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REPUBLIC OF KENYA

THIRTEENTH PARLIAMENT – SECOND SESSION

THE NATIONAL ASSEMBLY

SPECIAL FUNDS ACCOUNTS COMMITTEE

REPORT

ON THE CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON
THE FINANCIAL STATEMENTS FOR THE PRISON INDUSTRIES REVOLVING
FUND AND PRISON FARM REVOLVING FUND FOR THE FINANCIAL YEARS
2020/2021 AND 2021 /2022

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 14 AUG 2024	DAY: WEDNESDAY
TABLED BY:	MDN. RATHIN BAWODA MP VICE-CHAIR-SPECIAL FUNDS
CLERK AT THE TABLE:	ESTHER NGENYO

Directorate of Audit, Appropriations, and Other Select Committees
National Assembly
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LIST OF ABBREVIATIONS AND ACRONYMS

CoK	-	Constitution of Kenya, 2010
FY	-	Financial Year
MDAs	-	Ministries, Departments and Agencies
MOTIHUD	-	Ministry of Transport Infrastructure Housing and Urban Development
PFM	-	Public Finance Management
OAG	-	Office of the Auditor-General
PSASB	-	Public Sector Accounting Standards Board
RMLF	-	Road Maintenance Levy Fund

CHAIRPERSON'S FOREWORD

Hon. Speaker, on behalf of the Special Funds Accounts Committee and pursuant to Standing Order 199, it is my pleasant duty and honor to present to the House the report of the Committee on the audited financial statements for the Prison Industries Revolving Fund and Prison Farm Revolving Fund for 2020/2021 and 2021 /2022 financial years.

Oversight over national revenue and expenditure is amongst the roles of the National Assembly as stipulated under Article 95 (4) (c) of the Constitution of Kenya, 2010. Further, Article 226 provides that an Act of Parliament shall provide for the designation of an Accounting Officer in every public entity at the national level who is accountable to the National Assembly for its financial management. In addition, Article 229(8) mandates this House to debate and take appropriate action on audit reports from the Auditor-General.

In fulfilment of these constitutional provisions, the National Assembly established various Committees to examine reports of the Auditor-General to ascertain whether public funds are utilized in a lawful, authorized, effective, efficient, economical, and transparent manner. The Special Funds Accounts Committee, which was established in the Fifth Session of the Eleventh Parliament following the review of the National Assembly's Standing Orders, is one of these Committees.

The Committee received oral and written submissions from Ms Salome M. Beacco, Principal Secretary, State Department for Correctional Services, which formed the basis of its observations, findings, and recommendations.

Hon. Speaker, I wish to express appreciation to the Honorable Members of the Committee, the Office of the Speaker, and the Clerk of the National Assembly, the Parliamentary Liaison Offices of the Auditor-General and the National Treasury and the Committee Secretariat for facilitating the Committee in the production of this report.



Hon. A. RAHIM DAWOOD – VICE CHAIR

f.

HON. FATUMA ZAINAB MOHAMMED, M.P.

CHAIRPERSON, SPECIAL FUNDS ACCOUNTS COMMITTEE

1.0 PREFACE

1.1 Establishment and Mandate of Special Funds Accounts Committee

1. The Special Funds Accounts Committee is one of the six Watchdog Committees of the National Assembly established under Standing Order 205. It is mandated to examine the reports of the Auditor General on the following:
 - i) *Funds established by statute or by subsidiary legislation, except Funds under Standing Order 205B (Decentralized Funds Accounts Committee)*
 - ii) *The Equalization Fund;*
 - iii) *The Equalization Fund Advisory Board;*
 - iv) *The Political Parties Fund; and*
 - v) *Other funds as may be communicated by the Honorable Speaker*

1.2 Committee Membership

2. The Committee comprises the following members:

S/ N	Name	Constituency	Party
1	Hon. Fatuma Zainab Mohammed, MP (Chairperson)	Migori (CWR)	Independent
2	Hon. Dawood Abdul Rahim, HSC, MP (Vice Chairperson)	North Imenti	Independent
3	Hon. Faith Wairimu Gitau, MP	Nyandarua (CWR)	UDA
4	Hon. Charles Ngusya Nguna	Mwingi West	Wiper
5	Hon. Dr. Christine Ombaka Oduor, MP	Siaya (CWR)	ODM
6	Hon. Erastus Kivasu Nzioka, MP	Mbooni	Wiper
7	Hon. Eve Akinyi Obara, MP	Kabondo Kasipul	ODM
8	Hon. Joseph Majimbo Kalasinga, MP	Kabuchai	FORD-K
9	Hon. Tom Mboya Odege, MP	Nyatike	ODM
10	Hon. Catherine Nakhabu Omanyoo, MP	Busia (CWR)	ODM
11	Hon. Cecilia Asinyen Ngiti, MP	Turkana (CWR)	UDA
12	Hon. Erick Wamumbi, MP	Mathira	UDA
13	Hon. Joseph Kimutai Cherorot, MP	Kipkelion East	UDA
14	Hon. Joshua Odongo Oron, MP	Kisumu Central	ODM
15	Hon. Paul Kibichi Biego, MP	Chesumei	UDA

1.3 Committee Secretariat

3. The Secretariat facilitating the Committee comprises the following staff:

S/N	NAME	DESIGNATION
1.	Mr. Erick Nyambati	Clerk Assistant I
2.	Ms. Comfort Achieng	Clerk Assistant III
3.	Mr. Nimrod Mate	Clerk Assistant III
4.	Mr. Robert Ngetich	Fiscal Analyst II
5.	Ms. Judith Kanyoko	Legal Counsel II
6.	Ms. Bevaline Mosoti	Research Officer III
7.	Mr. Derrick Kathurima	Media Relations Officer III
8.	Ms. Faith Muiya	Public Communications Officer III
9.	Mr. Peter Mutethia	Hansard Audio Officer III
10.	Mr. Joshua Lenambet	Serjeant At Arms

2.0 EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR THE PRISON INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022

4. Ms Salome M. Beacco, Principal Secretary, State Department for Correctional Services, appeared before the Committee on Tuesday 4th July 2023, and Tuesday 21st November 2023 to adduce evidence on the audited financial Statements for the Prison Industries Revolving Fund for Financial Years 2020/2021 and 2021/2022, respectively. She was accompanied by:
 1. Brig. (Rtd) John Warioba - Commissioner General Prisons
 2. Mr. Peter Njoroge - Director Prisons Services
 3. Ms. Christine Nangwana - Head Legal services
 4. Mr. Arthur Nduati - Chief Finance Officer
 5. Mr. Johnson Njuguna - Director Audit
 6. Samfantony Kyalo, SSP- Prison Enterprise
 7. Benson Irungu, CIP-Prison Enterprise

2.1 Examination of the report of the Auditor-General for the Financial Year 2020/2021

a. Inaccuracies in the Financial Statements

5. The statement of cash flows reflects an amount of Kshs. 2,671,989 in respect of the purchase of non-current assets under cash flow from investing activities while the property, plant and equipment schedule in Note 15 to the financial statements reflects nil additions during the year. The resultant difference was not explained or reconciled. Further, the increase in accounts receivables is reflected in the statement of cash flows as a negative balance of Kshs. 30,318,827 instead of a negative balance of Kshs. 113,109,259, resulting in an unexplained variance of Kshs. 82,790,432.

In addition, the decrease in payables is reflected in the statement of cash flows as a negative balance Kshs. 41,628,085 instead of a negative balance of Kshs. 69,509,274, resulting in an unexplained variance of Kshs. 27,881,188.

In the circumstances, the accuracy and completeness of the balances reflected in the financial statements could not be confirmed.

Submissions by the Accounting Officer

6. The Accounting Officer acknowledged that the cash flow statement reflects an amount of Kshs.2,671,989.00 for the purchase of non-current assets under investing activities, which was not included in the property, plant and equipment movement schedule.
7. She noted that the above-stated expenditure relates to part of the contract payment for Kshs.6,954,070.00 to construct a building to house the Prison Industry PRIAQUA machines for the Prison Staff Training College water purification project. The amount was erroneously omitted from the assets schedule and has been incorporated into the financial year 2022/2023 draft accounts.

8. She further submitted that Kshs.30,318,827.00 was captured as an Increase in accounts receivables in the cash flow statement. Previously, this amount was held as cash and cash equivalent in the books of accounts and has now been transferred to accounts receivables since it has not been realised. Kshs.82,790,432.10 is part of the total credit sales made during the year of Kshs.136,185,518.00 and does not affect cash flow since the statement is prepared using the direct method.
9. She also submitted that the decrease in accounts payables of Kshs.41,628,085.99 reflected in the statement of cash flow relates to the payments made to creditors during the financial year. The balance of Kshs.27,881,188.00 did not affect the cash flow statement under investing activities, but cash inflows under sales had already been recognised.

Observations and Findings of the Committee

10. The Committee observed that
 - i. The amount of Kshs.2,671,989.00 for the purchase of non-current assets under investing activities was erroneously omitted from the assets schedule and has been incorporated in the financial year 2022/2023 draft accounts.
 - ii. The unexplained variances of Kshs. 82,790,432.10 and Kshs. 27,881,188.00 have been explained.
 - iii. The matter is resolved.

Recommendations of the Committee

11. The Committee recommends that the Accounting Officer must ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015 .

b. Unsupported Cash and Cash Equivalents

12. The statement of financial position reflects a cash and cash equivalents balance of Kshs. 593,362,910 as of 30 June 2021. Although the Fund's reporting date is 30 June 2021, the books of accounts for the 2020/2021 financial year were closed on 19 July 2021. As a result, the cut-off procedures were not followed to determine the reported cash and cash equivalents balance.
13. Further, one cash book and a single bank account were maintained in the year under review to record financial transactions for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two Funds are distinct and prepare separate sets of financial statements for audit purposes.
14. In addition, the reported cash, and cash equivalents balance of Kshs.593,362,910 is a computed figure for reporting and was not supported with a cash book, bank reconciliations or certificate of bank balances. In the circumstances, it has not been

possible to confirm the accuracy, completeness, and existence of the reported cash and cash equivalents balance of Kshs.593,362,910 as at 30 June, 2021.

Submissions by the Accounting Officer

15. The Accounting Officer acknowledged that the statement of financial position reflects a balance of Kshs 593,362,910.39 with respect to cash and cash equivalent. She submitted that the closing bank balances are derived from the total revenues collected net of the total expenditures and are supported by the CBK bank account statement as at the date of closure. Prison Industry Revolving Fund operates within the State Department accounting system. Transactions for all payments are processed and paid through the IFMIS system.
16. She further submitted that during the financial year ended 30 June 2021, the IFMIS system was allowed to operate up to 13 July 2021 to ensure processing and clearance of bills that were in process, including transactions for both the State Department and the Fund. All payments made after 30 June were treated as debtors or creditors for the reporting period.
17. She also submitted that the Prison Industry Revolving Fund maintains one cashbook and one bank account held at CBK, which serves both the Prison Industry Revolving Fund and the Prison Farms Revolving Fund. The State Department sought authority from the National Treasury to separate the bank accounts. The authority to open separate bank accounts was, however, not granted.
18. The National Treasury advised the State Department to align the Funds to Public Finance Management Act 2012. The State Department is constituting an inter-ministerial taskforce to align the two funds to the PFM Act 2012.

Observations and Findings of the Committee

19. The Committee observed that:
 - i. The reported cash, and cash equivalents balance of Kshs. 593,362,910 was not supported with a cash book, bank reconciliations or certificate of bank balances contrary to Section 31(4) of the Public Audit Act
 - ii. The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintain one cash book and one bank account;
 - iii. A Task Force has been constituted to align the Regulations of the two funds with the PFM Act 2012; and
 - iv. The matter remained unresolved.

Recommendations of the Committee

20. The Committee recommends that:
 - i. within six months of the adoption of this report, the Accounting Officer must submit a progress report on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012 to the Auditor General for audit verification.

- ii. within three months of the adoption of this report, the Accounting Officer must submit a cash book, bank reconciliations and certificate of bank balances to support the reported balance of Kshs. 593,362,910 to the Auditor General for audit verification.
- iii. The Accounting Officer must ensure that all supporting documents are submitted during the audit process in compliance with section 31 of the Public Audit Act, 2015.

c. Unsupported Revenue from Exchange Transactions

21. The statement of financial performance reflects sales of furniture and number plates totalling Kshs. 397,006,637 for the year ended 30 June 2021.
22. However, the main cash book maintained for recording these sales was the same one used to record sales from prison farms. The combined cash book reflects amounts received without indicating the source of revenue and the account to which it relates, whether prison industries or farms.
23. Further, the cash book was updated using the entries in the bank statements instead of the source documents raised at the point of sale. As a result, the revenue generated in respect of sales of furniture and number plates was not supported with documentary evidence in the form of cash book extracts, miscellaneous receipt books or bank statements.
24. In addition, the manual revenue register maintained to support the amount of Kshs. 397,006,637 could not be reconciled with the entries posted in the main cash book. Consequently, the accuracy and completeness of the revenue from exchange transactions of Kshs. 397,006,637 could not be confirmed.

Submissions by the Accounting Officer

25. The Accounting Officer submitted that the Prison Industries Revolving Fund collected Kshs. 397,006,637.00 as sales from furniture and number plates during the financial year 2020/2021. The fund had a total of 104 industry stations. Each station has its independent serialized Government miscellaneous receipt (MR) and independent MPESA pay bill numbers, which are utilized to collect revenue.
26. The monies collected through the MPESA pay bill are transmitted daily to the CBK account. Receipts are regularly presented from the Prison Stations to the Prison Headquarters for verification and recording. All the presented receipts are later controlled by a sales/revenue ledger, which records all station revenue collected and forms the basis of the total annual revenue.
27. The Prison Industries Revolving Fund and Prison Farms Revolving Fund maintain one cash book and one bank account held at CBK for all transactions. The posting of revenue generated in the cash book has since been rectified by clearly indicating the source of the revenue.

28. The National Treasury advised that Prison Industries Revolving Fund and Prison Farms Revolving Fund Regulations be updated and aligned with the Public Finance Management Act, 2012, to facilitate the granting authority to open separate bank accounts.

Observations and Findings of the Committee

29. The Committee observed that;
- i. The posting of revenue generated in the cash book has since been rectified by clearly indicating the source of the revenue.
 - ii. The matter is resolved.

Recommendations of the Committee

30. The Committee recommends that the Accounting Officer must ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations.

d. Unsupported Non-Current Assets

31. The statement of financial position reflects a non-current assets balance of Kshs. 60,475,786 as at 30 June 2021, which is at variance with Note 15 to the financial statements on property, plant and equipment figure of Kshs. 57,549,346, resulting in an unreconciled variance of Kshs. 2,926,440.
32. Further, the assets register maintained for the Prison Industries Revolving Fund was last updated on 30 June, 2017. In the circumstances, the accuracy and completeness of the non-current assets of Kshs. 60,475,786 as at 30 June, 2021 could not be confirmed.

Submissions by the Accounting Officer

33. The Accounting Officer submitted that the difference of Kshs. 2,926,440.00 between the balance in the financial statement of Kshs. 60,475,786 and the figure appearing in the notes amounting to Kshs. 57,549,346.11 has been reconciled, and the prior year adjustment has been effected in the draft account for the 2022/2023 Financial Year. The Fixed Assets register had not been updated during the audit. The fixed assets register has been updated.

Observations and Findings of the Committee

34. The Committee observed that:
- i. Noncurrent assets had an unreconciled variance of Kshs. 2,926,440 between the reported figures in the note to the financial statements and the statement of financial position.

- ii. The fixed assets register provided was not in-compliance with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020
- iii. The matter remained unresolved

Recommendations of the Committee

35. **The Committee recommends that,**

36. **within three months of the adoption of this report;**

- i. The Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and Asset Disposal Regulation 2020, for audit verification.
- ii. The Accounting Officer to reconcile the variance of Kshs. 2,926,440 and submit the supporting documents to the Auditor General for audit verification.

Other Matters

e. Long Outstanding Creditors

37. As disclosed in Note 16 to the financial statements, the statement of financial position as of 30 June 2021 reflects trade and other payables—creditors of Kshs.312,345,174. The balance includes Kshs.82,921,500 owed to other Government entities that have been outstanding for more than a year. Management has not explained why the creditors were not paid despite the Fund having funds in its bank account as of 30 June 2021.

Submissions by the Accounting Officer

38. The Accounting Officer submitted that bills totaling to Kshs. 312,345,174.00 were not settled at the end of the financial year. The related payment vouchers were undergoing verification and the exercise had not been finalized by the closure of the Financial Year. However, bills amounting to Kshs. 226,233,304.00 have since been settled, leaving a balance of Kshs. 86,111,870.00 comprising of Kshs. 82,921,500.00 and Kshs. 300,000.00 payables to National Industrial Training Authority and Agricultural Show of Kenya. respectively. These bills have not been cleared due to liquidity challenges. However, the Fund intends to settle them in the current financial year.

Observations and Findings of the Committee

39. The Committee observed that:
- i. The Fund has outstanding bills of Kshs. 86,111,870.00
 - ii. The matter remained unresolved.

Recommendations of the Committee

40. The Committee recommends that

Within three months of the adoption of this report, the Accounting Officer must submit to the Auditor General a progress report on the status of unpaid bills for audit verification.

f. Unresolved Prior Year Matters

Stalled Project for the Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle Number Plates Blanks

41. As previously reported, Kamiti Main Prison Industry records revealed that machines for producing modern motorized vehicle number plates, which were supplied and delivered in 2016 at a cost of Kshs. 15,295,500, have 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 the raw materials were supplied.
42. However, the raw materials (motorized vehicle number plate blanks) remain at the Kamiti Prison Industries stores. Information indicates that a case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks was filed in the Milimani High Court, Case No. E321 of 2020, between a technology company and the Principal Secretary, State Department for Correctional Services seeking specific performance of the contract or in the alternative compensation for the full contract value of Kshs.1,050,000,000.
43. No information was provided on the current status of the case. Further, the Management has not disclosed a contingent liability in these financial statements in relation to the case.

Submissions by the Accounting Officer

44. The Accounting Officer submitted that the Kenya Prisons Service started producing motor-vehicle number plates in 1974. The production process was modernized and improved over time. In 2014, a decision was made to migrate from the old number plates to the new generation number plates. The State Department procured and installed machines at a total cost of Kshs.15,295,500 to generate the new number plates in the year 2016. The matter is the subject of a civil case No. E321 of 2020 filed in the Milimani High court between Tropical Technologies Ltd and the State Department for Correctional Services, and the matter is still pending in court. In addition, a provision for contingency liability has been provided in the Fund's draft Financial Statements for the 2022/2023 Financial Year, which were being prepared.

Observations and Findings of the Committee

45. The Committee observed that:
- i. There is a pending court case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks at Milimani High Court, Case No. E321 of 2020, between a technology company and the Principal Secretary, State Department for Correctional Services; and
 - ii. machines for producing modern motorized vehicle number plates, which were supplied and delivered in 2016 at a cost of Kshs. 15,295,500, have remained idle.
 - iii. The matter remained unresolved.

Recommendations of the Committee

46. The Committee recommends that:

Within three months of the adoption of this report, the Accounting Officer must provide a progress report to the Auditor-General on the court case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks at Milimani High Court, Case No. E321 of 2020;

2.2 Examination of the report of the Auditor-General for the Financial Year 2021/2022

a. Inaccuracies in the Statement of Cash Flows

47. The statement of cash flows reflects a decrease in payables by Kshs. 223,236,974, while a recalculation of the movement in payables under Note 16 to the financial statements revealed a decrease by Kshs. 126,151,443, resulting in an unexplained variance of Kshs. 97,085,531. In addition, the statement reflects no change in non-current receivables, while a recalculation of the movement under Note 13(b) to the financial statements revealed an increase of Kshs. 59,970,930, resulting in an unexplained variance of Kshs. 59,970,930.
48. Further, the statement reflects an amount of Kshs. 260,283,489 in respect of net cash flows used in investing activities. This amount includes Kshs. 223,236,974 relating to a decrease in payables, which represents an operating activity and not an investing activity. In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

Submissions by the Accounting Officer

49. The Accounting Officer submitted as follows:

- (i) There was a decrease in payables of Kshs. 223,236,974, as reflected in the cash flow. The balance of Kshs 186,193,731.00 was derived as follows:

Description	Amounts- Kshs
Creditors B/F from F/y 2020/2021	312,345,174.00
Add New creditors for the year	97,085,531.00
Total creditors for the year	409,430,705.00
Less Creditors settled during the year	223,236,974.00
Outstanding creditors C/f F/Y 2021/2022	186,193,731.00

- (ii) There was a decrease in non-current receivables of Kshs. 136,185,518 which represented settled debtors, the carrying amount in the current year was derived as follows:

Debtors B/F from F/Y 2020/2021	195,843,535.83
Add new Debtors for the year	196,156,448.00
Total Debtors	391,999,983.83
less Debtors settled during the year	136,185,518.00
Net Debtors C/F for F/Y 2021/2022	255,814,465.83

- (iii) The statement of cash flows reflected an amount of Kshs 260,283,489.00 as a net cash flow from investing activities which included an amount of Kshs 223,236,974.00 being amount cleared in respect of creditors.

Observations and Findings of the Committee

The Committee observed that the matter is resolved.

b. Overstatement of Trade and Other Payables Balance

50. The statement of financial position as disclosed in Note 16 to the financial statements, reflects trade and other payables - creditors balance of Kshs. 186,193,731, which included an amount of Kshs. 58,879,973 paid and posted in the cash book on 30 June 2022. However, the payment was also disclosed in the bank reconciliation statement for June, 2022 among the unrepresented cheques. In the circumstances, the accuracy of the trade and other payables - creditors' balance of Kshs.186,193,731 could not be confirmed.

Submissions by the Accounting Officer

51. The Accounting Officer submitted that the unpaid vouchers totalling Kshs. 58,879,973 were inadvertently posted in the cashbook as of 30 June 2022. She further submitted that the cashbook for the year 2022/2023 has been adjusted to exclude the payments totalling Kshs. 58,879,973 as a prior-year adjustment and subsequently effected in the Financial Statements for the 2022/2023 financial year.

Observations and Findings of the Committee

52. The Committee observed that the matter is resolved.

c. Unsupported Cash and Cash Equivalents Balance

53. The statement of financial position as disclosed in Note 10 to the financial statements, reflects cash and cash equivalents balance of Kshs.7,795,251. However, one cash book and a single bank account were maintained in the year under review to record financial transactions for the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two (2) Funds are distinct and prepare separate sets of financial statements. Further, the bank reconciliation statement for the Fund presented for audit reflected an amount of Kshs.20,469,565 as payments in the bank statement, not in the cash book as at 30 June, 2022, out of which an amount of Kshs.650,000 related to the 2019/2020 financial year. The failure to record the payments in the cash book was not explained.
54. In addition, the bank reconciliation statement for June 2022 reflects unrepresented cheques totalling Kshs.115,526,747, including stale cheques totalling Kshs.2,284,510. In the circumstances, the accuracy, completeness, and existence of the cash and cash equivalents balance of Kshs.7,795,251 could not be confirmed.

Submissions by the Accounting Officer

55. The Accounting Officer submitted that the State Department for Correctional Services maintains one cashbook and one bank account, which serves both Prison Industries Revolving Fund and Prison Farms Revolving Fund. The State Department for

Correctional Services sought authority from the National Treasury to separate the bank accounts.

56. She also submitted that the National Treasury declined and directed that the regulations governing the funds' operations be aligned with the PFM Act 2012. A taskforce has been constituted to align Regulations with the PFM Act 2012. The bank balance of Kshs. 7,795,251.00 was derived from calculating the total revenues collected minus the total payments plus the balance B/F from the previous year. The figure is supported by the certificate of bank balance issued by the Central Bank of Kenya (CBK) as of June 30, 2022.
57. The Accounting Officer also submitted that payments totalling Kshs. 20,469,565 were inadvertently omitted from the cashbook. The relevant payment vouchers have been posted in the cashbooks, and appropriate prior-year adjustments have been effected in the financial statements for 2022/2023.
58. She further submitted that the bank reconciliation statement for the Prisons Enterprises Fund reflected an amount of Kshs. 115,526,747 as payments in the cashbook but not in the bank statement as of 30 June 2022. This amount includes payments that did not clear as of 30 June 2022; however, these payments cleared in July 2022, which included Unreversed Stale Cheques. The stale cheques of Kshs. 2,284,510 in the bank reconciliation represents payments inadvertently posted in the cashbook. The payments have since been reversed.

Observations and Findings of the Committee

59. The Committee observed that:

- i. The Prison Industries Revolving Fund and Prison Farms Revolving Fund maintains one cash book and one bank account;
- ii. A task Force had been constituted to align the Regulations of the two funds with the PFM Act 2012, and progress has since been made towards the matter and
- iii. The matter remained unresolved.

Recommendations of the Committee

60. The Committee recommends that within six months upon the adoption of this report, the Accounting Officer must submit a progress report to the Auditor—General on aligning the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with the PFM Act 2012.

d. Unexplained Variance and Incomplete Fixed Asset Register

61. The statement of financial position reflects a non-current assets balance of Kshs.93,404,716, while the corresponding Note 15 in the financial statements indicates a non-current assets balance of Kshs.94,595,861, resulting in an unexplained variance of

Kshs.1,191,145. Further, the assets register provided for audit was not comprehensive and updated to reflect the date/year of acquisition, cost, depreciation rate, disposals and serial numbers as required. In the circumstances, the completeness and accuracy of the property, plant and equipment balance of Kshs.93,404,716 could not be confirmed.

Submissions by the Accounting Officer

62. The Accounting Officer submitted that the statement of financial position reflects a non-current assets balance of Kshs. 93,404,716, as disclosed in Note 15 to the Financial Statements, indicates non-current assets amounting to Kshs. 94,595,861 before depreciation of Kshs. 4,117,584, as disclosed in note 8 to the financial statements. The amount of Kshs.93,404,716 was ascertained as follows:

Total assets	94,595,861
<i>Less</i> depreciation	(4,117,584)
Assets net of depreciation	90,478,277
Add Scrap machinery	2,926,440
NBV in the financial position	93,404,716

63. She further submitted that the Fund's Asset Register was not fully updated at the reporting date. The register is complete and was provided to the auditor for review.

Observations and Findings of the Committee

64. The Committee observed that:
- The fixed assets register provided was not in-compliance with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020
 - The matter remained unresolved.

Recommendations of the Committee

65. The Committee recommends that, within three months upon adoption of this report, the Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and Asset Disposal Regulation 2020, for audit verification.

e. Material Uncertainty Related to Sustainability of Services

66. Note 5 to the financial statements discloses that if the motor vehicle number plate production is transferred to the National Transport and Safety Authority (NTSA) or any other Government entity, the sustainability of services of the Prison Industries Revolving Fund shall be affected adversely. As at November 2022, production of the number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision, as a result of which production has since stopped at Kamiti Maximum Prison, resulting in the raw materials worth Kshs.101,348,772 and the fixed assets (machinery) held at Kamiti Maximum Prison being idle. These conditions indicate a material uncertainty, which may cast significant doubt on the Fund's ability to sustain its services.

Submissions by the Accounting Officer

67. The Accounting Officer submitted that if the production of Motor Vehicle number plates is transferred to NTSA or any other government entity, the going concern of the Prison Industries Revolving Fund would be significantly affected. She submitted that as of November 2022, raw materials for number plates held at Kamiti Prison worth Kshs.101,348,772.00 and other fixed assets related to number plates will be rendered obsolete.
68. However, the management was working on implementing measures to ensure the Fund's going concern is not threatened. The measures include adopting strategies to increase revenue streams through the following measures:
1. Modernization of Industry Equipment to enhance efficiency in production.
 2. Explore Public Private Partnership-Kenya Prison Service has a ready workforce and land which can be used to attract potential partners. e.g. in the manufacture of furniture.
 3. Broaden revenue streams. For example, Commercialize the PRIAQUA Brand, Commercialize paint production, and enhance leatherwork in prisons, among other measures.
 4. Construction of modern workshops to replace dilapidated structures.
 5. Training of instructors on modern technologies for technology transfer
 6. Enhanced marketing of the prison industry products

Observations and Findings of the Committee

69. The Committee observed that:
- i. Production of the number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision as at November, 2022;
 - ii. The transfer of the production of the number plates from the Fund - which is the main source of income for the Fund, to NTSA has significantly affected the going concern of the Fund.
 - iii. Raw materials worth Kshs. 101,348,772 and the machinery held at Kamiti Maximum Prison are idle;
 - iv. The matter remained unresolved.

Recommendations of the Committee

70. The Committee recommends that:
- i. Within six months of the adoption of this report, the Accounting Officer to provide a progress report on the implementation of measures taken by the Fund to ensure that it remains a going concern.
 - ii. Within three months of the adoption of this report, the Accounting Officer seeks authority to dispose of idle raw material and machinery held at Kamiti Maximum Prison
 - iii. Within six months of the adoption of this report, the Accounting Officer to provide a progress report to the Auditor – General on the disposal.

Other Matters

f. Budgetary Control and Performance

71. The statement of comparison of budget and actual amounts reflects a final revenue budget amount of Kshs. 608,047,134 and an actual comparable basis amount of Kshs. 381,290,980, resulting in collections of Kshs. 226,756,156 or 37% of the budgeted revenue. Similarly, the statement reflects the final recurrent budget expenditure amount of Kshs. 652,043,729 against an actual comparable basis expenditure of Kshs. 467,853,225, resulting in an under-expenditure of Kshs. 184,190,504 or 28% of the budgeted expenditure. Management has not justified the underperformance and suppressed expenditure. The under collection of revenue may have affected the operations and, hence, negatively impacted the planned activities of the Fund.

Submissions by the Accounting Officer

72. The Accounting Officer submitted that the Statement of Comparison of Budget and Actual amounts revealed that the Prison Industry Revolving Fund had projected to generate Kshs. 608,047,134 from the sale of goods and services during the year under audit. However, the actual receipt during the same accounting period amounted to Kshs. 381,290,980, resulting in underperformance of Kshs. 226,756,156 or 37% of the projected receipts. Similarly, the fund spent Kshs. 467,559,491 out of the approved budget of Kshs. 652,043,729, resulting in an under-expenditure of Kshs. 184,484,238 or 28% of the budget.
73. She further submitted that this was occasioned by the outbreak of the COVID-19 pandemic, which inhibited the movement of inmates, persistent low demand for the products, and other economic constraints in the country, resulting in low business; hence, these had a profound effect on the Fund's operations. The Fund wholly relies on the revenues collected from its sales to finance its expenditures.

Observations and Findings of the Committee

74. The Committee observed that:
- i. The Fund's underperformance of Kshs. 226,756,156, or 37%, was caused by the outbreak of the COVID 19 pandemic.
 - ii. The underperformance by the Fund resulted in a 28% under-expenditure.
 - iii. The matter is resolved.

g. Unresolved Prior Year Matters

75. In the previous year's audit report, several issues were raised under Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or explained the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

Submissions by the Accounting Officer

76. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:

- i. The Prison Industry Revolving Fund had a closing PMG account balance of Kshs 175,987,430 as of 30 June 2019, which was money not yet transferred from the former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Coordination after the merging of ministries, where prisons were transferred to the Ministry of Interior & Coordination of National Government.
- ii. **Stalled Project for Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle Number Plate Blanks**—The process was frustrated by court cases between the State Department and the contractors. However, the production of number plates was transferred to another Government entity in October 2022.
- iii. **Opening a separate bank account for the Prisons Farms Revolving Fund:** The National Treasury, in conjunction with the State Department for Correctional Services, has initiated the process of developing regulations that conform with the PFM Act. This will facilitate the granting of authority to open a separate bank account for the two Funds.
- iv. Long Outstanding Creditors owed to National Industrial Training Authority amounting to Kshs. 82,921,500 is awaiting the availability of funds to be settled.

Observations and Findings of the Committee

77. The Committee observed that;

- (i) Management has not resolved prior year audit issues, contrary to Sec.68(2)(l) of the PFM Act, 2012, Section 53(1)(a) and (b) of the Public Audit Act, 2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021
- (ii) The matter is unresolved.

Recommendations of the Committee

78. The Committee recommends that within three months upon the adoption of this report, the Accounting Officer provide a status report for unresolved prior-year matters to the Auditor General for audit verification.

3.0 EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PRISON FARM REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022

79. Ms Salome M. Beacco, Principal Secretary, State Department for Correctional Services, appeared before the Committee on Tuesday, 21st November 2023, to adduce evidence on the audited financial Statements for the Prison Farm Revolving Fund for Financial Years 2020/2021 and 2021/2022, respectively. She was accompanied by:

1. Brig (Rtd) John Warioba - Commissioner General Prisons
2. Mr. Peter Njoroge - Director, Prisons Services
3. Ms. Christine Nangwana - Head, Legal Services
4. Mr. Arthur Nduati - Chief Finance Officer
5. Mr. Johnson Njuguna – Head of Accounting
6. Samfantony Kyalo, SSP - Prison Enterprise
7. Benson Irungu, CIP -Prison Enterprise

3.1 Examination of the Report of the Auditor-General for the Financial Year 2020/2021

a. Inaccuracies in the Presentation of the Financial Statements

80. The statement of cash flows reflects cash flows from operating activities amounting to Kshs.119,111,044. However, the balance includes a reduction of creditors from the previous year of Kshs.871,000. A review of the statement of financial position indicates that creditors decreased by Kshs.821,000 from Kshs.1,700,000 to Kshs.829,000 as disclosed in Note 20(b) to the financial statements, resulting in an unreconciled difference of Kshs.50,000. Further, the statement of comparison of budget and actual amounts reflects an amount of Kshs.261,327,868 in respect of the original and final budget.

81. However, the cast amount for the original and final budget is Kshs.259,892,868 resulting in an unexplained variance of Kshs.1,435,000 respectively. In addition, the statement of financial position reflects the total non-current assets of Kshs.111,539,902, which includes an amount of Kshs.1,096,300 for scrap machinery. However, this amount and the item were not included in the property, plant and equipment movement schedule in Note 18 to the financial statements. In the circumstances, the accuracy and completeness of the balances reflected in the financial statements for the year ended 30 June 2021 could not be confirmed.

Submissions by the Accounting Officer

82. The Accounting Officer submitted the difference of Kshs. 50,000 was due to an error in the cash flow statement, while the Kshs 821,000 paid to creditors was overstated by capturing the amount as Kshs 871,000. The error has since been rectified as a prior year adjustment in the 2021/2022 Financial Statements.

83. She further submitted that the total amount was Kshs.261,327,868.00, as shown in the approved budget. There was no budget adjustment during the financial year. The variance is attributed to a typographical error rectified in 2020/2021. It was also submitted that

Kshs 1,096,300,00 was attributed to scrap machinery not included in the property, plant, and equipment movement schedule. The property, plant and equipment movement schedules have since been adjusted to incorporate the machinery.

Observations and Findings of the Committee

84. The Committee observed that:

- i. The variance in the statement of cash flows was due to a typographical error, and
- ii. The matter is resolved.

b. Unsupported Revenue

85. As **disclosed** in Note 9 of the financial statements, the statement of financial performance reflects total revenue of Kshs.355,889,736 in respect to the sale of goods. However, an audit inspection of various prison farms revealed that records such as the ledgers, receipts vouchers, cash books and banking of receipts from the sale of goods were not provided for audit review. Consequently, the accuracy, completeness and existence of the reported revenue amounting to Kshs.355,889,736 could not be confirmed.

Submissions by the Accounting Officer

86. The Accounting Officer submitted that the statement of financial performance reflects the total revenue of Kshs. 355,889,736. The amount comprises Kshs127,272,079,21 for sales for the year under review and Ksh 228,617,656.58 for amounts paid to settle the previous year's debts.

87. She further submitted that the Fund has a total of 93 farming stations. The stations maintain accounting documents, which include miscellaneous receipts, S13-Counter receipts vouchers, S11-Counter receipts & issue vouchers, S12 and a sales ledger. All receipts from the sale of goods/services are received through a cashless payment platform, i.e. pay bill and Electronic Funds Transfer (EFT/RTGS). The monies received are recorded in a miscellaneous receipt. The amount received through the pay bill is transmitted daily to an account maintained at the Central Bank of Kenya through the Equity Bank collection account.

88. She also submitted that the receipts (MRs) are regularly presented to the headquarters for verification and recording. A sales ledger later controls all the presented receipts, which records all revenue collected from the prison stations and consolidates the amounts to generate the total annual revenue collection.

89. She further submitted that some documents had been misfiled and misclassified during the audit exercise and could not be retrieved on time. The documents have since been provided to the auditors. In addition, the management instructed all field stations individually to adhere strictly to the PFM Act, maintain all necessary records, and ensure that documents are available to the auditors on a timely basis.

Observations and Findings of the Committee

90. The Committee observed that:

- i. Documents from the prison farms, such as ledgers, receipt vouchers, cash books, and bank accounts for receipts from the sale of goods, were not provided for audit review to support the total revenue of Kshs. 355,889,736
- ii. The matter is unresolved.

Recommendations of the Committee

91. The Committee recommends that:

- i. **Within three months upon adoption of this report, the Accounting Officer must provide supporting documents to support the total revenue of Kshs.355,889,736 for audit verification: and**
- ii. **The Accounting Officer must ensure timely submission of accounting documents for audit verification during the audit as per Section 31(4) of the Public Audit Act, 2015.**

c. Unsupported Cash and Cash Equivalents

92. As disclosed in Note 14 to the financial statements, the statement of financial position reflects cash and cash equivalents of Kshs.381,419,861, while the cash balance reported at the Central Bank of Kenya was Kshs.381,469,861. The difference of Kshs.50,000 has not been explained. Further, bank reconciliations were not provided. In the circumstances, the accuracy, completeness, and existence of the reported cash and cash equivalents balance of Kshs.381,419,861 could not be confirmed.

Submissions by the Accounting Officer

93. The Accounting Officer submitted that the statement of financial position reflects cash and cash equivalents of Kshs.381,419,861, while the cash balance reported at the Central Bank of Kenya was Kshs.381,469,861. The difference of Kshs. 50,000 was due to an error in capturing the amount paid to creditors as Kshs 871,000 instead of Kshs 821,000 in the cash flow statement. A reconciliation between the cash book and the bank was undertaken, and a bank reconciliation statement was submitted to the auditors. The error has since been rectified as a prior year adjustment in the Financial Statements of 2021/2022.

Observations and Findings of the Committee

94. The Committee observed that the matter is resolved.

d. Unsupported Non-Current Assets

95. As disclosed in Note 18 to the financial statements, the statement of financial position reflects total non-current assets of Kshs. 111,539,902. However, Management did not provide an asset register incorporating all the classes of assets managed and maintained

by the Fund to support the balance of assets held by the Fund. In the circumstances, the accuracy, completeness, and valuation of the non-current assets of Kshs. 111,539,902 could not be confirmed.

Submissions by the Accounting Officer

96. The Accounting Officer submitted that the statement of financial performance reflected Kshs. 111,539,902 as total of non-current assets as of 30th June 2021. The manual asset register has since been updated to reflect the correct status of the assets.

Observations and Findings of the Committee

97. The Committee observed that:
- i. The Fund's asset register was manual and not updated: and
 - ii. The matter is unresolved.

Recommendations of the Committee

98. The Committee recommends that:
- i. **Within three months of the adoption of this report, the Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020 for audit verification.**
 - ii. **The Accounting Officer ensures that the Asset register of the Fund is digitized within the 2024/25 financial year.**

e. Unresolved Prior Year Matters

99. In the previous year's audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or explained the failure to adhere to the Public Sector Accounting Standards Board templates provisions and the National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.

Submissions by the Accounting Officer

100. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:
- i. The Prison Farms Fund had a closing PMG account balance of Kshs 56,021,755 as at 30th June, 2019, which was money not yet transferred from the former Ministry Of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination after the merging of ministries where prisons were transferred to the Ministry of Interior & Coordination of National Government.;
 - ii. The pending receivable of Kshs 17 million relates to an outstanding amount owed to the fund by the State Department for Correctional Services (SDCS). The delay in settling this outstanding bill was due to limited budgetary allocations. In the current financial year, an allocation has been provided, the pending bill has been processed and was awaiting funding from the National Treasury;

- iii. On the issue of opening a separate bank account for the Prisons Farms Revolving Fund. The Accounting Officer submitted that the National Treasury, in conjunction with the State Department for Correctional Services, has initiated the development of Regulations that conform to the PFM Act. to facilitate the granting of authority to open the bank account.
4. She also submitted that the management was making efforts to resolve all these pending matters.

Observations and Findings of the Committee

101. 18. The Committee observed that:
- i. Management has not resolved prior year audit issues, contrary to Sec.68(2)(l) of the PFM Act,2012, Sec.53(1)(a) and (b) of the Public Audit Act,2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.
 - ii. The matter is unresolved.

Recommendations of the Committee

102. The Committee recommends that within three months upon adoption of this report, the Accounting Officer provides a status report for unresolved prior year matters to the Auditor General for audit verification.

f. Undue Delay in Disposal of Assets

103. Physical verification in Kitale Main Prison Farm in October 2021 revealed that a Board of Survey on stores and unserviceable items was conducted on 10 September, 2019, which identified various old and ageing livestock for disposal.
104. On 19 December 2019, the State Department for Correctional Services halted the disposal exercise, advising that an auctioneer had been identified to conduct the disposal.
105. However, the disposal process had not been concluded as of October 2021. In the circumstances, value for money could not be realized due to the deterioration of the value of the livestock.

Submissions by the Accounting Officer

106. The Accounting Officer submitted that the State Department for Correctional Services had sought authority to dispose of mature livestock, and approval was granted for the auction. However, the State Department reviewed the option of auctioning the livestock and decided to sell the same meat for inmates' consumption at the prevailing supply price. One hundred one mature animals were disposed of at Kshs. 12,998,450.00; hence, value for money was realized.

Observations and Findings of the Committee

107. The Committee observed that;

- i. The State Department for Correctional Services had sought authority to dispose of mature livestock, and approval was granted for the auction.
- ii. The matter is resolved.

g. Commingling of Funds

108. A review of the cashbook revealed that Management uses a single cash book for recording financial transactions and maintains one bank account for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund, leading to the commingling of funds. Further, the two funds prepare and submit separate sets of financial statements for audit purposes. In the circumstances, effective internal controls on funds could not be confirmed.

Submissions by the Accounting Officer

109. The Accounting Officer acknowledged that the State Department for Correctional Services maintains one cashbook and one bank account that serves the Prison Industries Revolving Fund and Prison Farms Revolving Fund. She submitted that the State Department for Correctional Services sought authority from the National Treasury to separate the bank accounts. The National Treasury declined and directed that the regulations governing the funds' operations be aligned with the PFM Act 2012. A task force has since been constituted and is working towards aligning the Regulations with the PFM Act.

Observations and Findings of the Committee

110. The Committee observed that:

- i. The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintained one cash book and one bank account:
- ii. A task Force was constituted to align the Regulations of the two funds with the PFM Act 2012
- iii. The matter is unresolved.

Recommendations of the Committee

111. The Committee recommends that

Within six months of the adoption of this report, the Accounting Officer must submit a progress report on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012 to the Auditor General for audit verification

3.2 Examination of the Report the Auditor-General for the Financial Year 2021/2022

a. Unsupported Cash and Cash Equivalents

112. The statement of financial position reflects a cash equivalents balance of Kshs.55,704,138 as disclosed in Note 11 to the financial statements. However, one cash book and a single bank account were maintained in the year under review to record financial transactions for the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two Funds are distinct and prepare separate sets of financial statements.

113. Further, bank reconciliations provided for audit reflect an amount of Kshs. 115,526,747 in respect of unpresented cheques, of which Kshs. 2,284,510 were stale as of 30 June 2022.

114. In the circumstances, the accuracy, completeness and existence of the reported cash and cash equivalents balance of Kshs. 55,704,138 could not be confirmed.

Submissions by the Accounting Officer

115. The Accounting Officer acknowledged that the State Department for Correctional Services maintains one cashbook and one bank account, which serves the Prison Industries Revolving Fund and Prison Farms Revolving Fund. She submitted that the State Department for Correctional Services has since sought authority from the National Treasury to separate the bank accounts.

116. However, the National Treasury declined the request and directed that the Regulations governing the funds' operations be aligned with the PFM Act 2012. Subsequently, a task Force was constituted to align Regulations with the PFM Act 2012. The bank balance of Kshs 55,704,138 was derived from the total revenues collected net of the total expenditures and is supported by the CBK bank account statement as of the closure date.

117. She further submitted that the bank reconciliation statement for the Prisons Enterprises Fund reflected an amount of Kshs. 115,526,747 as payments in the cashbook but not in the bank statement as of 30 June 2022. The amount included payments that did not clear as of 30 June 2022; however, these payments cleared in July 2022, including unreversed stale cheques. The stale cheques of Kshs.2,284,510 in the bank reconciliation represent payments inadvertently posted in the cashbook. The payments have since been reversed.

Observations and Findings of the Committee

118. The Committee observed that:

- i. The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintained one cash book and bank account;
- ii. A task Force was constituted to align the Regulations of the two funds with the PFM Act 2012
- iii. The matter is unresolved.

Recommendations of the Committee

119. The Committee recommends that

within six months upon adoption of this report, the Accounting Officer must submit a progress report to the Auditor—General on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012

Other Matter

b. Unresolved Prior Year Matters

120. The previous year's audit report raised several issues under the Report on Financial Statements and Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or explained the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

Submissions by the Accounting Officer

121. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:
- i. The Prison Farms Revolving Fund had a closing PMG account balance of Kshs 56,021,755 as at 30th June 2019, which was money not yet transferred from the former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination after the merging of ministries where prisons were transferred to Ministry of Interior & Coordination of National Government;
 - ii. The pending receivable of Kshs 17 million relates to an outstanding amount owed to the fund by the State Department for Correctional Services (SDCS). The delay in settling this outstanding bill is attributed to limited budgetary allocations. In the current financial year, an allocation has been provided for, the bill has been processed and is awaiting funding from the National Treasury;
 - iii. On the issue of opening a separate bank account for the Prisons Farms Revolving Fund. She submitted that the National Treasury, in conjunction with the State Department for Correctional Services, has initiated the development of Regulations that conform with the PFM Act. This will facilitate the granting of authority to open the bank account.
122. She further submitted that the management is making efforts to resolve all these pending matters.

Observations and Findings of the Committee

123. The Committee observed that:
- i. Management has not resolved prior year audit issues, contrary to Sec.68(2)(l) of the PFM Act, 2012, Sec.53(1)(a) and (b) of the Public Audit Act, 2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.
 - ii. The matter is unresolved.

Recommendations of the Committee

124. The Committee recommends that

Within three months of the adoption of this report, the Accounting Officer must provide a status report for unresolved prior-year matters to the Auditor General for audit verification.

c. Failure to Use Information Technology in Finance and Procurement Sections

125. The Prison Farms Revolving Fund was established by Legal Notice No.87 of the Exchequer and Audit Act (Cap 412) Regulations of 1993 and became operational on 1 July 1992. Despite being in operation for 30 years, the Fund has yet to automate its operations, especially for financial reporting and procurement of goods and services. Transaction processing, ledgers, and financial statements are done manually.

126. Further, the Fund has yet to implement e-procurement to manage the procurement processes as required by the Public Procurement and Assets Disposal Regulations, 2020 and Executive Order No. 2 of 2018.

127. Management has not explained the failure to automate its operations.

Submissions by the Accounting Officer

128. The Accounting Officer submitted that the operations of the Fund were partially automated in the following areas;

- i. All payments are made through IFMIS, and
- ii. All revenues are collected through a cashless platform – E-citizen, EFTs/RTGs

129. However, the Fund has since initiated the process of acquiring a Financial Management system in the 2023/2024 financial year.

Observations and Findings of the Committee

130. The Committee observed that:

- i. The Fund has neither automated its operations nor implemented e-procurement in managing its procurement processes, and
- ii. The matter is unresolved

Recommendations of the Committee

131. **The Committee recommends that**

Within six months of the adoption of this report, the Accounting Officer must submit a status report to the Auditor-General on the acquisition of the Financial Management System and the implementation of e-procurement.

