy and acceptance of the billed amounts.

Consequently, the accuracy and completeness of the amount for routine maintenance – vehicles and other transport equipment of Kshs.172,256,919 for the year ended 30 June, 2019 could not be confirmed.

### **1558.2 Motor Vehicle Running Expenses**

In addition, the expenditure of Kshs.172,256,919 on routine maintenance of vehicles and other transport equipment includes payments by the State Department for Youth totalling Kshs.35,926,373 in relation to purchase of spare parts and maintenance of vehicles owned by the Mechanical Transport Fund – National Youth Service. However, the State Department pays hire charges for the same vehicles of which during the year the Department owed the Fund Kshs.270,552,129 therefore resulting to double payment for the same services.

Consequently, the accuracy and authenticity of the expenditure of Kshs.35,926,373 relating to routine maintenance of vehicles and other transport equipment could not be ascertained.

### **1559 Non-Disclosure of Pending Bills**

Although the Management has disclosed a list of pending bills totalling to Kshs.1,913,365,037.33 in Annex 1, there was no disclosure of the pending bills in the Notes to the financial statements. Further, failure to settle bills during the year in which they relate to distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1560 Irregular Procurements**

##### **1560.1 Supply of Woolen Blankets**

The statement of receipts and payments reflects a figure of Kshs.5,327,148,756 under use of goods and service which includes an amount of Kshs.3,241,731,531 relating to specialized materials and services as disclosed under Note 4 to the financial statements. Included in the latter balance is an amount of

Kshs.51,400,000 paid to a supplier in respect of supply and delivery of twenty thousand (20,000) woolen blankets based on a framework contract.

Examination of payment documentation showed the following anomalies:

- i. It was noted that an officer-in-charge of stores was in the tender opening committee and also received the goods into the stores as per the delivery notes as well as the counter receipt vouchers.
- ii. The approved professional opinion shows that the procurement was based on a framework contract that was flawed as there were only six (6) approved firms as opposed to a minimum of seven (7) firms as required under Section 114 (1)(c) of Public Procurement and Asset Disposal Act, 2015.
- iii. Although the procurement was made and paid on the basis of a framework contract with six suppliers, no pre-award mini competition was undertaken and therefore the basis of selection of the supplier awarded the tender was not justified. The purported framework contracts do not meet the set criteria under Section 114(1)b of the Public Procurement and Asset Disposal Act, 2015.
- iv. No evidence has been provided to show that Management prepared and submitted quarterly reports detailing an analysis of items procured through framework agreements as required under Section 114(6) of the Public Procurement and Asset Disposal Act, 2015.
- v. The procurement method used did not comply with Section 114(1)(b) of the Public Procurement and Asset Disposal Act, 2015 which states that a procuring entity may enter into a framework agreement through open tender if the required quantity of goods, works or services cannot be determined at the time of entering into the agreement. However, in this case the purchase was based on a requisition dated 8 October, 2018 hence the quantities were known with certainty.

No explanation has been provided for the irregularities in procurement of the above goods.

## **1560.2 Supply of Digital Camouflage Material**

The expenditure of Kshs.3,241,731,531 under specialized materials and services further includes an amount of Kshs.74,970,000 paid to a supplier in respect of supply and delivery of one hundred and twenty-six thousand (126,000) metres of digital camouflage material. Examination of the payment documents showed the following anomalies:

- i. The approved professional opinion under item No.3 digital camouflage material shows that the head of supply chain management recommended for approval of framework contracts for five (5) firms as opposed to seven (7) firms vendors required under Section 114(1)(c) of the Public

Procurement and Asset Disposal Act, 2015. No reason has been provided for the anomaly.

- ii. No evidence has been provided to show that Management prepared and submitted quarterly reports detailing an analysis of items procured through framework agreements as required under Section 114(6) of the Public Procurement and Asset Disposal Act, 2015.
- iii. The procurement method used did not comply with Section 114(1)(b) of the Act which states that a procuring entity may enter into a framework agreement through open tender if the required quantity of goods, works or services cannot be determined at the time of entering into the agreement but in this case the purchase was based on a requisition dated 8 October, 2018 and therefore the quantities were known with certainty.
- iv. Invoice No.0109 issued for payment bears no evidence that it was officially presented and acknowledged by the Director General for payment.
- vi. The S.12 issue and receipt voucher No.039 shows that the items were received in stores on 31 October, 2018 and being a duo purpose accountable document, it did not show the issues, or the destination.
- vii. The procurement did not comply with Section 44(h) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer of an entity to ensure that the procurement processes are handled by different professional offices in respect of procurements, initiation, processing and receipt of goods, works and services. In this procurement, it was noted that the officer-in-charge of stores was involved in the tender opening committee and that the same officer was among the team which inspected, accepted and received the items in stores.

No explanation has been provided for non-compliance with the law.

### **1560.3 Supply of High Ankle Military Boots**

Included in the expenditure of Kshs.3,241,731,531 under specialized materials and services is an amount of Kshs.29,800,000 paid to a supplier in respect of supply and delivery of ten thousand (10,000) pairs of high ankle military boots at a unit price of Kshs.2,980 under framework contract signed on 23 October, 2018 for a period of one year. Examination of the payment documents showed the following anomalies;

- i. Examination of the contract documents under Section III-General Conditions to the Contract (GCC) Subsection 3.71 with reference to Section IV-Special Conditions to the Contract (SCC) Sub-section 4.2 requires that within thirty (30) days of receipt of the notification of contract award, the successful bidder will furnish the procuring entity with performance security bond. However, no evidence was provided to show that the supplier furnished the State

Department with a performance security bond of ten percent (10%) of the tender sum as required under contract.

In addition, there was contradictory information in the tender documents on the subject of performance guarantee, as the form of tender document attached as part of the contract dated 31 July, 2018 under Section 3 referred to 2% which differs with Section 3.7.1 which requires 10% of the tender sum.

- ii. Examination of the contract document reveals that there were no specific quantities specified in the contract to justify use of call-offs order as required under Section 114 (4) of the Public Procurement and Asset Disposal Act, 2015. Further, analysis of the evaluation report shows that the least quoted amount was Kshs.2,785 as compared to the order price of Kshs.2,980, hence, if Section 114(3)(b) was applied, the State Department could have saved Kshs.1,950,000. Further, the requisition attached shows that a total quantity of 31,500 high ankle boots were required. However, there is no evidence attached to show how management arrived at the order quantity of 10,000 units.
- iii. The contract document required for payments to be made within thirty (30) days upon delivery of acceptable goods. However, records attached in support of the payment indicated that the goods were deliverable within three (3) to four (4) weeks. The goods were however delivered in seven (7) deliveries and took the supplier more than the stipulated duration of three (3) to four (4) weeks with no explanation provided for the delay. Further, no evidence has been provided to show that authority was granted for the extended period as required by Regulation 53(1) of the Public Finance Management (National Government) Regulations, 2015.
- iv. In addition, there was no local purchase order (LPO) or order to support the supply of 10,000 units given that the framework contract was a general purpose and not specific order contract hence the State Department failed to comply with Regulation 53 of the Public Finance Management (National Government) Regulations, 2015.

No explanation has been provided for non-compliance with the law.

#### **1560.4 Supply of Canned Beef and Pineapples**

The expenditure of Kshs.3,241,731,531 in respect of specialized materials and services includes an amount of Kshs.31,739,000 paid to a supplier for supply and delivery of canned beef and pineapples which had the following anomalies:

- i. The Authority to Incur Expenditure (AIE) was approved on 11 January, 2019 the same day authority to procure food and rations was issued. However, an LPO was issued on 4 December, 2018, one (1) month before approval and confirmation of availability of funds contrary to Regulation 52(1)(a) of the Public Finance Management (National Government) Regulations, 2015.

- ii. The invoice in support of the payment was received on 5 April, 2019 yet the letter submitting the voucher for payment was issued on 22 March, 2019 which was long before the receipt of the invoice. Hence, it is not clear how the payment voucher processing was initiated without an invoice having been received.
- iii. The letter of notification and acceptance dated 26 July, 2018 indicates that the above procurements were executed through Contract No.GIL/1/2018-2019/192 which was not availed for audit verification. In addition, the letter of notification and acceptance had a price list that was not acknowledged by the supplier.

Under the circumstances, it has not been possible to confirm whether the above items were procured within the law.

#### **1560.5 Unauthorized Supply and Delivery of Uniform Materials**

The expenditure of Kshs.3,241,731,531 in respect of specialized materials and services further includes an amount of Kshs.20,160,000 paid to a supplier for supply and delivery of uniform materials. However, the following anomalies were noted;

- i. Examination of the cash book folio No.60 shows that the supplier was paid on 27 June, 2019 while the Authority to Incur Expenditure (on the AIE certificate) and authorization to make the payment were granted on 29 June, 2019 and 30 June, 2019 respectively, both dates were after the payment had already been made on 27 June, 2019. No explanation has been provided for the inconsistency.
- ii. A check on approvals on both AIE and to make payment to the supplier was in respect to supply of five thousand (5,000) pairs of high ankle military boots while all other supporting documentation including a LPO No.684 dated 13 June, 2019, are in relation to supply of camouflage materials. Again, no reason was provided for the inconsistency.
- iii. Invoice No.684 was raised on 13 June, 2019 almost two (2) weeks before the final delivery was made on 26 June, 2019 hence evidence that billing was done before delivery of the commodities.
- iv. Although Management sought and obtained funding for procurement of the ankle military boots, there is no documented authority for change of the order to camouflaged material.

In the circumstances, it has not been possible to confirm the propriety of the expenditure amounting to Kshs.20,160,000 incurred to purchase the uniform materials.

#### **1560.6 Payment of Domestic Debts and Commercial Debts**

The statement of receipts and payments reflects a figure of Kshs.5,327,148,756 under use of goods and services which includes an amount of Kshs.3,241,731,531 relating to specialized materials and services as disclosed under Note 4 to the financial statements. Included in the latter balance is an amount of Kshs.166,375,665 paid to Mechanical and Transport Fund in respect to services offered at Tana Road Project between September 2011 and August 2015. However, although correspondences in support of the payment indicates that the services amounting to Kshs.166,375,665 were offered to National Youth Service, Tana Road Basin Project Station, no documentation in support of the services rendered either from the Unit Commanding Officer or the Director General were provided for audit verification. In addition, there was no demonstration of the work done as the invoices did not match with the number of equipment billed and the work tickets and the billing rates applied was not supported by any contractual agreement.

Further, although the amount was paid in the current financial year, it had not been disclosed as pending bills in the financial statements for the year ended 30 June, 2018.

In the circumstances, the propriety of the expenditure amounting to Kshs.166,375,665 for the year ended 30 June, 2019 could not be confirmed,

#### **1560.7 Supply of Gumboots to National Youth Service**

The expenditure of Kshs.3,241,731,531 under specialized materials and services includes an amount of Kshs.948,600 paid to a supplier for supply and delivery of gumboots. However, the following anomalies were noted:

- i. The requisition for the gumboots by the Quarter Master which informed the procurement was made on 17 May, 2016 which was five (5) days after the quotation had been obtained and opened on 12 May, 2016.
- ii. The professional opinion supporting the payment was made on 7 March, 2017 and approved on 10 March, 2017 after the quotations were opened on 12 May, 2016 which was more than nine (9) months later. There is no evidence provided to show the validity of the quotation was for more than nine (9) months.
- iii. The professional opinion was not supported by any quotation evaluation documentation to demonstrate the supplier was the lowest bidder.
- iv. The payment was made on the strength of a copy of an invoice dated 22 May, 2017 with no justification provided.

Under the circumstances the propriety of the expenditure amounting to Kshs.943,600 could not be confirmed.



### **1560.8 Supply and Delivery of Olive-Green Ribbed Jersey**

The expenditure of Kshs.3,241,731,531 under specialized materials and services further includes an amount of Kshs.49,500,000 paid for supply and delivery of olive-green ribbed jersey items under framework agreement for a duration of two (2) financial years (2018-2020) on as and when required basis.

Review of the payment voucher and its supporting documents revealed the following inconsistencies:

- i. The tender opening and tender evaluation reports shows that the firm quoted Kshs.1,750 per unit while the evaluation committee recommended that the firm was to supply the product at a reduced price of Kshs.1,650. No evidence has been attached to show that the firm was invited for negotiations or accepted to supply at a lower price than quoted.
- ii. It is not clear why the Department opted to contract at a higher price when there were firms that quoted a lower price by a margin of Kshs.250 per unit which could have resulted in a saving of approximately Kshs.3,750,000.
- iii. The supplier was paid Kshs.49,500,000 on 27 June, 2019 two (2) days before the goods were delivered, inspected and accepted, taken on charge and invoice issued all which took place on 29 June, 2019. A further check on the payment voucher showed that AIE and authority to make this payment were granted on 29 June, 2019 and 30 June, 2019 respectively, after the payment had already been made on 27 June, 2019. No explanation has been provided for non-compliance with Regulation 52(1)(a) of the Public Finance Management (National Government) Regulations, 2015.
- iv. Section 44(h) of the Public Procurement and Asset Disposal Act, 2015 mandates an Accounting Officer of an entity to ensure that the procurement processes are handled by different professional offices in respect of initiation, processing and receipt of goods, works and services. However, in regard to this procurement, it was observed that one officer of the National Youth Service (NYS) requisitioned for the goods, paid for the goods, in this case among others, on behalf of the State Department, appointed and executed duties in the evaluation and sample evaluation committees and also took part in the inspection and acceptance committee as the chairman. No explanation was provided for this anomaly.

No explanation was provided for non-compliance with the law in all the above stated anomalies.

### **1560.9 Procurement, Supply and Delivery of Textile Materials for Police Uniforms**

The State Department entered into two (2) contracts with two (2) suppliers for supply and delivery of medium blue textile material on 18 February, 2019. The award was made through a professional opinion issued on 1 February, 2019 and approved by the Principal Secretary on 6 February, 2019. The suppliers were paid

Kshs.23,400,000 each on 30 June, 2019. However, the following anomalies were observed;

- i. Although, there was negotiation on pricing, which was agreed at a price of Kshs.390, no minutes of the negotiation have been provided to support the award and payment.
- ii. The payment voucher was not supported by an inspection and acceptance certificate as required under Section 48(1) of the Public Procurement and Asset Disposal Act, 2015. Further, there was no evidence to show that the goods were taken on charge as required under Section 159 (1) of the Public Procurement and Asset Disposal Act, 2015.

It was not possible to confirm whether the above procurement process adhered to the provisions of the procurement laws and whether the pricing was competitive.

### **1561 Unauthorized Reallocations**

Examination of various payment made during the year under review in respect of operations at National Youth Service showed expenditure amounting to Kshs.394,459,439 that had been charged to the wrong accounts.

No explanation has been provided for charging the wrong accounts.

Under the circumstances, the propriety and validity of the expenditure totalling Kshs.394,459,439 for the year ended 30 June, 2019 could not be ascertained.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

- 1562** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **DONOR FUNDED PROJECT**

### **KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT (IDA CREDIT 58120-KE)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Basis for Qualified Opinion**

##### **1563 Unsupported Expenditure**

The statement of receipts and payments for the year ended 30 June, 2019 reflects purchases of goods and services totalling Kshs.523,239,782 out of which expenditure amounting to Kshs.42,492,946 was not supported to show how it was incurred.

As a result, the accuracy and validity of the purchase of goods and services balance totalling Kshs.523,239,782 reflected in the statement of receipts and payments for the year under review has not been confirmed.

##### **Other Matter**

##### **1564 Budget Control - Revenue Shortfall and Under-expenditure**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects budgeted receipts and actuals on comparable basis amounting to Kshs.848,428,361 and Kshs.749,846,920 respectively resulting to a shortfall of Kshs.98,581,441 or 12% of the budget. In addition, the statement reflects actual expenditure totalling 563,913,314 resulting to under-expenditure of Kshs.284,515,047 equivalent to 33% of the budget for the year amounting to Kshs.848,428,361. Furthermore, actual expenditure for the year was equivalent to 75% of funds received and therefore 25% of the receipts were not spent.

Management has attributed the low absorption of funds to the splitting of the Project between the State Department for Youth and the State Department for Public Service which resulted in minimal activity for part of the year. Management has, in addition, explained that the budget was cut in the Supplementary Budget and as a result, monies owed to some service providers were not paid.

The revenue shortfall and under-expenditure constrained implementation of planned activities and attainment of the Project's objectives during the year under review. For instance, although the work plan for the year had indicated that 182,324 youth were to be trained in the year, only 34,071 equivalent to 19% of the budgeted number were trained.

## **1565 Unresolved Prior-Year Issues**

### **1565.1 Unsupported Consultancy Services and Training Expenditures**

During 2017/18 financial year, a consultant was paid Kshs.27,461,500 to provide life skills training to youths in several counties at a cost of Kshs.8,500 per participant. The payment included Kshs.1,800,000 for supply of computers for use by the trainers. However, available records indicated that only 2,584 youths were trained at an aggregate cost of Kshs.21,964,000 against Kshs.25,461,500 paid to the consultant.

No plausible explanation has been provided for the overpayment amounting to Kshs.3,697,500 made to the contractor and which translates to loss of public funds. Other records indicated that the Project paid stipends totalling Kshs.16,120,450 to the training course participants. However, only 2,584 youths were trained and paid Kshs.6,000 each resulting in expenditure totalling Kshs.15,504,000. The variance amounting to Kshs.620,450 between the expenditures shown in the two sets of records has not been explained.

### **1565.2 Irregular Expenditure on Printing, Advertising and Information Services**

In 2017/18, financial year, the Project incurred Kshs.11,045,816 on printing, advertising and information services in respect of 300 training manuals, 6,200 students' workbooks and other learning materials. However, examination of documents revealed that identical items were procured at varying prices although bought from the same supplier and paid for on the same date. The price variances for identical items were as high as 33%.

As a result, the validity and propriety of the expenditure totalling Kshs.11,045,816 incurred on printing, advertising and information services could not be confirmed.

### **1565.3 Unconfirmed Youth Training Program Expenditure**

In 2017/18 financial year, Management paid Kshs.16,120,450 in stipends to trainee youths who participated in the life skills training course, and Kshs.27,461,500 to the consultants that provided the training. However, there was no evidence showing that the training curriculum was approved by Management. In addition, the contract did not indicate the Project outcomes targeted by the course.

Consequently, it was not possible to confirm whether the Project received value for money on the expenditure totalling Kshs.43,581,900 incurred on the training.

### **1565.4 High Administration Expenses**

Review of 2017/18 financial year expenditure indicated that Kshs.253,104,269 was incurred on administrative and youth training activities during the year. However, analysis of the respective payment vouchers indicated that only 21% of the total

expenditure incurred on the items was related to youth activities and programs whereas the balance (79%), was incurred on administrative activities.

#### **1565.5 Irregular Appointment of Training Consultant**

The statement of receipts and payments for the year ended 30 June, 2018 reflected expenditure totalling Kshs.188,740,710 incurred on purchase of goods and services which included operating expenses amounting to Kshs.56,090,096. The later balance included Kshs.27,461,500 paid in June, 2018 to a consultant to provide life skills training.

The following anomalies were observed in respect of this payment:

- (a) The certificate of incorporation indicated that the bidder was a limited liability company incorporated on 24 May, 2007 whereas the confidential business questionnaire attached in support of the payment indicated that the service provider was a Non-Governmental Organization. However, the firm's certificate of registration from the Non-Governmental Organization Board was not disclosed. As a result, the status and authenticity of the firm engaged to offer the training services could not be verified.
- (b) Minutes of meetings held between the bidder and Management in October, 2017 revealed that the consultant agreed with the State Department to abandon the original financial proposal and present a new one with trainee charge-rates that tallied with those prescribed in the terms of reference. This implied that the original bid was not responsive and should instead have been cancelled and a new tendering process initiated. Reconfiguring the proposal amounted to amendment of the tender contrary to Section 75(1) of the Public Procurement and Asset Disposal Act, 2015.
- (c) The bid documents, tender opening and evaluation and minutes of the Committee meeting that shortlisted the bidders were not provided for audit verification.

These matters were raised in the report for 2017/18 but have not been resolved as yet.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **1566 Unsupported Consultancy Services Expenditure**

The Management entered into a framework contract with a consultant to offer life skills training to youths in seventeen (17) Counties in 2018. As at 30 June, 2019, the consultant had received payments totalling Kshs.44,128,350. However, the certificate of inspection and acceptance of the contract's deliverables was not availed for audit review. Further, the contract was signed seven (7) days after the award, contrary to Section 135 (3) of Public Procurement and Asset Disposal Act (PPDA), 2015 which requires public procurement contracts to be signed fourteen

(14) days after award of a contract to allow for appeals by unsuccessful bidders, if any.

As a result, the regularity of the expenditure amounting to Kshs.44,128,350 incurred on the consultant and the value obtained thereof has not been confirmed.

#### **1567 Irregular Consultancy Services Contract**

The Project in 2017/18 financial year paid Kshs.8,240,000 to a consultant to design and implement a management system referred to as Interim Information Management System (IIMS). However, documents presented for audit in support of the payment reflected several anomalies:

- i) The contract was for a period of ninety (90) days from 28 July, 2017 to 31 March, 2018 and was priced at Kshs.16,000,000. However, the consultant's proposal was approved on 17 April, 2019 and the contract signed on 17 May, 2019. It was backdated to 1 April, 2018 and set to end after thirty two (32) months on December 31, 2020, or any other period as would be subsequently agreed by the parties in writing.
- ii) Documents attached to the Kshs.8,240,000 payment voucher indicated that the payment was for services rendered from 03 April, 2018 to January, 2019. However, in this period, there was no contract or agreed output. The anomaly implied that the services were offered without a contract contrary to Section 135 (1) of Public Procurement and Asset Disposal Act, 2015. Management has not explained why the law was flouted in procuring the consultancy services.
- iii) The annexure to the contract template included conditions to be fulfilled before payments were made to the contractor. However, in the actual contract signed with the consultant, the conditions were labeled as 'not applicable' and ignored.

In view of these matters, the legality of the contract valued at Kshs.16,000,000 and value-for-money on expenditure amounting to Kshs.8,240,000 incurred on the contract during the year under review has not been confirmed.

#### **1568 Irregular Contract on Provision of Communication Specialist Services**

The statement of receipts and payments for the year ended 30 June, 2019, reflects use of goods and services totalling Kshs.523,239,782, as disclosed under Note 8.8 to the financial statements. The expenditure includes Kshs.4,800,000 paid to a consultant for provision of communication services at a monthly fee of Kshs.600,000 for a period of eight (8) months commencing May through to December, 2018, as specified in an unreferenced contract document dated November 8, 2017. However, examination of records revealed the following anomalies which were not explained:

- i) Before signing the contract on November 8, 2017, Management had notified the consultant of the offer for the services through a letter dated 2 November, 2017 which the consultant accepted two (2) days later on 4 November, 2017. That was contrary to provisions of Section 135 (3) of the Public Procurement and Asset Disposal Act, 2015 which prescribes a fourteen (14) days window for appeals by unsuccessful bidders before contracts are signed.
- ii) The conditions of the contract cited in the annexure to the contract document required several conditions to be fulfilled before any payments were made. However, these were not observed as they were termed 'not applicable' and ignored.
- iii) In all the payment vouchers examined, there was no evidence that the outputs agreed in the contract were attained before the respective payments were made. Furthermore, no certificate of inspection and acceptance of outputs was presented for audit review, and therefore its existence could not be confirmed.

In the view of these anomalies, the legality and value-for-money on the expenditure amounting to Kshs.4,800,000 incurred on provision of communication specialist services during the year under review have not been confirmed.

#### **1569 Non-Compliant Capacity-Building Consultancy Services Contract**

During the year under review, the Project spent Kshs.4,290,000 on a consultant hired to build capacity for technical assistance support. However, the following anomalies were noted in respect to the expenditure:

- i) Signed and verified time sheets indicated that the consultant worked for a total of one hundred and fifty-four (154) days. However invoice No. KYEOP-04 dated May 20, 2019 issued by the consultant indicated that the work done covered one hundred and twenty-eight (128) days. No reason was provided for the anomaly.
- ii) The certificate of inspection and acceptance of the contract outputs was not presented for audit and its existence could therefore not be confirmed.

In the circumstances, Management paid the consultant Kshs.4,290,000 without confirming that the contracted services were delivered as expected. Therefore, the payment contradicted the requirements of Section 48(3) of the Public Procurement and Asset Disposal Act, 2015.

#### **1570 Unconfirmed Execution of Paid Consultancy Contract**

The Project paid Kshs.427,500 to a consultant to review the National Youth Policy. Although the respective payment voucher indicated it was the final payment for the services rendered to the Project by the consultant, only a draft consultant's report was attached to the voucher. No evidence was available to show that a final report

was presented by the consultant and evaluated and accepted by Management before the payments were processed.

In view of the anomaly, it was not possible to determine whether any value was realized on the expenditure totalling Kshs.427,500 incurred on the consultant.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1571** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **YOUTH ENTERPRISE DEVELOPMENT FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Disclaimer of Opinion**

##### **1572 Unsupported Statement of Cash Flows**

The statement of cash flows reflects a balance of Kshs.176,921,415 under cash and cash equivalents. However, the net operating profit before working capital changes includes prior year adjustments of Kshs.2,160,330 and accumulated depreciation charges of Kshs.2,302,953 all totalling to Kshs.4,463,283 which have not been explained.

Under the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.176,921,415 as at 30 June, 2019 could not be confirmed.

##### **1573 Non-Compliance with IPSAS Accrual Basis of Accounting – Tuck Shops Rental**

As disclosed in Note 2 to the financial statements, the statement of financial performance reflects a balance of Kshs.42,096,471 under revenue from exchange transactions which includes interest and fees of Kshs.41,199,302. Included in the interest and fees amount is Kshs.202,075 relating to rental income generated from tuck shops. However, information and records availed for audit indicated that rent revenue from tuck shops was recognized when received and not when earned contrary to International Public Sector Accounting Standards (IPSAS) accrual basis of accounting.

Further, Information and records availed for audit verification indicated that during the year under review, the Fund owned one hundred and fifty-nine (159) tuck



shops all of which were occupied by tenants as evidenced by lease agreement and the occupation was for the entire twelve (12) months. Based on the number, revenue earned was expected to be Kshs.4,476,000 as compared to the reported revenue of Kshs.202,075 leading to an understatement of revenue by Kshs.4,273,925. No explanation was provided for the variance.

Consequently, the accuracy and completeness of the interest and fees of Kshs.41,199,302 for the year ended 30 June, 2019 could not be confirmed.

#### **1574 Depletion of Revolving Fund**

The statement of financial position as at 30 June, 2019 reflects a revolving fund balance of Kshs.3,802,458,856. However, although the amount is supposed to represent the loans advanced to the youth and any balance held in the bank account, the current assets balance of Kshs.2,708,619,514 has a shortfall of Kshs.1,093,839,342 to match the revolving fund. This implies the Fund Management has over time utilized Kshs.1,093,839,342 of the revolving fund for recurrent operations expenditure thereby affecting the sustainability of the Fund. Further, no reallocation approvals were availed for audit verification to support utilization of conditional grants on recurrent expenditure.

Under the circumstance, sustainability of the revolving Fund is at risk and therefore, doubtful.

#### **1575 Statement of Changes in Net Assets**

The statement of changes in net assets under accumulated surplus reflects a figure of Kshs.5,000,000 described as change in accumulated fund for which no supporting documentation or explanations were provided for audit verification. Further, as reported previously, the opening balance on the statement of changes in net assets balance as at 30 June, 2016 totalled Kshs.2,774,049,064 after recasting which was at variance with the recorded balance of Kshs.2,774,482,625 resulting in a variance of Kshs.432,999 which has not been explained or reconciled to date.

Consequently, the accuracy of the statement of changes in net assets for the year ended 30 June, 2019 could not be confirmed.

#### **1576 Accumulated Surplus**

The statement of financial position and Note 20 reflects an accumulated deficit balance of Kshs.1,021,008,021. However, the balance does not agree with the accumulated deficit balance as per the statement of changes in net assets of Kshs.1,023,847,695. The resultant difference of Kshs.2,839,675 between the two (2) sets of figures has not been explained or reconciled. Further, Note 20 to the financial statements reflects a prior year adjustment of Kshs.2,160,330 that has neither been supported nor explained.

Consequently, the accuracy of accumulated deficit balance of Kshs.1,021,008,021 as at 30 June, 2019 could not be confirmed.

### **1577 Undisclosed Material Uncertainty**

The statement of financial performance reflects a deficit of Kshs.163,200,489 for the year ended 30 June, 2019 (2017/2018 - Kshs.281,140,720). The trend of the Fund continuing to incur deficits as has occurred over the last four (4) years may erode the capital invested in the revolving Fund and impair the ability of the Fund to sustain its services, as intended in its formation. This material uncertainty which casts significant doubt on the continued ability of the Fund to discharge its mandate in the foreseeable future has, however, not been disclosed in the financial statements.

### **1578 Revenue from Exchange Transactions - Interest and Fees**

The statement of financial performance reflects a balance of Kshs.327,755,495 under revenue from exchange transactions which includes an amount of Kshs.41,199,302 relating to interest and fees charged on loans issued by the Fund. However, no accurate information relating to the quantity of loans that gave rise to the reported interest has been provided by Management to enable confirmation of the accuracy and completeness of the interest and fees revenue.

Under the circumstances, the accuracy and validity of the interest fee of Kshs.41,199,302 for the year ended 30 June, 2019 could not be confirmed.

### **1579 Irregular Payment of Commuted Leave for Cash**

The statement of financial performance reflects a balance of Kshs.211,377,152 relating to human capital expenses. The amount includes two (2) payments amounting Kshs.739,726 paid for leave commutation for forty-five (45) days based on two (2) leave application forms filed in the personal file of an officer. However, the payments had the following anomalies;

- i. The leave commutation was not approved by the immediate supervisor of the officer neither was it approved by the responsible officer in the human resources department.
- ii. The leave commutation application form was authorized and approved by one officer for both the immediate supervisor of the applying officer and user department and the human resource manager.
- iii. The commutation amount was computed based on gross pay of the applying officer which was Kshs.493,150 instead of basic pay of Kshs.335,000 resulting to an overpayment of Kshs.237,226. This is contrary to Section E.4(3) of the Public Service Commission Human Resource Policies and Procedures Manual for the Public Service approved in May, 2016.

- iv. The pending leave days were not validated by the Human Resource Manager as required before the payment was effected hence the accuracy and validity of the days paid could not be confirmed.

Consequently, the accuracy and authenticity of the expenditure of Kshs.739,726 included in the balance of Kshs.211,377,152 for human capital expenses could not be confirmed.

## **1580 Inadequately Supported Travel Costs**

The statement of financial performance reflects a balance of Kshs.104,452,900 relating to general expenses which includes an amount of Kshs.4,445,925 in respect of travelling costs. The travel costs include an amount of Kshs.160,000 relating to surrenders of imprests issued to various officers to carry out various activities. However, the surrenders were not adequately supported as details of invitations to the venues where the activities were being undertaken and attendance registers were not availed for audit verification.

## **1581 Non-Current Assets**

### **1581.1 Intangible Assets**

The statement of financial position as at 30 June, 2019 reflects intangible assets balance of Kshs.47,231,782 which includes an unsupported payment in the previous year of Kshs.14,124,652. The amount relates to Enterprise Resource Planning Software (ERPS) acquired at a cost of Kshs.54,960,000. However, procurement and payments supporting documents relating to the ERPS were not availed for audit verification as they were reportedly being held by the Ethics and Anti-Corruption Commission (EACC).

Further, and as disclosed in Note 17 to the financial statements, the additions during the year of Kshs.14,448,138 includes an amount of Kshs.9,338,300 relating to purchase of hardware which should have been categorized under property, plant and equipment (computers and accessories) under Note 15 to the financial statements. The effect of the wrong classification is that depreciation has been charged at the rate of 25% instead of 33.33% hence resulting in understatement by 8.3% equivalent to Kshs.775,078.

In addition, as reported in the financial year 2016/2017, the statement of financial position reported balance of intangible assets of Kshs.47,231,782 includes assets acquired in the financial year 2014/2015 at a total cost of Kshs.2,670,648 which have no supporting documents. The amount also includes cabling and networking acquired at a cost of Kshs.6,612,686 and additions amounting to Kshs.1,980,000 which do not qualify as intangible assets in line with the International Public Sector Accounting Standard (IPSAS) 31.

Consequently, the accuracy, completeness, existence and the valuation of the intangible assets balance of Kshs.47,231,782 could not be confirmed.

## **1581.2 Property, Plant and Equipment**

As disclosed in Note 19 to the financial statements, the statement of financial position reflects a balance of Kshs.65,470,483 under property, plant and equipment which includes partitions at a cost of Kshs.35,983,375 for the Lonrho House offices which the Fund ceased using in the year 2015/2016.

Further, examination of records in relation to motor vehicles and motor cycles revealed that as at the time of audit, five (5) out of eighteen (18) motor vehicles and one hundred and five (105) out of two hundred and ten (210) motor cycles owned by the Fund were grounded. Management continues to reflect the grounded assets as part of property plant and equipment even though they are not in use. No provision for impairment has been provided in the financial statements.

In addition, as previously reported, the property, plant and equipment value of Kshs.65,470,483 (2017/2018 - Kshs.121,562,744) had the following anomalies;

- i. In the year 2014/2015, the Fund spent Kshs.1,980,000 on purchase of iPad tablets for the Board of Directors. The Directors who were issued with the tablets have since left the service and as a result the physical existence of the tablets cannot be ascertained.
- ii. In the year 2014/2015, the Management procured mobile phones for Kshs.400,000. The phones were subsequently written off. Approval for the write offs has not been provided for audit review.
- iii. The Fund acquired fifty (50) laptops, desktop computers and printers in 2014/2015. However, on verification, four (4) laptops valued at Kshs.119,840 each and one (1) printer valued at Kshs.87,000 were found to be missing. Management has to date not provided evidence indicating how it is addressing the issue of loss of these assets.

Under the circumstance, the accuracy, valuation and existence of property, plant and equipment balance of Kshs.65,470,483 could not be ascertained.

## **1582 Investment Property**

As reported in the previous years, the investment property balance of Kshs.32,858,742 reflected in the statement of financial position as at 30 June, 2019 relates to bus shelters constructed by the Fund in public places on land which does not belong to the Fund. The property does not satisfy the conditions set out under International Public Sector Accounting Standard (IPSAS) 16 and therefore does not qualify to be accounted for as investment property.

Further, the depreciation charge for investment property is at a rate of 2% per annum translating to a period of fifty (50) years whereas the agreement between the Fund and the respective County Government gives the Fund a duration of fourteen (14) years for usage. This therefore implies there is an undercharge in depreciation against investment property amounting to Kshs.1,867,294 per annum

for the duration of three (3) years all totaling to Kshs.7,469,176 and an equivalent overstatement in the investment property balance over the same period.

Consequently, the accuracy, ownership and fair statement of the investment property balance of Kshs.32,858,742 could not be ascertained.

### **1583 Trade Debtors**

#### **1583.1 Unsupported Trade Debtors Balances**

As disclosed in Note 12 to the financial statements, the statement of financial position reflects a balance of Kshs.2,303,216,545 under receivables from exchange transactions. The balance consists of trade debtors balance of Kshs.2,485,960,200 and other exchange debtors of Kshs.2,618,998 less impairment allowance and suspense account of Kshs.124,428,960 and Kshs.60,933,693 respectively relating to trade debtors for the year 2018/2019. The balance of Kshs.2,303,216,545 as at 30 June, 2019 could not be confirmed as the amount was not supported by detailed listings. Further, no detailed ageing analysis was provided to support the above loan balances and impairment figure applied on the revolving fund balance.

Also, as reported in the previous year, the balance of Kshs.2,303,216,545 under receivables from exchange transactions includes unquantified amounts of interest, penalties and principal from financial intermediaries. The amount also includes unknown and unquantified amounts of long outstanding default penalties owed by finance intermediaries whose recoverability is doubtful.

#### **1583.2 Loans to Untraceable Welfare Group**

As reported in prior years, receivables from exchange transactions includes loan balances totaling Kshs.150,000 and Kshs.500,000 disbursed in 2007 to Cooper Group in Ijara District and Nomads Welfare in Dujis and Garissa respectively. These welfare groups have never been traced for purposes of confirming the outstanding loans and their recoverability. The balances have remained the same in the current year.

#### **1583.3 Other Exchange Debtors**

The receivables from exchange transactions balance of Kshs.2,303,216,608 includes staff imprests of Kshs.3,739,667 under exchange debtors, some dating back to August, 2011. The staff imprests further include Kshs.1,994,848 and Kshs.292,800 which were irregularly issued to the former Chief Executive Officer and Board Chairman respectively.

#### **1583.4 Provision of Impairment Allowances**

As disclosed in Note 12 to the financial statements, the receivables from exchange transactions balance of Kshs.2,303,216,545 is net of an impairment allowance of

Kshs.124,428,960, and an unidentified and unsupported loan repayment of Kshs.60,933,693. However, the impairment allowance computed at 5% of the outstanding loan balance of Kshs.2,488,579,198 was not backed by any previous trend or Fund policy.

### **1583.5 Unsupported Loan Balances**

The trade debtors balance of Kshs.2,485,960,200 as at 30 June, 2019 includes an amount of Kshs.180,184,855 owed by Chase Bank Limited, that has not been supported to date by any documentary evidence. The amount originated from unsupported payments made by the bank and for which the bank has not produced documents to support the withdrawals.

### **1583.6 Default Penalty on Loans to Financial Intermediaries**

As reported in the year 2017/2018, included in trade debtors balance of Kshs.2,485,960,200 is a receivable from default penalty on loans to financial intermediaries of Kshs.300,550,837 for the year 2016/2017. No comprehensive ageing analysis in support of this amount has been provided for audit verification. It is, however, evident that no settlement of default penalty account has been made by any financial intermediary since inception of the Fund.

Consequently, the accuracy, completeness and existence of the receivables from exchange transactions balance of Kshs.2,303,216,545 as at 30 June, 2019 could not be confirmed.

### **1584 Current Receivables**

As reported in the previous year, included in the receivables from exchange transactions balance of Kshs.2,303,216,545 is an amount of Kshs.245,000,000 relating to Credit Guarantee Scheme in respect of monies advanced to Rafiki Deposit Taking Micro Finance and Indo Africa Finance amounting to Kshs.95,000,000 and Kshs.150,000,000 respectively, which to date have not been secured by deeds of guarantee. No provision for impairment has been included in these financial statements in respect of the Credit Guarantee Scheme balance of Kshs.245,000,000 even though the recovery of these amounts is doubtful based on the court cases between the Fund and the two (2) Intermediaries.

Consequently, the accuracy, validity and recoverability of receivables from exchange transactions of Kshs.245,000,000 could not be ascertained.

### **1585 Trade Payables**

The statement of financial position reflects a balance of Kshs.72,729,725 under trade and other payables from exchange transactions, which includes payables totalling to Kshs.5,511,045 relating to four (4) contractors outstanding as at 30 June, 2014 and Kshs.4,650,750 outstanding as at 30 June, 2015. However, no

satisfactory explanations have been given for failure to settle the accounts payable in the year in which the expenses were incurred or subsequent financial years.

The trade and other payables from exchange transactions balance of Kshs.72,729,725 also includes payables to contractors of Kshs.1,083,600 and Kshs.4,427,445 both outstanding as at 30 June, 2014 owed to two (2) contractors respectively, and Kshs.1,426,800 and Kshs.3,223,950 both outstanding as at 30 June, 2015 owed to two (2) service providers respectively. No satisfactory explanation has been given for failure to settle the accounts payables in the year in which the expenses were incurred or subsequent financial years.

Consequently, the existence and validity of the trade payables balance of Kshs.72,729,725 as at 30 June, 2019 could not be ascertained.

### **1586 Inventories**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.172,330,000 under inventories. The balance relates to automatic hatching machines that were procured in the financial year 2012/2013. The inventory continues to be carried at cost in the books of accounts which is non-compliant with IPSAS 12, which requires that the valuation be the lower of cost and net receivable value. The realizable value of the hatching machine has been provided below cost at Kshs.60,000 per unit instead of Kshs.190,000 that is the current carrying value.

Also, as reported in the previous year, the inventories balance of Kshs.175,659,930 as at 30 June, 2017 also included 907 units of hatcheries valued at Kshs.172,330,000 which was the same as at 30 June, 2016. In 2014/2015, there were 906 units of hatcheries valued at Kshs.172,140,000 as at 30 June, 2015 even though there were no sales, returns or purchases reported by Management during the year 2015/2016. The stock records however, reflected 907 units of hatcheries valued at Kshs.172,330,000. The increase both in quantity and value of hatcheries during the year 2015/2016 has to date not been adequately explained.

Further, although it is clear the incubator inventory is slow moving and is thereby impaired, no provision for impairment has been made against the balance of Kshs.172,330,000 in the financial statements. In addition, physical verification exercise undertaken in June, 2019, indicated the total number of hatcheries as 886 units even though there has been no disposal or sale since the financial year 2014/2015.

Additionally, as reported in the previous year's audit report, the balance of stock (907) worth Kshs.172,330,000 as at 30 June, 2019 stored at Kasarani Stadium and the National Youth Service stores in Mombasa continues to attract storage costs amounting to Kshs.1,153,600 annually. Management is yet to provide the storage contracts between the Sports Stadium Management Board and the Fund.

Under the circumstances, it is not possible to confirm that the inventories balance of Kshs.172,330,000 as reflected in the financial statements is fairly stated.

### **1587 General Expenses**

Note 10 to the financial statements reflects a figure of Kshs.104,452,900 under general expenses. The figure includes Kshs.8,434,670 relating to legal fees which includes two (2) payments to legal service providers totalling to Kshs.5,179,200. Examination of these payments revealed the following anomalies;

- i. The quotation forms for provision of these services were opened by an adhoc committee of three (3) members on a date not indicated in the opening minutes. Legality of the constitution of the opening committee could not be verified as no appointment letters from the Chief Executive Officer were availed for audit verification to support compliance with Section 78(1) of the Public Procurement and Asset Disposal Act, 2015.
- ii. The quotation forms were opened by a three (3) member committee on a date that was not indicated in the opening minutes and whose membership could not be verified as there were no appointment letters.
- iii. The approval of the professional opinion was granted on 28 June, 2018, the same day the contract was signed. The service provider issued an invoice and the Management certified the invoices for payment on the same date the contract was signed. The payment was made before the services were rendered.
- iv. No documentation was availed for audit verification in support of the adhoc tender evaluation committee that was purportedly appointed by the Chief Executive Officer to carry out the evaluation.

No explanation has been provided for non-compliance with the law on procurement.

### **1588 Unresolved Prior Year issues**

As disclosed under the progress on follow up of auditor's recommendations section of the financial statements, various prior year's audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year's audit issues.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

- 1589** Because of the significance of the matters described in the Basis for Disclaimer Opinion section of my report, I have not been able to obtain



sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1590** Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **STATE DEPARTMENT FOR EAST AFRICAN COMMUNITY-VOTE 1221**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **1591 Irregular Payment on Consultancy Services**

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects a total expenditure of Kshs.600,432,274 incurred on use of goods and services which include Kshs.176,535,868 incurred on other operating expenses. The later balance includes Kshs.120,977,931 relating to consultancy services for ease of doing business, paid in the year under review.

A scrutiny of the records supporting the payments revealed that the consultancy services were procured from a consultancy firm by the Ministry of Industry, Trade and Cooperatives on 14 February, 2017, way before the function of doing business was transferred to the State Department for East African Community on 1 April, 2019. Further, the invoices amounting to Kshs. 120,977,931 were not shown as pending bills in the former Ministry's books (Ministry of Industry, Trade and Cooperative) in the years 2016/2017 and 2017/2018. In addition, the original documentation including invoices and the initial local service order issued in the year 2016/2017 when the services were procured, were not availed for audit verification. No plausible explanation was given to show why the State Department for East African Community took over and paid the unsupported pending bills.

In the circumstances, the propriety of the expenditure amounting to Kshs.120,977,931 cannot be ascertained.

##### **1592 Acquisition of Non-Financial Assets**

###### **1592.1 Unsupported Renovation of Office**

Note 8 to the financial statements reflects an expenditure on refurbishment of buildings of Kshs.6,912,689 which includes an amount of Kshs.6,854,938.80 incurred by the State Department on renovation of the Principal Secretary's Office. Information available indicates that the Department contracted a local company at a contract sum of Kshs.6,854,938.80 for a period of six (6) weeks. The works commenced on 21 June, 2018 and was completed as scheduled on 2 August, 2018 and a handing over certificate issued. A payment of Kshs.6,854,938.80 was made on 22 November, 2019 after certification of the renovation works by the State Department for Public Works. However, Management did not avail a priced bill of quantities in support of the amount paid.

In the circumstances, it was not possible to ascertain the authenticity of the expenditure incurred.

## **1592.2 Unsupported Procurement of Furniture**

Note 8 to the financial statements reflects total expenditure of Kshs.29,915,208 under acquisition of assets which included Kshs.3,955,600 relating to purchase of furniture and general equipment. Out of this expenditure of Kshs.3,955,600, the State Department contracted two (2) local firms to supply furniture items for Kshs.1,749,200 through request for quotations. However, Management did not avail the quotations issued to the firms for audit review. In addition, professional advice from the head of procurement to the Accounting Officer as required by Section 47(2) of the Public Procurement and Asset Disposal Act, 2015 was not availed for audit.

In the circumstances, it has not been possible to confirm whether the State Department obtained value for money in incurring the expenditure of Kshs.1,749,200 on various furniture items.

## **1593 Unsupported Payments on Conference Facilities**

Note 4 to the financial statements reflects a total expenditure of Kshs.35,901,915 under hospitality supplies and services which includes Kshs.918,370 expended on an induction course. The State Department had initially planned to hold an induction course in Mombasa for East African Legislative Assembly (EALA) Kenya Chapter between 11 November, 2018 to 17 November, 2018, but due to a mix up of EALA Committee activities, the induction was rescheduled to take place between 14 January, 2019 and 18 January, 2019. The following anomalies were noted;

- i. There was no request for quotations for half board accommodation and dinner charge of Kshs.15,000 and Kshs.3,774 per day respectively.
- ii. There was an extra charge of Kshs.10,000 daily for hiring a hall.
- iii. Invoices dated 15 January, 2019 reflected attendance of fifty (50) persons, while supporting attendance register reflected forty four (44) persons in attendance.
- iv. The banquet/conference invoice charges dated 16 January, 2019 reflected an amount of Kshs.195,550 but the State Department paid Kshs.207,570 resulting to an over payment of Kshs.12,020.
- v. There was no attendance list to support expenditure for participants on 16 January, 2019.

From the foregoing, it has not been possible to confirm the propriety of the expenditure of Kshs. 918,370 incurred during the conference.

#### **1594 Long Outstanding Imprests**

Included in the accounts receivable balance of Kshs.454,188 is Kshs.406,778 which relates to long outstanding imprests held by officers who were transferred to other Government entities. No explanation was provided as to why the long outstanding imprests have not been recovered from the officers from their current stations and remitted to the State Department. As such, the Department is in violation of the provisions of Section 93 of the Public Finance Management Regulations of 2015.

#### **Other Matter**

#### **1595 Budget Control and Performance**

A review of the summary statement of appropriation - recurrent and development combined showed that the Department realized actual receipts from proceeds from domestic and foreign grants amounting to Kshs.7,541,418 against a budget of Kshs.16,250,000 resulting to under-collection of Kshs.8,708,582 or 54% of the expected receipts of Kshs.16,250,000. This shortfall was attributed to austerity measures imposed on soft projects in favour of infrastructure projects. This therefore, implies that the State Department may not have achieved all the planned activities.

#### **1596 Pending Bills**

Note 15 to the financial statements reflects pending bills amounting to Kshs.25,414,982 as at 30 June, 2019. A review of the records for the pending bills revealed that out of the total pending bills of Kshs.25,414,982, bills amounting to Kshs.15,735,919 were due to incomplete documentation, bills amounting to Kshs.2,945,654 related to returned cheques, pending bills of Kshs. 1,364,863.95 related to incomplete payee details while the balance of Kshs. 5,368,545.00 related to insufficient funds. No satisfactory reasons were provided for accumulating the pending bills during the year and committing the State Department's Funds beyond the available resources. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1597** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1598 Lack of Audit Committee**

During the year under review, the State Department operated without an Audit Committee hence, its activities were not appraised, contrary to the Public Finance Management Act Regulations 174(1).

## **STATE DEPARTMENT FOR REGIONAL AND NORTHERN CORRIDOR DEVELOPMENT-VOTE 1222**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **1599 Irregular Advance Payment for Kimwarer Multipurpose Dam Development Project**

The statement of receipts and payments as at 30 June, 2019, reflects proceeds from foreign borrowing of Kshs.3,666,495,236 out of which Kshs.3,485,500,628 was paid to international joint venture firm on 27 September, 2018. The payment, which was effected in the books of the State Department on 2 November, 2018 through journal entries, was an advance for designing, building, and transfer of the proposed Kimwarer Multipurpose Dam Development Project. Available information indicates that this matter is under investigations by the relevant authorities.

##### **1600 Unconfirmed Payments for Sigor Wei Wei Integrated Development Project**

The statement of receipts and payments reflect receipts from foreign borrowing amounting to Kshs.3,666,495,236 out of which Kshs.180,994,608 was payment in respect of Sigor Wei Wei Integrated Development Project comprising Kshs.173,085,366 paid to the contractor and Kshs.7,909,242 paid to a supervision consultant firm. The State Department effected the payments of Kshs.180,994,608 in its books on diverse dates during the financial year by processing journal entries. However, there was no evidence from the financier that the payment was indeed made and to whom (details of the relevant bank accounts), to authenticate the receipts from borrowing and the resultant payments.

Further, minutes of an adhoc inspection and acceptance committee held on 20 February, 2019 indicate that the works were 97% complete but the performance bond was to expire on 28 February, 2019. There was no evidence availed to show that the performance bond was renewed to cover the time extension including defects liability period. In addition, Interim Certificate No. 7 dated 22 August, 2018 for Kshs.67,383,983 does not reflect deduction of retention money of Kshs.3,369,199 in respect of payments to contractors and consultants for the Sigor Wei Wei Integrated Development Project Phase III.

In the circumstances, it has not been possible to confirm the propriety of the expenditure of Kshs.180,994,608 for the project.

##### **1601 Unreconciled Grants and Transfers to Other Government Entities**

The statement of receipts and payments and Note 5 to the financial statements, reflects transfers to eight (8) other Government entities amounting to

Kshs.8,138,743,577. However, confirmation from the respective agencies revealed variances as follows:

<b>SAGA</b>	<b>Amount Disbursed by the State Department (Kshs.)</b>	<b>Amount Received by the SAGA (Kshs.)</b>	<b>Variance (Kshs.)</b>
Ewaso Ng'iro North River Development Authority	338,129,280	339,535,887	(1,406,607)
Kerio Valley Development Authority- Direct Payment	3,666,495,236	Nil	3,666,495,236

In the circumstances, the accuracy and completeness of the grants and transfer to other Government entities balance of Kshs.8,138,743,577 for the year ended 30 June, 2019, could not be confirmed.

### **1602 Pending Bills**

Annex 1- Analysis of other pending payables reflects pending bills totalling Kshs.2,446,331,092. Included in the amount are bills totalling Kshs.2,438,725,299 which had no supporting documents. In the absence of supporting documents, it was not possible to confirm the authenticity of the pending bills amounting to Kshs.2,438,725,299 and whether the bills are a proper charge to public funds. Further, failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

### **Other Matter**

### **1603 Budget Control and Performance**

The State Department received Exchequer receipts totalling Kshs.8,338,311,026 against an approved budget of Kshs.13,323,183,067 resulting to a shortfall of Kshs.4,984,872,041 or approximately 37% of the approved budget. Similarly, from the approved budget of Kshs.13,323,183,067, actual expenditure amounted to Kshs.8,331,075,291 resulting to an under expenditure of Kshs.4,992,107,776 or 37% of the approved budget. The under expenditure mainly occurred under compensation of employees, use of goods and services, transfers to other government entities and acquisition of assets. The shortfall in revenue by Kshs.4,984,872,041 and the under expenditure of Kshs.4,992,107,776 implies that the Department did not achieve all the planned goals and objectives.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

#### **1604 Irregular Procurement of Goods and Services**

##### **1604.1 Purchase without Local Purchase Orders and Local Service Orders**

Note 4 to the financial statements reflects an expenditure of Kshs.91,680,972 under use of goods and services. Included in this figure is Kshs.1,268,733 relating to procurement of air tickets and repair and servicing of motor vehicles and other assets done without local purchase orders and local service orders. The procurement process was then regularized by raising the local purchase orders and local service orders long after the goods or services were acquired and the related event had taken place in violation of Section 104(1) of the Public Finance Management Regulations, 2015.

##### **1604.2 Payment without Invoices**

Payments relating to repair and maintenance of motor vehicle and other assets amounting to Kshs.1,197,425 were made without Invoice, pre/post mechanical inspection and job card for work done. The missing documents were raised much later after the services had been completed in order to regularize the process and in breach of Section 104(1) of the Public Finance Management Regulations, 2015.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Basis for Conclusion

#### **1605 Lack of an Audit Committee**

During the year under review, the State Department operated without an Audit Committee, contrary to Section 73(5) of the Public Finance Management Act, 2012 which requires every National Government entity to establish an Audit Committee to provide oversight over management activities, ensuring the integrity of the Department's financial information, enhancing systems of controls, monitoring and review of the internal audit process and ensuring that risk management systems are in place.



## **DONOR FUNDED PROJECT**

### **KIMIRA OLUCH SMALLHOLDER FARM IMPROVEMENT PROJECT (ADF LOAN NO. 2100150012296)**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**1606** There were no material issues noted during the audit of the financial statements of the Project.

##### **Other Matter**

##### **1607 Budget Control and Performance**

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual expenditure of Kshs.509,468,516 against a budget of Kshs.687,000,000 resulting in an under-expenditure of Kshs.177,531,484 or 26% of the total budget. The under-expenditure mainly occurred under purchase of goods and services and is attributed to delayed release of funds by The National Treasury.

##### **1608 Pending Bills**

Note 9.1 to the financial statements reflects pending accounts payable of Kshs.854,691,847 as at 30 June, 2019. The pending bills were brought forward from previous financial years. Failure to pay bills in the year they relate to not only distorts the subsequent year's budgeted programs and activities, but also, pending payments have the potential risk of additional costs in interest on delayed payments, penalties and claims on idle capacity.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**1609** There were no material issues relating to lawfulness and effectiveness in use of public resources.

#### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

##### **Conclusion**

**1610** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# STATE LAW OFFICE AND DEPARTMENT OF JUSTICE-VOTE 1252

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1611 Inaccuracies in the Financial Statements

##### 1611.1 Receipts - Other Revenues

The statement of receipts and payments reflect other revenue receipts of Kshs.435,502,000 which as disclosed in Note 2 to the financial statements represents receipts collected as Appropriations-In-Aid (A-I-A) during the year. However, the supporting documents availed for audit shows that a total of Kshs.533,535,788 was collected as A-I-A from three (3) institutions as detailed below:

<b>Institution</b>	<b>Financial Statement Balance (Kshs.)</b>	<b>A-I-A Collection Confirmed by Institution (Kshs.)</b>	<b>Variance (Kshs.)</b>
Council of Legal Education	160,102,000	175,498,400	(15,396,400)
Kenya Copyright Board	3,000,000	3,228,943	(228,943)
Kenya School of Law	272,400,000	354,808,445	(82,408,445)
<b>Total</b>	<b>435,502,000</b>	<b>533,535,788</b>	<b>(98,033,788)</b>

The resultant difference of Kshs.98,033,788 has not been reconciled or explained.

##### 1611.2 Discrepancies Between Balances in the Financial Statements and the Integrated Financial Management Information System (IFMIS)

The following discrepancies were noted between balances in the financial statements and balances generated by IFMIS:

<b>Item Description</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>IFMIS Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Recurrent Account	144,210	3,214,441,458	(3,214,297,248)
Development Account	5,736,008	76,000,000	(70,263,992)
Deposit Account	822,541,728	414,050	822,127,678
Adjustment on Bank Balances	155,196,834	-	155,196,834
<b>Total</b>	<b>983,618,780</b>	<b>3,290,855,508</b>	<b>(2,307,236,728)</b>

The resultant difference of Kshs.2,307,236,728 has not been reconciled or explained.

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

### **1612 Unreconciled Cash and Bank Balances**

The statement of assets and liabilities reflects a bank balance of Kshs.828,421,946 which as disclosed under Note 8A to the financial statements is made up of bank balances of Kshs.144,210 in the recurrent account, Kshs.5,736,008 in the development account and Kshs.822,541,728 held in the deposits accounts. However, no explanation was provided for failure to clear long outstanding reconciling items under both the recurrent and deposits accounts as indicated below:

<b>Description</b>	<b>Recurrent Account (Kshs.)</b>	<b>Deposits Account (Kshs.)</b>
Payments in cashbook not in bank	2,368,832	989,454
Payments in bank not in cashbook	2,039,086	0
<b>Total</b>	<b>4,407,918</b>	<b>989,454</b>

Under the circumstances, the accuracy of the bank balance of Kshs.828,421,946 as at 30 June, 2019 could not be confirmed.

### **1613 Use of Goods and Services**

The statement of receipts and payments reflect an expenditure of Kshs.870,125,594 under use of goods and services which as disclosed at Note 4 to the financial statements includes an amount of Kshs.103,490,681 incurred on rentals of produced assets. However, no reconciliation between the amounts payable and actual payments for the leased premises was availed for audit verification. Further, included in the total expenditure of Kshs.870,125,594 under use of goods and services is an amount totalling to Kshs.84,273,146 incurred in regional offices. The expenditure of Kshs.84,273,146 though captured in the ledger was however, not supported by detailed expenditure returns from the regional offices.

In addition, lease agreements for offices rented in Malindi, Meru, NSSF Mombasa, Cooperative House Nairobi and Embu were not fully executed and registered with the Ministry of Public Works in line with Section 47 of the Registered Land Act Cap 300.

In the circumstances, the accuracy of use of goods and services expenditure of Kshs.870,125,594 for the year ended 30 June, 2019 could not be confirmed.

## 1614 Transfers to Other Government Entities

Note 5 to the financial statements indicates that a total of Kshs.2,409,719,913 was transferred to eleven (11) entities during the year under review. However, confirmations from the beneficiary institutions as at 30 June, 2019 reflected variances totalling Kshs.571,992,962 from five (5) institutions as detailed below:

	<b>Institution</b>	<b>Amount Transferred (Kshs.)</b>	<b>Amount Confirmed by Recipient (Kshs.)</b>	<b>Variance (Kshs.)</b>
1.	Council of Legal Education	370,566,800	210,464,800	160,102,000
2.	Kenya School of Law	562,298,200	289,898,200	272,400,000
3.	Kenya Copyright Board	124,580,000	121,580,000	3,000,000
4.	National Centre for International Arbitration	113,415,500	113,415,400	100
5.	Business Registration Service	312,914,993	176,424,131	136,490,862
	<b>Total</b>	<b>1,483,775,493</b>	<b>911,782,531</b>	<b>571,992,962</b>

In the circumstances, the accuracy of transfers to other Government entities of Kshs.2,409,719,913 for the year ended 30 June, 2019 could not be confirmed.

## Other Matter

### 1615 Budget Control and Performance

During the year under review, the State Law Office and Department of Justice had actual receipts totalling to Kshs.4,381,239,570 against estimated receipts of Kshs.4,749,027,303 resulting in a shortfall of Kshs.367,787,733. Further, actual expenditure for the year amounted to Kshs.4,370,952,568 against a budget of Kshs.4,749,027,303 resulting in an under expenditure of Kshs.378,074,735 or 8%.

The under expenditure occurred in all expense components. The Management has attributed the under expenditure to non-release of all exchequer allocations by The National Treasury which impacted negatively on service delivery to the citizens of Kenya.

### 1616 Pending Bills

As disclosed at note 14.1, 14.2 and 14.3, the State Law Office and Department of Justice reported pending bills of Kshs.44,394,205 as at 30 June, 2019, which were not settled during the year but were instead carried forward to 2019/2020 financial year. Had the bills been paid and the expenditure charged to the respective accounts in 2018/2019, the statement of receipts and payments for the year would have reflected a deficit of Kshs.34,107,203 instead of the reflected surplus of Kshs.10,287,002 for the year ended 30 June, 2019.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **1617 Accounts Receivable – Outstanding Imprests**

Note 9 to the financial statements reflect accounts receivable-outstanding imprest balance of Kshs.4,406,717 which includes Government imprests of Kshs.4,231,029 which ought to have been surrendered or accounted for on or before 30 June, 2019. This is contrary to Section 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which requires a holder of a temporary imprest to account or surrender the imprest within seven (7) working days after returning to the duty station. Section 93(6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate. No recoveries had been made.

Consequently, it has not been possible to confirm the recoverability of the Government imprest balance of Kshs.4,231,029 as at 30 June, 2019.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1618 Lack of an Audit Committee**

In 2018/2019 financial year, the State Law Office and Department of Justice did not have an independent Audit Committee as required by Section 73(5) of the Public Finance Management Act, 2012. In the absence of a functioning Audit Committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls and risk management systems of the Office could not be undertaken.

#### **1619 Lack of an Approved Enterprise Risk Management Process and IT Strategic Committee**

During the year under review and as previously reported, the State Law Office and Department of Justice did not have an approved well-documented enterprise wide risk management process and policies in place to effectively guide the enterprises risk management processes. This is contrary to Section 165 of Public Finance Management (National Government) Regulations, 2015.

Further, Treasury Circular No. 03/2009; Ref: MOF/IAG/033(75) requires that government entities/agencies should, among other things, develop and establish Risk Management Policy and Framework (RMPF) to guide its strategic and operational activities. However, the Office did not have an IT Strategic Committee, an IT Strategic Plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan, formally approved IT security policy to ensure data confidentiality, integrity and availability, documented and tested emergency procedures, copies of the IT continuity plan and disaster recovery plan kept off-site.

## **STATE LAW OFFICE AND DEPARTMENT OF JUSTICE - OFFICIAL RECEIVER**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

##### **1620 Unsupported Receivables**

The statement of assets and liabilities reflects receivables balance of Kshs.127,726,843 as at 30 June, 2019 which includes a balance of Kshs.41,082,583 due from Deposit Protection Board whose analysis was not availed for audit verification.

In the circumstances, the accuracy, validity and completeness of the receivables balance of Kshs.127,726,843 as at 30 June, 2019 could not be confirmed.

##### **1621 Unconfirmed Short-term Deposits and Treasury Bills**

The statement of assets and liabilities reflects short term deposits and treasury bills balance of Kshs.339,686,292 as at 30 June, 2019, made up of short-term deposits totalling Kshs.185,273,300 and treasury bills amounting to Kshs.154,412,992. The short term deposits balance of Kshs.185,273,300 was held in seventeen (17) bank accounts as disclosed in Note 7(a) to the financial statements while the treasury bills balance of Kshs.154,412,992 was in two (2) accounts as disclosed in Note 7(b) to the financial statements. Management did not however, avail bank confirmation certificates for the seventeen (17) short term deposits accounts and the two (2) treasury bills accounts.

In the circumstances, the accuracy and validity of short-term deposits and treasury bills balance of Kshs.339,686,292 as at 30 June, 2019 could not be confirmed.

##### **1622 Unsupported Other Revenues**

Included in other revenues balance of Kshs.72,102,161 are other receipts not classified elsewhere totalling Kshs.58,532,994 out of which only Kshs.53,658,278 has been supported leaving a balance of Kshs.4,874,716 as unsupported.

In the circumstances, the accuracy, validity and completeness of other revenues balance of Kshs.72,102,161 could not be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1623** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1624** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## REVENUE STATEMENTS - STATE LAW OFFICE AND DEPARTMENT OF JUSTICE

### REPORT ON THE REVENUE STATEMENTS

#### Basis for Qualified Opinion

#### 1625 Discrepancy Between Integrated Financial Management Information System (IFMIS) and Revenue Statements Balances

The balances reflected in the revenue statements prepared and presented for audit differed with the balances reflected in IFMIS as shown below:

Components / Activity	Revenue per Statements (Kshs.)	Revenue per IFMIS (Kshs.)	Variance (Kshs.)
Registration of Coat of Arms	10,000	10,000	-
Registration of Marriages	132,552,438	50,680,050	81,872,388
Registration of Societies	7,604,100	6,408,850	1,195,250
Registration of Newspapers and Periodicals	75,200	46,400	28,800
Public Trustee Fees	81,869,141	-	81,869,141

The discrepancies were neither explained nor reconciled. Further, no satisfactory explanation was provided on why collected public trustee fees were not recorded through the IFMIS platform.

Consequently, it has not been possible to confirm the accuracy and completeness of the revenue statements.

#### **1626 Unsupported Regional Revenues**

As disclosed in Note 1 to the revenue statements, the statement of revenues and transfers reflects total receipts of Kshs.240,741,319 under fees on use of goods and services which includes an amount of Kshs.132,552,438 being fees for registration of marriages. However, only receipts of Kshs.57,450,000 collected from the Nairobi region were supported, while supporting documents for the balance of Kshs.75,102,438 collected at the regional offices were not provided.

In the circumstance, it was not possible to confirm the completeness and accuracy of the reported registration of marriages fees of Kshs.132,662,438.

#### **1627 Bank Reconciliations Statements in Machakos – Public Trustee Account**

Audit review of the bank reconciliation statements for the Public Trustee account in Machakos, reflected a receipt of Kshs.2,281,141 in the bank that had not been recorded in the cash book and which included a long outstanding balance of Kshs.1,027,533 that dated back to 4 November, 2014. No satisfactory explanation was provided for the delayed reconciliations.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **1628 Low Revenue Collected from Coat of Arms**

The Coat of Arms section has a mandate to generate revenue by registering coat of arms and sale of vellum. Revenue from registration of coat of arms during the financial year 2018/2019 was Kshs.10,000 from a single transaction relating to registration of coat of arms by Kirinyaga County. No revenue was generated from sale of vellum. The poor performance in revenue generation was attributed to lack of applications and a dormant secretariat.

#### **1629 Non-Maintenance of Unclaimed Estate Account**

The Public Trustee does not operate or maintain an Unclaimed Estate Account as required under Section 12(5) of the Public Trustee (Amendment) Act, 2018 which provides for the transfer and credit of funds in the Unclaimed Estate Account of



any funds that remain in the possession of the Public Trustee of which it is unable to dispose by distribution in accordance with the law or by reason of un-traceability of the person entitled to give a discharge or for any other cause. In addition, audit review of the estate ledgers revealed unclaimed estate balances amounting to Kshs.847,983 which were outstanding for a period of over ten (10) years.

#### **1630 Inadequate Book Keeping in Eldoret Marriages Station**

The cash book for the station had not been updated for fifteen (15) months and the monthly bank reconciliation statements were not being prepared as required under Regulation 90 of the Public Finance Management (National Government) Regulations, 2015. Further, the counterfoil receipt book register for keeping track of movement of accountable documents such as receipts books was not maintained. In addition, the clerical and accounting functions were both being performed by one clerical officer. In the circumstances, the assets (cash) at the station had not been properly safeguarded.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **1631 Lack of an Investment Board and Policy**

The Public Trustee Department operated without the Public Trustee Investment Board in contravention of Section 5(E) of Public Trustee (Amendment) Act, 2018. The functions of the Board include review and oversight of matters pertaining to the investment of Estate and Trust funds, formulation review and oversight of the implementation of the Public Trustee Investment Policy and advising the Attorney-General on the management of the investment portfolio. In addition, the Trustee did not have an investment policy as a guide for investing funds which are not immediately needed by the beneficiaries.

## **PUBLIC TRUSTEE OF KENYA**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Basis for Qualified Opinion**

#### **1632 Deposits**

The statement of financial position reflects a balance of Kshs.122,400,000 under deposits which includes an amount of Kshs.72,000,000 held in Imperial Bank Limited. However, information available indicates that Imperial Bank Limited was

placed under receivership by the Central Bank of Kenya on 13 October, 2015 and the Kenya Deposit Insurance Corporation (KDIC) appointed the receivers. Consequently, recoverability of the balance of Kshs.72,000,000 held at Imperial Bank remains doubtful.

Further, included in the deposits balance of Kshs.122,400,000 is a balance of Kshs.12,400,000 held at the Housing Finance Corporation of Kenya (HFCK) as at 30 June, 2019 which is at variance with Kshs.13,609,169 confirmed by the bank as at the same date. The resultant variance of Kshs.1,209,169 has not been explained.

Under the circumstances, the accuracy and completeness of deposits balance of Kshs.122,400,000 as at 30 June, 2019 could not be confirmed.

### **1633 Investments**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.232,160,000 under investments, which includes a balance of Kshs.144,098,000 described as deposits in financial institutions under the management of the Kenya Deposit Insurance Corporation (KDIC) and the Official Receiver. However, as reported in the previous year, no explanation was provided for failure to seek refund of these dormant deposits. In addition, the dormant deposits of Kshs.144,098,000 includes investments totalling to Kshs.29,694,000 held in two (2) institutions as detailed below;

<b>Institution</b>	<b>Investment Balance (Kshs.)</b>	<b>Managing Institution</b>
Central Finance Ltd	22,750,000	Kenya Deposit Insurance Corporation (KDIC)
Allied Credit Ltd	6,944,000	Kenya Deposit Insurance Corporation (KDIC)
<b>Total</b>	<b>29,694,000</b>	

However, through letters dated 8 April, 2019, the Kenya Deposit Insurance Corporation notified the Public Trustee that the amounts are not payable as the two (2) institutions were wound up and stand dissolved.

Under the circumstances, the accuracy and completeness of investments balance of Kshs.232,160,000 as at 30 June, 2019 could not be confirmed.

### **1634 Cash and Cash Equivalents**

The statement of financial position reflects a balance of Kshs.3,951,492,000 under cash and cash equivalents as at 30 June, 2019. However, bank reconciliation statements for the various public trustee administration bank accounts reflects outstanding reconciling items whose clearance status as at the time of the audit in March, 2020 was not disclosed as tabulated below;

<b>Account</b>	<b>Payments in Cashbook not in Bank (Unpresented Cheques) (Kshs.)</b>	<b>Receipts in Bank Statement not in Cashbook (Kshs.)</b>	<b>Payments in Bank Statement not in Cashbook (Kshs.)</b>	<b>Receipts in Cashbook not in Bank Statement (Kshs.)</b>
Administration Account- Nairobi	-	11,529,930	-	-
Nakuru	6,587,373	1,835,427	31,849	-
Nyeri	5,051,673	2,887,323	36,791	-
Machakos	3,892,136	2,281,141	15,220	-
Malindi	4,324,342	158,533	15,100	17,500
Mombasa	3,817,211	-	-	-
Eldoret	4,094,739	16,043,601	3,986	598,680
Kakamega	20,197,776	31,511,450	-	2,013,441
Kisii	10,234,000	2,155,152	2,886,966	-
Kisumu	10,061,495	1,989,282	-	-
Garissa	404,971	-	210	22,080
Meru	2,049,799	4,993,776	81,408	1,354,311
Embu	13,227,649	2,717,446	5,468,250	-
<b>Total</b>	<b>83,943,164</b>	<b>78,103,061</b>	<b>8,539,780</b>	<b>4,006,012</b>

In addition, the investments account reconciliation statement reflects receipts in cash book not in bank statement totalling to Kshs.332,064 whose clearance status as at the time of audit in March, 2020 was not availed for audit verification.

In the circumstances, the validity and accuracy of the cash and cash equivalents balance of Kshs.3,951,492,000 could not be confirmed.

### **1635 Treasury Bills**

The statement of financial position reflects a balance of Kshs.5,712,450,000 under Treasury Bills as at 30 June, 2019. However, bank confirmation certificates in support of the balances held were not availed for audit verification casting doubt on the accuracy and validity of the Treasury Bills balance of Kshs.5,712,450,000.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1636** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON INTERNAL CONTROLS EFFECTIVENESS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1637** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# THE JUDICIARY-VOTE 1261

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Adverse Opinion

#### 1638 Inaccurate Cash and Bank Balances

##### 1638.1 Unsupported Third-Party Deposits

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.7,437,549,982 which includes an amount of Kshs.6,785,776,575 being bank deposits held in various commercial banks on behalf of third parties. However, the cashbooks, bank certificates and bank reconciliation statements in support of the balances were not provided for audit verification.

##### 1638.2 Unreconciled Receipts and Payments

Audit inspections carried out in the months of August and September, 2019 in various courts revealed unreconciled differences between receipts and payments reflected in bank statements with those reflected in the Judiciary Integrated Financial Management Information System (JIFMIS) as shown below:

##### 1638.2.1 Unreconciled Receipts

<b>Court Station</b>	<b>Receipts as per Bank Statement ( Kshs.)</b>	<b>Collections as per JIFMIS (Kshs.)</b>	<b>Difference (Kshs.)</b>
Nakuru	95,244,989	91,179,607	4,065,382
Kisumu	16,719,792	17,359,513	(639,721)
Kericho	20,881,062	13,317,621	7,563,441
Kilifi	9,787,701	9,457,642	330,239

##### 1638.2.2 Unreconciled Refunds and Forfeitures

<b>Court Station</b>	<b>Payments as per Bank Statement (Kshs.)</b>	<b>Payments as per JIFMIS (Kshs.)</b>	<b>Difference (Kshs.)</b>
Nakuru	72,674,990	110,494,729	(37,819,739)
Kisumu	13,252,524	14,634,981	(1,382,457)
Kericho	8,860,214	8,437,470	422,744
Kilifi	6,984,287	6,263,129	721,158

Although Management explained that a team had been constituted to ascertain the origin of the differences, the reconciliation of the two (2) sets of records had not been provided as at the time the audit report was finalized.

### **1638.2.3 Long Outstanding Items in Bank Reconciliation Statements**

A review of the bank reconciliation statements for the recurrent, development and deposit bank accounts revealed long outstanding payments in bank statements not yet recorded in cashbooks and receipts in cashbook not yet recorded in bank statements amounting to Kshs.80,696,941 and Kshs.1,126,582 respectively. The bank reconciliation statements also reflected payments in cashbook not yet recorded in bank statements (unpresented cheques) of Kshs.331,847,914 some of which had been outstanding since 30 June, 2017 and are therefore stale. Although Management has indicated that the unpresented cheques have since been cleared, the supporting bank statements and cash book have not been availed for audit review.

In view of the foregoing, the existence, completeness and accuracy of the reported cash and cash equivalents balance of Kshs.7,437,549,982 could not be ascertained.

### **1639 Unsupported Expenditure on Use of Goods and Services**

Note 4 to the financial statement reflects Kshs.3,557,016,786 relating to use of goods and services for the year ended 30 June, 2019. Included in this amount is Kshs.9,742,625 and Kshs.1,551,200 on domestic travel and subsistence expenses and hospitality supplies and services respectively, whose supporting documents were not provided for audit.

In the circumstances, the accuracy of the reported balances and the validity of the payments totalling Kshs.11,293,825 could not be confirmed.

### **1640 Unsupported Pending Bills**

Note 14 to the financial statements reflects pending bills totalling Kshs.858,437,695 comprising accounts payables and staff payables that were not settled during the financial year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills in the year to which they relate distorts the financial statements for the year and also affects the budgetary provisions for the subsequent year. Further, pending bills amounting to Kshs.59,715,223 were not supported with delivery notes, invoices, contracts and local service or purchase orders as required.

Consequently, the accuracy and validity of the reported pending bills figure of Kshs.858,437,695 could not be confirmed.

### **1641 Accounts Payables - Deposits**

The statement of assets and liabilities reflects accounts payables – deposits amounting to Kshs.7,410,138,140. However, a listing of bank deposits in support of the accounts payable provided reflected a balance of Kshs.6,607,403,848 resulting into a difference of Kshs.802,734,292. Although Management explained

that the difference related to historical figures and the issue was being resolved, evidence of the outcome of the process was not provided.

In addition, during audit inspections carried out in the months of August and September, 2019, where a sample of eight (8) courts was considered, court documents verified revealed outstanding depositors balance of Kshs.1,159,644,537 while the supporting list provided at the Head Office reflected a balance of Kshs.1,300,196,977 resulting into an unexplained difference of Kshs.140,552,440 as shown:

<b>Court Stations</b>	<b>Outstanding Depositors Sampled Court Station (Kshs.)</b>	<b>Outstanding Depositors- Financial Statement Listing (Kshs.)</b>	<b>Difference (Kshs.)</b>
Kisumu	13,277,845	43,655,798	(30,377,953)
Makadara	360,075,249	455,498,009	(95,422,760)
Nakuru	259,079,521	262,538,262	(3,458,741)
Kericho	29,391,351	38,434,212	(9,042,861)
Taita Taveta		2,250,125	(2,250,125)
<b>Total</b>	<b>661,823,966</b>	<b>802,376,406</b>	<b>(140,552,440)</b>

Similarly, documents verified at the sampled courts revealed cashbook deposit balances of Kshs.1,079,910,223 while the supporting list availed for audit reflected total deposits of Kshs.1,204,301,231 for the same courts resulting to an unexplained difference of Kshs.124,391,008.

<b>Court Stations</b>	<b>Deposit Cash Balance - Sampled Court Station (Kshs.)</b>	<b>Deposit Cash Book Balance- Financial Statement Listing (Kshs.)</b>	<b>Difference (Kshs.)</b>
Kibera	202,366,673	203,396,529	(1,029,856)
Mombasa	255,257,921	366,134,463	(110,876,542)
Kilifi	18,934,336	18,837,788	96,548
Kisumu	43,376,914	44,993,276	(1,616,362)
Makadara	308,739,394	267,018,386	41,721,008
Nakuru	222,844,596	279,919,337	(57,074,741)
Kericho	28,390,389	21,747,677	6,642,712
Taita Taveta		2,253,775	(2,253,775)
<b>Total</b>	<b>1,079,910,223</b>	<b>1,204,301,231</b>	<b>(124,391,008)</b>

Further, confirmed cashbook deposit balance of Kshs.1,079,910,223 for the sampled courts was less than the confirmed deposits owed of Kshs.1,159,644,537

by Kshs.79,734,314 casting doubt on the ability of the Judiciary to fulfill its obligations as they fall due.

<b>Court Station</b>	<b>Outstanding Depositors (Kshs.)</b>	<b>Deposit Cash Book Balance (Kshs.)</b>	<b>Difference (Kshs.)</b>
Kibera	252,982,899	202,366,673	50,616,226
Mombasa	224,867,587	255,257,921	(30,390,334)
Kilifi	19,970,085	18,934,336	1,035,749
Kisumu	13,277,845	43,376,914	(30,099,069)
Makadara	360,075,249	308,739,394	51,335,855
Nakuru	259,079,521	222,844,596	36,234,925
Kericho	29,391,351	28,390,389	1,000,962
Taita Taveta			
<b>Total</b>	<b>1,159,644,537</b>	<b>1,079,910,223</b>	<b>79,734,314</b>

In view of the foregoing, the accuracy, completeness and validity of the reported accounts payable - deposits balance of Kshs.7,410,138,140 could not be confirmed.

#### **1642 Delayed Completion of Thirty-Nine (39) Courts**

As previously reported, the balance of Kshs.25,368,939,031 being the historical cost of the assets of the Judiciary as shown under Annex I to the financial statements, includes Kshs.3,491,859,987 relating to construction of thirty-nine (39) law courts spread across the country. Construction works for some of the law courts were awarded in the financial year 2013 but had taken long to complete therefore, attracting interest on the contract sum. A case in point was a local contractor for the Embu Law Courts who was demanding Kshs.4,859,432 interest on delayed payments.

Further, details of completion certificates issued for works done and total amount paid for each of the projects valued at Kshs.1,587,836,186 were not provided for audit review. In the absence of completion certificates and payment details, it has not been possible to confirm that the works paid for were certified as per the provisions of the signed contract agreements and that citizens got value for money on the expenditure already incurred.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **1643 Management of the Tribunals**

Documents availed for audit on operations of the nineteen (19) tribunals transferred to the Judiciary revealed that some of the staff within the tribunals were still under their respective Ministries resulting in different reporting structures. In addition, the office spaces and courtrooms were inadequate for some tribunals

while others were not easily accessible to the public leading to few cases being registered at the tribunals. Further, there are over sixty (60) tribunals in the country but only nineteen (19) have been recognized in the financial statements of the Judiciary. It was not clear why the remaining tribunals were not transferred in compliance with Article 169(1) of the Constitution of Kenya that defines subordinate courts under the Judiciary to include local tribunals as may be established by an Act of Parliament.

Under the circumstances, the judicial authority over the tribunals may not have been exercised in compliance with Article 159(1) of the Constitution of Kenya.

#### **1644 Irregular Acting Appointments**

Audit review of the human resources records revealed that staff had been appointed in an acting capacity to various positions within the Judiciary for a period of between sixteen (16) and forty (40) months contrary to Section B 20 (iii) and (iv) of the Judiciary Human Resource Policies and Procedures Manual that requires acting appointments to be held for a maximum of twelve (12) months which can only be extended by a final acting period of six (6) months. The Manual further states that the position must be filled or officer reverts to his or her position after acting for a maximum of eighteen months. It was further observed that officers serving in an acting capacity were again appointed to act in higher positions.

In consequence, the Judiciary was in breach of its Human Resource Policies and Procedures.

#### **1645 Unapproved Reallocations**

Examination of the payment vouchers revealed that expenditure of Kshs.76,265,569 was misallocated or charged to wrong accounts as shown below:

<b>Vote</b>	<b>Correct Account</b>	<b>Incorrect Account Charged</b>	<b>Amount (Kshs.)</b>
2210300	Domestic Travel	Tribunal	35,451,785
2210400	Foreign Travel	Tribunal	11,689,777
2210800	Hospitality	Tribunal	6,125,505
2210700	Training	Tribunal	13,514,308
	Routine maintenance of vehicles and other transport equipment	Fuel, oil and lubricants	9,484,194
			<b>76,265,569</b>

Approval from The National Treasury for the reallocations as required under Section 43 (2) (b) of the Public Finance Management Act, 2012 was not provided.

Consequently, the propriety of the reallocations could not be confirmed.



# REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

## Conclusion

**1646** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## REVENUE STATEMENTS – THE JUDICIARY

### REPORT ON THE REVENUE STATEMENTS

#### Basis for Qualified Opinion

#### 1647 Transactions Recurring in Bank Reconciliations

The statement of revenues and transfers reflects a total of Kshs.1,601,586,282 revenue collected during the year under review. However, examination of the June, 2019 bank reconciliation statements for various court stations revealed reconciling items which, as previously reported, have been recurring for more than three (3) months, with some dating back to the year 2013. This is contrary to Section 11.5 (d) of the Judiciary Finance Policy and Procedures Manual which requires variances and outstanding items to be followed up within thirty (30) days and not to recur on the bank reconciliations for a period longer than three (3) months.

<b>Court Station</b>	<b>Receipts in the Cashbook not Recorded in the Bank Statement (Kshs.)</b>	<b>Payments in the Bank Statement not Recorded in the Cash Book (Kshs.)</b>	<b>Receipts in the Bank Statement not in the Cash Book (Kshs.)</b>	<b>Payments in the Cashbook not in the Bank Statement (Kshs.)</b>
Employment and Labour Relations Court - March, 2019	72,389	-	3,981,415	5,544,147
Milimani Commercial Courts - August, 2018	74,895	13,548	1,897,403	-
Shanzu Law Courts - July, 2018	-	-	-	37,514,264
Kisumu Law Courts	197,590	-	-	0
Naivasha Law Courts	-	-	1,086,683	152,000

Under the circumstances, the accuracy and completeness of the reported revenue of Kshs.2,601,586,282 could not be confirmed.

## **1648 Revenue Management at the Courts**

The statement of revenues and transfers reflects a total of Kshs.1,601,586,282 revenue collected during the year under review. However, an audit inspection of revenue records maintained at various Courts revealed the following matters:

### **1648.1 Kwale Law Courts**

Kwale Law Courts did not use the Standard F030 Forms designated for executing bank reconciliations. In addition, there was no evidence that bank reconciliation statements were reviewed, examined or submitted to the Regional Assistant Director Finance (RADF). For the examined bank reconciliation statements, the cash books and bank balances used in the preparation of bank reconciliations were not accurate. Further, a review of revenue recorded in the cash book compared to revenue recorded in the collection control sheets revealed an unexplained variance totalling Kshs.193,834. Detailed examination of cash books revealed that in the month of November, 2018, the cash book reflected a balance carried forward of Kshs.663,088. However, the opening balance brought forward in December, 2018 was Kshs.404,894 resulting to unaccounted for revenue of Kshs.258,194.

### **1648.2 Makadara Law Courts**

Examination of records at the Makadara Law Courts revealed that the total amount of revenue transferred to the Judiciary main collection account was Kshs.99,151,143. However, the amount declared as revenue at the court station was Kshs.99,463,164 resulting in an unexplained difference of Kshs.312,021.

### **1648.3 Kisii Law Courts**

Revenue collected and recorded in the cash book differed with the revenue returns at the Head Office by Kshs.809,394. The variance was not explained or reconciled. In addition, the opening deposit cash book balance as at 01 July, 2018 was Kshs.29,852,273, while the opening bank balance on the same date was Kshs.15,839,407 resulting into an unreconciled variance of Kshs.14,012,865 which was not resolved within the three (3) months resolution period stipulated under Section 11.5 of the Judiciary Finance Policy and Procedures Manual.

### **1648.4 Kilifi Law Courts**

Analysis of the deposit's records revealed that, during the de-linking from the District Treasury in November, 2015, the previous Kenya Commercial Bank (KCB) deposit account No.1107279305 had a credit balance of Kshs.19,700 which was not transferred to the new KCB Account No. 117329686. In addition, at the time of de-linking, the outstanding deposits amounted to Kshs.14,274,402. However, the District Accountant transferred Kshs.12,943,163 to the new KCB Deposit Account

leaving a balance of Kshs.1,331,238. The District Treasury has been holding these funds without any explanation for the past five (5) years.

Further, fines collected during the month of June, 2019 amounting to Kshs.444,571 and fees totalling Kshs.469,563 though surrendered to the Head Office and deposited in KCB collection account had not been posted in the cash book. In addition, the cash books had not been reviewed and examined as required by the Judiciary Finance Policy and Procedures Manual. Also, there were deposits amounting to Kshs.511,134 which had been outstanding for a period of over ten (10) years in the books of Kilifi Law Courts without any explanations.

#### **1648.5 Mombasa Law Courts**

Cheques totalling to Kshs.38,136,310 had become stale since they had not been presented for payment for more than six (6) months. In addition, there were deposits amounting to Kshs.70,791,917 which were outstanding for a period of over ten (10) years in the books of Mombasa Law Courts without any explanations.

#### **1648.6 Nakuru Law Courts**

Examination of the Collection Receipt Book Register (CRB) established poor record keeping for the collection receipt books at the Nakuru Law Courts. For example, it was not possible to establish the source of sixty (60) collection receipt books used and how they were surrendered to Nakuru Law Courts.

#### **1648.7 Kericho Law Courts**

Regulation 90 of the Public Finance Management (National Government) Regulations, 2015 provides that Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the 10<sup>th</sup> of the subsequent month to The National Treasury with a copy to the Auditor-General. However, bank reconciliation statements for the deposit and revenue cash books for Kericho Law Courts were not provided for audit verification.

#### **1648.8 Milimani Law Courts**

A review of CRBs and cash book at the Milimani Law Courts revealed that there were fifty-six (56) long outstanding un-surrendered counter receipt books. Out of these, seventeen (17) were used for receipting deposits, forfeitures, utilization and court fines while thirty-nine (39) were used for receipting fees. In addition, some of the cashiers were holding more than one (1) receipt book simultaneously. Although the receipted amounts were banked, these were yet to be posted in the cash book.

In view of the foregoing matters relating to collection and accounting for revenue, the accuracy and completeness of the reported revenue of Kshs.2,601,586,282 could not be confirmed.

## **1649 Unresolved Prior Year Matters**

Various prior years' audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior years' audit issues or disclosed them under the progress on follow up of auditor's recommendations section of the financial statements as per the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1650** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

## **1651 Irregular Long Acting Appointments**

An Examination of the human resources records established that there were ten (10) staff of the Judiciary who are on acting appointments as provided for in the organizational structure. However, some of the positions had been held for over three (3) years contrary to Section B20(iii) and (iv) of the Judiciary Human Resources Policies and Procedures Manual. The manual stipulates that persons on acting appointment be limited to twelve (12) months at any given time for vacant positions after which, a decision must be made to either confirm the employee, extend the acting for a further six (6) months or revert the person to the former post. No explanation has been provided for this anomaly.

## **1652 Fire Safety Measures or Disaster Management Plan**

Audit review established that the Shanzu Law Courts does not have fire safety measures and a disaster management plan in place to cater for any eventual hazards and therefore safe custody of files cannot be guaranteed. Further, the Criminal and Traffic Offenses Files Registers at the court had some of the pages in the files plucked and missing. This may hinder prompt settlement of cases with missing entries.

## **DONOR FUNDED PROJECT**

### **JUDICIAL PERFORMANCE IMPROVEMENT PROJECT - IDA CREDIT NO.5181 - KE**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Basis for Qualified Opinion**

##### **1653 Differences Between the Ledger and the Financial Statements Figures**

As disclosed under Note 8.5 to the financial statements, the statement of receipts and payments reflects purchase of goods and services totalling to Kshs.572,240,357. Included in the figure is training expenditure amounting to Kshs.121,951,942. However, a computation of the training expenses from the ledger reflects a balance of Kshs.129,129,874 resulting to an unexplained difference of Kshs.7,177,932.

Further, the statement of receipts and payments reflects total payments amounting to Kshs.2,121,192,079 which differs with the IFMIS ledger figure of Kshs.2,265,892,252.35 resulting to an unexplained difference of Kshs.144,700,173.35.

Consequently, the accuracy, completeness and presentation of the financial statements as at 30 June, 2019 cannot be confirmed.

##### **1654 Double Posted Expenditure**

As disclosed under Note 8.6 to the financial statements, the statement of receipts and payments reflects acquisition of non-financial assets totalling to Kshs.1,548,951,723. Included in the figure is an amount of Kshs.97,604,938 in respect of purchase of furniture and general equipment. Examination of the schedule of expenditure revealed that one (1) payment voucher has been recorded twice amounting to Kshs.649,569.

Further, as disclosed in Note 8.5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.22,661,852 under printing, advertising and information supplies and services whose schedule of expenditure also includes a bill of Kshs.530,200 that has been posted twice thereby overstating the expenditure under printing, advertising and information supplies and services by the same margin.

In addition, during the year under review, the Project received a total of Kshs.7,373,149 from the development account of the Judiciary for payments of salaries under consultancy services. The amount was not recorded as a receipt in the statement of receipts and payments but the expenditure was recognized as

expenditure under consultancy. However, upon refund of the borrowed amount, the expenditure was recorded under other operating payments, despite the fact that it had already been reflected under consultancy thereby occasioning the transaction to be recorded twice thereby overstating the consultancy services by a similar margin.

In view of the double postings, the completeness and accuracy of the overall total payments amounting to Kshs.2,121,192,079 as reflected in the statement of receipts and payments for the year ended 30 June, 2019 cannot be confirmed.

#### **1655 Unsupported Prior Year Adjustments**

As disclosed under Note 8.10 to the financial statements, the statement of financial assets and liabilities as at 30 June, 2019 reflects an amount of Kshs.85,576,025 as prior year adjustment. Management has explained that the amount relates to cash issued to the Project's staff who undertook various activities during the previous financial years but which was accounted for during the current year. However, no details of the activities or the persons who were issued with the imprests was provided for audit.

In the circumstances, the legality, accuracy, completeness and presentation of prior year adjustment totalling to Kshs.85,576,025 as at 30 June, 2019 cannot be confirmed.

#### **1656 Long Outstanding and Irregular Issuance of Imprests**

As disclosed under Note 8.8 to the financial statements, the statement of financial assets reflects imprest and advances balance amounting to Kshs.48,304,199 which ought to have been surrendered on or before 30 June, 2019 with some dating back to October, 2018. A review of imprest records revealed that a total of Kshs.497,000 was paid in respect of Service Week for the Environment and Land Court (ELC) that was held between 20 to 31 March, 2017 and 15 to 26 May, 2017 as indicated in the letter from the Office of the Registrar of Environment and Land Court of Kenya dated 12 September, 2017. It was however, not clear why the letter authorizing the event was signed six (6) months after the event had actually taken place.

Further, the payment of Kshs.497,000 was issued to other participants other than the imprest holders contrary to Section 93(2)(3) of the Public Finance Management Regulations, 2015 that requires every person to be issued with their personal imprests to cater for travelling accommodation and incidental expenses. The officers issued with the imprests signed for it on 22 February, 2018, one (1) year after the event was held, while the actual payment voucher was processed on 5 March, 2019, two (2) years after the ELC service week was scheduled.

In view of the above inconsistencies, the validity and value for money of the expenditure totalling Kshs.497,000 could not be ascertained as a proper charge to public funds.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

**1657** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Basis for Conclusion

#### **1658 Delayed Implementation of Projects**

As previously reported, there has been delay in projects implementation affecting almost all the projects. Physical verification of sampled projects during the month of September, 2019 reflects the following;

##### **1658.1 Kwale Law Courts**

The construction of Kwale Law Courts contract No. JPIP/NCB/WORKS/38/2015-2016 was awarded on 28 October, 2016 at a contract sum of Kshs.389,998,592 with completion date of 19 November, 2018. The contract was further extended to 19 April, 2020. At the time of inspection in September, 2019, a total of Kshs.161,116,960 or 41% of the total cost of the contract had been paid but there was minimal work at the project site with only twenty (20) workers on site compared to the recommended one hundred (100) workers as reflected in the site minutes dated 14 August, 2019. Further, works that ought to have been completed like the borehole were still 50% done. Electrical works, roofing and substructure works were not complete. In addition, the wall to the fourth floor as at the end of October was not complete as per the site minutes of 14 August, 2019.

In view of the slow progress of the project, it is unlikely that the contractor may finish the project within the stipulated contract period of 19 April, 2020 and project deadline date of 31 October, 2020.

##### **1658.2 Kibera Law Courts**

The construction of Kibera Law Courts contract No. JPIP/NCB/WORKS/01/2015-2016 was awarded on 15 January, 2016 at a contract sum of Kshs.137,649,134 with a completion date of 15 January, 2017. Information available indicates that there was a contract extension to 30 December, 2019. Cumulative paid certificates amounted to Kshs.101,922,532 being 74% of the cost of the project. Physical verification of the project reflects that there was minimal work at the site with only twenty (20) workers on site, despite complaints done as per the site minutes dated 6 August, 2019. The certificate of works done and paid indicated that works were

almost complete in some sections of the building which was contrary to the site verification as detailed below:

- i. Police cells that were to be demolished and refurbished including walling and roofing were yet to be done. Further, three other cells for hardcore criminals, juveniles and children courts were not completed.
- ii. Magistrate Chambers 8, 9, and 10 were incomplete. Roofing and building of the wall of the library and multipurpose hall were also incomplete. The wooden Kadhis Court which was to be demolished and be rebuilt was yet to be constructed. Works had not started for three stair cases to Courts 5, 6, 7 or 8 and the public stair case that was to be demolished and reconstructed.
- iii. The external works which included magistrate and public parking space was not done despite Kshs.2,571,070 payment for external works. In the circumstances, it was not possible to ascertain why payments were made for uncertified and works that had not started.
- iv. Physical verification on lift installation reflects that the lift was yet to be installed and only the shaft had been installed. A total of Kshs.4,326,240 has been paid for the lift installation which was 60% of the total cost. No explanation has been provided for the anomaly.

In view of the slow progress at the construction and the quantity of outstanding works, it is likely that the contractor may not finish the project within the extended contract period of 31 December, 2019.

### **1659 Low Absorption of Project Funds**

According to the financing agreement for Credit No.5181 between the Republic of Kenya and the International Development Association (IDA), the closing date for withdrawal of the Project funds as per the financing agreement was 31 December, 2018 which but was later extended to 30 October, 2020. However, as at the time of the audit, only Kshs.7,336,387,623 or about 70% out of the total available funds under the Project of Kshs.10.5 billion had been withdrawn to finance activities.

Further, a review of the payments records showed that cumulatively a total of Kshs.7,230,389,747 had been paid comprising of Kshs.3,157,191,596 and Kshs.4,073,198,152 on purchase of goods and services and construction costs respectively. The fund balance of Kshs.3,269,610,253 may not be adequate to finance the remainder of the project activities.

In addition, it has not been clarified why the Management has not utilized the available Project funds to implement the outstanding Project activities and settle the pending claims. Further, considering that it has taken about seven (7) years to utilize approximately 70% of the funds available under the Project, it is unlikely that



the remaining balance will be utilized within the remainder of the extended Project period which is less than two (2) years.

As a result, the Project objectives and goals may not be achieved as planned owing to the low Project funds absorption.

#### **1660 Lack of a Fixed Assets Register**

As was reported in the previous year, the statement of receipts and payments for the year ended 30 June, 2018 reflected a cumulative expenditure on acquisition of non-financial assets of Kshs.1,710,120,609. It was however, noted that the Project did not maintain a fixed assets register making it difficult to verify the physical existence of assets or confirm the value, location, ownership and security of the assets acquired under the project over the years. Also, the Project financial statement did not include a summary of the fixed assets register as is required under the reporting template issued by the Public Sector Accounting Standards Board.

No explanation was given for failure to maintain a fixed asset register.

## ETHICS AND ANTI-CORRUPTION COMMISSION-VOTE 1271

### REPORT ON THE FINANCIAL STATEMENTS

#### Unqualified Opinion

**1661** There were no material issues noted during the audit of the financial statements of the Commission.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### Basis for Conclusion

#### 1662 Valuation of Property, Plant and Equipment

As reported in the previous year, the Ethics and Anti-Corruption Commission remitted an amount of Kshs.1,518,000,000 to the National Land Commission for compulsory acquisition of the Integrity Centre Building which houses the Commission's offices.

According to the valuation report based on inspection conducted on 14 February, 2018, the National Land Commission valued the property at Kshs.1,543,382,916 as detailed below.

Component	Acreage	Value (Kshs.)	15% Statutory Allowance (Kshs.)	Total Value (Kshs.)
Land	1.203	691,725,000	103,758,750	795,483,750
Improvements		650,347,101	97,552,065	747,899,166
<b>Total Compensation</b>		<b>1,342,072,101</b>	<b>201,310,815</b>	<b>1,543,382,916</b>

Although the National Land Commission in their letter ref. NLC/V&T/AG/001(13) dated 27 June, 2017 requested for valuation services from the Ministry of Lands and Physical Planning, valuation of the property was done by the National Land Commission. No evidence was availed by the National Land Commission to clarify whether the Ministry of Lands and Physical Planning played any role in the valuation of the property despite the fact that the Department of Land Valuation in the Ministry is mandated to provide valuation services which forms a basis for revenue collection or the determination of appropriate market rents and market values for leasing or sale and purchase for and by all National and County Government entities.

Due to failure to involve the mandated Government valuer, Ministry of Lands and Physical Planning, it has not been possible to ascertain whether the Commission obtained value for money in the acquisition process of its headquarters, the Integrity Centre Building.

#### **1663 Lack of Title Deed**

As disclosed under Note 14 to the financial statements, included in property, plant and equipment is Kshs.1,543,382,916 being additions to land and building following the compulsory acquisition of the Integrity Centre Building. As previously reported, the National Land Commission was indicated to have transferred and vested the property in the Principal Secretary-National Treasury, to hold it in trust for the Ethics and Anti-Corruption Commission. During the audit, we could not ascertain whether the ownership documents were actually remitted to The National Treasury and a copy of the title deed has not been availed for audit review to signify the completion of the acquisition process. In absence of the title deed, it has not been possible to ascertain the ownership of the EACC land or whether the documents were transferred to The National Treasury.

Further, available information indicates that the National Land Commission has not availed copies of the development plans (architectural, structural, electrical, mechanical and civil works drawings) to the Commission in respect of the property by the time of concluding the audit. According to the Ethics and Anti-Corruption Commission, this has hampered effective planning for the maintenance of essential electro-mechanical services and possible refurbishment and redevelopment of the Integrity Centre Building.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1664** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **ETHICS AND ANTI-CORRUPTION COMMISSION - STAFF HOUSE MORTGAGE AND CAR LOAN SCHEME**

#### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1665** There were no material issues noted during the audit of the financial statements of the Scheme.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**1666** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1667** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **NATIONAL INTELLIGENCE SERVICE-VOTE 1281**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1668** There were no material issues noted during the audit of the financial statements of the Service.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1669** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1670** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **INTELLIGENCE SERVICE DEVELOPMENT FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1671** There were no material issues noted during the audit of the financial statements of the Fund.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1672** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1673** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **OFFICE OF THE DIRECTOR OF PUBLIC PROSECUTIONS-VOTE 1291**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1674** There were no material issues noted during the audit of the financial statements of the Office.

#### **Other Matter**

##### **1675 Budget Control and Performance**

The Office received exchequer receipts totalling Kshs.2,222,421,558 against an approved budget of Kshs.2,966,776,00 resulting to a shortfall of Kshs.744,354,442 or 25%. Similarly, the Office incurred a total actual expenditure of Kshs.2,220,497,090 against the approved budget of Kshs.2,966,776,000 resulting to an under expenditure of Kshs.746,278,910 or 25%. The budget underfunding may have negatively affected the ability of the Office to effectively deliver on its mandate.

##### **1676 Pending Bills**

Note 14 to the financial statements reflects pending bills totalling to Kshs.279,888,313. The bills were not paid during the year but were instead carried forward to 2019/2020 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year's provisions since the bills form the first charge to that year's budget provisions.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1677** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

##### **1678 IT Service Continuity and IT Governance**

The Office did not have a disaster recovery plan. It was also noted that the IT Steering Committee did not hold any meeting during the financial year 2018/2019. In the absence of a disaster recovery plan and an active IT Steering Committee, the adequacy of the IT governance and ability of the Office to resume operations effectively after an emergency or disaster could not be confirmed.

# **OFFICE OF THE REGISTRAR OF POLITICAL PARTIES-VOTE 1311**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1679** There were no material issues noted during the audit of the financial statements of the Office.

### **Other Matter**

#### **1680 Pending Bills**

Note 12.1 to the financial statements reflects pending bills of Kshs.27,731,307 as at 30 June, 2019 out of which bills amounting to Kshs.4,968,825 relate to previous financial years. Failure to settle bills in the year to which they relate distorts the financial statements for the year and also affects the budgetary provisions for the subsequent year.

Further, Annex 1 to the financial statements – analysis of pending accounts payable - did not include details on the dates the bills were contracted contrary to the requirements of the reporting template issued by the Public Sector Accounting Standards Board.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1681** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **1682 Inadequate Staffing**

The approved staff establishment provides for 209 members of staff for the Office of the Registrar of Political Parties. However, only 66 members of staff were in post as at the time of audit resulting into a shortfall of 143 staff members across the various staff cadres. Further, the Registrar was on an acting capacity and the three (3) positions of Deputy Registrars provided for under Section 33(2) of Political Parties Act, 2011 had not been filled.



The staff shortages especially in key senior management positions may have negatively affected the ability of the Office to effectively deliver on its mandate.

## **POLITICAL PARTIES FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1683** There were no material issues noted during the audit of the financial statements of the Fund.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1684** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1685** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **WITNESS PROTECTION AGENCY-VOTE 1321**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1686** There were no material issues noted during the audit of the financial statements of the Agency.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1687** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1688** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA NATIONAL COMMISSION ON HUMAN RIGHTS-VOTE 2011**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1689** There were no material issues noted during the audit of the financial statements of the Commission.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1690** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1691** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **KENYA NATIONAL COMMISSION ON HUMAN RIGHTS MORTGAGE AND CAR LOAN SCHEME FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1692** There were no material issues noted during the audit of the financial statements of the Fund.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1693** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1694** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# THE NATIONAL LAND COMMISSION-VOTE 2021

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1695 Inaccuracies in the Financial Statements

##### 1695.1 Discrepancies Between Financial Statements and IFMIS Figures

The following discrepancies were noted between figures in the financial statements and figures in the Integrated Financial Management Information System (IFMIS) statements:-

Item Description	Balance as per IFMIS Statements (Kshs.)	Balance in the Financial Statements (Kshs.)	Difference (Kshs.)
Provisions	(6,846,521,646)	-	(6,846,521,646)
Opening Balance Reserves	5,622,553,360	-	5,622,553,360
<b>Total</b>	<b>(1,223,968,286)</b>		<b>(1,223,968,286)</b>

Management has not provided an explanation for the variances.

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

#### 1696 Accounts Receivable

Note 11 to the financial statements reflects accounts receivable balance of Kshs.11,086,956 which includes Government imprests of Kshs.1,267,000 that have been outstanding for more than one (1) year. This is contrary to Section 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Section 93(6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

Consequently, it has not been possible to confirm the validity and recoverability of the Government imprest balance of Kshs.1,267,000.

#### 1697 Other Expenses - Payments on Behalf of Other Government Entities

Included in other expenses balance of Kshs.22,150,772,986 reflected in the statement of receipts and payments and as further disclosed under Note 8 to the

financial statements, are payments on behalf of other Government entities amounting to Kshs.12,423,333,959 out of which compensations amounting to Kshs.215,622,898 were paid without harmonized valuations from both the Commission and the Ministry of Lands and Physical Planning.

The payments were made contrary to the directives communicated by the Principal Secretary, Ministry of Lands and Physical Planning vide a letter dated 1 August, 2018 which was a follow up to a meeting held on 31 July, 2018 and chaired by the Head of the Public Service. The letter provided that:

- i) Any affected property whose value variance between The National Land Commission and the Ministry of Lands and Physical Planning figure is below 20% should be paid out.
- ii) Variance between 21% - 49% to be revalued by a joint team from both the The National Land Commission and the Ministry of Lands and Physical Planning with a view to harmonize the values.
- iii) Any variance of 50% and above should be re-inspected by the joint team with a view to carrying out a revaluation.

In the circumstances, the propriety of the payments totalling to Kshs.215,622,898 included in other expenses could not be confirmed.

#### **1698 Acquisition of Assets**

As disclosed under Note 7 to the financial statements, included in the acquisition of assets figure of Kshs.63,908,120 is an amount of Kshs.18,000,000 described as domestic public non-financial enterprises. Available information indicates that these were funds transferred to the Commission Staff Mortgage and Car Loan Fund managed by the National Bank of Kenya. However, the Commission did not prepare separate financial statements for the Fund for the year under review which is contrary to Section 24(10)(a) of the Public Finance Management Act, 2012 which requires the Accounting Officer to prepare separate financial statements for each fund in the form specified by the Public Sector Accounting Standards Board. In addition, the staff car and mortgage loan fund regulations and the contract between the National Bank of Kenya and the Commission were not availed for audit review.

In the circumstances, the propriety of domestic public non-financial enterprise expenditure of Kshs.18,000,000 included under acquisition of assets could not be confirmed for the year ended 30 June, 2019.

#### **1699 Accounts Payables-Deposits**

The statement of assets and liabilities reflects accounts payable – deposits balance of Kshs.13,511,623,477. However, the supporting schedule provided reflects accounts payable amounting to Kshs.12,693,925,376 resulting into an unexplained difference of Kshs.817,698,101. In addition, the reported accounts payable balance excludes staff welfare deductions that had accumulated to Kshs.3,671,000 as at 30 June, 2019. Further, a review of the accounts payable-

deposits schedule provided for audit indicated long outstanding balances totalling Kshs.864,726,930 that are yet to be paid to the beneficiaries.

No plausible reason has been provided for the delay in settlement of the liabilities.

In the circumstances, the accuracy and completeness of the reported accounts payables-deposits balance of Kshs.13,511,623,477 could not be confirmed.

### **1700 Pending Bills**

The Commission reported pending bills totalling to Kshs.848,023,800 as at 30 June, 2019 which as disclosed at Annex 1 of the financial statements includes legal fees payable totalling Kshs.273,326,211. However, included in this amount of Kshs.273,326,211 is Kshs.242,600,000 payable to a lawyer but supporting documents on how the legal services were procured and invoices for the payable amount of Kshs.242,600,000 were not availed for audit verification.

In the circumstances, the validity of pending legal fees totalling to Kshs.242,600,000 included in the pending bills balance of Kshs.848,023,800 as at 30 June, 2019 could not be confirmed.

### **1701 Summary of Fixed Assets Register**

As disclosed at Annex 3 of the financial statements, the summary of fixed assets register for the year ended 30 June, 2019 reflects additions during the year of Kshs.63,908,120. The additions however, exclude the cost of two (2) motor vehicles totalling to Kshs.11,377,034 financed under other expenses – administrative costs as disclosed under Note 8 to the financial statements.

In the circumstances, the accuracy and completeness of the summary of fixed assets register for the year ended 30 June, 2019 could not be confirmed.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1702 Terms of Service for Directors**

During the Commission's plenary on 8 May, 2018, it was resolved that Directors' contracts be renewed for a period of five (5) years or upon attainment of retirement age of sixty (60) years whichever came earlier and all other staff be put on permanent and pensionable terms. However, as reflected under Minute No.5 of the Special Commission meeting held on 13 December, 2018, the Chairman of the Commission issued instructions to the Chief Executive Officer to convert terms for all staff on contract to permanent and pensionable with effect from 9 May, 2018. Consequently, the Directors' terms of service were converted to permanent and pensionable which is against the resolutions of the Commission's meeting held on 8 May, 2018.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1703** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## DONOR FUNDED PROJECT

### SUPPORT TO THE ATTAINMENT OF VISION 2030 THROUGH DEVOLVED LAND REFORMS IN COMMUNITY LANDS OF KENYA PROJECT NO. GCP/KEN/085/EC (LETTER OF AGREEMENT 2018/001)

## REPORT ON THE FINANCIAL STATEMENTS

### Unqualified Opinion

**1704** There were no material issues noted during the audit of the financial statements of the Project.

### Other Matter

#### **1705 Budget Control and Performance**

The statement of comparison of budget and actual amounts reflects an approved budget of Kshs.10,033,000 and actual receipts of Kshs.8,026,400 resulting to an under-funding of Kshs.2,006,600 or 20% of the budgeted amount. However, no payments have been recorded indicating that no activities took place during the year.

Whereas the underfunding may affect the planned activities and projects which may have an adverse impact on service delivery for the public, failure to undertake any activity may have adversely affected the achievement of the planned activities which may have impacted negatively on service delivery. The funds, if not required could have been used by other entities instead of lying idle.

No satisfactory explanations have been given why the management failed to render services as planned.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Basis for Conclusion**

#### **1706 Compliance with the International Public Sector Accounting Standards Board**

A review of the financial statements presented for audit revealed that the management did not prepare the statement of comparison of budget and actual amounts in accordance with the template issued by the Public Sector Accounting Board of Kenya. Contrary to IPSAS 24, the statement of receipt and payments did not reflect, on the same basis, the same itemized balances and details. The operations may not have been aligned with the budget. Further the statement did not indicate the movement from the original budget, the adjustments to the final approved budget and no Notes for material deviations were included in the statements as required.

The Management therefore is in breach of the law and failed to adhere to the standard documents as proscribed by the Board.

## REPORT ON INTERNAL CONTROLS EFFECIVENESS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1707** There were no material issues relating to effectiveness of internal controls, risk management and governance.



# **INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION-VOTE 2031**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1708 Property, Plant and Equipment**

The statement of financial position reflects a balance of Kshs.3,163,667,000 for property, plant and equipment, which as disclosed under Note 17 to the financial statements includes a balance of Kshs.116,424,000 for buildings. However, the value of forty-one (41) constituency office block buildings has not been included in the amount disclosed in the financial statements. In addition, as disclosed under Note 17, the Commission is yet to obtain ownership documents for several parcels of land allocated to it by the National and County Governments, and whose values have similarly not been disclosed in the financial statements.

Further, during the year under review, the Commission did not maintain a comprehensive register of land and buildings indicating registration number of each parcel of land or building and the terms under which it was held with reference to; conveyance, address, area, date of acquisition, disposal or major change in use, capital expenditure, lease hold terms, maintenance contracts and other pertinent management details as required under Regulation 143(2) of Public Finance Management (National Government) Regulations, 2015.

In the circumstances, it has not been possible to ascertain the accuracy and completeness of the balance of Kshs.3,163,667,000 for property, plant and equipment included in the financial statements as at 30 June, 2019.

#### **1709 Inventories**

The Commission held significant quantities of strategic and non-strategic election materials in various stores and warehouses located at its county and constituency offices across the country. However, the value of these inventories was not determined and disclosed in the financial statements. Consequently, the Commission did not bring to account a significant value of inventories that should have been reflected in the statement of financial position as at 30 June, 2019.

### **Emphasis of Matter**

#### **1710 Contingent Liability**

I wish to draw attention to Note 27 to the financial statements under which the Commission has disclosed that it was a defendant or co-defendant in various election petition litigations and claims. According to the Commission, the outcome

of these litigations and claims were yet to be determined as of 30 June, 2019. The Commission, consequently, did not factor in possible future obligations relating to legal fees on the pending court cases and claims in the financial statements for the year ended 30 June, 2019.

My opinion is not modified on the basis of this matter.

### **Other Matter**

#### **1711 Account Payables**

The statement of financial position reflects a balance of Kshs.4,334,280,000 against pending bills as at 30 June, 2019 (2018 - Kshs.4,429,917,000). The Commission has explained that accumulation of the pending bills was due to failure by The National Treasury to release funds from the Exchequer for payments of the same. However, failure to settle bills during the year to which they relate distorts the financial statements for the year, and adversely affects the provisions for the subsequent year to which they have to be charged.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

#### **1712 Uncollected Revenue**

Disclosed in Note 26 to the financial statements are contingent assets amounting to Kshs.59,854,000 (taxed costs) and Kshs.205,060,000 (capped costs), being court awarded costs relating to 2017 general election petitions. No satisfactory explanation has been provided for failure to collect promptly the taxed costs and for the delay in taxation of the capped costs.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1713** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION STAFF MORTGAGE AND CAR LOAN SCHEME**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1714** There were no material issues noted during the audit of the financial statements of the Scheme.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1715** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1716** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# PARLIAMENTARY SERVICE COMMISSION-VOTE 2041

## REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

#### 1717 Lack of Land Ownership Documents

The Commission did not provide for audit review, ownership documents for the following properties owned and controlled by the Commission.

S/No.	Property	LR No.
1	Main Parliament Building	209/54444 & 209/4991/13
2.	Centre for Parliament Studies and Training	12836/9
3.	Juvenile Court House	209/4316
4.	County Hall	209/4335
5.	Protection House	209/4314

Consequently, it was not possible to confirm the ownership of the assets held by the Commission and whether they are properly safeguarded.

#### 1718 Outstanding Imprests

The statement of assets and liabilities reflects an account receivables balance of Kshs.12,314,993, which as disclosed in Note 10 to the financial statements, comprises outstanding imprests amounting to Kshs.10,955,076 and salary advances of Kshs.1,359,917. Imprests amounting to Kshs.5,973,958 were due for surrender on or before 30 June, 2019 but had not been accounted for or recovered from the imprest holders by December, 2019. Further, the outstanding imprests balance included long outstanding imprests amounting to Kshs.3,144,626 issued between 2005/2006 and 2017/2018 whose recoverability is doubtful.

In addition, contrary to the provisions of Regulation 93 (5) and (6) of Public Finance Management (National Government) Regulations, 2015, no action has been taken to recover the full amounts of outstanding imprests from the salaries of defaulting staff members and officers.

#### 1719 Unsupported County Offices Expenses

The statement of receipts and payments reflects an expenditure of Kshs.4,790,859,872 in respect of use of goods and services, which as disclosed in Note 4 to the financial statements, includes other operating expenses of Kshs.1,078,164,465. Included in other operating expenses balance of Kshs.1,078,164,465, is an amount of Kshs.323,529,562 relating to expenditure on

county services operations. The county services operations expenditure was mainly on procurement of office consumables, hire of transport, hire of meeting venues and meals. However, there were no work plans, calendar of activities or programmes to support the rationale for the expenditure.

Further, no evidence was provided to show that cash books and bank reconciliation statements for the various bank accounts held by the sampled county offices were being maintained. This is contrary to Regulations 90 and 100 of the Public Finance Management (National Government) Regulations, 2015.

In the absence of work plans, calendar of activities or programmes and payments that are supported by Electronic Tax Register (ETR) receipts, the validity and propriety of the expenditure of Kshs.323,529,562 could not be confirmed.

## **Other Matter**

### **1720 Pending Account Payables (Bills)**

The Parliamentary Service Commission had pending account payables(bills) relating to construction of buildings, supply of goods and supply of services amounting to Kshs.1,041,561,624 and other pending payables due to third parties of Kshs.57,708,970 as disclosed in Notes 14.1 and 14.2 to the financial statements. These pending account payables (bills) all totalling Kshs.1,099,270,594 were not settled in 2018/2019 financial year but were instead carried forward to 2019/2020.

The Commission has explained that non-payment of the pending bills was occasioned by failure of The National Treasury to release funds from the Exchequer for payments of the bills. However, failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they are charged.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1721 Construction of the Proposed Multi Storey Office Block**

##### **1721.1 Slow Progress of Works and Equipment Supplied by Sub-Contractors**

Included in the expenditure of Kshs.774,622,977 relating to acquisition of assets as reflected in the statement of receipts and payments is an amount of Kshs.551,522,647 being payments during the year for the construction of the multi storey office block. However, a verification visit to the site revealed slow progress of the interior fit-out and other sub-contracts works. As at January, 2020, the work

done under the interior fit-out sub-contract, was below 10% whereas 50% of the extended contract time had elapsed casting doubt as to whether the project would be completed by the revised completion date of 23 August, 2020.

It was further observed that, the slow progress of the interior fit-out works had negatively affected progress of the data and voice sub-contractor who had already been paid Kshs.131,159,205 – representing 70% of the sub-contract sum.

In the circumstances, the Commission is exposed to incurring penalties and compensation for the extension of the contract period.

### **1721.2 Payments Made in Foreign Currency (US Dollars)**

The Commission made payments totalling Kshs.466,968,119 (USD 4,585,637) in US dollars for certificates No. 22 to No. 34 in the financial year 2018/19. The payments in foreign currency were made without justification as to the materials provided in the bills of quantities for import and actually imported as permitted under Clause 25.2 of the contract document, which provided that payments in foreign currency would only relate to costs to the contractor of materials specifically imported (by express provisions in the contract bills of quantities or specifications).

These payments were also contrary to the opinion of the Public Procurement Review Advisory Authority (PPRA) given on 16 November, 2017 advising against the blanket application of price adjustment at the rate of 80% USD and 20% Kenya shillings on the total contract price without justification as to the materials provided in the bills of quantities for import and actually imported. As at 30 June, 2019, additional cost as a result of exchange rate fluctuations for the payments made in US dollars amounted to Kshs.106,848,983.

Evidence of recovery of the cost of exchange rate fluctuations amounting to Kshs.106,843,983 paid on certificates No. 18 to No. 34 in the financial years 2017/18 and 2018/19 was not provided for audit.

### **1721.3 Variation of Contract**

Parliamentary Service Commission's tender committee in its meeting held on 2 October, 2018 approved a variation of the multi storey office block project contract sum of Kshs.5,893,646,850. However, the total variation of Kshs.1,514,514,206 representing a 27% variation to the adjusted contract sum of Kshs.5,577,752,849 (after excluding the cost of security system installations sub-contract which was discontinued to be pursued under a different project) was above the 25% limit allowed under Section 139 (4) of Public Procurement and Asset Disposal Act, 2015.

### **1721.4 Retention**

Clause 26.1 of the conditions of contract between the Commission and the contractor provides for retention from each payment due to the contractor of the

proportion stated in the appendix to the conditions of the contract until completion of the whole works. Section IV of the Appendix provides for retention of 10% of the certified value. However, evidence of retention against an amount of Kshs.353,484,284 paid to the contractor for certificates No.28 to No. 34 was not provided for audit review.

#### **1721.5 Interest on Delayed Payments**

The interest on delayed payments increased to Kshs.50,744,562 from Kshs.37,190,901 reported in the financial year 2017/18. Interest on delayed payments constitutes nugatory expenditure.

#### **1722 Operating Bank Account without Approval**

The Commission opened and operated a bank account number 01141201980300 – Parliamentary Service Commission - Standing Imprest at Cooperative Bank of Kenya. However, approval from The National Treasury to operate the account as required under Section 28 (1) of Public Finance Management, 2012 was not provided for audit review.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1723** There were no material issues relating to effectiveness of internal controls, risk management and governance.

### **PARLIAMENTARY CAR LOAN SCHEME FUND**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Unqualified Opinion**

**1724** There were no material issues noted during the audit of the financial statements of the Fund.

#### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

##### **Conclusion**

**1725** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1726** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **PARLIAMENTARY MORTGAGE SCHEME FUND**

### REPORT ON THE FINANCIAL STATEMENTS

#### **Unqualified Opinion**

**1727** There were no material issues noted during the audit of the financial statements of the Fund.

### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### **Conclusion**

**1728** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1729** There were no material issues relating to effectiveness of internal controls, risk management and governance.



## **NATIONAL ASSEMBLY-VOTE 2042**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1730** There were no material issues noted during the audit of the financial statements of the National Assembly.

#### **Other Matter**

##### **1731 Pending Bills**

Note 10 to the financial statements indicate that the National Assembly had pending bills totalling Kshs.209,828,666 as at 30 June, 2019, which were not settled in 2018/2019 financial year. Out of this amount, bills totalling Kshs.121,494,384 were brought forward from the previous years. Management has explained that the bills were unpaid due to the Integrated Financial Management Information System (IFMIS) challenges, missing supporting documents and delayed Exchequer releases.

Failure to settle bills during the year in which they relate, adversely affects the provisions of the subsequent year to which they are charged.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1732** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1733** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **JUDICIAL SERVICE COMMISSION-VOTE 2051**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1734** There were no material issues noted during the audit of the financial statements of the Commission.

### **Other Matter**

#### **1735 Unreconciled Outstanding Imprest**

The statement of assets and liabilities reflects outstanding imprest of Kshs.4,006,000 as at 30 June, 2019. However, the trial balance reflects a balance of Kshs.886,000 against outstanding imprests resulting in a variance of Kshs.3,120,000 which Management attributed to an unexplained error which is yet to be corrected. Under the circumstances, the accuracy of the outstanding imprest balance could not be confirmed.

#### **1736 Budget Control and Performance**

##### **1736.1 Under Collection of Receipts**

The summary statement of appropriation - recurrent and development combined shows that the Commission budgeted to collect receipts amounting to Kshs.408,800,000. However, actual receipts amounted to Kshs.394,424,200 resulting in a shortfall of Kshs.14,375,800 or 4% of the budgeted amount, which was attributed to reduction of Exchequer issues by The National Treasury. Failure to receive Kshs.14,375,800 implies that the Commission did not undertake some of the planned activities during the year under review.

##### **1736.2 Under Expenditure**

Similarly, the summary statement of appropriation - recurrent and development combined shows that the Commission had budgeted to spend Kshs.408,800,000. However, actual payments amounted to Kshs.380,896,781 resulting in under expenditure of Kshs.27,903,219 or 7%. The under expenditure mainly occurred under use of goods and services and acquisition of assets. The under absorption of Kshs.27,903,219 implies that the Commission planned activities were not realized impacting negatively on service delivery to the citizens of Kenya.

#### **1737 Pending Bills**

Disclosed in the financial statements under Note 26 are pending bills amounting to Kshs.1,373,566 relating to supply of goods and services. Management has not

provided reasons for non-payment of the bills. Had the pending bills been paid and the expenditure charged to the relevant items in the accounts, the statement of receipts and payments would have reported a surplus of Kshs.12,153,853 instead of the Kshs.13,527,419 now reported. Failure to settle bills in the year to which they relate adversely affects the following year's provision to which they form first charge.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**1738** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1739 Lack of a Risk Management Policy**

The Commission does not have a risk management policy. Failure to develop a risk policy means that the Commission does not have a framework for management of risk and hence it is not possible to identify, assess and control risk. As a result, it is not possible to define the Commission's risk appetite and set the risk tolerance levels by identifying boundaries against unacceptable exposure to risk.

#### **1740 Lack of a Disaster Recovery Strategy**

The Commission lacks a disaster recovery strategy and backups stored in a secure off-site location. Data recovery strategy plan secures the Commission's ability to provide basic services. The plan is also designed to place the Commission in a sound and sustainable financial condition as quickly as possible to avoid the risk of loss of data which would otherwise adversely affect service delivery.

## **COMMISSION ON REVENUE ALLOCATION-VOTE 2061**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1741** There were no material issues noted during the audit of the financial statements of the Commission.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1742** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Basis for Conclusion**

#### **1743 Risk Management**

In spite of the Commission having an Enterprise Risk Management Framework, the risk assessment had not been performed, neither had the corporate risk register been developed. In the circumstances, it could not be confirmed that the Commission had developed a system of risk management and internal control that builds robust business operations as required under Section 165 of Public Finance Management Regulations, 2015.

## **COMMISSION ON REVENUE ALLOCATION STAFF MORTGAGE SCHEME FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1744** There were no material issues noted during the audit of the financial statements of the Fund.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

**1745** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

**1746** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **PUBLIC SERVICE COMMISSION-VOTE 2071**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1747** There were no material issues noted during the audit of the financial statements of the Commission.

#### **Other Matter**

##### **1748 Pending Bills**

As disclosed under Notes 17.1 to the financial statements, the Commission had pending bills totalling Kshs.13,958,800 as at 30 June, 2019, that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to, adversely affects the provisions of the subsequent year to which they have to be charged.

##### **1749 Budget Control and Performance**

The Public Service Commission had a development vote budget of Kshs.60,799,433 under acquisition of assets. However, actual expenditure amounted to Kshs.47,353,962 resulting to an under-absorption of Kshs.13,445,471 or 22% of the voted amount. The budget under absorption is an indication that all planned activities were not undertaken during the year.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Basis for Conclusion**

##### **1750 Non-Compliance with Public Procurement and Asset Disposal Act, 2015 - Insurance Costs**

The statement of receipts and payments reflects a figure of Kshs.426,345,328 under use of goods and services. Included in this figure is Kshs.86,018,429 relating to insurance costs that includes Kshs.2,930,327 paid to an insurance company in respect of group personal accident cover for the staff, covering the period from 1 October, 2018 to 30 September, 2019. However, the insurance contract used in support of the payment had expired on 30 June, 2018. The contract was renewed on existing basis without subjecting the extension through the procurement process in line with Section 139(2) (a) of the Public Procurement and Asset Disposal Act, 2015. Although Management provided a letter of extension, minutes of the evaluation committee were not provided for audit review.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1751** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## **SALARIES AND REMUNERATION COMMISSION-VOTE 2081**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1752** There were no material issues noted during the audit of the financial statements of the Commission.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1753** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1754** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **TEACHERS SERVICE COMMISSION-VOTE 2091**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1755 Stores and Cash Losses**

The statement of assets and liabilities reflects an accounts receivables balance of Kshs.376,686,000 which includes stores and cash losses amounting to Kshs.10,487,516 and Kshs.2,928,398 respectively, which as previously reported occurred between the years 1988 and 2000. The matter was investigated and the Director of Public Prosecutions directed the suspect to be charged with the offence of stealing by person employed in the Public Service contrary to Section 280 of the Penal Code. A review of the matter during the year under review indicates that the Court's ruling on 12 March, 2019 determined that the accused had a case to answer. The next defense hearing date set for 12 June, 2019 was adjourned to 23 December, 2019 and later to 31 January, 2020. With the matter not having been finalized as at the date of this report and in absence of adequate provisions for the losses, it has not been possible to confirm the recoverability of Kshs.10,487,516 and Kshs.2,928,398 being the value of stores and cash losses respectively.

#### **1756 Property, Plant and Equipment**

As reported in the previous years, the property, plant and equipment schedule balance of Kshs.4,190,401,146 under Part XIV - other important disclosures, includes Kshs.88,096 being the residual value of one (1) motor vehicle procured in 2004 at a cost of Kshs.2,085,869. The vehicle had earlier been taken and auctioned after auctioneers obtained a duplicate log book No.20063490279 from Kenya Revenue Authority.

Although the Commission repossessed the vehicle, the case has been pending before a court of law. A review of the matter in 2018/19 financial year indicated that, the case was set for hearing on 3 October, 2019 but was adjourned to 20 February, 2020. Further updates on the case had not been presented for audit review as at the date of this report.

In the circumstances, it has not been possible to confirm that the property, plant and equipment schedule balance of Kshs.4,190,401,146 as at 30 June, 2019 is fairly stated.

### **Other Matter**

#### **1757 Pending Bills**

Part XIV to the financial statements - other important disclosures reflects pending bills of Kshs.248,258,976 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills. Had the accounts been settled and charged



to the statement of receipts and payments for the year, it would have reflected a deficit of Kshs.217,927,976 instead of the reported surplus of Kshs.30,331,000. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

### **1758 Budget Under Absorption**

The Commission had a development budget of Kshs.40 million. However, only Kshs.16,639,000 or 42% was utilized for development activities. Management has however, explained that the under absorption of development funds was caused by cancellation of contracts for construction of County offices at Bomet and Kilifi. Further, although the overall recurrent budget, as reflected in the summary statement of appropriation - recurrent and development combined appears to have been 100% absorbed, the Commission underutilized the budget on use of goods and services and acquisition of assets by 22% and 59% respectively. The under absorption of the approved budget is an indication of activities not implemented by the Commission leading to non provision of services to the citizens.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

### **1759 Budget Over Expenditure**

The summary statement of appropriation - recurrent and development combined, reflects a final budget of Kshs.239,152,328,000 for compensation of employees against an actual expenditure of Kshs.239,773,469,000 resulting to an over-expenditure of Kshs.621,141,000 which Management attributed to payments made on behalf of State Department for Vocational Training not refunded. Similarly, the statement reflects a nil budget for Secondary Education Quality Improvement Project expenses against an actual expenditure of Kshs.9,790,000 thereby resulting to an over-expenditure of Kshs.9,790,000. No explanation was provided as to why the unbudgeted payments were made.

In the circumstances, the Commission operated over and above the approved budget for the year contrary to the Appropriation Act, 2018, the Supplementary Appropriation Act, 2018 and Section 43 (b) of Public Finance Management Regulations, 2015 which provides that an Accounting Officer shall ensure that public funds entrusted to their care are applied for purposes for only which they were intended and appropriated by the National Assembly.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1760** There were no material issues relating to effectiveness of internal controls, risk management and governance.

## DONOR FUNDED PROJECT

### SECONDARY EDUCATION QUALITY IMPROVEMENT PROJECT (IDA CREDIT NO. 6138-KE)

#### REPORT ON THE FINANCIAL STATEMENTS

##### Unqualified Opinion

**1761** There were no material issues noted during the audit of the financial statements of the Project.

##### Other Matter

##### **1762 Budget Control and Performance**

The statement of comparative budget and actual amounts indicate that the Project received an amount of Kshs.142,282,520 or 99 % of the approved budget of Kshs.143,000,000. However, the Project utilized only Kshs.14,802,924 on purchase of goods and services resulting into under expenditure of Kshs.128,197,076 or 90% of the budget.

Management has attributed the low absorption to initial lack of budgetary provision at the beginning of the year thus hindering carrying out the Project activities as per the annual workplans.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### Conclusion

**1763** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

**1764** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **NATIONAL POLICE SERVICE COMMISSION-VOTE 2101**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1765** There were no material issues noted during the audit of the financial statements of the Commission.

### **Other Matter**

#### **1766 Pending Bills**

Note 10 to the financial statements reflect pending accounts payable of Kshs.8,621,436 as at 30 June, 2019. Management has explained that the bills were unpaid due to closure of the Integrated Financial Management Information System (IFMIS), missing supporting documents and inadequate budgetary provision.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1767** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1768** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **OFFICE OF THE CONTROLLER OF BUDGET-VOTE 2121**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Basis for Qualified Opinion**

#### **1769 Non- Disclosure of Ford Foundation Grant**

Examination of records maintained by the Office of the Controller of Budget revealed that the Office received a grant of Kshs.10,085,000 from Ford Foundation being financial support for capacity building. As reflected in the deposit cash book, out of the received grant of Kshs.10,085,000, an amount of Kshs.5,712,290 had been spent as at 30 June, 2019. However, the grant received and the expenditure of Kshs.5,712,290 were not reported in the statement of receipts and payments for the year.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

#### **1770 Misclassification of Mortgage Funds**

The statement of receipts and payments reflects an expenditure of Kshs.54,513,795 relating to acquisition of assets. However, the amount includes a balance of Kshs.50,000,000 received during the year to finance and operationalize the Office of the Controller of Budget mortgage scheme. The amount was expensed and classified as acquisition of assets and also wrongly included in the summary of fixed assets register under Annex 4 to the financial statements.

In the circumstances, the accuracy of the statement of receipts and payments and Annex 4 to the financial statements could not be confirmed.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1771** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Basis for Conclusion**

#### **1772 Composition of the Audit Committee**

The membership of the audit committee of the Office of the Controller of Budget comprised five (5) heads of departments and was chaired by the director in charge of research and planning. The composition of the committee was, therefore, contrary to Section 74 of Public Finance Management Act, 2012, since all committee members are employees of the organization. The committee does not therefore have an independent member or a representative of The National Treasury as required. In view of the improper composition of the audit committee, it could not be confirmed that internal controls, risk management and governance were effective.

## **COMMISSION ON ADMINISTRATIVE JUSTICE-VOTE 2131**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Unqualified Opinion**

**1773** There were no material issues noted during the audit of the financial statements of the Commission.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

**1774** There were no material issues relating to lawfulness and effectiveness in use of public resources.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

**1775** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **NATIONAL GENDER AND EQUALITY COMMISSION-VOTE 2141**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1776** There were no material issues noted during the audit of the financial statements of the Commission.

### **Other Matter**

#### **1777 Pending Bills**

As disclosed under Notes 13 to the financial statements, the Commission had pending bills totalling Kshs.2,882,138 as at 30 June, 2019 that were not settled during the year 2018/2019 but were instead carried forward to 2019/2020. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1778** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1779** There were no material issues relating to effectiveness of internal controls, risk management and governance.

# **INDEPENDENT POLICING OVERSIGHT AUTHORITY-VOTE 2151**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Unqualified Opinion**

**1780** There were no material issues noted during the audit of the financial statements of the Authority.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

**1781** There were no material issues relating to lawfulness and effectiveness in use of public resources.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

**1782** There were no material issues relating to effectiveness of internal controls, risk management and governance.



## **CONCLUSION**

The detailed report for the National Government for the year ended 30 June, 2019 contained in my combined report. Specific reports together with my opinion for each entity are contained in the respective MDA's audited financial statements for the year ended 30 June, 2019, which I have already submitted to Parliament and to each Accounting Officer.

## **APPRECIATION**

I wish to sincerely thank the entire staff of the Office of the Auditor-General for their commitment, passion and professionalism in carrying out their duties. Special appreciation goes to the team that prepared this Consolidated Audit Report.

I wish also to appreciate my clients/auditees for the cooperation they accorded my staff during the audit.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**01 April, 2021**

## **Appendix A: Unmodified Opinion**

### **No. MINISTRIES/MDAs/REVENUES/FUND/PROJECTS**

- 1 The Presidency
- 2 Ministry of Defence
- 3 State Department for Post Training and Skills Development
- 4 State Department for Transport
- 5 State Department for Housing, Urban Development and Public Works
- 6 State Department for Agricultural Research
- 7 State Department for Cooperatives
- 8 State Department for Petroleum
- 9 Ethics and Anti-Corruption Commission
- 10 National Intelligence Service
- 11 Office of the Director of Public Prosecutions
- 12 Office of the Registrar of Political Parties
- 13 Witness Protection Agency
- 14 Kenya National Commission on Human Rights
- 15 National Assembly
- 16 Judicial Service Commission
- 17 The Commission on Revenue Allocation
- 18 Public Service Commission
- 19 Salaries and Remuneration Commission
- 20 National Police Service Commission
- 21 The Commission on Administrative Justice
- 22 National Gender and Equality Commission
- 23 Independent Policing and Oversight Authority

- 24 National Exchequer Account
- 25 Revenue Statements – Development
- 26 Consolidated Fund Services - Subscriptions to International Organizations
- 27 Financial Sector Support Project - The National Treasury
- 28 Infrastructure Finance and Public Private Partnership Project-IDA Credit No.5157-KE
- 29 Public Financial Management Reforms Program (Credit No.6133-KE) - The National Treasury
- 30 Study and Capacity Building Fund Project (Credit No. CKE 6015 01K) - The National Treasury
- 31 Technical Support Programme Agreement No.KE/FED/2009/021421; No. KE/FED/023-733 and No. KE/FED/037-941 - The National Treasury
- 32 Kenya Petroleum Technical Assistance Project (IDA Credit No. 5526-KE) - The National Treasury
- 33 Programme for Rural Outreach of Financial Innovations and Technologies (Profit) (IFAD Loan No. 814-KE and Grant No. 1218KE) - The National Treasury
- 34 Reduce Morbidity and Mortality Caused by Malaria in the Various Epidemiological Zones by Two Thirds of the 2015 Level by 2020 Program-Grant Agreement-KEN-M-TNT No.1546 - The National Treasury
- 35 Additional Financing for the Infrastructure Finance and Public Private Partnership Project - IDA Credit No. 6121-KE - The National Treasury
- 36 Contingencies Fund - The National Treasury
- 37 Petroleum Development Levy Fund Holding Account - The National Treasury
- 38 State Officers and Public Officers Motor Car Loan Scheme Fund - The National Treasury
- 39 Asiatic Widows and Orphans Pension Fund - The National Treasury
- 40 National Government Constituencies Development Fund-CBK Account - The National Treasury

- 41 Data Collection and Database Development Project - State Department for Planning
- 42 Kenya Development Response to Displacement Impacts Project - The Presidency
- 43 Technical to Enhance the Capacity of the President's Delivery Unit - The Presidency
- 44 National Cohesion and Integration Commission
- 45 Government Press Fund - State Department for Interior
- 46 Revenue Statements - State Department for Immigration and Citizen Services
- 47 Kenya Italy Debt for Development Programme (KIDDP) - State Department for Vocational and Technical Training
- 48 Support to Technical, Vocational Education and Training for Relevant Skills Development (GOK/ADB TVET Phase II) Project - Loan No. 2100150033295 - State Department for Vocational and Technical Training
- 49 Kenya Advanced Institute of Science and Technology (KAIST) Project No KEN-4
- 50 Africa Center of Excellence in Sustainable Use of Insects as Food and Feeds Project (IDA Credit No.5798-KE) - Jaramogi Oginga Odinga University of Science and Technology - State Department for University Education
- 51 East Africa Public Health Laboratory Networking Project (EAPHLN) Credit No.4732-KE - Ministry of Health
- 52 East Africa's Center of Excellence for Skills and Tertiary Education in Biomedical Sciences - Phase 1 (Loan No.2100150031997) Project - Ministry of Health
- 53 Global Fund Malaria Round 10 Project Grant No. KEN-011-G13-M and No. KEN-M-TNT-1546 - Ministry of Health
- 54 Support of the Health Financing Strategy - Output Based Approach (OBA) Programme (Credit No. 201065853) - Ministry of Health
- 55 Support of the Health Care Financing Strategy – Reproductive Health – Output Based Approach (RH-OBA) Project (Credit BMZ No. Kenya 201065853) - Ministry of Health
- 56 United Nations Population Fund (UNFPA) 8th Country Programme for Kenya - Ministry of Health

- 57 Kenya Health Sector Programme Support III – DANIDA Ref. 104. Kenya.810.300 - County Government of Kisii - Ministry of Health
- 58 East Africa Public Health Laboratory Networking Project (EAPHLN) Credit No.4732-KE – Kenya Medical Supplies Authority
- 59 National Urban Transport Improvement Project (IDA Credit No. 5140-KE) - State Department for Infrastructure
- 60 Kenya Transport Sector Support Project (IDA Credit No.s 4926-KE and 5410-KE (Component B1 Support to Ministry of Roads) - State Department for Infrastructure
- 61 Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya (Agreement No.Ke/Fed/023-571) - Kenya Rural Roads Authority
- 62 Nuno-Modogashe Road Project - Kenya National Highways Authority
- 63 Nairobi Outer Ring Road Improvement Project No.P-Ke-Db0 - Kenya Urban Roads Authority
- 64 Kibwezi-Mutomo-Kitui Road Project Contract No. Bla2016k001 - Kenya National Highways Authority
- 65 Mombasa West Integrated Urban Roads Network Programme Phase 2: Dualling of Magongo Road (A109I) and Expansion of Kipevu Road - Kenya National Highways Authority Authority
- 66 Kapchorwa-Suam-Kitale And Eldoret Bypass Roads (Kenya) Project Id No. P-Z1-Db0-183 - Kenya National Highways Authority
- 67 Mombasa Port Area Road Development Project (Loan Agreements Nos.KE-P29 and KE-P32) - Kenya National Highways Authority
- 68 Mombasa-Nairobi-Addis Ababa Road Corridor Project Phase II (Marsabit-Turbi Road) ID NO. P-Z1-DBO-027 - Kenya National Highways Authority
- 69 Mombasa-Nairobi-Addis Ababa Road Corridor Project Phase III (Turbi - Moyale) NO. P-ZI-DB0-095 Loan No. 2100150025546 - Kenya National Highways Authority
- 70 Mombasa–Marikana Highway Project Lot 1: (Mombasa-Kwa Jomvu) Loan No. 2100150032743 - Kenya National Highways Authority
- 71 Improvement of Rural Roads and Market Infrastructure in Western Kenya Project Credit No. Bmz 2007-65 123 (Kfw) - Kenya Urban Roads Authority

- 72 Kenya-South-Sudan Link Road Project (Ref. No.202062065 And BMZ No.202083939) - Kenya National Highways Authority
- 73 Timboroa-Eldoret Road Rehabilitation Project No. P-KE-DB0-019 (Loan No. 2100150023344) - Kenya National Highways Authority
- 74 Nairobi-Thika Highway Improvement Project Lot I and II (Credit No. 2100150015544) - Kenya National Highways Authority
- 75 Central Kenya Rural Roads Improvement and Maintenance Project (AFD Credit No. CKE 1012 01 B, Credit No. CKE 1046 01 J and Credit No. CKE 1094 01 M) - Kenya Rural Roads Authority
- 76 Multinational: Arusha-Holili/Taveta-Voi Road Project Loan No.2100150028894 - Kenya National Highways Authority
- 77 Port Reitz/Moi International Airport Access (C110) Road (FIDIC EPC/Turnkey Based) - Kenya National Highways Authority
- 78 Dualling of Nairobi - Dagoretti Corner Road C60/C61 (Phase 2)-Project-JICA Grant No. 1760220 - Kenya Urban Roads Authority
- 79 East Africa Trade and Transport Facilitation Project Credit No. 4148-KE (IDA) -Kenya National Highways Authority
- 80 Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania-Kisii-Ahero (A1) Road Rehabilitation-Credit No.2000130015238 - Kenya National Highways Authority
- 81 Northern Corridor Rehabilitation Programme Phase III (Eldoret-Turbo-Webuye-Malaba Road Improvement Project - Kenya National Highways Authority
- 82 Kenya Transport Sector Support Project Credit No.4926-KE And No.5410-KE - Kenya National Highways Authority
- 83 Regional Roads Component (Merille-Marsabit Road) (KE/001/09) Project Loan Agreement No. KE/FED/2009/021-655 - Kenya National Highways Authority
- 84 Nairobi Missing Link Roads and Non-Motorised Transport Facilities (Grant No. KE/FED/022-951) - Kenya Urban Roads Authority
- 85 Kenya Nairobi Southern Bypass Project Loan No. China Exim Bank PBC No. (2011) 32 Total No. (183) No. (1420303052011211528) - Kenya National Highways Authority

- 86 Kenya Nairobi-Thika Highway Improvement Project (Lot 3) Government Concessional Loan Agreement No. (2009) 39 Total No. (290) - Kenya National Highways Authority
- 87 National Urban Transport Improvement Project IDA Credit No.5140-KE - Kenya National Highways Authority
- 88 National Urban Transport Improvement Project No. IDA 5140-KE - Kenya Urban Roads Authority
- 89 Northern Corridor Transport Improvement Project IDA Credit No.3930-KE and No.4571-KE - Kenya National Highways Authority
- 90 Regional Mombasa Port Access Road Project (Loan No. 27459, FI No. 84010 and Grant No. 202061919) - Kenya National Highways Authority
- 91 Upgrading of “Gilgil Machinery” Road Project - Kenya Rural Roads Authority
- 92 Dualling of Nairobi - Dagoretti Corner Road C60/C61 (Phase 2)-Project-JICA Grant No. 1760220 - Kenya Urban Roads Authority
- 93 Kenya Nairobi Western Bypass Project Credit No. China Exim Bank GCL No. (2017) 28 Total No. (633) - Kenya National Highways Authority
- 94 Arusha-Namanga-Athi River Road Development Project No. P-Z1-DB0-040 - Kenya National Highways Authority
- 95 Eastern Africa Regional Transport, Trade and Development Facilitation Project IDA Credit No.5638-KE - Kenya National Highways Authority
- 96 Roads Annuity Fund - State Department for Infrastructure
- 97 National Urban Transport Improvement Project Credit No. 5140-KE (MOT Component) - State Department for Transport
- 98 East Africa Trade and Transport Facilitation Project IDA Credit No. 4148 KE- (MOT Component) - State Department for Transport
- 99 East Africa Trade and Transport Facilitation Project (MOT/KRC Component) Credit No.4148-KE and 4977-KE - State Department for Transport
- 100 Kenya Transport Sector Support Project Credit No. 4926-Ke and No. 5410-KE (MOTI Component) - State Department for Transport
- 101 Northern Corridor Transport Improvement Project Credit No.3930-KE (MOT Component) - State Department for Transport

- 102 National Urban Transport Improvement Project Credit No. IDA 5140-KE (KRC Component) - Kenya Railways Corporation
- 103 Kenya Aviation Modernization Project (Preparation Advance No. V0440) - Kenya Airports Authority
- 104 Kenya Transport Sector Support Project (IDA Credit No. 4926-KE and 5410-KE) - Kenya Civil Aviation Authority
- 105 Kenya Transport Sector Support Project (IDA Credit No. 4926-KE and 5410-KE) - Kenya Airports Authority
- 106 Kenya Informal Settlement Improvement Project (IDA Credit No.4873-KE) - State Department for Housing and Urban Development
- 107 Korogocho Slum Upgrading Project (Kenya-Italy Debt for Development Swap Programme) Credit No. CN/1246 - State Department for Housing and Urban Development
- 108 State Officers House Mortgage Scheme Fund - State Department for Housing and Urban Development
- 109 Kenya Slum Upgrading Low Cost Housing and Infrastructure Trust Fund (KENSUF) - State Department for Housing and Urban Development
- 110 Upper Tana Natural Resources Management Project IFAD Loan No.1-867-KE and Spanish Trust Fund Loan No. 1-E-8-KE - Ministry of Water and Sanitation
- 111 Coastal Region Water Security and Climate Resilience Project (IDA CR. No.5543-KE) - Ministry of Water and Sanitation
- 112 Thwake Multi-Purpose Water Development Program Phase I (Project ID P-KE-E00-008: ADF Loan No.2100150029993 & Grant No.2100155025973) - Ministry of Water and Sanitation
- 113 Kenya Italy Debt for Development Programme - Ministry of Water and Sanitation
- 114 Water and Sanitation Development Project (IDA CR. No.60290/60300-KE) - Ministry of Water and Sanitation
- 115 Water and Sanitation Services Improvement Project (IDA CR. NO.5103-KE) - Lake Victoria North Water Works Development Agency



- 116 Kenya Towns Sustainable Water Supply and Sanitation Program (Loan No.2000200000501) - Athi Water Works Development Agency
- 117 Kenya Towns Sustainable Water Supply and Sanitation Program - Tana Water Works Development Agency
- 118 Support to Water and Sanitation Services in Peri-Urban Area Project (Loan NO.BMZ 2013.6543.6) - Athi Water Works Development Agency
- 119 Water Sector Development Programme Lake Victoria South (Kericho, Kisii, Nyamira and Litein) Loan No.BMZ 2010 65 861 and Grant NO.BMZ 2010 70 457 - Lake Victoria South Water Works Development Agency
- 120 Water and Sanitation Services Improvement Project (IDA Credit No.5103 KE) - Athi Water Works Development Agency
- 121 Nairobi Water Distribution Network Project (Credit No. BMZ 2020.82.527/KV26833) - Athi Water Works Development Agency
- 122 Northern Collector Phase I - Additional Rehabilitation and Development of the Network Project (Loan No.CK 1074) - Athi Water Works Development Agency
- 123 Nairobi Sanitation Output Based Aid Project (IDA Grant No. TF014251 and No. TF0A5607) - Nairobi City Water and Sewerage Company Limited
- 124 Kenya Urban Water and Sanitation (KUWAS) OBA Project Fund for Low Income Areas - Water Sector Trust Fund - Ministry of Water and Sanitation
- 125 Sound Chemicals Management Mainstreaming and Upops Reduction in Kenya Project (Grant No. 99820) - Ministry of Environment and Forestry
- 126 System for Land Based Emissions Estimations in Kenya Project - Ministry of Environment and Forestry
- 127 Institutional Strengthening of the Ozone Depleting Substances Project (UNEP Project Account No.UNEP/KEN/SEV/80/INS/63) - Ministry of Environment and Forestry
- 128 National Action Plan on Artisanal Small - Scale Gold Mining No. AFR/NAP ASGM Project/C/10-2016 - Ministry of Environment and Forestry
- 129 Green Growth and Employment Programme (GGEP)- Danish Embassy File No.2015-39790 - Ministry of Environment and Forestry

- 130 Kenya Water Towers Agency Project - Kenya Forest Service
- 131 Nairobi Rivers Basin Rehabilitation and Restoration Programme - Sewerage Improvement Project (Credit No.2100150023655) - Athi Water Works Development Agency
- 132 Northern Kenya Conservation Project Credit NO.CKE 1036 01 H - Kenya Wildlife Service
- 133 Capacity Development Project for Sustainable Forest Management in the Republic of Kenya - Kenya Forest Services
- 134 International Partnership Programme Forest 2020 - Kenya Forest Service
- 135 Green Growth and Employment Thematic Programme - National Environment Management Authority
- 136 Zuia Ukimwi Imarisha Afisa - Kenya Forest Service
- 137 Eastern Africa Regional Transport, Trade and Development Facilitation Project (IDA Credit No. 5638-KE) - Information and Communication Technology Authority
- 138 Kenya Electricity Modernization Project (IDA CR. No. 55870 KE) - State Department for Energy
- 139 Kenya Electricity Expansion Project (IDA CR. No. 4743-KE) - State Department for Energy
- 140 Petroleum Development Levy Fund - State Department for Energy
- 141 Kenya Energy Sector Environment and Social Responsibility Programme - State Department for Energy
- 142 Kenya Off-Grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) - State Department for Energy
- 143 Bogoria Silali Geothermal Project (Loan No.2013.66.103) - Geothermal Development Company Limited
- 144 Multinational - Kenya Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries (ADF Loan No. 2100150022643) - Kenya Electricity Transmission Company Limited

- 145 Multinational Kenya-Tanzania Power Interconnection Project (Kenyan Component) (ADF Loan No.2100150032846) - Kenya Electricity Transmission Company Limited
- 146 Last Mile Connectivity Project (Loan No.2100150032195) - Kenya Power and Lighting Company Plc
- 147 Last Mile Connectivity Project II (Loan No.2000200000152) - Kenya Power and Lighting Company Plc
- 148 Eastern Electricity Highway Project (IDA Credit No. 5148-KE; AFD Loan No: CKE 1030 01B and ADF Loan No: 2100150027845) - Kenya Electricity Transmission Company Limited
- 149 Rural Electrification in Five Regions Project (Cr. No.11/597KE, 1407PKE) - Rural Electrification and Renewable Energy Corporation
- 150 Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) - Kenya Electricity Transmission Company Limited
- 151 220KV and 132KV Transmission Lines and Substations (Exim Bank of India Funded) Projects - Kenya Electricity Transmission Company Limited
- 152 Kenya Electricity Modernization Project (IDA Cr. No. 55870 KE) - Rural Electrification and Renewable Energy Corporation
- 153 Nairobi Ring Transmission Line Project (AFD Credit No.CKE 6012 01G and EIB Credit No.25367/KE) - Kenya Electricity Transmission Company Limited
- 154 Power Transmission System Improvement Project (ADF Loan No.2100150023752) - Kenya Electricity Transmission Company Limited
- 155 Menengai Geothermal Project (AFDB Loans No.2100150026101 & 5565130000101 and Grants No.5565155000401 and AFD Grant No. CKE 1038.01K) - Geothermal Development Company Limited
- 156 Rural Electrification Scheme - Kenya Power and Lighting Company Plc
- 157 Kenya Development of Solar Power Plant in Garissa Project (GCL No.2015 (10)) - Rural Electrification and Renewable Energy Corporation
- 158 Smallholder Dairy Commercialization Programme (IFAD Loan No. 678-KE and Grant No. 815-KE) - State Department for Livestock

- 159 Kenya Cereal Enhancement Programme - Climate Resilient Agricultural Livelihood Window (IFAD Grant No. 2000000623, IFAD Loan No. 2000001121 & ASAP Trust Grant No. 2000001122 - Ministry of Agriculture, Livestock & Fisheries
- 160 Rice Based Market Oriented Agricultural Promotion Project - State Department for Crop Development
- 161 Enable Youth Kenya Program – (ADF Loan No. 2100150038895) - State Department for Crop Development
- 162 Agricultural Sector Development Support Programme II (SIDA Grant No.51110109) - Ministry of Agriculture, Livestock Fisheries and Irrigation
- 163 Centre of Excellence in Sustainable Agricultural and Agribusiness Management (Credit No.5798-KE) - Egerton University
- 164 Revenue Statements - State Department for Fisheries, Aquaculture and the Blue Economy
- 165 Kenya Marine Fisheries and Socio-Economic Development Project (IDA Credit No. V1310-KE) - Ministry of Agriculture, Livestock and Fisheries
- 166 Strengthening Fertilizer Quality and Regulatory Standards in Kenya Project - Ministry of Agriculture, Livestock, Fisheries and Irrigation
- 167 Kenya Petroleum Technical Assistance Project IDA Credit No. 5526-KE and IDA Grant No. TFOA3418-KE - Ministry of Industry, Trade and Cooperatives
- 168 Kenya Industry and Entrepreneurship Project (Credit No.6268-KE) - Ministry of Industry, Trade and Cooperatives
- 169 Kenya Youth Employment and Opportunities Project (IDA Credit No.5812-KE) - Micro and Small Enterprise Authority
- 170 Kenya Youth Employment and Opportunities Project Credit No.58120-KE - State Department for Labour
- 171 National Safety Net Program for Results - Program No.P131305 - State Department for Social Protection
- 172 Cash Transfer for Orphans and Vulnerable Children (CT-OVC) Programme - IDA Grant No.TF097272 - State Department for Social Protection

- 173 Petroleum Development Levy Fund - State Department for Petroleum
- 174 Kenya Petroleum Technical Assistance Project (IDA Credit No.55260-KE and Grant No.TFOA 3418) - State Department for Petroleum
- 175 KWS-Kenya Roads Board Project - Kenya Wildlife Service
- 176 Kimira Oluch Smallholder Farm Improvement Project (ADF Loan No. 2100150012296) - State Department for Regional and Northern Corridor Development
- 177 Ethics and Anti-Corruption Commission-Staff House Mortgage and Car Loan Scheme
- 178 Intelligence Service Development Fund - National Intelligence Service
- 179 Political Parties Fund - Office of the Registrar of Political Parties
- 180 Kenya National Commission on Human Rights Mortgage and Car Loan Scheme Fund
- 181 Support to the Attainment of Vision 2030 Through Devolved Land Reforms in Community Lands of Kenya Project No. GCP/KEN/085/EC (Letter of Agreement 2018/001) - National Land Commission
- 182 Independent Electoral and Boundaries Commission Staff Mortgage and Car Loan Scheme
- 183 Parliamentary Car Loan Scheme Fund
- 184 Parliamentary Mortgage Loan Scheme Fund
- 185 Secondary Education Quality Improvement Project (Credit No. 6138-KE) - Teachers Service Commission - State Department for Early Learning and Basic Education
- 186 Revenue Statements – Ministry of Defence
- 187 Commission on Revenue Allocation Staff Mortgage Scheme Fund

## **Appendix B: Qualified Opinion**

<b>No</b>	<b>MINISTRIES/MDAs/REVENUES/FUND/PROJECTS</b>
1	The National Treasury
2	State Department for Interior
3	State Department for Correctional Services
4	State Department for Immigration and Citizen Services
5	State Department for Devolution
6	State Department for Development for the ASAL
7	Ministry of Foreign Affairs
8	State Department for Vocational and Technical Training
9	State Department for University Education
10	State Department for Early Learning and Basic Education
11	Ministry of Health
12	State Department for Infrastructure
13	State Department for Shipping and Maritime
14	State Department for Housing and Urban Development
15	State Department for Public Works
16	State Department for Water and Sanitation
17	State Department for Environment and Forestry
18	Ministry of Lands and Physical Planning
19	State Department for Sports
20	State Department for Culture and Heritage

- 21 State Department for Energy
- 22 State Department for Livestock
- 23 State Department for Fisheries, Aquaculture and the Blue Economy
- 24 State Department for Irrigation
- 25 State Department for Trade
- 26 State Department for Industrialization
- 27 State Department for Labour
- 28 State Department for Social Protection
- 29 State Department for Mining
- 30 State Department for Tourism
- 31 State Department for Wildlife
- 32 Ministry of Tourism and Wildlife
- 33 State Department for Public Service and Youth
- 34 State Department for Gender
- 35 State Department for Public Service
- 36 State Department for Youth
- 37 State Department for East African Community
- 38 State Department for Regional and Northern Corridor Development
- 39 State Law Office and Department of Justice
- 40 National Land Commission
- 41 Independent Electoral and Boundaries Commission
- 42 Parliamentary Service Commission

- 43 Teachers Service Commission
- 44 Controller of Budget
- 45 Revenue Statements - Recurrent
- 46 Consolidated Fund Services - Salaries Allowances and Miscellaneous Services
- 47 Revenue Statements - Pensions Department
- 48 Global Fund Program - To Accelerate the Reduction of TB, Leprosy and Lung Disease Burden Through Provision of People Centered, Universally Accessible, Acceptable and Affordable Quality Services in Kenya (Grant No. KEN-T-TNT 1548) -The National Treasury
- 49 Global Fund Program – Scaling Up Malaria Control Interventions for Impact Grant No. KEN-M-TNT - The National Treasury
- 50 Micro Finance Sector Support Credit Project (Credit No. CKE 3004 01E and CKE 6010 01E) - The National Treasury
- 51 Global Fund Program - To Contribute to Achieving Vision 2030 Through Universal Access to Comprehensive HIV Prevention, Treatment and Care Project - GA No. 1547 - The National Treasury
- 52 Global Fund Program - To Steer the Country Towards Achievement of TB Millennium Development Goals in Line with the Global Stop TB Strategy (Grant No. KEN-T-TNT) - The National Treasury
- 53 Global Fund Program - Expanding HIV Prevention, Care and Treatment Services to Reach Universal Access (80% Coverage) to Reduce Both Incidence and Associated Impact Project (Grant No. KEN-H-TNT) - The National Treasury
- 54 Eastern Africa Regional Transport, Trade and Development Facilitation Project (IDA Credit No. 5638-KE) - The National Treasury
- 55 Equalization Fund - The National Treasury
- 56 Railway Development Levy Fund Holding Account - The National Treasury
- 57 Coordination of Population Policy Implementation Project - State Department for Planning



- 58 Multiple Indicator Cluster Survey Project - State Department for Planning
- 59 Women Enterprise Fund - State Department for Planning
- 60 National Government Constituencies Development Fund - State Department for Planning
- 61 Revenue Statements - State Department for Interior
- 62 National Humanitarian Fund - State Department for Interior
- 63 Prison Industries Revolving Fund - State Department for Correctional Services
- 64 Prison Farms Revolving Fund - State Department for Correctional Services
- 65 Instruments for Devolution Advice and Support Project (Credit No.KE/FED/024/230) - State Department for Devolution
- 66 Street Families Rehabilitation Trust Fund - State Department for Devolution
- 67 Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project (ID No. P-KE-IAD-001 - Loan Agreement No. 2100150027993) - State Department for University Education
- 68 Eastern and Southern Africa Higher Education Centers of Excellence (ACE II) Project (Credit No. 5798-KE) - State Department for University Education
- 69 Flood Disaster Risk Reduction in Bunyala, Busia County, Kenya Project (ADB G-KE-KZ0-ZZZ-002) - Maseno University - State Department for University Education
- 70 Africa Centre of Excellence (ACEII) Phytochemicals, Textiles and Renewable Energy (PTRE) Project - Moi University - State Department for University Education
- 71 Kenya Primary Education Development Project (Grant No. TFO18863) - State Department for Early Learning and Basic Education
- 72 GOK/UNICEF Education for Young People Programme - State Department for Early Learning and Basic Education
- 73 Global Fund – Expanding HIV Prevention, Care and Treatment Services to Reach Universal Access (80% Coverage) to Reduce Both Incidence and

- Associated Impact Program (Grant No. KEN-H-MOF/KEN-H-TNT No.853)  
- Ministry of Health
- 74 Kenya Health Sector Support (EMMS) Project (IDA No.4771 and 50340-KE) - Ministry of Health
- 75 Kenya Health Sector Support Project – Swap Secretariat (IDA Cr. No. 4771-KE and Cr. No.5367-KE) - Ministry of Health
- 76 Global Fund Tuberculosis Grant Programme (Grant No.KEN-T-TNT-854 and KEN-T-TNT-1548) - Ministry of Health
- 77 Health Sector Support Project - Health Sector Services Fund (Grant No.4771-KE and TF-16027) - Ministry of Health
- 78 Transforming Health Systems for Universal Care (THS-UC) Project Grant IDA Credit No.5836-KE, TFOA2561 and TFOA2792 - Ministry of Health
- 79 Global Fund HIV AIDS Program (Grant No. KEN-H-TNT GA 1547) - Ministry of Health
- 80 Health Sector Support Project (Credit No.4771-KE) - KEMSA
- 81 Global Fund HIV/AIDS Project Grant Number KEN-H-TNT-1547 - National Aids Control Council
- 82 Eastern Africa Regional Transport, Trade and Development Facilitation Project (IDA Credit No. 5638-KE) - State Department for Infrastructure
- 83 North Eastern Transport Improvement Project (IDA Credit No. V0630) - Kenya National Highways Authority
- 84 Mombasa-Nairobi-Addis Ababa Road Corridor Development Project No. P-ZI-DBO-018 (Isiolo-Merille Section) - Kenya National Highways Authority
- 85 Multinational Lake Victoria Maritime Communications and Transport Project - Kenya Maritime Authority
- 86 Railway Development Levy Fund Operations Account - State Department for Transport
- 87 Nairobi Metropolitan Services Improvement Project Credit No. 5102-KE - State Department for Housing and Urban Development

- 88 Kenya Urban Support Program – IDA Credit No.6134-KE - State Department for Housing and Urban Development
- 89 Civil Servants Housing Scheme Fund - State Department for Housing and Urban Development
- 90 Kenya Water Security and Climate Resilience Project (IDA CR. No. 5268/5674-KE and Grant No. TFOA0761A) - Ministry of Water and Sanitation
- 91 Lake Victoria Water Supply and Sanitation Program (Phase II) Grant No. 2100155019967 - Lake Victoria South Water Works Development Agency
- 92 Water and Sanitation Services Improvement Project (IDA Grant/Credit Number: IDA 5103-KE) - Coast Water Works Development Agency
- 93 Kenya Towns Sustainable Water Supply and Sanitation Programme - Rift Valley Water Works Development Agency
- 94 Water Sector Development Programme of Kisii and Nyamira Water Supply and Sanitation Project (Credit NO.ORIO11/KE/21) - Lake Victoria South Water Works Development Agency
- 95 Integrated Programme to Build Resilience to Climate Change and Adaptive Capacity of Vulnerable Communities in Kenya - National Environment Management Authority
- 96 Revenue Statements - Ministry of Lands and Physical Planning
- 97 National Sports Fund - State Department for Sports
- 98 Sports, Arts and Social Development Fund - State Department for Sports
- 99 Regional Pastoral Livelihoods Resilience Project (IDA Credit No. KE 53880-KE) - Ministry of Agriculture, Livestock, Fisheries & Irrigation
- 100 Veterinary Services Development Fund - State Department for Livestock
- 101 Small-Scale Irrigation and Value Addition Project (ADF Loan No.2000130014530 and Grant No.5570155000751) - State Department for Crops Development
- 102 National Agricultural and Rural Inclusive Growth Project (IDA Credit No. 5900-KE) - Ministry of Agriculture, Livestock & Fisheries

- 103 Kenya Youth Employment Opportunities Project (Credit No. 5812-KE) - National Industrial Training Authority
- 104 Revenue Statements - State Department for Mining
- 105 Petroleum Training Levy Fund - State Department for Petroleum
- 106 Kenya Youth Employment and Opportunities Project (IDA Credit 58120-KE) - State Department for Youth
- 107 State Law Office and Department of Justice-Official Receiver
- 108 Revenue Statements - State Law Office and Department of Justice
- 109 Public Trustee of Kenya - State Law Office and Department of Justice
- 110 Revenue Statements - The Judiciary
- 111 Judicial Performance Improvement Project – IDA Credit No.5181 – The Judiciary
- 112 Occupational Safety and Health Fund
- 113 Treasury Main Clearance Fund

## **Appendix C: Adverse Opinion**

### **No. MINISTRIES/MDAs/REVENUES/FUND/PROJECTS**

- 1 State Department for Planning
- 2 State Department for Information Communications and Technology & Innovation
- 3 State Department for Broadcasting & Telecommunications
- 4 The Judiciary
- 5 Consolidated Fund Services - Public Debt
- 6 Revenue Statements - Government Investment and Public Enterprises
- 7 Consolidated Fund Services - Pensions and Gratuities
- 8 Rural Enterprise Fund - The National Treasury
- 9 Provident Fund Account - The National Treasury
- 10 European Widows and Orphans Pension Fund - The National Treasury
- 11 Asian Officers Family Pension Fund - The National Treasury
- 12 African Union and Other International Organizations Subscriptions Fund - The National Treasury
- 13 Kenya Symbiocity Programme-Grant No.51110060 - State Department for Devolution
- 14 Kisumu Urban Project (Project Advance Account) – Credit No. CKE 1035.01.G - State Department for Housing and Urban Development
- 15 Small Towns and Rural Water Supply and Sanitation Project ADF Loan No. 2100150021543 2019 - Tanathi Water Services Board
- 16 Lake Victoria Environmental Management Project – (Phase III) (Project Preparation Advance No. V1570–KE - Ministry of Environment and Forestry

- 17 Drought Resilience and Sustainable Livelihoods Programme (ADF Loan No. 2100150028345) - Ministry of Agriculture, Livestock, Fisheries & Irrigation
- 18 Kenya Climate Smart Agriculture Project (IDA Credit No. 5945 - KE) - Ministry of Agriculture, Livestock and Fisheries
- 19 Commodities Fund - State Department for Crop Development
- 20 Agricultural Information Resource Centre Revolving Fund - State Department for Crop Development

## **Appendix D: Disclaimer of Opinion**

### **No. MINISTRIES/MDAs/REVENUES/FUND/PROJECTS**

- 1 State Department for Crop Development
- 2 Statement of Outstanding Obligations Guaranteed by the Government of Kenya
- 3 East Africa Visa Fee Collection Account
- 4 Government Clearing Agency - The National Treasury
- 5 Kenya Local Loans Support Fund - The National Treasury
- 6 National Government Affirmative Action Fund - State Department for Planning
- 7 Kisumu Urban Project (Cash Expenditure Fund) – Credit No. CKE 1035.01.G - State Department for Housing and Urban Development
- 8 Stores and Services Fund - State Department for Public Works
- 9 Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project (Credit No. BMZ 2013 65 352) - Lake Victoria South Water Works Development Agency
- 10 Land Settlement Fund - Ministry of Lands and Physical Planning
- 11 Revenue Statements - State Department for Crop Development
- 12 Strategic Food Reserve Trust Fund - State Department for Crop Development
- 13 National Youth Service-Mechanical and Transport Fund - State Department for Public Service and Youth
- 14 Uwezo Fund - State Department for Gender
- 15 Youth Enterprise Development Fund - State Department for Youth

