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REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT – FIFTH SESSION (2026)

SPECIAL FUNDS ACCOUNTS COMMITTEE

TWENTIETH REPORT

OF

THE SPECIAL FUNDS ACCOUNTS COMMITTEE ON EXAMINATION OF THE REPORTS OF THE AUDITOR GENERAL ON THE AUDITED FINANCIAL STATEMENTS OF:

1. **KENYA MARITIME AUTHORITY STAFF MORTGAGE AND CAR LOAN SCHEME FOR THE FINANCIAL YEARS 2013/2014 TO 2024/2025**
2. **KENYA NATIONAL COMMISSION ON HUMAN RIGHTS CAR AND MORTGAGE LOAN SCHEME FOR THE FINANCIAL YEARS 2018/2019 TO 2024/2025**

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 05 NOV 2026 DAY. THURSDAY
TABLED BY: CHAIRPERSON Hon. Rachel Dawuni
CLERK-AT THE-TABLE: J. Lemerkle

DIRECTORATE OF AUDIT, APPROPRIATIONS & GENERAL-PURPOSE COMMITTEES
THE NATIONAL ASSEMBLY
PARLIAMENT BUILDINGS
NAIROBI

NOVEMBER, 2026

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LIST OF ABBREVIATIONS AND ACRONYMS

CoK	-	Constitution of Kenya, 2010
FY	-	Financial Year
IFRS	-	International Financial Reporting Standards
IPSAS	-	International Public Sector Accounting Standards
KCB	-	Kenya Commercial Bank
KMA	-	Kenya Maritime Authority
KNCHR	-	Kenya National Commission on Human Rights
MOU	-	Memorandum of Understanding
OAG	-	Office of the Auditor-General
PFM	-	Public Finance Management
PSASB	-	Public Sector Accounting Standards Board
SRC	-	Salaries and Remuneration Commission

CHAIRPERSON'S FOREWORD

The Special Funds Accounts Committee (hereinafter referred to as "the Committee" is one of the six 'Watchdog Committees' which were established in the Fifth Session of the Eleventh Parliament following the review of the National Assembly's Standing Orders. The Committee is established pursuant to Standing Order 205A to examine the audited accounts of Funds established by Statute or by subsidiary legislation, the Equalization Fund, the Equalization Fund Advisory Board, and the Political Parties Fund. This ensures compliance with Article 229(8) of the Constitution of Kenya, 2010, regarding reports laid before the House by the Auditor-General.

In examining the reports of the Auditor-General for the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme for the Financial Years 2013/2014 to 2024/2025 and the Kenya National Commission on Human Rights Car and Mortgage Loan Scheme for the Financial Years 2018/2019 to 2024/2025, the Committee received oral and written submissions from CPA Justus Omae Nyarandi, the Director General, Kenya Maritime Authority, and CPA Joseph Ndiku, the Ag. Chief Executive Officer, Kenya National Commission on Human Rights.

This report presents the observations and recommendations arising from the examination of the Auditor-General's reports on two (2) schemes. The examination covered nineteen (19) reports of the Auditor-General, comprising twelve (12) reports for the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme covering the Financial Years 2013/2014 to 2024/2025, and seven (7) reports for the Kenya National Commission on Human Rights Car and Mortgage Loan Scheme covering the Financial Years 2018/2019 to 2024/2025. In this report, the Committee makes policy recommendations it deems necessary to address financial and audit challenges and, at the same time, recommends specific actions against officers who may have acted contrary to the law. This is intended to ensure prudent use of public funds and accountability, in accordance with Article 226(5) of the Constitution.

The Committee appreciates the Offices of the Speaker and the Clerk of the National Assembly for the support accorded to it in enabling it to fulfil its mandate. The Committee further appreciates the Office of the Auditor General for the services it provided throughout the period, as well as the Accounting Officers who complied with audit timelines and provided satisfactory responses to queries raised. I also appreciate my fellow Members of the Committee and the Secretariat, whose immense contributions and dedication to duty enabled the Committee to examine the audit queries and produce this report.

On behalf of the Special Funds Accounts Committee and pursuant to National Assembly Standing Order 199 (6), it is my pleasant duty and honor to present to the House the Twentieth Report of the Special Funds Accounts Committee on the audited Financial Statements for **Kenya Maritime Authority Staff Mortgage and Car Loan Scheme for the Financial Years 2013/2014 to 2024/2025** and **Kenya National Commission on Human Rights Car and Mortgage Loan Scheme for the Financial Years 2018/2019 to 2024/2025.**

HON. FATUMA ZAINAB MOHAMMED, CBS, M.P.
CHAIRPERSON, SPECIAL FUNDS ACCOUNTS COMMITTEE

EXECUTIVE SUMMARY

The Twentieth report of the Special Funds Accounts Committee contains the Committee's examination of the Auditor General's audited financial statements of the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme for the Financial Years 2013/2014 to 2024/2025 and the Kenya National Commission on Human Rights Car and Mortgage Loan Scheme for the Financial Years 2018/2019 to 2024/2025.

In examining the audited financial statements of the two Schemes, the Committee's primary approach was to elicit background information on why particular courses of financial and/or management action were or were not taken. This was done with the relevant Public Financial Management principles in mind, including the Constitution of Kenya, 2010, the Public Audit Act, 2015, the Public Finance Management Act, 2012, Public Finance Management (National Government) Regulations, 2015, the Public Procurement & Asset Disposal Act, 2015 and the attendant regulations, the International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), National Treasury and SRC Circulars relevant for the Schemes.

In examining whether the affairs of the Funds are managed in accordance with sound business principles and prudent commercial practices, the Committee heard and received both oral and written evidence from Accounting Officers of various Funds and other relevant witnesses.

The preface of the report contains preliminaries on the establishment of the Committee; its membership and secretariat; its mandate; and the guiding principles governing the Committee in undertaking its mandate. Part two of this report contains the Committee's general observations/findings under each scheme.

Part three of this report contains reports of the specific Funds whose financial statements were examined; the financial years considered in each Fund; the specific audit reservations raised by the Auditor-General in each financial year; Submissions by the Accounting Officer to each audit reservation raised by the Auditor-General; Committee observation after considering each audit reservation; and finally, Committee Recommendations on each audit query.

1.0. PREFACE

1.1. Establishment and Mandate of the Committee

1. The Special Funds Accounts Committee is one of the six Watchdog Committees of the National Assembly established under Standing Order 205 and is responsible for the examination of the operations, management and audited accounts of Special Funds established by the National Government, based on the reports of the Auditor-General. 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 Honourable Speaker

2. The Committee, in considering the Audited accounts of the Funds, is guided by the Constitution of Kenya and the following statutes and codes/regulations in carrying out its mandate.

1.2 Guiding Principles

1.2.1 Chapter Twelve of the Constitution on Public Finance

Part I-Principles of Public Finance

3. **Article 201** provides for the fundamental principles that...*shall guide all aspects of public finance in the Republic....*" These principles are, inter alia-
    (i) 201(a)) there shall be openness and accountability, including public participation in financial matters
    (ii) 201(d)) public money shall be used in a prudent and responsible way; and
    (iii) 201(e) financial management shall be responsible, and fiscal reporting shall be clear

Part 6-Control of Public Money

4. **Article 226** deals with the accounts and audit of public entities and provides that:
    (i) the accounting officer of a national public entity is accountable to the National Assembly for its financial management (Article 226(2)); and
    (ii) the holder of a public office, including a political office, who directs or approves the use of public funds contrary to law or instructions, is personally liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not (Article 226(5)).
5. **Article 227** deals with the procurement of public goods and services. Article 227(1), provides that "when a State organ or any other public entity contracts for goods or services, it shall do so in accordance with a system that is fair, equitable, transparent, competitive, and cost-effective".

6. **Article 229(8)** of the Constitution of Kenya 2010 mandates the National Assembly to debate and take appropriate action on audit reports within three months of receipt of the reports from the Auditor.

1.2.2 Obligations of Accounting Officers

7. The Public Finance Management Act, Cap 412A

8. **Section 68** sets out the responsibilities of accounting officers for national government entities, Parliament and the Judiciary. This includes accountability to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a lawful, authorized, effective, efficient, economical and transparent manner (section68(1)).9.

9. **Section 72** focuses on the accounting officers' responsibility to manage the assets and liabilities of national government entities. On this basis, each Fund Account Manager, as the Accounting Officer, is held directly and personally liable for any loss of public funds under their watch.

10. Apart from the above-named laws, the Committee was further guided by the following: -
    i) The Parliamentary Powers and Privileges Act, Cap 6;
    ii) The Public Finance Management (National Government) Regulations, 2015;
    iii) The Public Procurement and Asset Disposal Act, Cap 412C;
    iv) The Public Procurement and Asset Disposal Regulations, 2020;
    v) The Public Audit Act, Cap 412B;
    vi) The Fair Administrative Action Act, Cap 7L;
    vii) The Accountants Act, Cap 531; and
    viii) The National Assembly Standing Orders.

1.2 Committee Membership

11. The Committee comprises the following fifteen (15) Members:

	Name	Constituency	Party
1	Hon. Fatuma Zainab Mohammed, CBS, MP (**Chairperson**)	Migori (CWR)	Independent
2	Hon. Dawood Abdul Rahim, CBS, HSC, MP (**Vice Chairperson**)	North Imenti	Independent
3	Hon. Koyi, John Waluke, CBS, M.P.	Sirisia	JP
4	Hon. Dr. Christine Ombaka Oduor, MP	Siaya (CWR)	ODM
5	Hon. Erastus Kivasu Nzioka, MP	Mbooni	Wiper
6	Hon. Eve Akinyi Obara, MP	Kabondo Kasipul	ODM
7	Hon. Charles Ngusya Nguna	Mwingi West	Wiper
8	Hon. Joseph Majimbo Kalasinga, MP	Kabuchai	FORD-K
9	Hon. Tom Mboya Odege, MP	Nyatike	ODM
10	Hon. Catherine Nakhabi Omanyo, MP	Busia (CWR)	ODM
11	Hon. Cecilia Asinyen Ngitit, MP	Turkana (CWR)	UDA
12	Hon. Erick Wamumbi, MP	Mathira	UDA
13	Hon. Joseph Kimutai Cherorot, MP	Kipkelion East	UDA
14	Hon. Onchoke Charles Mamwacha, MP	Bonchari	UPA
15	Hon. Leah Soipato Sankaire, MP	Kajiado	UDA

1.3 Committee Secretariat

12. The Secretariat facilitating the Committee comprises the following technical staff:

	Name	Designation
1.	Ms. Ella Kendi	Clerk Assistant I
2.	Ms. Kathleen Nanzala	Clerk Assistant III
3.	Mr. Nimrod Mate	Clerk Assistant III
4.	Mr. Robert Ngetich	Fiscal Analyst II
5.	Ms. Nancy Chepkemoi	Legal Counsel II
6.	Ms. Bevaline Mosoti	Research Officer III
7.	Ms. Maryan Gabow	Public Communications Officer III
8.	Ms. Ivy Maritim	Media Relations Officer III
9.	Mr. John Nga'ng'a	Audio Officer III
10.	Mr. Joshua Lenambet	Serjeant At Arms

CHAPTER TWO

2.0 GENERAL OBSERVATIONS AND RECOMMENDATIONS

13. During its examination of the audited financial statements of the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme and the Kenya National Commission on Human Rights Car and Mortgage Loan Scheme, the Committee made the following general observations and recommendations under each Scheme:

Kenya Maritime Authority Staff Mortgage and Car Loan Scheme

i) Failure to prepare a separate budget for the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme

14. The Committee observed that from FY 2013/2014 to FY 2019/2020, the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme did not have its own revenue and expenditure budget. The Scheme's revenue and expenditure were instead budgeted for under the main vote of the Kenya Maritime Authority. As a result, the funds of the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme were commingled with those of the Kenya Maritime Authority.
15. The Committee recommends that, within three months of adoption of the report, the Accounting Officer to prepare a separate revenue and expenditure budget for the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme and maintain separate accounting records and bank accounts for the Scheme, distinct from those of the Kenya Maritime Authority, in compliance with Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015.

ii) Late Submission of Financial Statements of the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme for Audit

16. The Committee observed that the financial statements of the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme for the Financial Years 2013/2014 to 2018/2019 were submitted to the Auditor-General late, contrary to Section 68(2)(k) of the Public Finance Management Act, Cap. 412A.
17. The Committee recommends that the Accounting Officer to always submit the financial statements of the Scheme to the Auditor-General for audit within three (3) months after the end of each Financial Year, in compliance with Section 68(2)(k) of the Public Finance Management Act, Cap. 412A.

iii) Operation of unauthorised on call deposits account

18. The Committee observed that the Kenya Maritime Authority operated on-call deposits accounts without prior approval from the National Treasury, contrary to Section 28(1) of the Public Finance Management Act, Cap. 412A, which states that the National Treasury should

authorize the opening, operating and closing of bank accounts and sub-accounts for all national government entities.

19. The Committee recommends that -

    i) The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and

    ii) The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.

Kenya National Commission on Human Rights Car and Mortgage Loan Scheme

Irregular payment of loan administrative cost

20. The Committee observed that the Fund charged an administrative cost of 4% per annum on car loans, contrary to Regulation 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015, which prescribes a maximum rate of 3% per annum.

21. The Committee recommends that the Accounting Officer ensures that the administrative cost charged on loans does not exceed the limit prescribed under Regulation 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015, and regularly reviews the agreements governing the Scheme so that they remain in line with the law.

CHAPTER THREE

3.0 EXAMINATION OF THE AUDITOR GENERAL'S REPORT ON THE FINANCIAL STATEMENT OF THE KENYA MARITIME AUTHORITY STAFF MORTGAGE AND CAR LOAN SCHEME FOR THE FINANCIAL YEARS 2013/2014 TO 2024/2025.

10. CPA Justus Omae Nyarandi, the Director General, Kenya Maritime Authority, appeared before the Committee on Wednesday, 18th March, 2026 to adduce evidence on the audited financial statements for the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme for the Financial Years 2013/2014 to 2024/2025. During the meeting, the Accounting Officer was accompanied by:

1. Mr A.N. Osman	-	Director, Corporate Services.
2. Ms. Evelyn Chepngetich	-	Assistant Director, Finance.
3. Mr. Julius Koech	-	Director, Maritime Safety.
4. Ms. Martine Yattani	-	Assistant Director, HRM.

3.1 AUDITED FINANCIAL STATEMENTS FOR THE FY 2013/2014

1) Budgetary Control and Performance

11. During the year under review, the scheme had no revenue budget, but received interest income of Kshs 3,714,596. It is not clear why management failed to budget for the interest and other income. Similarly, the scheme had no expenditure. No explanation has been provided for why the management failed to budget for the expenses of running the scheme.

Submissions by the Accounting Officer

12. The Accounting Officer submitted that the Authority had been budgeting for the scheme under the Authority's main budget.

Committee Observations

13. The Committee observed that -

i) **The Scheme was budgeted for under the main vote of the Kenya Maritime Authority, contrary to Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015, which require the Scheme's finances to be budgeted for and accounted for separately;**

ii) **The Scheme received interest income of Kshs. 3,714,596 without an approved revenue and expenditure budget;**

iii) **Failure to separate the Scheme's funds from the Authority's funds compromised financial accountability and a true reflection of the Scheme's financial position; and**

iv) **The matter is not resolved.**

Committee Recommendations

14. **The Committee recommends that the Accounting Officer to always prepare a separate budget and maintain separate accounting records for the Scheme, in compliance with Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015.**

2) Late Submission of Financial Statements for Audit

15. The financial statements for the year ended 30 June, 2014 were submitted to the Auditor-General for the audit on 30 September, 2020, a delay of six (6) years after the end of the fiscal year to which the accounts relate. This is contrary to Section 68(2) (k) of the Public Finance Management Act, 2012 which requires that financial statements be submitted to the Auditor General within three (3) months after the end of the Fiscal year to which the accounts relate. The Management was therefore in breach of the Law.

Submissions by the Accounting Officer

16. The Accounting Officer submitted that, as the Scheme was being operated by KCB and Family Bank, the Authority had been reporting the scheme under the main account by reporting the amounts guaranteed. After the OAG notified the irregularity, the Authority complied and submitted the corresponding years' financial statements within the statutory timelines.

Committee Observations

17. The Committee observed that -

i) **The financial statements for the year ended 30th June 2014 were submitted to the Auditor-General for the audit six (6) years after the statutory deadline;**

ii) **The matter is not resolved.**

Committee Recommendations

18. **The Committee recommends that the Accounting Officer to always submit financial statements to the Auditor-General within three (3) months after the end of each financial year in compliance with Section 68(2)(k) of the Public Finance Management Act, 2012 (Cap 412A).**

3) **Operation of Unauthorized On-Call Deposits Account.**

19. As disclosed in Note 2 to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs. 76,678,054 as at 30 June 2014. The balance includes on-call deposits of Kshs. 72,751,727. However, the Management did not provide approval for operating the account from the National Treasury, contrary to Section 28(1) of the Public Finance Management Act, 2012 which states that the National Treasury should authorize the opening, operating and closing of bank accounts and sub accounts for all national government entities. Consequently, management was in breach of the Law.

Submissions by the Accounting Officer

20. The Accounting Officer submitted that the call deposit accounts are temporary accounts due to the nature of deposits being made to the accounts. Because funds may be recalled on short notice, banks open them as internal accounts to facilitate investing unutilized funds. The account opening therefore facilitates the bank's operations.

Committee Observations

21. The Committee observed that -

i) **The Authority operated on-call deposit accounts of Kshs. 72,751,727 without prior authorization from the National Treasury, contrary to Section 28(1) of the Public Finance Management Act, 2012;**

ii) **Although approval was eventually granted by the National Treasury, the accounts had already been in operation for several years without the requisite approval;and**

iii) **The submission of the KCB Staff Mortgages Agreement as supporting documentation only evidenced the operational arrangement and did not demonstrate prior authorization by the National Treasury; and**

iv) **The matter is not resolved.**

Committee Recommendations

22. The Committee recommends that -

i) **The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and**

ii) **The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.**

3.2 AUDITED FINANCIAL STATEMENT FOR THE FY 2014/2015

1) Budgetary Control and Performance.

23. During the year under review, the Scheme had no revenue budget, but received interest income of Kshs. 4,752,262. It is not clear why the management failed to budget for the interest and other income. Similarly, the Scheme had no expenditure budget and incurred a Nil actual expenditure. No explanation has been provided why the management failed to budget for expenses of running the scheme.

Submissions by the Accounting Officer

24. The Accounting Officer submitted that the Authority had been budgeting for the scheme under the Authority's main budget.

Committee Observation

25. The Committee observed that -

i) **The Scheme was budgeted for under the main vote of the Kenya Maritime Authority, contrary to Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015, which require the Scheme's finances to be budgeted for and accounted for separately;**

ii) **The Scheme received interest income of Kshs. 4,752,262 without an approved revenue and expenditure budget; and**

iii) **The matter is not resolved.**

Committee Recommendations

26. **The Committee recommends that the Accounting Officer to always prepare a separate budget and maintain separate accounting records for the Scheme, in compliance with Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015.**

2) Late submission of Financial Statements for Audit

27. The Financial Statements for the year ended 30 June, 2015, were submitted to the Auditor General for audit on 30 September, 2020, a delay of five (5) years after the end of the fiscal year to which the accounts relate. This is contrary to Section 68(2) (k) of the Public Finance Management Act, 2012, which requires that financial statements be submitted to the Auditor General within three (3) months after the end of the fiscal year to which the accounts relate. The Management was therefore in breach of the law.

Submissions by the Accounting Officer

28. The Accounting Officer submitted that the scheme was being operated by KCB and Family Bank; the Authority had been reporting the scheme under the main account by reporting the amounts guaranteed. After the OAG notified it of the irregularity, the Authority complied and submitted the corresponding years' financial statements within the statutory timelines.

Committee Observations

29. The Committee observed that -

    i) **The financial statements for the year ended 30th June, 2015 were submitted to the Auditor-General for audit five (5) years after the statutory deadline; and**

    ii) **The matter is not resolved.**

Committee Recommendations

30. **The Committee recommends that the Accounting Officer to always submit financial statements to the Auditor-General within three (3) months after the end of each financial year in compliance with Section 68(2)(k) of the Public Finance Management Act, 2012 (Cap 412A).**

3) Operation of Unauthorized On-Call Deposits Account.

31. As disclosed in Note 2 to the financial statements, the statements of the financial position reflect a cash and cash equivalents balance of Kshs. 55,473,015 as at 30 June, 2015. The balance includes On-Call deposits of Kshs. 41,869,902. However, the Management did not provide approval for operating the account from the National Treasury, contrary to section 28(1) of the Public Finance Management Act, 2012, which states that the National Treasury should authorize the opening, operating, and closing of bank accounts and sub-accounts for all national government entities. Consequently, Management was in breach of the Law.

Submissions by the Accounting Officer

32. The Accounting Officer submitted that the call deposit accounts are temporary accounts due to the nature of deposits being made to the accounts. Because funds may be recalled on short notice, banks open them as internal accounts to facilitate investment of unutilized funds. The account opening therefore facilitates the bank's operations.

Committee Observations

33. The Committee observed that—

    i) **The Authority operated on-call deposit accounts of Kshs. 41,869,902 without prior authorization from the National Treasury; and**

    ii) **The explanation by the Accounting Officer that the on-call deposit accounts were temporary internal bank accounts established to facilitate investment**

of unutilized funds did not address the requirement for prior authorization by the National Treasury; and

iii) **The matter is not resolved.**

Committee Recommendations

34. The Committee recommends that -

i) **The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and**

ii) **The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.**

3.3 AUDITED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR 2015/2016

1) Interest Rate on Unutilized funds for Car loan scheme

35. As disclosed in Note 1 to the financial statements, the statements of financial performance for the year ended 30 June, 2016 reflects interest income on bank deposits of Kshs. 3,063,635. However, this balance excludes interest from un-utilized funds for the car loan, contrary to section 6(a) of the services level Agreement between the Bank and the Kenya Maritime Authority, which requires the Authority to implement a car loan scheme. The money is for on-lending to the Kenya Maritime Authority members who have been pre-vetted and recommended by the authority. The un-utilized amount is supposed to be invested at the interest rates agreeable between the bank and the partner. Consequently, the accuracy and completeness of interest income on bank deposits amounting to Kshs. 3,063,635 for the year ended 30 June, 2016 could not be confirmed.

Submissions by the Accounting Officer

36. The Accounting Officer submitted that the Authority noticed the oversight in implementing the clause of the agreement. The Bank placed the Car loan funds at 0% to offer staff loans at an interest rate of 3% p.a.

Committee Observations

37. The Committee observed that -

(i) **The un-utilized car loan funds were held by the Bank at zero percent (0%) interest, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority, which requires unutilized funds to be invested at interest rates agreed between the Bank and the Authority. As a result, the Scheme may have lost interest income;**

(ii) **The Accounting Officer admitted that the Authority had overlooked the clause, but did not provide evidence that the Bank had been engaged to pay interest on the un-utilized funds; and**

(iii) **The matter is not resolved.**

Committee Recommendations

38. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer engages the Bank and ensures that all un-utilized car loan funds are invested in accordance with Section 6(a) of the Service Level Agreement to earn interest at agreed rates;**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer submits evidence of engagement with the Bank, including the agreed terms on interest payable for un-utilized funds, to the Auditor-General for audit verification; and**

iii) **The Accounting Officer ensures that all contracts entered into by the Authority are lawful and complied with, in accordance with Section 68(2)(d) of the Public Finance Management Act, Cap.412A.**

2) Budgetary Control and Performance

39. During the year under review, the scheme had no revenue budget, but received interest income of Kshs. 3,063,629. It is not clear why the Management failed to budget for the interest and other income. Similarly, the Scheme had no expenditure budget and incurred a Nil actual expenditure. No explanation has been provided why the Management failed to budget for expenses of running the Scheme.

Submissions by the Accounting Officer

40. The Accounting Officer submitted that the Authority had been budgeting for the scheme under the Authority's main budget.

Committee Observation

41. The Committee observed that -

i) **The Scheme was budgeted for under the main vote of the Kenya Maritime Authority, contrary to Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015, which require the Scheme's finances to be budgeted for and accounted for separately;**

ii) **The Scheme received interest income of Kshs. 3,063,629 without an approved revenue and expenditure budget; and**

iii) **The matter is not resolved.**

Committee Recommendations

42. **The Committee recommends that the Accounting Officer always prepare a separate budget and maintain separate accounting records for the Scheme, in compliance with Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015.**

3) Late submission of Financial Statements for audit

43. The financial statement for the year ended 30 June, 2016 were submitted to the Auditor General for audit on 30 September,2020, a delay of four (4) years after the end of the fiscal year to which the accounts relate. This is contrary to section to section 68(2) (k) of the public Finance Management Act ,2012 which requires that financial statements be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate. The management was therefore in breach of the law.

Submissions by the Accounting Officer

44. The Accounting Officer submitted that the scheme was being operated by KCB and Family Bank; the Authority had been reporting the scheme under the main account by reporting the amounts guaranteed. After the OAG notified the Authority of the irregularity, the Authority complied and submitted the corresponding years' financial statements within the statutory timelines.

Committee Observations

45. The Committee observed that -

i) **The financial statements for the year ended 30th June, 2016 were submitted to the Auditor-General for audit four (4) years after the statutory deadline; and**

ii) **The matter is not resolved.**

Committee Recommendations

46. **The Committee recommends that the Accounting Officer to always submit financial statements to the Auditor-General within three (3) months after the end of each financial year in compliance with Section 68(2)(k) of the Public Finance Management Act, 2012 (Cap 412A).**

4) Operation of Un-Authorized On-Call Deposits Account.

47. As disclosed in Note 3 to the financial statements, the statements of financial position reflect a cash and cash Equivalents balance of Kshs. 58,669,857 as at 30 June, 2016. The balance includes on-cash deposits of Kshs. 39,470,914. However, the management did not provide approval for operating the account from the National Treasury, contrary to section 28(1) of the Public Finance Management Act, 2012 which states that the National Treasury should authorize the opening, operating and closing of bank accounts and sub accounts for all national government entities. Consequently, management was in breach of the law.

Submissions by the Accounting Officer

48. The Accounting Officer submitted that the call deposit accounts are temporary accounts due to the nature of deposits being made to the accounts. Because funds may be recalled on short notice, banks open them as internal accounts to facilitate the investment of unutilized funds. The account opening is therefore to facilitate the banks operations.

Committee Observations

49. The Committee observed that -

i) **The Authority operated on-call deposit accounts of Kshs. 39,470,914 without prior authorization from the National Treasury, contrary to Section 28(1) of the Public Finance Management Act, CAP. 412A;**

ii) **The submission of the KCB Staff Mortgages Agreement as supporting documentation only evidenced the operational arrangement and did not demonstrate prior authorization by the National Treasury; and**

iii) **The matter is not resolved.**

Committee Recommendations

50. The Committee recommends that –

i) **The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and**

ii) **The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.**

5) Loans to Members of Staff Beyond the Approved Limits.

51. During the year under review, three (3) employees of the Kenya Maritime Authority were advanced car loans in excess of approved salaries and Remuneration Commission limits as summarized below:

Kenya Maritime Authority Job Group	Civil Service Job Group	Maximum Loan Limit (Kshs.)	Principal Loan Amount Advanced (Kshs.)	Excess Loan Advanced (Kshs.)
8	H	800,000	1,200,000	400,000
3	R	3,000,000	3,350,000	350,000
3	R	3,000,000	3,400,000	400,000
Total		**6,800,000**	**7,950,000**	**1,150,000**

52. The excess car loan of Kshs. 1,150,000 is contrary to the Salaries and Remuneration Commission Circular No. SRC/023/12/2014 of 17 December, 2014 which provides thresholds for car loan and Mortgage Scheme benefits for various cadres of public officers in the public service. The Management was therefore in breach of the law.

Submissions by the Accounting Officer

53. The Accounting Officer submitted that the officers were vetted and their ability to pay was determined by the bank. The officers met the one-third rule and were advanced the funds. The loans have since been fully paid and the Authority has complied with the circular from that period.

Committee Observations

54. The Committee observed that -

i) **Three (3) employees were granted car loans exceeding the SRC-approved limits under Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The matter is not resolved.**

Committee recommendations

55. The Committee recommends that -

i) **The then Accounting Officer be reprimanded for breach of Section 12 of the Salaries and Remuneration Commission Act, CAP. 412D and SRC Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The Accounting Officer to strengthen internal controls over staff lending schemes to ensure compliance with SRC circulars and all applicable guidelines, in line with Section 68(1)(b), Section 68(2)(b) and Section 68(2)(e) of the Public Finance Management Act, CAP.412A.**

3.4 AUDITED FINANCIAL STATEMENTS FOR THE FY 2016/2017

1) Interest Rate on Unutilized Funds for Car Loan Scheme

56. As disclosed in Note 1 to the financial statements, the statement of financial performance for the year ended 30 June, 2017 reflects interest's income on bank deposits of Kshs. 180,996. However, this balance excludes interests from un-utilized funds for the car loan, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority which requires the Authority to place a deposit (cash cover) with the bank into a designated Kenya Maritime Authority - Car Loan Scheme. The money is for on lending to the Kenya Maritime Authority members who have been pre-vetted and recommended by the Authority.

57. In addition, the unutilized amount is supposed to be invested at interest's rates agreeable between the bank and the partner. Consequently, the accuracy and completeness of interest income on bank deposits amounting to Kshs. 180,996 for the year ended 30 June, 2017 could not be confirmed.

Submissions by the Accounting Officer

58. The Accounting Officer submitted that the Authority noticed the oversight in implementing the clause of the agreement. The bank placed the Car Loan funds at 0% to be able to offer the staff loans at interest rate of 3% p.a.

Committee Observation.

59. The Committee observed that -

(i) **The un-utilized car loan funds were held by the Bank at zero percent (0%) interest, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority, which requires unutilized funds to be invested at interest rates agreed between the Bank and the Authority. As a result, the Scheme may have lost interest income;**

(ii) **The Accounting Officer admitted that the Authority overlooked the clause, but did not provide evidence that the Bank had been engaged to pay interest on the un-utilized funds; and**

(iii) **The matter is not resolved.**

Committee Recommendations

60. The Committee recommends that—

i) **Within three (3) months of the adoption of this Report, the Accounting Officer engages the Bank and ensures that all unutilized car loan funds are invested**

in accordance with Section 6(a) of the Service Level Agreement to earn interest at agreed rates;

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer submits evidence of engagement with the Bank, including the agreed terms on interest payable for unutilized funds, to the Auditor-General for audit verification; and**

iii) **The Accounting Officer ensures that all contracts entered into by the Authority are lawful and complied with, in accordance with Section 68(2)(d) of the Public Finance Management Act, CAP. 412A.**

2) Budgetary Control and Performance

61. During the year under review, the scheme had no revenue budget, but received interest's income of Kshs. 180,996. It is not clear why the management failed to budget for the interest and other income. Similarly, the scheme had no expenditure budget and incurred a nil actual expenditure. No explanation has been provided why the management failed to budget for expenses of running the scheme.

Submissions by the Accounting Officer

62. The Accounting Officer submitted that the Authority had been budgeting for the scheme under the Authority's main budget.

Committee Observation

63. The Committee observed that -

i) **The Scheme was budgeted for under the main vote of the Kenya Maritime Authority, contrary to Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015, which require the Scheme's finances to be budgeted for and accounted for separately;**

ii) **The Scheme received interest income of Kshs. 180,996 without an approved revenue and expenditure budget; and**

iii) **The matter is not resolved.**

Committee Recommendation

64. **The Committee recommends that the Accounting Officer to always prepare a separate budget and maintain separate accounting records for the Scheme, in compliance with Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015.**

3) Late Submission of Financial Statements for Audit

65. The Financial Statements for the year ended 30 June, 2017 were submitted to the Auditor-General for audit on 30 September, 2020, a delay of three (3) years after the end of the fiscal year which the accounts relate. This is contrary to Section 68 (2) (k) of the Public Finance Management Act, 2012 which requires that financial statements be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate. Management was therefore in breach of the law.

Submissions by the Accounting Officer

66. The Accounting Officer submitted that with the scheme being operated by KCB and Family bank, the Authority had been reporting the scheme under the main account by reporting the amounts guaranteed. Upon notification of the irregularity by the OAG, the Authority complied and submitted the corresponding years financial statements within the statutory timelines.

Committee Observations

67. The Committee observed that -

i) **The Financial Statements for the year ended 30th June 2017 were submitted to the Auditor General three years late after the statutory deadline; and**

ii) **The matter is not resolved.**

Committee Recommendations

68. **The Committee recommends that the Accounting Officer to always submit financial statements to the Auditor-General within three (3) months after the end of each financial year in compliance with Section 68(2)(k) of the Public Finance Management Act, 2012 (Cap 412A).**

4) Operation of Unauthorized On-Call Deposits Account

69. As disclosed in Note 3 to the financial statement, the statement of financial position reflects a cash equivalents balance of Kshs. 55,452,754 as at 30 June, 2017. The balance includes On-Call deposits of Kshs. 25,684,449. However, the management did not provide approval for operating the account from The National Treasury, contrary to Section 28(1) of the Public Finance Management Act, 2012 which states that The National Treasury should authorize the opening, operating and closing of bank accounts and sub accounts for all national government entities. Consequently, management was in breach of the law.

Submissions by the Accounting Officer

70. The Accounting Officer submitted that the call deposit accounts are temporary accounts due to the nature of deposits being made to the accounts. Due to possibility of recall of

funds in short notice the banks open them as internal accounts to facilitate the investment of unutilized funds. The account opening is therefore to facilitate the banks operations.

Committee Observations

71. The Committee observed that -

i) **The Authority operated on-call deposit accounts of Kshs. 25,684,449 without prior authorization from the National Treasury, contrary to Section 28(1) of the Public Finance Management Act, CAP 412A;**

ii) **The submission of the KCB Staff Mortgages Agreement as supporting documentation only evidenced the operational arrangement and did not demonstrate prior authorization by the National Treasury; and**

iii) **The matter is not resolved.**

Committee Recommendations

72. The Committee recommends that -

i) **The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and**

ii) **The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.**

5) Loans to Members of Staff Beyond the Approved Limits

73. As previously reported, three (3) employees of the Kenya Maritime Authority were advanced car loans in excess of approved Salaries and Remuneration Commission limits as summarized below;

Kenya Maritime Authority Job Group	Civil Service Job Group	Maximum Loan Limit (Kshs.)	Principal Loan Amount Advanced (Kshs.)	Excess Loan Advanced (Kshs.)
8	H	800,000	1,200,000	400,000
3	R	3,000,000	3,350,000	350,000
3	R	3,000,000	3,400,000	400,000
Total		6,800,000	7,950,000	1,150,000

74. The excess car loan of Kshs. 1,150,000 is contrary to the Salaries and Remuneration Commission Circular No. SRC/023/12/2014 of 17th December, 2014 which provides thresholds for car loan and mortgage scheme benefits for various cadres of public officers in the public service. Management was therefore in breach of the law.

Submissions by the Accounting Officer

75. The Accounting Officer submitted that the officers were vetted and their ability to pay determined by the bank. The officers met the one-third rule and were advanced the funds. The loans have since been fully repaid and the Authority has complied with the circular from that period.

Committee Observations

76. The Committee observed that -

i) **Three (3) employees were granted car loans exceeding the SRC-approved limits under Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The matter is not resolved**

Committee recommendations

77. The Committee recommends that -

i) **The then Accounting Officer be reprimanded for breach of Section 12 of the Salaries and Remuneration Commission Act, CAP. 412D and SRC Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The Accounting Officer to strengthen internal controls over staff lending schemes to ensure compliance with SRC circulars and all applicable guidelines, in line with Section 68(1)(b), Section 68(2)(b) and Section 68(2)(e) of the Public Finance Management Act, CAP.412A.**

3.5 AUDITED FINANCIAL STATEMENTS FOR THE FY 2017/2018

1) Interest rate on unutilized funds for Car loan scheme

78. As disclosed in Note 1 to the financial statements, the statement of financial performance for the year ended 30 June, 2018 reflects interest income on bank deposits of Kshs. 1,314,358. However, this balance excludes interest from unutilized funds for the car loan, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority which requires the Authority to place a deposit (cash cover) with the bank into a designated Kenya Maritime Authority – Car Loan Scheme. The money is for on-lending to the Kenya Maritime Authority members who have been pre-vetted and recommended by the Authority.

79. Further, the unutilized amount is supposed to be invested at interest rates agreeable between the bank and partner. Consequently, the accuracy and completeness of interest income on bank deposit amounting Kshs. 1,314,358 for the year ended 30 June, 2018 could not be confirmed.

Submissions by the Accounting Officer

80. The Accounting Officer submitted that the Authority noticed the oversight in implementing the clause of the agreement. The bank placed the Car Loan funds at 0% to be able to offer the staff loans at an interest rate of 3% p.a.

Committee Observation.

81. The Committee observed that -

(i) **The un-utilized car loan funds were held by the Bank at zero percent (0%) interest, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority, which requires unutilized funds to be invested at interest rates agreed between the Bank and the Authority. As a result, the Scheme may have lost interest income;**

(ii) **The Accounting Officer admitted that the Authority had overlooked the clause, but did not provide evidence that the Bank had been engaged to pay interest on the un-utilized funds; and**

(iii) **The matter is not resolved.**

Committee Recommendations

82. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer engages the Bank to ensure that all un-utilized car loan funds are invested in accordance with Section 6(a) of the Service Level Agreement to earn interest at agreed rates;**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer submits evidence of engagement with the Bank, including the agreed terms on interest payable for un-utilized funds, to the Auditor-General for audit verification; and**

iii) **The Accounting Officer ensures that all contracts entered into by the Authority are lawful and complied with, in accordance with Section 68(2)(d) of the Public Finance Management Act, CAP. 412A.**

2) Budgetary Control and Performance

83. During the year under review, the Scheme had no revenue budget, but received interest income of Kshs. 1,314,358. It is not clear why the management failed to budget for the interest and income. Similarly, the Scheme had no expenditure budget but incurred an actual expenditure of Kshs. 1,065 being bank charges on overdraft facility. No explanation has been provided why the management failed to budget for expenses of running the scheme.

Submissions by the Accounting Officer

84. The Accounting Officer submitted that the Authority had been budgeting for the scheme under the Authority's main budget.

Committee Observations

85. The Committee observed that—

i) **The Scheme was budgeted under the Authority's main vote, contrary to the requirement for separate financial management of the Scheme;**

ii) **Interest income of Kshs. 1,314,358 was received without an approved budget for the Scheme;**

iii) **The commingling of the Scheme's funds with the Authority's funds compromised financial accountability and a true reflection of the Scheme's financial position; and**

iv) **The matter is not resolved**

Committee Recommendations

86. **The Committee recommends that the Accounting Officer to always prepare a separate budget and maintain separate accounting records for the Scheme, in compliance with Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015.**

3) Late Submission of Financial Statements for Audit

87. The financial statements for the year ended 30 June, 2018 were submitted to the Auditor – General for audit on 30 September, 2020, a delay of two (2) years after the end of the fiscal year to which the accounts relate. This is contrary to Section 68 (2) (k) of the public Finance Management Act, 2012 which requires that financial statements be submitted to the Auditor – General within three (3) months after the end of the fiscal year to which the accounts relate. The management was therefore in breach of the law.

Submissions by the Accounting Officer

88. The Accounting Officer submitted that, with the scheme being operated by KCB and Family Bank, the Authority had been reporting the scheme under the main account by reporting the amounts guaranteed. Upon notification of the irregularity by the OAG, the Authority complied and submitted the corresponding years' financial statements within the statutory timelines.

Committee Observations

89. The Committee observed that -

    i) **The financial statements for the year ended 30 June 2018 were submitted two years late; and**

    ii) **The matter is not resolved.**

Committee Recommendations

90. **The Committee recommends that the Accounting Officer always submit the financial statements to the Auditor-General within three (3) months after the end of each financial year in compliance with Section 68(2)(k) of the Public Finance Management Act, 2012 (Cap 412A).**

4) Operation of Unauthorized On-Call Deposits Account

91. As disclosed in the Note 3 to the financial statements, the statement of financial position as at 30 June, 2018 reflects a cash and cash equivalents balance of Kshs. 95,825,833. This balance includes On-Call deposits of Kshs. 80,832,937. However, the management did not provide approval for operating the account from The National Treasury, contrary to Section 28(1) of the Public Finance Management Act, 2012 which states that the National Treasury should authorize the opening, operating and closing of bank accounts and sub accounts for all national government entities. Consequently, management was in breach of the Law.

Submissions by the Accounting Officer

92. The Accounting Officer submitted that the call deposit accounts are temporary accounts due to the nature of deposits being made to the accounts. Due to the possibility of recall of funds on short notice, the banks open them as internal accounts to facilitate the investment of unutilized funds. The account opening is therefore to facilitate the bank's operations.

Committee Observations

93. The Committee observed that -

    i) **The Authority operated on-call deposit accounts of Kshs. 80,832,937 without prior authorization from the National Treasury, contrary to Section 28(1) of the Public Finance Management Act, CAP. 412A;**

ii) **The submission of the KCB Staff Mortgages Agreement as supporting documentation only evidenced the operational arrangement and did not demonstrate prior authorization by the National Treasury; and**

iii) **The matter is not resolved.**

Committee Recommendations

94. The Committee recommends that –

i) **The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and**

ii) **The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.**

5) Loans to Members of Staff Beyond the Approved Limits

95. As previously reported, three (3) employees of the Kenya Maritime Authority were advanced car loans in excess of approved Salaries and Remuneration Commission limits as summarized below;

Kenya Maritime Authority Job Group	Civil Service Job Group	Maximum Loan Limit (Kshs.)	Principal Loan Amount Advanced (Kshs.)	Excess Loan Advanced (Kshs.)
8	H	800,000	1,200,000	400,000
3	R	3,000,000	3,350,000	350,000
3	R	3,000,000	3,400,000	400,000
Total		**6,800,000**	**7,950,000**	**1,150,000**

96. The excess car loan of Kshs. 1,150,000 is contrary to the Salaries and Remuneration Commission Circular No. SRC/023/12/2014 of 17th December, 2014 which provides thresholds for car loan and mortgage scheme benefits for various cadres of public officers in the public service. Management was therefore in breach of the law.

Submissions by the Accounting Officer

97. The accounting officer submitted that the officers were vetted and their ability to pay determined by the bank. The officers met the one-third rule and were advanced the funds.

The loans have since been fully repaid and the Authority has complied with the circular from that period.

Committee Observation.

98. The Committee observed that -

i) **Three (3) employees were granted car loans exceeding the SRC-approved limits under Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The matter is not resolved.**

Committee recommendations

99. The Committee recommends that –

i) **The then Accounting Officer be reprimanded for breach of Section 12 of the Salaries and Remuneration Commission Act, CAP. 412D and SRC Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The Accounting Officer to strengthen internal controls over staff lending schemes to ensure compliance with SRC circulars and all applicable guidelines, in line with Section 68(1)(b), Section 68(2)(b) and Section 68(2)(e) of the Public Finance Management Act, CAP.412A.**

6) Overdrawn Bank Account

100. As disclosed in Note 5 to the financial statements, the statement of financial position for the year ended 30 June, 2018 reflects a cashbook overdraft of Kshs. 42,307,758. However, the management did not provide approval from the National Treasury to overdraw the account. This is contrary to Section 28(4) of the Public Finance Management Act, 2012 which states that an Accounting Officer for a national government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the National Treasury or a board of a national government entity. Consequently, management was in breach of the Law.

Submissions by the Accounting Officer

101. The Accounting Officer submitted that the Authority did not overdraw its bank accounts. The bank statements for the account indicate the accounts had balances of Kshs 448,831.75 (KCB) and Family Bank balance of Kshs 16,365,490.70 held in Call Deposit.

Committee Observations

102. The Committee observed that -

(i) **Bank statements submitted by the Accounting Officer showed positive balances in both the KCB and Family Bank accounts, confirming that the accounts were not overdrawn;**

(ii) **The overdraft resulted from unreconciled records and not an actual overdrawn bank account; and**

(iii) **The matter is resolved.**

Committee recommendations

103. **The Committee recommends that the Accounting Officer always ensures proper and timely bank reconciliations in accordance with Section 68(2)(l) of the Public Finance Management Act, 2012 and Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015, to ensure the accuracy and reliability of financial records.**

3.6 AUDITED FINANCIAL STATEMENTS FOR THE FY 2018/2019

1) Interest Rate on Unutilized Funds for Car Loan Scheme

104. As disclosed in Note 1 to the financial statements, the statement of financial performance for the year ended 30 June, 2019 reflects interest income on bank deposits of Kshs. 1,150,167. However, this balance excludes interest from unutilized funds for the car loan, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority which requires the Authority to place a deposit (cash cover) with the bank into a designated Kenya Maritime Authority – Car Loan Scheme. The money is for on-lending to the Kenya Maritime Authority members who have been pre-vetted and recommended by the Authority.

105. Further, the unutilized amount is supposed to be invested at interest rates agreeable between the bank and the partner. Consequently, the accuracy and completeness of interest income on bank deposits amounting to Kshs. 1,150,167 for the year ended 30 June, 2019 could not be confirmed.

Submissions by the Accounting Officer

106. The Accounting Officer submitted that the Authority noticed the oversight in implementing the clause of the agreement. The bank placed the Car Loan funds at 0% to offer staff loans at an interest rate of 3% p.a.

Committee Observations

107. The Committee observed that -

(i) **The un-utilized car loan funds were held by the Bank at zero percent (0%) interest, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority, which requires unutilized funds to be invested at interest rates agreed between the Bank and the Authority. As a result, the Scheme may have lost interest income;**

(ii) **The Accounting Officer admitted that the Authority had overlooked the clause, but did not provide evidence that the Bank had been engaged to pay interest on the un-utilized funds; and**

(iii) **The matter is not resolved.**

Committee Recommendations

108. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer engages the Bank and ensure that all unutilized car loan funds are invested in accordance with Section 6(a) of the Service Level Agreement to earn interest at agreed rates;**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer submits evidence of engagement with the Bank, including the agreed terms on interest payable for unutilized funds, to the Auditor-General for audit verification; and**

iii) **The Accounting Officer always ensures that all contracts entered into by the Authority are lawful and complied with, in accordance with Section 68(2)(d) of the Public Finance Management Act, CAP. 412A.**

2) Budgetary Control and Performance

109. During the year under review, the Scheme had no revenue budget, but received interest income of Kshs. 1,150,167. It is not clear why the management failed to budget for the interest and other income. Similarly, the Scheme had no expenditure budget but incurred an actual expenditure of Kshs. 1,065 being bank charges on overdraft facility. No explanation has been provided why the management failed to budget for expenses of running the Scheme.

Submissions by the Accounting Officer.

110. The Accounting Officer submitted that the Authority had been budgeting for the scheme under the Authority's main budget.

Committee Observations

111. The Committee observed that -

i) **The Scheme was budgeted under the Authority's main vote, contrary to the requirement for separate financial management of the Scheme;**

ii) **Interest income of Kshs. 1,150,167 was received without an approved budget for the Scheme;**

iii) **The commingling of the Scheme's funds with the Authority's funds compromised financial accountability and a true reflection of the Scheme's financial position; and**

iv) **The matter is not resolved.**

Committee Recommendations

112. **The Committee recommends that the Accounting Officer always prepare a separate budget and maintain separate accounting records for the Scheme, in compliance with Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015.**

3) Late Submission of Financial Statements for Audit

113. The financial statements for the year ended 30 June, 2019 were submitted to the Auditor-General for audit on 30 September, 2020, a delay of one (1) year after the end of the fiscal year to which the accounts relate. This is contrary to Section 68(2) (k) of the Public Finance Management Act, 2012 which requires that financial statements be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate. The management was therefore in breach of the law.

Submissions by the Accounting Officer

114. The Accounting Officer stated that with the scheme being operated by KCB and Family Bank, the Authority had been reporting the scheme under the main account by reporting the amounts guaranteed. Upon notification of the irregularity by the OAG, the Authority complied and submitted the corresponding years' financial statements within the statutory timelines.

Committee Observations

115. The Committee observed that -

i) **The Financial Statements for the year ended 30 June 2019 were submitted one year later; and**

ii) **The matter is not resolved.**

Committee Recommendations

116. **The Committee recommends that the Accounting Officer to always submit the financial statements to the Auditor-General within three (3) months after the end of each financial year in compliance with Section 68(2)(k) of the Public Finance Management Act, 2012 (Cap 412A).**

4) Operation of Unauthorised On-Call Deposits Account

10. As disclosed in Note 3 to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs. 85,652,246 as at 30 June, 2019. This balance includes On-Call deposits of Kshs. 69,285,858. However, the Management did not provide approval for operating the account from the National Treasury, contrary to Section 28(1) of the Public Finance Management Act, 2012 which states that The National Treasury should authorize the opening, operating and closing of bank accounts and sub accounts for all national government entities. Consequently, management was in breach of the Law.

Submissions by the Accounting Officer

11. The Accounting Officer submitted that the call deposit accounts are temporary accounts due to the nature of the deposits made to the accounts. Due to the possibility of recall of funds on short notice, the banks open them as internal accounts to facilitate the investment of unutilized funds. The account opening is therefore to facilitate the banks operations.

Committee Observations

12. The Committee observed that -

    i) **The Authority operated on-call deposit accounts of Kshs. 69,285,858 without prior authorization from the National Treasury;**

    ii) **The submission of the KCB Staff Mortgages Agreement as supporting documentation only evidenced the operational arrangement and did not demonstrate prior authorization by the National Treasury; and**

    iii) **The matter is not resolved.**

Committee Recommendations

13. The Committee recommends that –

    i) **The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and**

    ii) **The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.**

5) Loans to Members of Staff Beyond the Approved Limits

14. As previously reported, three (3) employees of the Kenya Maritime Authority were advanced car loans in excess of approved Salaries and Remuneration Commission limits as summarized below;

Kenya Maritime Authority Job Group	Civil Service Job Group	Maximum Loan Limit (Kshs.)	Principal Loan Amount Advanced (Kshs.)	Excess Loan Advanced (Kshs.)
8	H	800,000	1,200,000	400,000
3	R	3,000,000	3,350,000	350,000
3	R	3,000,000	3,400,000	400,000
Total		**6,800,000**	**7,950,000**	**1,150,000**

15. The excess car loan of Kshs. 1,150,000 is contrary to the Salaries and Remuneration Commission Circular No. SRC/023/12/2014 of 17 December, 2014 which provides thresholds for car loan and mortgage scheme benefits for various cadres of public officers in the public service. Management was therefore in breach of the law.

Submissions by the Accounting Officer

16. The Accounting Officer submitted that the officers were vetted and the bank determined their ability to pay. The officers met the one-third rule and were advanced the funds. The loans have since been fully repaid and the Authority has complied with the circular from that period.

Committee Observations

17. The Committee observed that -

i) **Three (3) employees were granted car loans exceeding the SRC-approved limits under Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The matter is not resolved.**

Committee recommendations

18. The Committee recommends that –

i) **The then Accounting Officer be reprimanded for breach of Section 12 of the Salaries and Remuneration Commission Act, CAP. 412D and SRC Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The Accounting Officer to strengthen internal controls over staff lending schemes to ensure compliance with SRC circulars and all applicable guidelines, in line with**

Section 68(1)(b), Section 68(2)(b) and Section 68(2)(e) of the Public Finance Management Act, CAP.412A.

6) Overdrawn Bank Account

19. As disclosed in Note 5 to the financial statements, the statement of financial position for the year ended 30 June, 2019 reflects a cashbook overdraft of Kshs. 43,223,596. However, the Management did not provide approval from The National Treasury to overdraw the account. This is contrary to Section 28(4) of the Public Finance Management Act, 2012 which states that an Accounting Officer for a national government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the National Treasury or a board of a national government entity. Consequently, management was in breach of the law.

Submissions by the Accounting Officer

20. The Accounting Officer submitted that the Authority did not overdraw its bank accounts. The bank statements for the account indicate the accounts had balances of Kshs 93,053.50 (KCB) and Family Bank balance of Kshs 16,365,490.70 held in Call Deposit.

Committee Observations

21. The Committee observed that -

    (i) **Bank statements submitted by the Accounting Officer reflected positive balances in both the KCB and Family Bank accounts, confirming that the accounts were not overdrawn;**

    (ii) **The overdraft resulted from unreconciled records and not an actual overdrawn bank account.; and**

    (iii) **The matter is resolved.**

Committee recommendations

22. **The Committee recommends that the Accounting Officer always ensures proper and timely bank reconciliations in accordance with Section 68(2)(l) of the Public Finance Management Act, CAP. 412A and Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015, to ensure accurate and reliable financial records.**

3.7 AUDITED FINANCIAL STATEMENTS FOR THE FY 2019/2020

1) Interest Rate on Unutilized Funds for Car Loan Scheme

23. As disclosed in Note 1 to the financial statements, the statement of financial performance reflects interest income on bank deposits of Kshs. 1,253,237. However, the balance

excludes interest from unutilized funds for the car loan, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority which requires the Authority to place a deposit (cash cover) with the bank into a designated Kenya Maritime Authority – Car Loan Scheme. The money is for on-lending to the Kenya Maritime Authority members who have been pre-vetted and recommended by the Authority. The unutilized amount is supposed to be invested at interest rates agreeable between the bank and the partner. Consequently, the accuracy and completeness of interest income on bank deposits amounting to Kshs. 1,253,237 for the year ended 30 June, 2020 could not be confirmed.

Submissions by the Accounting Officer

24. The Accounting Officer submitted that the Authority noticed the oversight in implementing the clause of the agreement. The bank placed the Car Loan funds at 0% to be able to offer the staff loans at interest rate of 3% p.a.

Committee Observations

25. The Committee observed that –

(i) **The un-utilized car loan funds were held by the Bank at zero percent (0%) interest, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority, which requires unutilized funds to be invested at interest rates agreed between the Bank and the Authority. As a result, the Scheme may have lost interest income;**

(ii) **The Accounting Officer admitted that the Authority had overlooked the clause, but did not provide evidence that the Bank had been engaged to pay interest on the unutilized funds; and**

(iii) **The matter is not resolved.**

Committee Recommendations

26. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer engages the Bank and ensure that all unutilized car loan funds are invested in accordance with Section 6(a) of the Service Level Agreement to earn interest at agreed rates;**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer submits evidence of engagement with the Bank, including the agreed terms on interest payable for unutilized funds, to the Auditor-General for audit verification; and**

iii) **The Accounting Officer always ensures that all contracts entered into by the Authority are lawful and complied with, in accordance with Section 68(2)(d) of the Public Finance Management Act, 2012.**

2) Budgetary Control and Performance

27. During the year under review, the Scheme had no revenue budget, but received interest income of Kshs. 1,253,237. It is not clear why the Management failed to budget for the interest and other income. Similarly, the Scheme had no expenditure budget but incurred an actual expenditure of Kshs. 1,065 being bank charges on overdraft facility. No explanation has been provided as to why the Management failed to budget for expenses of running the Scheme.

Submission by the Accounting Officer

28. The Accounting Officer submitted that the Authority had been budgeting for the scheme under the Authority's main budget.

Committee Observations

29. The Committee observed that -

i) **The Scheme was budgeted under the Authority's main vote, contrary to the requirement for separate financial management of the Scheme;**

ii) **Interest income of Kshs. 1,253,237 was received without an approved budget for the Scheme;**

iii) **The commingling of the Scheme's funds with the Authority's funds compromised financial accountability and a true reflection of the Scheme's financial position; and**

iv) **The matter is not resolved.**

Committee Recommendations

30. **The Committee recommends that the Accounting Officer to always prepare a separate budget and maintain separate accounting records for the Scheme, in compliance with Sections 68(1)(b), 68(2)(b) and 68(2)(c) of the Public Finance Management Act, Cap. 412A and Regulation 82 of the Public Finance Management (National Government) Regulations, 2015.**

3) Operation of Un-Authorized On-call Deposits Account

31. As disclosed in Note 3 to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs. 89,067,324 being On-Call deposits as at 30 June, 2020. However, the management did not provide approval from The National Treasury for operating the account. This is 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. Consequently, management was in breach of the law.

Submissions by the Accounting Officer

32. The Accounting Officer submitted that the call deposit accounts are temporary accounts because of the nature of the deposits made to them. Due to the possibility of recall of funds on short notice, the banks open them as internal accounts to facilitate the investment of unutilized funds. The account opening is therefore to facilitate the banks operations.

Committee Observations

33. The Committee observed that -

i) **The Authority operated on-call deposit accounts of Kshs. 89,067,324 without prior authorization from the National Treasury;**

ii) **The submission of the KCB Staff Mortgages Agreement as supporting documentation only evidenced the operational arrangement and did not demonstrate prior authorization by the National Treasury; and**

iii) **The matter is not resolved.**

Committee Recommendations

34. The Committee recommends that –

i) **The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and**

ii) **The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.**

4) Loans to Members of Staff Beyond the Approved Limits

35. As previously reported, three (3) employees of the Kenya Maritime Authority were advanced car loans in excess of approved Salaries and Remuneration Commission limits as summarized below

Kenya Maritime Authority Job Group	Civil Service Job Group	Maximum Loan Limit (Kshs.)	Principal Loan Amount Advanced (Kshs.)	Excess Loan Advanced (Kshs.)

8	H	800,000	1,200,000	400,000
3	R	3,000,000	3,350,000	350,000
3	R	3,000,000	3,400,000	400,000
Total		**6,800,000**	**7,950,000**	**1,150,000**

36. The excess car loan of Kshs. 1,150,000 is contrary to the Salaries and Remuneration Commission Circular No. SRC/023/12/2014 of 17th December, 2014 which provides thresholds for car loan and mortgage scheme benefits for various cadres of public officers in the public service. management was therefore in breach of the law.

Submissions by the Accounting Officer

37. The Accounting Officer submitted that the officers were vetted and the bank determined their ability to pay. The officers met the one third rule and were advanced the funds. The loans have since been fully repaid and the Authority has complied with the circular from that period.

Committee Observations

38. The Committee observed that -

i) **Three (3) employees were granted car loans exceeding the SRC-approved limits under Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The matter is not resolved.**

Committee recommendations

39. The Committee recommends that –

i) **The then Accounting Officer be reprimanded for or breach of Section 12 of the Salaries and Remuneration Commission Act, CAP. 412D and SRC Circular No. SRC/023/12/2014 of 17th December, 2014; and**

ii) **The Accounting Officer to strengthen internal controls over staff lending schemes to ensure compliance with SRC circulars and all applicable guidelines, in line with Section 68(1)(b), Section 68(2)(b) and Section 68(2)(e) of the Public Finance Management Act, CAP.412A.**

5) Overdrawn Bank Accounts

40. As disclosed in Note 5 to the financial statements, the statement of financial position reflects cashbook overdrafts totalling Kshs. 48,773,105 (Kshs. 48,541,283 in Kenya Commercial Bank and Kshs. 231,822 in Family Bank Limited). However, the management did not provide approval from The National Treasury to overdraw the accounts. This is

contrary to Section 28(4) of the Public Finance Management Act, 2012 which states that an Accounting Officer for a national government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the National Treasury or a Board of a national government entity. Consequently, management was in breach of the law.

Submissions by the Accounting Officer

41. The Accounting Officer submitted that the Authority did not overdraw its bank accounts. The bank statements for the account indicate the accounts had balances of Kshs 281,384.05 (KCB) and Family Bank balance of Kshs 14,653,591 held in Call Deposit.

Committee Observations

42. The Committee observed that -

    (i) **Bank statements submitted by the Accounting Officer showed positive balances in both the KCB and Family Bank accounts, confirming that the accounts were not overdrawn;**

    (ii) **The overdraft resulted from unreconciled records and not an actual overdrawn bank account; and**

    (iii) **The matter is resolved.**

Committee recommendation

43. **The Committee recommends that the Accounting Officer to always ensure proper and timely bank reconciliations in accordance with Section 68(2)(l) of the Public Finance Management Act, CAP. 412A and Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015, to ensure accurate and reliable financial records.**

3.8 AUDITED FINANCIAL STATEMENTS FOR THE FY 2020/2021

1) Unexplained Variance

44. The statement of financial position reflects long-term receivables from exchange transactions comparative balance of Kshs. 175,631,831 which differs with the corresponding balance of Kshs. 175,465,342 reflected in Note 4 to the financial statements. The difference of Kshs. 166,489 was not explained or reconciled.

Submissions by the Accounting Officer

45. The Accounting Officer submitted that the audited financial statement for FY2019/2020 note 4 was Kshs 175,631,831; therefore, the corresponding note in the FY2020/2021 financial statement was erroneous.

Committee Observations

46. The Committee observed that -

    i) **The variance resulted from an error in Note 4 of the FY 2020/2021 financial statements;**

    ii) **The correct balance was Kshs. 175,631,831 as reflected in the FY 2019/2020 audited accounts, and that the correction reconciled the difference; and**

    iii) **The matter is resolved.**

Committee recommendation

47. **The Committee recommends that the Accounting Officer strengthens financial reporting controls and review mechanisms to ensure consistency between financial statements and accompanying notes, in line with Section 68(2)(b) of the PFM Act, CAP. 412A and Regulation 90 of the PFM (National Government) Regulations, 2015.**

2) Unsupported Balances

48. The statement of financial position reflects long-term receivables from exchange transactions and loan repayments receivable balances of Kshs. 167,238,112 and Kshs. 17,282,149 respectively. However, supporting documents including schedules of borrowers detailing the amounts loaned, repayment periods, instalment amounts, cumulative amounts repaid and the balances as at 30 June, 2021 were not provided for audit. In the circumstances, the accuracy and completeness of the balances could not be confirmed.

Submissions by the Accounting Officer

49. The Accounting Officer submitted that the schedules of borrowers indicating the amounts loaned, repayment periods, instalment amounts, cumulative amounts repaid and the balances as at 30 June, 2021 have been availed to the auditors.

Committee Observations

50. The Committee observed that -

    i) **The Accounting Officer submitted the loan repayments receivable schedules indicating repayments and outstanding balances to support the balances;**

    ii) **The matter is resolved.**

Committee Recommendation

51. **The Committee recommends that the Accounting Officer s always maintains complete supporting schedules for all receivables and loan balances in accordance with Section 68(2)(b) of the PFM Act, CAP.412A and Regulation 90 of the PFM (National Government) Regulations, 2015.**

3) Unsupported Loan Repayments

52. The statement of cash flows reflects proceeds from loan principal repayments of Kshs. 25,420,639. However, the repayment schedules, bank statements, loan agreements and payroll returns supporting the repayments were not provided for audit. As a result, the accuracy and completeness of the amounts reflected as loan repayments could not be confirmed.

Submissions by the Accounting Officer

53. The Accounting Officer submitted that the repayment schedules, bank statements, loan agreements and payroll returns supporting the repayments have been availed for review.

Committee Observation

54. The Committee observed that -

    i) **The Accounting Officer provided repayment schedules, bank statements, loan agreements and payroll returns in support of the reported loan repayments, enabling the Committee to verify and ascertain the validity of the amounts reported; and**

    ii) **The matter is resolved.**

Committee Recommendation

55. **The Committee recommends that the Accounting Officer always maintains complete supporting schedules for all receivables and loan balances in accordance with Section 68(2)(b) of the PFM Act, CAP. 412A and Regulation 90 of the PFM (National Government) Regulations, 2015.**

4) Unsupported Bank Balances

56. The statement of financial position reflects cash and cash equivalents balance of Kshs. 58,699,555 which, as disclosed in Note 3 to the financial statements, comprised of balances held in four (4) bank accounts. However, the respective bank reconciliation statements and cash books were not provided for audit. As a result, the accuracy and completeness of the reported cash and cash equivalents balance of Kshs. 58,699,555 as at 30 June, 2021 could not be confirmed.

Submissions by the Accounting Officer

57. The Accounting Officer submitted that the bank reconciliation statements and cash books have been provided for review.

Committee Observations

58. The Committee observed that -

i) **The Accounting Officer provided bank reconciliation statements and cash books to support the reported bank balances; and**

ii) **The matter is resolved.**

Committee Recommendation

59. **The Committee recommends that the Accounting Officer to always maintain complete supporting schedules for all receivables and loan balances in accordance with Section 68(2)(b) of the PFM Act, CAP.412A and Regulation 90 of the PFM (National Government) Regulations, 2015.**

5) Non-Compliance with the Financial Reporting Guidelines

60. Review of the financial statements presented for audit revealed that management did not prepare the statement of comparison of budget and actual amounts as prescribed in the financial reporting guidelines issued by the Public Sector Accounting Standards Board (PSASB). Further, individual pages of the financial statements were not correctly titled to reflect the name of the entity. In the circumstances, the financial statements were not prepared and presented in accordance with the reporting format provided.

Submissions by the Accounting Officer

61. The Accounting Officer submitted that the statement of comparison of budget and actual amounts as prescribed in the financial reporting guidelines have been adhered to in the subsequent years. Title of the financial statements in the page headers were erroneously titled but have been corrected in the subsequent years.

Committee Observations

62. The Committee observed that -

i) **The statement of comparison of budget and actual amounts as prescribed in the financial reporting guidelines had been adhered to in the subsequent years; and**

ii) **The matter is resolved.**

Committee Recommendation

63. **The Committee recommends that the Accounting Officer always ensures compliance with Section 68(2)(k) of the Public Finance Management Act, CAP. 412A and the Public Sector Accounting Standards Board (PSASB) reporting guidelines in the preparation and submission of financial statements.**

6) Operation of Un-Authorized Bank Accounts

64. During the year under review, the Scheme operated four (4) bank accounts. However, management did not provide approval from The National Treasury for operating the accounts. This is contrary to Section 28(1) of the Public Finance Management Act, 2012 which provides that, The National Treasury shall authorize the opening, operating and closing of bank accounts and sub accounts for all national government entities. In the circumstances, management was in breach of the Law.

Submission by the Accounting Officer

65. The Accounting Officer submitted that the Authority operates two accounts, the KCB Account for Mortgage scheme Account Number 1145652417 and the Family Bank Account for the Staff Car Loan scheme Account number 095000042563. The Approval was granted by the National Treasury via AG.3/88/1 Vol. 86/ (44) dated 13th December 2024. The two call deposit accounts are temporary accounts due to the nature of deposits being made to the accounts. Due to possibility of recall of funds in short notice the banks open them as internal accounts to facilitate the investment of unutilized funds. The account opening is therefore to facilitate the banks operations.

Committee Observations

66. The Committee observed that -

    i) **The Authority operated four bank accounts without prior approval from the National Treasury; and**

    ii) **The matter is not resolved.**

Committee Recommendations

67. The Committee recommends that -

    i) **The then Accounting Officer be reprimanded for breach of Section 28(1) of the Public Finance Management Act, CAP. 412A; and**

    ii) **The Accounting Officer ensures compliance with Section 28(1) of the Public Finance Management Act, CAP. 412A by obtaining prior written approval from the National Treasury before opening, operating, or closing any bank accounts or sub-accounts.**

3.9 AUDITED FINANCIAL STATEMENTS FOR THE FY 2021/ 2022

1) Long-Term Receivables Due

68. The statement of financial position and Note 4 to the financial statements reflect non-current receivables from exchange transactions balance of Kshs. 182,657,495. The balance includes Kshs.109,619 receivable from an employee in respect of a car loan.

However, review of the schedule provided revealed that the loan outstanding from the employee was Kshs. 320,647 as at 30 June, 2022 and was past the due date of 22 March, 2022, hence qualified as short-term receivable. In addition, loans totaling to Kshs. 2,780,000 advanced to two employees in May and June, 2022 respectively, were entirely classified as long-term receivables without apportionment into short term and long-term components. In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs. 182,657,495 as at 30 June, 2022 could not be confirmed.

Submissions by the Accounting Officer

69. In the schedules supporting the current receivables, the Kshs 320,647 was classified as current receivable; hence, it was treated as required. The Kshs 2,780,000 was apportioned into Kshs 523,190.47 and Kshs 2,256,809.53 as current and Long-Term receivables, respectively.

Committee Observations

70. The Committee observed that -

    i) **The loan of Kshs. 320,647 was reclassified as current, while the loan of Kshs. 2,780,000 was appropriately apportioned into current and long-term receivables;**

    ii) **The schedule was verified and it was confirmed that the receivables were properly recognized and classified into current and non-current receivables; and**

    iii) **The matter is resolved.**

Committee recommendations

71. **The Committee recommends that the Accounting Officer always ensures proper classification of receivables between current and non-current balances in accordance with applicable accounting standards and Section 68(2)(b) of the PFM Act, 2012.**

2) Unsupported Bank Balances

72. The statement of financial position reflect cash and cash equivalents balance of Kshs. 38,152,285. As disclosed in Note 3 to the financial statement, the balance includes Kshs. 28,844,261 and Kshs. 9,308,024 in respect of on-call deposits and current account respectively. However, the balances were not supported by bank reconciliation statements, certificates of bank balances and relevant cashbooks. In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs. 38,152,285 as at 30 June, 2022 could not be confirmed.

Submissions by the Accounting Officer

73. The bank reconciliation statements, certificates of bank balances and cashbooks have been provided for audit review.

Committee Observations

74. The Committee observed that –

    i) **The management provided bank reconciliation statements and certificates of bank balances and relevant cashbooks to support the reported bank balances; and**

    ii) **The matter is resolved.**

Committee Recommendation

75. **The Committee recommends that the Accounting Officer always maintains complete supporting schedules for all receivables and loan balances in accordance with Section 68(2)(b) of the PFM Act, 2012 and Regulation 90 of the PFM (National Government) Regulations, 2015.**

3) Non-Compliance with Agreements Signed with Banks

76. Note 4(a) to the financial statements reflects disbursed mortgages amounting to Kshs. 31,380,000 to employees during the year under review. However, review of the disbursements against Terms of Agreement between Kenya Maritime Authority (KMA) and two banks administering the Scheme revealed noncompliance with the terms and other anomalies as follows:

    I. An amount of Kshs. 14,100,000 was disbursed to employees directly from the on-call account, contrary to Clause 5 of the agreement between Kenya Commercial Bank Ltd (KCB) and KMA which provides for establishment of a deposit account at KCB for the purpose of operating the KMA Staff Mortgage and Car Loan Scheme and that the account shall hold funds awaiting movement to the lien deposit account upon disbursement. Further, Clause 6 provides that the bank shall establish a lien deposit account in the name of KMA with equivalent of the sums of disbursed mortgage loan funds by way of transferring funds from the deposit account established in Clause 5.

Submissions by the Accounting Officer

77. The Accounting Officer submitted that the contravention was noted and the bank was duly notified to adhere to the provisions of the agreement.

Committee Observations

78. The Committee observed that -

i) **An amount of Kshs. 14,100,000 was disbursed directly from the on-call account contrary to Clauses 5 and 6 of the agreement between Kenya Commercial Bank Ltd and the Kenya Maritime Authority governing the operation of the Staff Mortgage and Car Loan Scheme;**

ii) **Management did not provide documentary evidence to show that the banks were notified for breach of the service level agreement; and**

iii) **The matter is not resolved.**

Committee Recommendations

79. The Committee recommends that -

i) **Within three (3) months of adoption of the report, the then Accounting Officer be reprimanded for breach of Clauses 5 and 6 of the agreement between Kenya Commercial Bank Ltd and the Kenya Maritime Authority governing the operation of the Staff Mortgage and Car Loan Scheme.**

ii) **The Accounting Officer to always ensures strict compliance with the terms of the agreements signed with the Banks administering the Staff Mortgage and Car Loan Scheme.**

II. An amount of Kshs. 13,056,647 was transferred from the lien account to deposit account for loan advancement to an employee who later left the Scheme when the loan balance was Kshs. 4,577,046. This was an indication that KCB had not remitted the principal amount to the deposit account as per the Agreement. Further, bank statements and certificate of bank account balance for the lien deposit account opened on behalf of KMA were not provided for audit.

Submissions by the Accounting Officer

80. Loans advanced to staff are held in the Lien account. When a loan is repaid, the principal recovered is transferred from the Lien account to the deposit account as stipulated in the agreement between the bank and KMA. The transfer of principal amount recovered are done every quarter thus the remittance of the Kshs 13,056,647 was complete as it included the principal recovery from staff.

Committee Observation

81. The Committee observed that -

i) **Kshs. 13,056,647 was transferred from the lien account to the deposit account for loan advancement to an employee who later exited the Scheme with an outstanding balance of Kshs. 4,577,046;**

ii) **The loan recoveries are held in the lien account and transferred quarterly to the deposit account in line with the agreement with KCB;**

iii) **Further, the transfer of Kshs. 13,056,647 was supported, including principal recoveries, and the reconciliation confirmed the transactions; and**

iv) **The matter is resolved.**

Committee Recommendations

82. **The Committee recommends that the Accounting Officer should ensure proper maintenance and timely reconciliation of lien and deposit accounts in accordance with Section 68(2)(b) of the PFM Act, CAP.412A and Regulation 90 of the PFM (National Government) Regulations, 2015.**

III. In addition, funds held in the lien account were not remitted quarterly to the deposit account, contrary to the agreement signed with KCB which required an equivalent of the principal paid down on the loans, the loans exiting the scheme, and loans converted to commercial rate to be calculated quarterly and funds transferred to the deposit account. Further, KCB did not transfer the principal paid down on the loans to the deposit account as provided in the Agreement.

Submissions by the Accounting Officer

83. Lien deposit account is an internal bank account whose balance is supported with a detailed schedule. The Authority confirms that funds were transferred from the lien account to the deposit account as per the agreement with KCB.

Committee Observations

84. The Committee observed that -

i) **The lien account was required to transfer equivalent amounts of loan principal repayments, loan exits, and converted loans to the deposit account on a quarterly basis;**

ii) **Transfers were made from the lien account to the deposit account in accordance with the agreement with KCB;**

iii) **Transfers and reconciliations were verified and confirmed to have been undertaken as required under the agreement; and**

iv) **The matter is resolved.**

Committee Recommendation

85. **The Committee recommends that the Accounting Officer always ensures strict compliance with the terms of the agreements signed with the Banks administering the Staff Mortgage and Car Loan Scheme.**

IV. The on-call bank account of the KMA Car Loan Scheme reflected a Nil balance as at 30 June, 2022 while Kshs. 8,976,489 was held in lien account. However, Section 6 (a) of the Service Level Agreement between Family Bank Limited and KMA required the Authority to invest unutilized amounts at an agreed interest rate. Therefore, the Scheme might have lost on interest income.

Submissions by the Accounting Officer

86. Balances held in the lien account are monies borrowed by staff; therefore, they would not earn interest as per section 6(a), which stipulates investment of unutilized amounts.

Committee Observations

87. The Committee observed that -

i) **The on-call bank account of the KMA Car Loan Scheme had a nil balance as at 30 June 2022, while Kshs. 8,976,489 was held in the lien account;**

ii) **Section 6(a) of the Service Level Agreement with Family Bank Limited provides for investment of unutilized funds at an agreed interest rate;**

iii) **The funds held in the lien account constituted loan-related balances and not unutilized funds, and therefore did not attract interest under the agreement.;**

iv) **The matter is resolved.**

Committee recommendation

88. **The Committee recommends that the Accounting Officer always ensures strict compliance with the terms of the agreements signed with the Banks administering the Staff Mortgage and Car Loan Scheme.**

3.10 AUDITED FINANCIAL STATEMENT FOR THE FY 2022/2023, FY 2023/2024 AND FY 2024/2025

For the financial years 2022/2023, 2023/2024 and 2024/2025, the Authority received unmodified audit opinions on its financial statements. The Auditor-General also reported no material issues on lawfulness and effectiveness in the use of public resources, or on the effectiveness of internal controls, risk management and governance.

4.0 EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE KENYA NATIONAL COMMISSION ON HUMAN RIGHTS CAR AND MORTGAGE LOAN SCHEME FOR THE FINANCIAL YEARS 2018/2019 TO 2024/2025

89. CPA Joseph Ndiku, Ag. Chief Executive Officer, for the Kenya National Commission on Human Rights appeared before the Committee on Tuesday, 26th May 2026 to adduce evidence on the audited financial statements for the Kenya National Commission on Human Rights Car and Mortgage Loan Scheme for the Financial Years 2018/2019 to 2024/2025. During the meeting, the Accounting Officer was accompanied by—

1. Ms. Doris Alomba Mundia - Director, Finance and Accounting
2. Ms. Winnie K. Ogutu - Deputy Director, Human Resource & Administration

4.1 AUDITED FINANCIAL STATEMENTS FOR THE FY 2018/2019, FY 2019/2020, FY 2020/2021 AND FY 2021/2022.

90. The Committee was informed that the four financial years were all unmodified with no audit queries on financial statements, under report on lawfulness and effectiveness in use of public resources and report on effectiveness of internal controls, risk management and governance.

Committee Observation

91. The Committee observed that -

i) **The Fund administered car loans at an administrative cost of four percent (4%) per annum throughout the Financial Years 2018/2019, 2019/2020, 2020/2021 and 2021/2022, contrary to the maximum rate of three percent (3%) per annum prescribed under Regulation 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015; and**

ii) **The irregular administrative cost of four percent (4%) per annum was not flagged as an audit query in any of the four Financial Years, even though the Fund was in breach of Regulation 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015.**

4.2 AUDITED FINANCIAL STATEMENTS FOR THE FY 2022/2023.

1) Irregular Payment of Loan Administrative Cost

92. The statement of financial performance and as disclosed in Note 7 to the financial statements reflects interest income of Kshs. 1,681,426. Included in this amount is interest income on car loans of Kshs. 325,337 being interest on car loans at the rate of 4% per annum. However, the rate charged is 1% higher than the rate stipulated in Regulation

207(1)(d) of the Public Finance Management (National Government) Regulations, 2015 which provides that the administration costs of the Fund shall be a maximum of three (3%) percent of the approved budgets of the Fund.

93. In the circumstances, the management was in breach of the law

Submissions of the Accounting Officer

94. The Accounting Officer submitted that the administrative cost was reduced by KCB from 4% to 3%, effective on 13 October 2025.

Committee Observations

95. The Committee observed that -

i) **The Fund charged an administrative cost of 4% per annum on car loans, contrary to Regulation 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015, which prescribes a maximum rate of 3% per annum;**

ii) **The Accounting Officer provided the revised Memorandum of Understanding with Kenya Commercial Bank, which took effect on 13th October, 2025, incorporating the reduced interest rate of 3% from 4%;**

iii) **The revised MOU provided that the additional 1% previously paid by the beneficiaries shall be applied towards reducing their outstanding loan balances and that affected staff shall be notified of their revised balances; and**

iv) **The matter is resolved.**

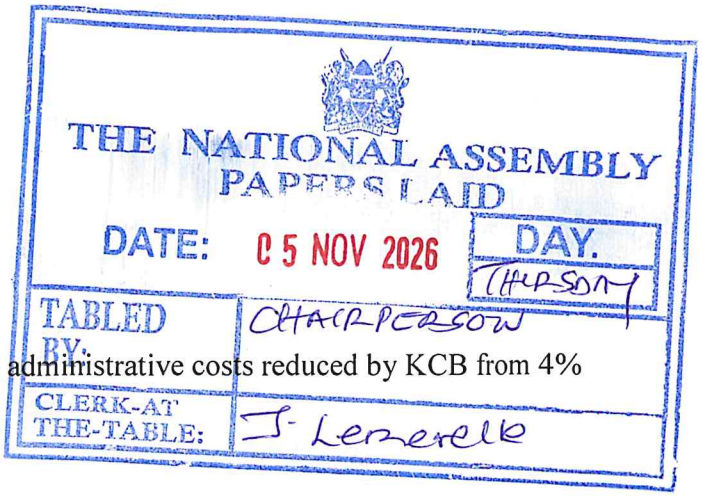
Committee Recommendations

96. **The Committee recommends that the Accounting Officer always ensures strict compliance with Regulation 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015, and ensure that all agreements relating governing the Scheme are regularly reviewed and aligned with the prevailing legal framework to prevent recurrence of non-compliance.**

4.3 AUDITED FINANCIAL STATEMENTS FOR THE FY 2023/2024.

1) Unresolved Prior Year Matter

97. In the audit report of the previous year, an issue was raised under the Report on lawfulness and effectiveness in use of public resources. However, management had not resolved the issue as at 30th June, 2024.



Submissions of the Accounting Officer

98. The Accounting Officer submitted that the administrative costs reduced by KCB from 4% to 3% effective on 13 October 2025.

Committee Observations

99. The Committee observed that -

i) **The Fund charged an administrative cost of 4% per annum on car loans, contrary to Regulation 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015, which prescribes a maximum rate of 3% per annum;**

ii) **The Accounting Officer provided the revised Memorandum of Understanding with Kenya Commercial Bank, which took effect on 13th October, 2025, incorporating the reduced interest rate of 3% from 4%;**

iii) **The revised MOU provided that the additional 1% previously paid by the beneficiaries shall be applied towards reducing their outstanding loan balances and that affected staff shall be notified of their revised balances; and**

iv) **The matter is resolved.**

Committee Recommendations

100. **The Committee recommends that the Accounting Officer should ensure strict compliance with Regulation 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015, and ensure that all agreements relating governing the Scheme are regularly reviewed and aligned with the prevailing legal framework to prevent recurrence of non-compliance.**

4.4 AUDITED FINANCIAL STATEMENTS FOR THE FY 2024/2025.

101. The Fund received an unmodified opinion on its financial statements. The Auditor-General also reported no material issues on lawfulness and effectiveness in the use of public resources, or on the effectiveness of internal controls, risk management and governance.

SIGNED.....**DATE**.4/NOV/2026.....

HON. FATUMA ZAINAB MOHAMMED, CBS, MP
(CHAIRPERSON)
SPECIAL FUNDS ACCOUNTS COMMITTEE

DIRECTORATE OF AUDIT, APPROPRIATIONS AND GENERAL-PURPOSE COMMITTEES
SPECIAL FUNDS ACCOUNTS COMMITTEE
REPORT ADOPTION SCHEDULE

Date: 18th September, 2026 **Venue:** Pride Inn Paradise Beach Resort, Mombasa County.

Adoption of The Reports on the Consideration of the Audited Financial Statements of the following Funds:
Kenya Maritime Authority Staff Mortgage and Car loan Scheme FY 2013/14 to 2024/25
Kenya National Commission on Human Rights Car and Mortgage Scheme
Loan Scheme for the FY 2018/19 to 2024/25.

NO.	NAME	SIGNATURE
1.	Hon. Fatuma Zainab Mohammed, CBS, MP – **Chairperson**	
2.	Hon. Dawood Abdul Rahim, HSC, CBS, MP – **Vice-Chairperson**	
3.	Hon. John Waluke Koyi, CBS, MP.	
4.	Hon. Dr. Christine Ombaka Oduor, MP	
5.	Hon. Charles Ngusya Nguna, MP	
6.	Hon. Erastus Kivasu Nzioka, MP	
7.	Hon. Eve Akinyi Obara, MP	
8.	Hon. Joseph Majimbo Kalasinga, MP	
9.	Hon. Tom Mboya Odege, MP	
10.	Hon. Catherine Nakhabi Omanyo, MP	
11.	Hon. Cecilia Asinyen Ngitit, MP	
12.	Hon. Joseph Kimutai Cherorot, MP	
13.	Hon. Onchoke Charles Mamwacha, MP	
14.	Hon. Erick Wamumbi, MP	
15.	Hon. Leah Sopiato Sankaire, MP	