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REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT – FIFTH SESSION (2026)

SPECIAL FUNDS ACCOUNTS COMMITTEE

TWENTY-SECOND REPORT

OF

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

1. **PRISON INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2021/2022 TO 2024/2025**
2. **PRISON FARMS REVOLVING FUND FOR THE FINANCIAL YEARS 2022/2023 TO 2024/2025**
3. **LOCAL AUTHORITIES PROVIDENT FUND FOR THE FINANCIAL YEARS 2022/2023 TO 2024/2025**
4. **TOURISM PROMOTION FUND FOR THE FINANCIAL YEARS 2022/2023 TO 2024/2025**

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

NOVEMBER, 2026

THE NATIONAL ASSEMBLY
PAPERS LAID
DAY: THURSDAY
DATE: 05 NOV 2026
TABLED BY: CHAIRPERSON HON. RATHUM DAWOOD
CLERK-AT THE-TABLE: J. Lemerello

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LIST OF ABBREVIATIONS AND ACRONYMS

CPA	-	Certified Public Accountant
ERP	-	Enterprise Resource Planning
IFMIS	-	Integrated Financial Management Information System
IPSAS	-	International Public Sector Accounting Standards
KAA	-	Kenya Airports Authority
MDAs	-	Ministries, Departments and Agencies
MOHA	-	Ministry of Home Affairs
NTSA	-	National Transport and Safety Authority
PMG	-	Pay Master General
PPRA	-	Public Procurement Regulatory Authority
PSASB	-	Public Sector Accounting Standards Board
RBA	-	Retirement Benefits Authority
SCAC	-	State Corporations Advisory Committee
UPA	-	United Progressive Alliance
USD	-	United States Dollar

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 on the Prison Industries Revolving Fund for the Financial Years 2021/2022 to 2024/2025, and on the Prison Farms Revolving Fund, the Local Authorities Provident Fund and the Tourism Promotion Fund for the Financial Years 2022/2023 to 2024/2025, the Committee received oral and written submissions from Ms. Salome Muhia Beacco, the Principal Secretary, State Department for Correctional Services; Mr. Bernard Mbogoh, the Chief Executive Officer, Local Authorities Provident Fund; and Mr. Stephen Kinyanjui, the Chief Executive Officer, Tourism Promotion Fund.

This report contains the observations and recommendations arising from the examination of thirteen (13) reports of the Auditor-General on the four (4) Funds, comprising four (4) reports for the Prison Industries Revolving Fund and three (3) reports each for the Prison Farms Revolving Fund, the Local Authorities Provident Fund and the Tourism Promotion Fund.

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 fulfill 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 honour to present to the House the **Twenty-Second Report of the Special Funds Accounts Committee** on the audited financial statements of the **Prison Industries Revolving Fund** for the Financial Years 2021/2022 to 2024/2025, and the **Prison Farms Revolving Fund**, the **Local Authorities Provident Fund** and the **Tourism Promotion Fund** for the Financial Years 2022/2023 to 2024/2025.

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

EXECUTIVE SUMMARY

The Twenty-Second Report of the Special Funds Accounts Committee contains the Committee's examination of the reports of the Auditor-General on the audited financial statements of the Prison Industries Revolving Fund for the Financial Years 2021/2022 to 2024/2025, and the Prison Farms Revolving Fund, the Local Authorities Provident Fund and the Tourism Promotion Fund for the Financial Years 2022/2023 to 2024/2025. In total, the Committee examined thirteen (13) reports of the Auditor-General.

In examining the audited financial statements of the four Funds, 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, Cap. 412B, the Public Finance Management Act, Cap. 412A, the Public Finance Management (National Government) Regulations, 2015, the Public Procurement and Asset Disposal Act, Cap. 412C and the attendant regulations, the Retirement Benefits Act, Cap. 197, the Employment Act, Cap. 226, the Public Service Commission Act, Cap. 185, the International Public Sector Accounting Standards (IPSAS), and the National Treasury circulars relevant to the Funds.

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 oral and written evidence from the Principal Secretary, State Department for Correctional Services, the Chief Executive Officer of the Local Authorities Provident Fund and the Chief Executive Officer of the Tourism Promotion Fund, as the Accounting Officers of the respective Funds.

The preface 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 contains the Committee's general observations and recommendations on each of the Funds.

Parts three, four, five and six contain the examination of the financial statements of the Prison Industries Revolving Fund, the Prison Farms Revolving Fund, the Local Authorities Provident Fund and the Tourism Promotion Fund respectively. For each Fund, the report sets out the financial years considered; the specific audit reservations raised by the Auditor-General in each financial year; the submissions by the Accounting Officer on each audit reservation; the Committee's observations after considering each audit reservation; and, finally, the Committee's 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 205A 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-General.

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 entity for which he or she is the accounting officer are used in a lawful, authorised, effective, efficient, economical and transparent manner (Section 68(1)).

9. **Section 72** focuses on the accounting officers' responsibility to manage the assets and liabilities of national government entities. It is on this basis that each Fund Account Manager, being 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, MP	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, MP	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	Sergeant-at-Arms

CHAPTER TWO

2.0 GENERAL OBSERVATIONS AND RECOMMENDATIONS

13. During its examination of the audited financial statements of the four Funds, the Committee made the following general observations and recommendations:

Prison Industries Revolving Fund and Prison Farms Revolving Fund

(i) Failure to maintain cash book and bank account for each Fund

14. The Committee observed that the Prison Industries Revolving Fund and the Prison Farms Revolving Fund operated a single cash book and a single bank account at the Central Bank of Kenya, making it difficult to identify the revenue earned by each Fund. Further, the Committee noted that the draft Public Finance Management (Prisons Enterprise Fund) Regulations, 2025, which merge the two Funds, were yet to be finalized.

15. The Committee recommends that within three (3) months of the adoption of this Report, the Accounting Officer fast-tracks the finalization and gazettement of the Public Finance Management (Prisons Enterprise Fund) Regulations, 2025, and ensure that all pending audit issues of the two Funds are resolved before the merger takes effect.

(ii) Material uncertainty related to going concern

16. The Committee observed that following the transfer of motor vehicle number plate production to the National Transport and Safety Authority (NTSA) in November 2022, the Fund lost its primary source of revenue, which accounted for approximately 90% of its total revenue. The transfer rendered the existing raw materials, stock and production machinery redundant, affecting the Fund's revenue-generating capacity. As a result, the Fund's financial sustainability and ability to continue as a going concern due to persistent revenue shortfall.

17. The Committee recommends that within six (6) months of the adoption of this Report, the Cabinet Secretary, Ministry of Interior and National Administration, in consultation with the National Treasury, review the viability and sustainability model of the two Funds and advise the House on the interventions required.

Failure to use Information in Finance and Procurement Departments

18. The Committee observed that the two Funds had not automated their operations especially financial reporting and procurement processes. Further the two Funds had not adopted e-procurement, contrary to the Public Procurement and Asset Disposal Regulations, 2020.

19. The Committee recommends that within six (6) months of the adoption of this Report, the Accounting Officer rolls out the financial management system to all Prison Industries and Prison Farms stations, finalizes the integration of the two Funds into the e-procurement system, and submits evidence to the Auditor-General for audit verification.

(iii) Failure to dispose scrap and obsolete assets

20. The Committee observed that scrap machinery valued at Kshs. 2,926,440 and Kshs. 1,096,300 were carried in the books of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund respectively for several years. Further, unserviceable machinery valued at Kshs. 1,237,457 and obsolete stock estimated at Kshs. 60,447,840 at Kamiti Maximum Prison Industry had not been disposed of.

21. The Committee recommends that within six (6) months of the adoption of this Report, the Accounting Officer disposes of the scrap, unserviceable and obsolete assets in accordance with Sections 163 and 164 of the Public Procurement and Asset Disposal Act, Cap. 412C and Part XIV of the Public Procurement and Asset Disposal Regulations, 2020, and submit evidence to the Auditor-General for audit verification.

Local Authorities Provident Fund

i) Increased Long-Term Receivables

22. The Committee observed that the non-current receivables of the Fund, mainly unremitted contributions and penalties owed by County Governments and other sponsors, had increased from Kshs. 43,596,255,000 as at 30th June, 2022 to Kshs. 65,868,720,000 as at 30th June, 2025.

23. The Committee recommends that -

    i) Within six (6) months of the adoption of this Report, the Accounting Officer submits a status report on the recovery of the long-term receivables to the Auditor-General for audit verification; and

    ii) The National Treasury, in consultation with the Office of the Controller of Budget, implements the deduction of pension contributions at source for defaulting sponsors.

ii) Completion of the proposed mixed use Development at Bellevue, Nairobi

24. The Committee observed that the contractor was on site and construction works were ongoing, with completion expected in October, 2026. Further, the advance payment of Kshs. 2,898,604,851 made to the contractor was within the contractual limit of twenty percent (20%) of the contract price and was secured by a bank guarantee.

25. The Committee recommends that within three (3) months of the adoption of this Report, the Accounting Officer submits to the Auditor-General the approved revised programme of works for the Bellevue project for audit verification.

Tourism Promotion Fund

(i) Gaps in Governance Structures

26. The Committee observed that the Oversight Board of the Fund had not been fully constituted since April, 2022. Further, the entire management team had served in an acting capacity for over one year, contrary to Section 34(3) of the Public Service Commission Act, Cap. 185.

27. The Committee recommends that within one (1) month of the adoption of this Report, the Cabinet Secretary Ministry of Tourism and Wildlife to appoint the two members of the Oversight Board, and within three (3) months of the adoption of this Report, the Accounting Officer fill all the management positions substantively.

(ii) Pending Merger between the Tourism Promotion Fund and the Tourism Fund

28. The Committee observed that the merger between the Tourism Promotion Fund and the Tourism Fund was expected to be completed by the end of the Financial Year 2024/2025. However, the transition plan detailing the transfer of staff, assets, liabilities and mandate had not been finalized.

29. The Committee recommends that within three (3) months of the adoption of this Report, the Cabinet Secretary, Ministry of Tourism and Wildlife, in liaison with the National Treasury, to finalize the merger and submit a transition plan for the staff, assets, liabilities and mandate of the Fund to the Auditor-General for audit verification.

CHAPTER THREE

3.0 EXAMINATION OF THE AUDITOR-GENERAL'S REPORTS ON THE FINANCIAL STATEMENTS OF THE PRISON INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2021/2022 TO 2024/2025

30. Ms. Salome Muhia Beacco, the Principal Secretary, State Department for Correctional Services and the Accounting Officer for the Prison Industries Revolving Fund and the Prison Farms Revolving Fund, appeared before the Committee on Tuesday, 28th April, 2026 to adduce evidence on the audited financial statements of the two Funds. During the meeting, the Accounting Officer was accompanied by—

1.	Mr. Patrick Aranduh	-	Commissioner General of Prisons
2.	Mr. Simon K. Kiriiba	-	Accountant General
3.	Ms. Ann Mwangi	-	Assistant Accountant General
4.	Mr. Robinson Omwando	-	Chief Finance Officer
5.	Mr. Samfantony Kyalo	-	Senior Superintendent of Prisons
6.	Mr. Patrick Kariri	-	Director, Prison Farms
7.	Mr. Charles Gerrard	-	Director, Prison Industries
8.	Mr. Benson Irungu	-	Superintendent of Prisons
9.	Mr. Morris Ngugi	-	Superintendent of Prisons

3.1 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2021/2022

1) Inaccuracies in the Statement of Cash Flows

31. The statement of cash flows reflected a decrease in payables of Kshs. 223,236,974, while a recalculation of the movement in payables under Note 16 to the financial statements revealed a decrease of Kshs. 126,151,443, resulting in an unexplained variance of Kshs. 97,085,531. In addition, the statement reflected no change in non-current receivables, while a recalculation of the movement under Note 13(b) to the financial statements revealed an increase of Kshs. 59,970,930, resulting in an unexplained variance of the same amount.

32. Further, the statement reflected net cash flows used in investing activities of Kshs. 260,283,489, which included the decrease in payables of Kshs. 223,236,974, an operating activity and not an investing activity. In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

Submissions by the Accounting Officer

33. The Accounting Officer acknowledged that the decrease in payables of Kshs. 223,236,974 had been erroneously reported under investing activities. The misclassification affected only the presentation of cash flows between operating and investing activities, not the overall net cash flow position, and was corrected in the subsequent financial statements.

34. The Accounting Officer further submitted that the variance of Kshs. 97,085,531 in the creditors balance represented new creditors for the year, as shown below:

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

35. Similarly, the variance of Kshs. 59,970,930 in non-current receivables under Note 13(b) formed part of receivables of Kshs. 136,185,518 settled during the year, as shown below:

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

Committee Observations

36. The Committee observed that -

i) **The Accounting officer provided reconciliations showing that the variance of Kshs. 97,085,531 related to new creditors for the year and the variance of Kshs. 59,970,930 related to receivables settled during the year, and confirmed that the misclassification had been corrected in the subsequent financial statements; and**

ii) **The matter is resolved.**

Committee Recommendation

37. The Committee recommends that—

The Accounting Officer to always ensure that financial statements submitted for audit present a true and fair view of the financial position of the Fund, in compliance with Section 81(3) of the Public Finance Management Act, Cap. 412A and Regulation 23(d) of the Public Finance Management (National Government) Regulations, 2015.

2) Overstatement of Trade and Other Payables Balance

38. The statement of financial position and Note 16 to the financial statements reflected trade and other payables of Kshs. 186,193,731, which included Kshs. 58,879,973 paid and posted in the cash book on 30th June, 2022. However, the payment was also disclosed in the bank reconciliation statement for June, 2022 among the unpresented cheques. In the circumstances,

the accuracy of the trade and other payables balance of Kshs. 186,193,731 could not be confirmed.

Submissions by the Accounting Officer

39. The Accounting Officer submitted that unpaid vouchers totalling Kshs. 58,879,973 were inadvertently posted in the cash book as at 30th June, 2022, because the cash book was maintained on a cash basis while the financial statements of the Fund were prepared on an accrual basis. The anomaly was rectified in subsequent financial years.

Committee Observations

40. The Committee observed that -

i) **The Accounting Officer provided an analysis showing that the anomaly had been rectified in the subsequent financial years; and**

ii) **The matter is resolved.**

Committee Recommendation

41. The Committee recommends that -

The Accounting Officer always ensure that the cash book and bank reconciliation statements are reconciled with the accrual-based ledger before preparing the financial statements.

3) Unsupported Cash and Cash Equivalents Balance

42. The statement of financial position and Note 10 to the financial statements reflected cash and cash equivalents of Kshs. 7,795,251. However, one cash book and a single bank account were maintained for recording the financial transactions of both the Prison Farms Revolving Fund and the Prison Industries Revolving Fund, yet the two Funds are distinct and prepare separate financial statements.

43. Further, the bank reconciliation statement reflected payments of Kshs. 20,469,565 in the bank statement but not in the cash book as at 30th June, 2022, out of which Kshs. 650,000 related to the Financial Year 2019/2020. The failure to record the payments in the cash book was not explained. In addition, the bank reconciliation statement for June, 2022 reflected unpresented cheques of Kshs. 115,526,747, which included stale cheques of Kshs. 2,284,510.

44. In the circumstances, the accuracy, completeness and existence of the cash and cash equivalents balance of Kshs. 7,795,251 could not be confirmed.

Submissions by the Accounting Officer

45. The Accounting Officer submitted that the transactions of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund were processed through one cash book and one bank account. The State Department had sought authority from the National Treasury to open separate bank accounts, but the National Treasury declined and advised that the regulations of

the Funds be aligned with the Public Finance Management Act, Cap. 412A. The draft Public Finance Management (Prisons Enterprise Fund) Regulations, 2025, which merge the two Funds into one Fund, were at an advanced stage, after which separate bank accounts would be opened.

46. The Accounting Officer further submitted that payments of Kshs. 20,469,565, including the Kshs. 650,000, had been inadvertently omitted from the cash book. The payment vouchers had since been posted in the cash book, the adjustments effected in the accounts for the Financial Year 2022/2023 and the bank reconciliation statements updated.

Committee Observations

47. The Committee observed that -

i) **The Prison Industries Revolving Fund and the Prison Farms Revolving Fund operated a single cash book and a single bank account although they are distinct Funds that prepare separate financial statements;**

ii) **The Committee observed the Fund had unexplained payments amounting to Kshs. 20,469,565 reflected in the bank statement but not recorded in the cash book, of which Kshs. 650,000 related to the Financial Year 2019/2020;**

iii) **The Fund had unpresented cheques amounting to Kshs. 115,526,747, including stale cheques totalling Kshs. 2,284,510;**

iv) **The draft Public Finance Management (Prisons Enterprise Fund) Regulations, 2025 had not been finalized; and**

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

Committee Recommendations

48. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer fast-tracks the finalization and gazettement of the Public Finance Management (Prisons Enterprise Fund) Regulations, 2025 to provide for the merger of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund and the operation of separate bank accounts, and submits evidence to the Auditor-General for audit verification; and**

ii) **Within one (1) month of the adoption of this Report, the Accounting Officer s submits evidence that the payments of Kshs. 20,469,565 have been recorded in the cash book, an explanation for the delayed recording of the Kshs. 650,000 relating to the Financial Year 2019/2020, and evidence that the unpresented and**

stale cheques have been cleared or reversed to the Auditor-General for audit verification.

4) Unexplained Variance and Incomplete Fixed Asset Register

49. The statement of financial position reflected non-current assets of Kshs. 93,404,716, while Note 15 to the financial statements reflected Kshs. 94,595,861, resulting in an unexplained variance of Kshs. 1,191,145. Further, the asset register was not updated to show the date of acquisition, cost, depreciation rate, disposals and serial numbers of the assets. In the circumstances, the completeness and accuracy of the property, plant and equipment balance of Kshs. 93,404,716 could not be confirmed.

Submissions by the Accounting Officer

50. The Accounting Officer submitted that the balance of Kshs. 94,595,861 in Note 15 was before depreciation of Kshs. 4,117,584 disclosed in Note 8, and that the balance of Kshs. 93,404,716 was derived as follows:

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

51. The Accounting Officer further submitted that scrap machinery of Kshs. 2,926,440 had been erroneously omitted from the fixed assets schedule in Note 15, and this was corrected in subsequent years. The asset register had not been fully updated at the reporting date, and an Assets and Liabilities Unit was updating it using the National Treasury template.

Committee Observations

52. The Committee observed that-

i) **The variance of Kshs. 1,191,145 arose from depreciation of Kshs. 4,117,584 and scrap machinery of Kshs. 2,926,440 omitted from Note 15, and had been corrected in the subsequent financial statements;**

ii) **The fixed asset register did not show the date of acquisition, cost, depreciation rate, disposals and serial numbers of the assets, and its update had not been completed; and**

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

Committee Recommendations

53. The Committee recommends that -

i) **Within six (6) months of the adoption of this Report, the Accounting Officer completes the update of the fixed asset register in accordance with Regulation**

143(1) of the Public Finance Management (National Government) Regulations, 2015 and the template of the PSASB, and submit the updated register to the Auditor-General for audit verification; and

ii) **The Accounting Officer to always ensure that financial statements submitted for audit present a true and fair view of the financial position of the Fund, in compliance with Section 81(3) of the Public Finance Management Act, Cap. 412A and Regulation 23(d) of the Public Finance Management (National Government) Regulations, 2015.**

5) Material Uncertainty Related to Sustainability of Services

54. Note 5 to the financial statements disclosed that the sustainability of the services of the Fund would be adversely affected if the production of motor vehicle number plates was transferred to NTSA or any other Government entity.

55. In November, 2022, the production of number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision, and production stopped, leaving raw materials worth Kshs. 101,348,772 and the machinery at Kamiti Maximum Prison idle. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Fund to sustain its services.

Submissions by the Accounting Officer

56. The Accounting Officer acknowledged that the transfer of number plate production to NTSA had significantly affected the going concern status of the Fund, and that the raw materials valued at Kshs. 101,348,772 and the related fixed assets at Kamiti Maximum Prison would be rendered largely obsolete.

57. The Accounting Officer further submitted that the Fund was implementing measures to safeguard its sustainability, including modernization of industry equipment; Public-Private Partnerships using the workforce and land of the Kenya Prisons Service, such as in furniture manufacturing; commercialization of products such as Priaqua water, paints and leatherwork; construction of modern workshops to replace dilapidated structures; training of instructors in modern technologies; and enhanced marketing of Prison Industries products.

Committee Observations

58. The Committee observed that -

i) **The transfer of number plate production to NTSA, which accounted for about ninety per cent (90%) of the revenue of the Fund, left raw materials valued at Kshs. 101,348,772 and machinery at Kamiti Maximum Prison idle, casting significant doubt on the ability of the Fund to sustain its services;**

ii) **The Fund had not settled its obligations to the suppliers of the raw materials, which had resulted in a pending court case;**

iii) **The Management had initiated measures to use the existing raw materials and diversify revenue streams, but the revenue of the Fund had not recovered; and**

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

Committee Recommendations

59. The Committee recommends that **within six (6) months of the adoption of this Report, the Accounting Officer -**

iii) **Submits to the Auditor-General for audit verification a status report on the use of the raw materials valued at Kshs. 101,348,772 and the idle machinery at Kamiti Maximum Prison; and**

iv) **The Cabinet Secretary responsible for correctional services, in consultation with the National Treasury, reviews the viability and sustainability model of the Fund following the loss of its principal revenue-generating activity, and advise the House on the interventions required.**

6) Budgetary Control and Performance

60. The statement of comparison of budget and actual amounts reflected final revenue of Kshs. 608,047,134 against actual revenue of Kshs. 381,290,980, resulting in an under-collection of Kshs. 226,756,154 or 37% of the budget. Similarly, the statement reflected final recurrent expenditure of Kshs. 652,043,729 against actual expenditure of Kshs. 467,853,225, resulting in an under-expenditure of Kshs. 184,190,504 or 28% of the budget. Management did not explain the under-performance. The under-collection of revenue may have affected the operations and planned activities of the Fund.

Submissions by the Accounting Officer

61. The Accounting Officer submitted that the Fund relies wholly on revenue from the sale of its goods and services, and that the revenue shortfall was mainly due to the withdrawal of number plate production and the delayed settlement of invoices by NTSA. Expenditure had therefore been aligned to actual collections to avoid pending bills. Management had since made its revenue projections more realistic, strengthened debt recovery and diversified its revenue streams.

Committee Observations

62. The Committee observed that-

i) **The Fund recorded an under-collection of revenue of Kshs. 226,756,156 and an under-expenditure of Kshs. 184,190,504;**

ii) **The Fund relies wholly on revenue from the sale of its goods and services, and therefore the shortfall was mainly due to the loss of number plate production, which constrained the implementation of its planned activities; and**

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

Committee Recommendations

63. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer develops and implements measures to enhance revenue generation so that the Fund meets its budgetary targets, and submit a report on the measures to the Auditor-General for audit verification; and**

ii) **The Accounting Officer to always ensure that revenue budgets are based on realistic and achievable projections that reflect the operational capacity of the Fund.**

7) Unresolved Prior Year Matters

64. In the audit report of the previous year, several issues were raised under the Report on Financial Statements, the Report on Lawfulness and Effectiveness in Use of Public Resources and the Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues or explained the failure to adhere to the templates of the PSASB.

Submissions by the Accounting Officer

65. The Accounting Officer acknowledged that several prior year matters, on which the Public Accounts Committee had made recommendations, remained unresolved. The delay was due to limited capacity and resources and ongoing reforms to align the operations of the Fund with the Public Finance Management Act, Cap. 412A. Management undertook to resolve the matters through capacity building, process improvements and the alignment of its reporting systems.

Committee Observations

66. The Committee observed that -

i) **Issues raised in the previous audit report had not been resolved, and no explanation was given for the failure to adhere to the templates of the PSASB; and**

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

Committee Recommendation

67. The Committee recommends that -

Within three (3) months of the adoption of this Report, the Accounting Officer resolves the prior year matters as required by Section 68(2)(l) of the Public Finance Management Act, Cap. 412A and submit a status report to the Auditor-General for audit verification.

3.2 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2022/2023

1) Unsupported and Undisclosed Cash and Cash Equivalents Balances

68. The statement of financial position reflected cash and cash equivalents of Kshs. 12,172,571. However, as previously reported, one cash book and a single bank account were maintained for both the Prison Farms Revolving Fund and the Prison Industries Revolving Fund. The monies of the two Funds were commingled, making it difficult to identify the revenue earned by each Fund, and in some instances expenses were paid through the same payment voucher.

69. Further, the bank reconciliation statement as at 30th June, 2023 reflected payments in the cash book not in the bank statement of Kshs. 4,854,869, out of which Kshs. 4,472,779 were long outstanding and had not been reversed. Receipts of Kshs. 2,755,667 had also taken long to be recorded in the cash book.

70. In addition, the balance of a revenue collection account held at a local bank was not included in the statement of financial position or disclosed in the notes, and its bank reconciliation statements were not provided for audit. In the circumstances, the accuracy, completeness and existence of the cash and cash equivalents balance of Kshs. 12,172,571 could not be confirmed.

Submissions by the Accounting Officer

71. The Accounting Officer submitted that the transactions of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund were processed through one cash book and one bank account. The State Department sought authority from the National Treasury to open separate bank accounts, but the National Treasury declined and advised that the Funds' regulations be aligned with the Public Finance Management Act, Cap. 412A. The draft Public Finance Management (Prisons Enterprise Fund) Regulations, 2025, which merge the two Funds into one Fund, were at an advanced stage, after which separate bank accounts would be opened.

72. The Accounting Officer acknowledged that payments of Kshs. 4,472,779 in the cash book were not in the bank statement and that receipts of Kshs. 2,755,667 had not been recorded in the cash book as at 30th June, 2023 and submitted that these had been corrected in the cash book and the subsequent financial statements. The revenue collection account at Equity Bank, linked to eCitizen, had been disclosed in the subsequent financial years.

Committee Observations

73. The Committee observed that-

i) **The two Funds continued to operate a single cash book and bank account, making it difficult to identify the revenue earned by each Fund;**

ii) **The Accounting Officer provided evidence that the long-outstanding payments of Kshs. 4,472,779 and receipts of Kshs. 2,755,667 had been corrected in the cash book, and that the revenue collection account at Equity Bank had been disclosed in the subsequent financial statements; and**

iii) **The matter is resolved.**

Committee Recommendations

74. The Committee recommends that-

i) **Within three (3) months of the adoption of this Report, the Accounting Officer fast-tracks the finalization and gazettement of the Public Finance Management (Prisons Enterprise Fund) Regulations, 2025 to provide for the merger of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund and submit evidence to the Auditor-General for audit verification; and**

ii) **The Accounting Officer, henceforth, ensures that financial statements submitted for audit present a true and fair view of the financial position of the Fund, in compliance with Section 81(3) of the Public Finance Management Act, Cap. 412A and Regulation 23(d) of the Public Finance Management (National Government) Regulations, 2015.**

2) Long Outstanding Debtors

75. The statement of financial position reflected receivables from exchange transactions of Kshs. 223,988,668, which included Kshs. 164,475,904 owed by NTSA for the supply of number plates and Kshs. 20,318,827 in imprest or payment vouchers to the Commissioner General for undated periods, whose reasons for non-surrender were not provided.

76. In addition, details of Kshs. 77,760 were not provided, and no ageing analysis or debt recovery policy was provided for audit. In the circumstances, the accuracy and recoverability of the receivables balance of Kshs. 223,988,668 could not be confirmed.

Submissions by the Accounting Officer

77. The Accounting Officer submitted that the Kshs. 164,475,904 related to number plates supplied to NTSA under an inter-governmental arrangement. NTSA had paid part of the debt, leaving a balance of about Kshs. 89,000,000, and the State Department had issued demand letters, reconciled the accounts and engaged NTSA on a settlement plan.

78. The Accounting Officer further submitted that the Kshs. 20,318,827 related to operational imprests for authorised activities, whose surrender was delayed by late Exchequer releases. Kshs. 10,000,000 had been cleared following a directive of the Public Accounts Committee, and the balance awaited Exchequer releases. The Kshs. 77,760 related to long-standing debts, and an ageing analysis was included in the subsequent financial statements.

Committee Observations

79. The Committee observed that -

i) **NTSA had made partial payment towards the outstanding debt, leaving a balance of Kshs. 89,000,000 which was yet to be recovered;**

ii) **Out of the outstanding imprests amounting to Kshs. 20,318,827, only Kshs. 10,000,000 had been surrendered, leaving Kshs. 10,318,827 outstanding;**

iii) **The Accounting Officer did not provide details of the long-standing debts amounting to Kshs. 77,760 and did not have a debt recovery policy; and**

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

Committee Recommendations

80. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer recovers the balance of Kshs. 89,000,000 owed by NTSA and submits evidence to the Auditor-General for audit verification;**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer recovers or accounts for the outstanding imprest of Kshs. 10,318,827 and submits evidence to the Auditor-General for audit verification;**

iii) **Within three (3) months of the adoption of this Report, the Accounting Officer develops and implements a debt recovery policy, supported by an ageing analysis of all receivables, and submits it to the Auditor-General for audit verification; and**

iv) **The Accounting Officer henceforth, ensures the timely surrender of imprest in accordance with Section 68(2) of the Public Finance Management Act, Cap. 412A and Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015.**

3) Material Uncertainty Related to Going Concern (Sustainability of Services)

81. Note 5 to the financial statements disclosed that the sustainability of the services of the Fund would be adversely affected if the production of motor vehicle number plates was transferred to NTSA or any other Government entity. As at 30th June, 2023, number plates worth Kshs. 11,039,374 remained in stock, and debts of Kshs. 164,475,904 owed by NTSA remained outstanding. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Fund to sustain its services.

Submissions by the Accounting Officer

82. The Accounting Officer acknowledged that the stock of number plates and the outstanding NTSA debt created operational and cash-flow pressures that could affect the ability of the Fund to sustain its services if not addressed. The Fund, however, continued to operate as a going concern through engagements with NTSA on settling the debt, diversifying production beyond number plates, strengthening debt recovery, and policy-level consultations on its mandate.

Committee Observations

83. The Committee observed that-

i) **Following the transfer of number plate production to NTSA, number plates valued at Kshs. 11,039,374 remained in stock as at 30th June, 2023 and debts of Kshs. 164,475,904 owed by NTSA remained outstanding, casting significant doubt on the ability of the Fund to sustain its services; and**

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

Committee Recommendations

84. The Committee recommends that within **six (6) months of the adoption of this Report -**

i) **The Accounting Officer submits a status report on the use or disposal of the number plate stock valued at Kshs. 11,039,374to the Auditor-General for audit verification; and**

ii) **The Cabinet Secretary responsible for correctional services, in consultation with the National Treasury, reviews the viability and sustainability model of the Fund following the loss of its principal revenue-generating activity, and advise the House on the interventions required.**

4) Budgetary Control and Performance

85. The statement of comparison of budget and actual amounts reflected final revenue of Kshs. 627,202,598 against actual revenue of Kshs. 203,033,776, resulting in an under-collection of Kshs. 424,168,822 or 68% of the budget. Similarly, the statement reflected final recurrent expenditure of Kshs. 611,400,045 against actual expenditure of Kshs. 193,486,235, resulting

in an under-expenditure of Kshs. 417,913,810 or 68% of the budget. Management did not explain the under-performance, which may have affected service delivery to the public.

Submissions by the Accounting Officer

86. The Accounting Officer attributed the variances to lower revenue following the withdrawal of number plate production and the delayed settlement of invoices by NTSA, which constrained cash flows. Expenditure had been aligned to actual collections to avoid pending bills. Management had since made its revenue projections more realistic, strengthened debt recovery and diversified its revenue streams.

Committee Observations

87. The Committee observed that -

i) **The Fund recorded an under-collection of revenue of Kshs. 424,168,822 and an under-expenditure of Kshs. 417,913,810;**

ii) **The shortfall was due to the loss of number plate revenue and the delayed settlement of debt by NTSA; and**

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

Committee Recommendations

88. The Committee recommends that-

i) **Within three (3) months of the adoption of this Report, the Accounting Officer develops and implements measures to enhance revenue generation so that the Fund meets its budgetary targets, and submit a report on the measures to the Auditor-General for audit verification; and**

ii) **The Accounting Officer, henceforth, ensures that revenue budgets are based on realistic and achievable projections that reflect the operational capacity of the Fund.**

5) Underfunding of Prison Industries

89. An audit inspection of a sample of Prison Industries stations revealed that Naivasha station was issued with Kshs. 2,660,000, while Nyahururu station did not receive any funds. The stations also had old and dilapidated tools and machinery, faced high costs of raw materials and could not pay for trade tests for the trained inmates. In the circumstances, the inadequate funding affects the operations of the Fund and service delivery.

Submissions by the Accounting Officer

90. The Accounting Officer acknowledged the funding constraints at Naivasha and Nyahururu stations, which were due to cash-flow challenges arising from the withdrawal of number plate

production and delayed payments by NTSA. As a result, the Fund could not procure adequate raw materials, replace tools and machinery or facilitate trade tests for inmates. The available funds were prioritised for confirmed and paid customer orders, and Management was pursuing debt recovery and additional budgetary support from the National Treasury.

Committee Observations

91. The Committee observed that -

    i) **Naivasha and Nyahururu Prison Industries stations were inadequately funded, with Naivasha receiving only Kshs. 2,660,000 while Nyahururu received no funding;**

    ii) **The funding constraints arose from the loss of revenue following the transfer of number plate production to NTSA and delayed payments by NTSA;**

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

Committee Recommendation

92. The Committee recommends that-

Within three (3) months of the adoption of this Report, the Accounting Officer develops a resource mobilization plan to address the underfunding of Prison Industries stations, including engagement with the National Treasury for budgetary support, and submit the plan to the Auditor-General for audit verification.

6) Failure to Use Information Technology in Finance and Procurement Departments

93. The Fund began operations on 1st July, 1987 under the Exchequer and Audit Act (Prison Industries Fund) Regulations, 1988 (Legal Notice No. 314). The Fund had not automated its operations, especially financial reporting and procurement, and its transactions, ledgers and financial statements were processed manually. In addition, the Fund had not implemented the e-procurement system, contrary to Regulation 54 of the Public Procurement and Asset Disposal Regulations, 2020, which requires the National Treasury to ensure that all procuring entities are registered in the e-procurement system and carry out their procurement processes through it. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

94. The Accounting Officer acknowledged that the Fund was not fully automated but submitted that all payments were processed through IFMIS and all revenue was collected through cashless platforms, including eCitizen, electronic funds transfers and real-time gross settlement. The continued reliance on manual systems was due to financial and infrastructure constraints and cash-flow challenges arising from the delayed settlement of major receivables.

95. The Accounting Officer further submitted that provision for a financial management system was made in the budget for the Financial Year 2025/2026, the tender had been advertised and awarded, a contract signed, and an implementation committee had been appointed. The project was at the vendor acceptance training stage. Consultations with the National Treasury on integration into the e-procurement system were ongoing.

Committee Observations

96. The Committee observed that -

i) **The Fund had not automated its financial reporting and procurement, and its transactions, ledgers and financial statements were processed manually;**

ii) **The Fund had not implemented the e-procurement system, contrary to Regulation 54 of the Public Procurement and Asset Disposal Regulations, 2020; and**

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

Committee Recommendations

97. The Committee recommends that within **three (3) months of the adoption of this Report -**

i) **The Accounting Officer finalizes the implementation of the financial management system and submit evidence to the Auditor-General for audit verification; and**

ii) **The Accounting Officer completes the integration of the Fund into the e-procurement system in compliance with Regulation 54 of the Public Procurement and Asset Disposal Regulations, 2020, and submit evidence to the Auditor-General for audit verification.**

7) Outstanding Scrap Machinery Balances

98. The statement of financial position and Note 15 to the financial statements reflected property, plant and equipment of Kshs. 89,111,585, which included scrap machinery of Kshs. 2,926,440 that had appeared in the financial statements over a number of years. Management had not indicated its plans to dispose of the assets. In the circumstances, the effectiveness of controls over asset management could not be confirmed.

Submissions by the Accounting Officer

99. The Accounting Officer submitted that the scrap machinery had remained in the books pending formal review and disposal. The State Department had constituted a committee to review all its assets and liabilities and to identify unserviceable and obsolete items for disposal in accordance with the law during the Financial Year 2024/2025.

Committee Observations

100. The Committee observed that -

i) **Scrap machinery valued at Kshs. 2,926,440 had remained in the Fund's financial statements for several years without being disposed of; and**

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

Committee Recommendation

101. The Committee recommends that -

Within six (6) months of the adoption of this Report, the Accounting Officer completes the disposal of the scrap machinery valued at Kshs. 2,926,440 in accordance with Sections 163 and 164 of the Public Procurement and Asset Disposal Act, Cap. 412C and Part XIV of the Public Procurement and Asset Disposal Regulations, 2020, and submit evidence to the Auditor-General for audit verification.

3.3 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2023/2024

8) Unsupported Cash and Cash Equivalents

102. The statement of financial position and Note 11 to the financial statements reflected cash and cash equivalents of Kshs. 103,892,228. As reported in the previous year, one cash book and a single bank account were maintained for both the Prison Industries Revolving Fund and the Prison Farms Revolving Fund, although the two Funds are distinct and prepare separate financial statements. Payments were commingled, making it difficult to identify and apportion the revenue earned by each Fund, and the progress made in opening a separate bank account was not disclosed. In the circumstances, the accuracy and completeness of the balance of Kshs. 103,892,228 could not be confirmed.

Submissions by the Accounting Officer

103. The Accounting Officer submitted that the balance of Kshs. 103,892,228 was held in an account at the Central Bank of Kenya that had served both Funds since their inception. The State Department requested the separation of the two Funds by letter Ref. SDC/FIN/6/1/VIII (134) of 14th September, 2021, and the National Treasury, by letter Ref. AG.3/88/1 VOL.52/(22) of 3rd November, 2021, advised that the regulations governing both Funds be updated to align with the Public Finance Management Act, Cap. 412A.

104. The Accounting Officer further submitted that harmonised regulations were being developed with the Office of the Attorney-General and were expected to be gazetted in the Financial Year 2024/2025, after which a separate bank account would be opened. In the meantime, the two Funds were accounted for under separate codes, Code 87 for Prison Industries and Code 89 for Prison Farms.

Committee Observations

105. The Committee observed that -

i) **The two Funds continued to share a single cash book and a single bank account at the Central Bank of Kenya, and their payments were commingled;**

ii) **Though the National Treasury advised in November, 2021 that the regulations of the Funds be updated, the harmonised regulations had not been finalised; and**

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

Committee Recommendation

106. The Committee recommends that -

Within three (3) months of the adoption of this Report, the Accounting Officer fast-track the finalisation and gazettement of the Public Finance Management (Prisons Enterprise Fund) Regulations, 2025 to provide for the merger of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund and the operation of separate bank accounts, and submit evidence to the Auditor-General for audit verification.

9) Unsupported Pay Master General (PMG) Balance

107. The statement of financial position reflected a PMG balance of Kshs. 175,987,430 held on behalf of the Fund in the former MOHA deposit account. The amount was a book balance that was to be transferred to the bank account of the Fund but remained outstanding. In the circumstances, the existence and recoverability of the balance of Kshs. 175,987,430 could not be confirmed.

Submissions by the Accounting Officer

108. The Accounting Officer submitted that the balance was a book figure that had not been transferred to the dedicated bank account of the Fund. It arose from deposits made by both the Prison Farms and Prison Industries Funds into a single account, which were adjusted during the transfer of funds from MOHA to the Ministry of Interior and Coordination of National Government, as shown below:

PMG Balances	**Amount**
2013/2014 Bal B/F 1st July 2013	119,965,676
2013/2014 Revenue (1st July – 30th Oct)	155,336,405
Total	275,302,081
Less: Transferred to Ministry of Interior & Coordination fi account	(92,135,931)

PMG Balances	Amount
Balance as of 30th Oct 2013	175,987,430

109. The Accounting Officer further submitted that only Kshs. 118,725,674, being Kshs. 92,135,931 for Prison Industries and Kshs. 26,589,744 for Prison Farms, was moved to the new deposit account, leaving Kshs. 175,987,430 for Prison Industries and Kshs. 55,245,088 for Prison Farms, a total of Kshs. 231,232,518, yet to be transferred. The delay arose from the reorganisation of Government in 2013, when MOHA was merged with the Office of the President to form the Ministry of Interior and Coordination of National Government.

Committee Observations

110. The Committee observed that -

i) **The PMG balance of Kshs. 175,987,430, held for the Fund in the former MOHA deposit account since 2013, had not been transferred to the bank account of the Fund; and**

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

Committee Recommendations

111. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer, in liaison with the National Treasury and the Ministry of Interior and National Administration, to reconcile and recover the PMG balance of Kshs. 175,987,430 and submit evidence of the transfer to the Auditor-General for audit verification; and**

ii) **The Accounting Officer should, henceforth, ensure that financial records are properly maintained and that the financial statements are accurate and complete, in compliance with Section 81(3) of the Public Finance Management Act, Cap. 412A and Regulation 23 of the Public Finance Management (National Government) Regulations, 2015.**

10) Long Outstanding Debtors

112. The statement of financial position and Note 13 to the financial statements reflected receivables from exchange transactions of Kshs. 184,493,466. As reported in the previous year, the balance included Kshs. 99,758,634 owed by NTSA for the supply of number plates, which remained unpaid despite demand notes. The balance also included Kshs. 36,958,748 in Authority to Incur Expenditure issued to Prison Farms for fertilizer, whose details were not provided. In addition, a debt recovery policy was not provided. In the circumstances, the accuracy and recoverability of the receivables balance of Kshs. 184,493,466 could not be confirmed.

Submissions by the Accounting Officer

113. The Accounting Officer submitted that NTSA had paid Kshs. 10,000,000 of the Kshs. 99,758,634, leaving about Kshs. 89,000,000 outstanding due to the cash-flow constraints of NTSA, and that Management continued to follow up through demand letters and meetings.
114. The Accounting Officer further submitted that the Kshs. 36,958,748 had been advanced to Prison Farms for fertilizer during the rainy season, pending payment for foodstuffs supplied to prison stations. As at 30th September, 2024, Prison Farms had received Kshs. 15,674,850 from settled invoices, and the debt had since been fully settled.

Committee Observations

115. The Committee observed that-

i) **NTSA had made partial payment of the debt of Kshs. 10,000,000 leaving about Kshs. 89,000,000 outstanding;**

ii) **The Kshs. 36,958,748 advanced to Prison Farms for fertilizer had been fully settled;**

iii) **The Fund did not have a debt recovery policy; and**

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

Committee Recommendations

116. The Committee recommends that **within three (3) months of the adoption of this Report -**

i) **The Accounting Office recovers the balance owed by NTSA and submit evidence to the Auditor-General for audit verification; and**

ii) **The Accounting Officer develops and implements a debt recovery policy and submit it to the Auditor-General for audit verification.**

11) Material Uncertainty Related to Going Concern

117. Note 5 to the financial statements disclosed that the Fund had pending litigation on motor vehicle number plates, and that a large amount of money may be required if the ruling goes in favour of the plaintiff, greatly affecting the going concern of the Fund. This indicates the existence of a material uncertainty that may cast significant doubt on the ability of the Fund to continue as a going concern. The opinion of the Auditor-General was not modified in respect of this matter.

Submissions by the Accounting Officer

118. The Accounting Officer acknowledged that an adverse ruling could significantly affect the going concern of the Fund, and submitted that Management was working with the Office of the Attorney-General and legal counsel to defend the interests of the Government. The Fund was also implementing measures to diversify its revenue, including modernization of industry equipment; Public-Private Partnerships using the workforce and land of the Kenya Prisons

Service, such as in furniture manufacturing; commercialization of products such as Priaqua water, paints and leatherwork; construction of modern workshops to replace dilapidated structures; training of instructors in modern technologies; and enhanced marketing of Prison Industries products.

Committee Observations

119. The Committee observed that -

i) **The Fund faced pending litigation on number plates which, if decided against it, could significantly affect its ability to continue as a going concern;**

ii) **The Fund had initiated measures to diversify its revenue, but the outcome of the litigation remained uncertain; and**

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

Committee Recommendations

120. The Committee recommends that-

i) **Within six (6) months of the adoption of this Report, the Accounting Officer submits to the Committee a sustainability strategy setting out measures to diversify revenue, strengthen financial resilience and mitigate the risk from contingent liabilities; and**

ii) **The Auditor-General, in the next audit cycle, reports on the status of the litigation and the adequacy of its disclosure in the financial statements of the Fund.**

12) Budgetary Control and Performance

121. The statement of comparison of budget and actual amounts reflected final revenue of Kshs. 289,861,203 against actual revenue of Kshs. 159,979,097, resulting in an under-collection of Kshs. 129,882,106 or 45% of the budget. Similarly, the Fund spent Kshs. 155,077,023 against actual receipts of Kshs. 159,979,097, resulting in an under-utilisation of Kshs. 4,902,073 or 3% of the actual receipts. The under-funding and under-utilisation affected the planned activities of the Fund.

Submissions by the Accounting Officer

122. The Accounting Officer submitted that the Fund realised only 55% of its revenue target. The Fund relies on internally generated revenue and not on Exchequer allocations, and the shortfall led to its operations being scaled down by 46%. The shortfall was compounded by unpaid invoices of about Kshs. 100,000,000 owed by NTSA and the transfer of Kshs. 250,000,000 of Fund savings to finance other Government priorities. The Accounting Officer was engaging the National Treasury to secure an equivalent amount to revitalise the operations of the Fund.

Committee Observations

123. The Committee observed that -

i) **The Fund recorded an under-collection of revenue of Kshs. 129,882,106 and an under-utilisation of Kshs. 4,902,073; and**

ii) **The shortfall was compounded by unpaid invoices owed by NTSA and the transfer of Kshs. 250,000,000 of Fund savings to finance other Government priorities; and**

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

Committee Recommendations

124. The Committee recommends that-

i) **Within three (3) months of the adoption of this Report, the Accounting Officer to develop and implement measures to enhance revenue generation so that the Fund meets its budgetary targets, and submit a report on the measures to the Auditor-General for audit verification; and**

ii) **The Accounting Officer should, henceforth, ensure that revenue budgets are based on realistic and achievable projections that reflect the operational capacity of the Fund.**

13) Failure to Use Information Technology in Finance and Procurement Departments

125. The Fund began operations on 1st July, 1987. Despite being in operation for thirty-seven (37) years, it had not automated its operations, especially financial reporting and procurement, and its transactions, ledgers and financial statements were processed manually. Further, the Fund had not implemented e-procurement, as required by the Public Procurement and Asset Disposal Regulations, 2020 and Executive Order No. 2 of 2018. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

126. The Accounting Officer acknowledged that the Fund was not fully automated but submitted that all payments were processed through IFMIS and all revenue was collected through cashless platforms, including eCitizen, electronic funds transfers and real-time gross settlement. The continued reliance on manual systems was due to financial and infrastructure constraints and cash-flow challenges arising from the delayed settlement of major receivables.

127. The Accounting Officer further submitted that provision for a financial management system was made in the budget for the Financial Year 2025/2026, the tender had been advertised and awarded, a contract signed, and an implementation committee had been appointed. The project was at the vendor acceptance training stage. Consultations with the National Treasury on integration into the e-procurement system were ongoing.

Committee Observations

128. The Committee observed that -

i) **The Fund had not automated its financial reporting and procurement processes;**

ii) **The Fund had not implemented the e-procurement system, contrary to Regulation 54 of the Public Procurement and Asset Disposal Regulations, 2020; and**

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

Committee Recommendations

129. The Committee recommends that-

i) **Within three (3) months of the adoption of this Report, the Accounting Officer completes the implementation of the financial management system and submit evidence to the Auditor-General for audit verification; and**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer completes the integration of the Fund into the e-procurement system and submit evidence to the Auditor-General for audit verification.**

14) Outstanding Scrap Machinery Balance

130. As previously reported, the property, plant and equipment balance of Kshs. 86,382,341 included scrap machinery of Kshs. 2,926,440, as disclosed in Note 16 to the financial statements, which had been carried in the financial statements over a number of years. Management had not indicated its plans to dispose of the assets. In the circumstances, the effectiveness of controls over asset management could not be confirmed.

Submissions by the Accounting Officer

131. The Accounting Officer submitted that the scrap machinery had remained in the books pending formal review and disposal. The State Department had constituted a committee to review all its assets and liabilities and to identify unserviceable and obsolete items for disposal in accordance with the law during the Financial Year 2024/2025.

Committee Observations

132. The Committee observed that -

i) **Scrap machinery of Kshs. 2,926,440 had been carried in the books for several years without a disposal plan;**

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

Committee Recommendation

133. The Committee recommends that-

Within six (6) months of the adoption of this Report, the Accounting Officer completes the disposal of the scrap machinery valued at Kshs. 2,926,440 in accordance with Sections 163 and 164 of the Public Procurement and Asset Disposal Act, Cap. 412C and Part XIV of the Public Procurement and Asset Disposal Regulations, 2020, and submit evidence to the Auditor-General for audit verification.

3.4 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2024/2025

1) Inaccuracy of the financial statements

a) Unbalanced Budget

134. The statement of comparison of budget and actual amounts reflected budgeted receipts of Kshs. 301,561,203 and budgeted expenditure of Kshs. 613,544,316, comprising recurrent and capital expenditure of Kshs. 298,714,507 and Kshs. 314,829,809 respectively, indicating an unbalanced budget with a variance of Kshs. 311,983,113. This was contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015, which requires the budget to be balanced. In the circumstances, the accuracy of the statement of comparison of budget and actual amounts could not be confirmed.

Submissions by the Accounting Officer

135. The Accounting Officer submitted that the capital expenditure of Kshs. 314,829,809 was to be financed from projected internally generated revenue. Revenue fell below expectations because of reduced demand for the products and services of the Fund and economic challenges, which limited the implementation of the budget. Management had initiated measures to improve revenue collection and market access for products of the Prison Enterprises Programme.

Committee Observations

136. The Committee observed that -

i) **Budgeted expenditure of Kshs. 613,544,316 exceeded budgeted receipts of Kshs. 301,561,203 by Kshs. 311,983,113, contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015;**

ii) **Management did not provide details of the measures initiated to improve revenue collection and market access; and**

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

Committee Recommendations

137. The Committee recommends that-

i) **The Accounting Officer should, henceforth, prepare balanced budgets in compliance with Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015; and**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer should submit to the Auditor-General for audit verification evidence of the measures initiated to improve revenue collection and market access for products of the Prison Enterprises Programme.**

b) Unsupported Cash and Cash Equivalents

138. The statement of financial position and Note 11 to the financial statements reflected cash and cash equivalents of Kshs. 10,495,766, which included a balance of Kshs. 9,162,308 at the Central Bank of Kenya. However, one cash book and a single bank account were maintained for both the Prison Industries Revolving Fund and the Prison Farms Revolving Fund, and their monies were commingled. In addition, the balance included Kshs. 1,143,400 relating to the District Treasury, which was not supported by a certificate of bank balance, a reconciliation or a Board of Survey report. In the circumstances, the accuracy and completeness of the balance of Kshs. 10,495,766 could not be confirmed.

Submissions by the Accounting Officer

139. The Accounting Officer submitted that the balance comprised Kshs. 9,162,308 at the Central Bank of Kenya, Kshs. 1,143,400 at the District Treasury and Kshs. 190,058 at Equity Bank, and that the District Treasury balance was supported by the documents provided. The Accounting Officer acknowledged the use of one cash book and one bank account, but submitted that the cash book identified the source of each transaction, enabling each Fund to report separately.

140. The Accounting Officer further submitted that, on the advice of the National Treasury, a taskforce had completed public participation and developed draft regulations, which were with the Office of the Attorney-General. Separate bank accounts and cash books would be operationalized once the regulations were approved.

Committee Observations

141. The Committee observed that-

i) **The two Funds continued to operate a single cash book and bank account;**

ii) **The District Treasury balance of Kshs. 1,143,400 was not supported by a certificate of bank balance, a reconciliation or a Board of Survey report; and**

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

Committee Recommendations

142. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer fast-tracks the finalization and gazettement of the Public Finance Management (Prisons Enterprise Fund) Regulations, 2025 to provide for the merger of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund and the operation of separate bank accounts, and submit evidence to the Auditor-General for audit verification; and**

ii) **Within one (1) month of the adoption of this Report, the Accounting Officer submits a certificate of bank balance and a reconciliation for the District Treasury balance of Kshs. 1,143,400 to the Auditor-General for audit verification.**

2) Unsupported Pay Master General (PMG) Balance

143. The statement of financial position and Note 12 to the financial statements reflected a PMG balance of Kshs. 175,987,430. As previously reported, the balance represents amounts held on behalf of the Fund in the former MOHA deposit account, which were yet to be transferred to the new bank account of the Fund. No documents were provided to support the balance. In the circumstances, the existence and recoverability of the balance of Kshs. 175,987,430 could not be confirmed.

Submissions by the Accounting Officer

144. The Accounting Officer submitted that the balance comprised funds not transferred from the former MOHA deposit account when the Fund moved to the Ministry of Interior and Coordination of National Government. The books of the Fund reflected a PMG balance of Kshs. 119,965,676 as at 1st July, 2013, which MOHA had not reconciled. During the transition, the deposit account was suspended between 1st July and 30th October, 2013, and the Fund deposited revenue of Kshs. 155,336,405 into it. When the new Prison Industries Fund account was opened on 3rd October, 2013, only Kshs. 92,135,931 was transferred, leaving Kshs. 175,987,430 in the PMG account.

Committee Observations

145. The Committee observed that-

i) **The PMG balance of Kshs. 175,987,430 had not been transferred to the Fund since 2013 and was not supported by documents; and**

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

Committee Recommendations

146. The Committee recommends that-

i) **Within six (6) months of the adoption of this Report, the Accounting Officer, in liaison with the National Treasury and the Ministry of Interior and National Administration, should reconcile and recover the PMG balance of Kshs. 175,987,430 and submit evidence to the Auditor-General for audit verification; and**

ii) **Where the balance is confirmed to be irrecoverable, the Accounting Officer should seek authority from the National Treasury to write it off in accordance with the law, and submit evidence to the Auditor-General for audit verification.**

3) Long Outstanding Receivables

147. The statement of financial position and Note 13 to the financial statements reflected receivables from exchange transactions of Kshs. 158,535,268, which included long outstanding debtors of Kshs. 144,795,918, out of which Kshs. 6,333,143 and Kshs. 138,467,775 had been outstanding for between one and two years and over three years respectively. No explanation or evidence of recovery was provided for audit. In the circumstances, the recoverability of the receivables of Kshs. 144,795,918 could not be confirmed.

Submissions by the Accounting Officer

148. The Accounting Officer submitted that Management had recovered Kshs. 16,344,432 and had issued demand notices to debtors, engaged the Government institutions that form its largest customers, and begun a debtor ageing and verification exercise to confirm the validity of the balances and inform recovery action and any proposals for write-off.

Committee Observations

149. The Committee observed that -

i) **The receivables included long outstanding debtors of Kshs. 144,795,918, out of which the Management had managed to recover Kshs. 16,344,432; and**

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

Committee Recommendations

150. The Committee recommends that-

i) **Within three (3) months of the adoption of this Report, the Accounting Officer to conclude the debtor ageing and verification exercise and, where amounts are confirmed to be irrecoverable, seek authority to write them off in accordance with Section 69 of the Public Finance Management Act, Cap. 412A, and submit evidence to the Auditor-General for audit verification; and**

ii) **The Accounting Officer should, henceforth, strengthen credit control to ensure the timely collection of receivables.**

4) Material Uncertainty Related to Going Concern

151. Note 21 to the financial statements disclosed that the Fund had pending litigation on motor vehicle number plates, and that a large amount of money may be required if the ruling goes in favour of the plaintiff, greatly affecting the going concern of the Fund. This indicates the existence of a material uncertainty that may cast significant doubt on the ability of the Fund to continue as a going concern.

Submissions by the Accounting Officer

152. The Accounting Officer submitted that the motor vehicle number plate function had been transferred to NTSA.

Committee Observations

153. The Committee observed that-

i) **The Fund faced pending litigation on number plates which, if decided against it, could cast significant doubt on its ability to continue as a going concern;**

ii) **Management did not demonstrate any mitigation or revenue diversification strategy; and**

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

Committee Recommendation

154. The Committee recommends that -

Within six (6) months of the adoption of this Report, the Accounting Officer submit to the Auditor-General, for audit verification, a sustainability strategy setting out measures to mitigate the risk posed by the litigation and diversify the Fund's revenue streams.

5) Budgetary Control and Performance

155. The statement of comparison of budget and actual amounts reflected final receipts of Kshs. 301,561,203 against actual receipts of Kshs. 78,711,819, resulting in an under-collection of Kshs. 222,849,384 or 74% of the budget. However, the Fund spent Kshs. 139,649,940 against actual receipts of Kshs. 78,711,819, resulting in an over-expenditure of Kshs. 60,938,121 or 44% of the actual receipts. The under-funding may have affected the planned activities of the Fund.

Submissions by the Accounting Officer

156. The Accounting Officer submitted that the Fund does not rely on the Exchequer but on revenue from its own activities. Only 26% of the budgeted revenue of Kshs. 301,561,203 was realised, and operations were scaled down by 75%. Some operations were to be financed from savings, but NTSA owed about Kshs. 100,000,000 and Kshs. 250,000,000 of the savings had been transferred to finance other Government activities. The Accounting Officer was engaging the National Treasury to recover an equivalent amount.

Committee Observations

157. The Committee observed that –

i) **The Fund recorded an under-collection of revenue of Kshs. 222,849,384 and an over-expenditure of Kshs. 60,938,121; and**

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

Committee Recommendations

158. The Committee recommends that –

i) **Within three (3) months of the adoption of this Report, the Accounting Officer develops and implements measures to enhance revenue generation so that the Fund meets its budgetary targets, and submit a report on the measures to the Auditor-General for audit verification; and**

ii) **The Accounting Officer, henceforth, ensures that revenue budgets are based on realistic and achievable projections that reflect the operational capacity of the Fund.**

6) Stalled Industrial Workshops

159. Field verification in August, 2025 revealed that three (3) industrial workshops started between 2012 and 2019 had stalled at different levels of completion. The Nairobi West Prison Industrial Workshop, started in 2012, had stalled at the foundation level due to lack of funding. Although a letter dated 31st October, 2019 from the State Department for Public Works estimated the completion works at Kshs. 6,322,000, the total cost of the project could not be ascertained due to unavailability of records.

160. Further, the Embu Main Prison industry workshop and showroom, started in 2019 at an estimated cost of Kshs. 48,820,845, had stalled at ground level at 23% completion. In addition, the Embu Women Industry block, estimated to cost Kshs. 4,503,737, was funded with Kshs. 250,000 and stalled at 7% completion. In the circumstances, value for money was not obtained from the stalled projects.

Submissions by the Accounting Officer

161. The Accounting Officer submitted that the Nairobi West project stalled at the foundation stage after capital allocations were discontinued, and that its documentation could not be fully traced due to staff transfers. A joint team of the State Department for Public Works, the Kenya Prisons Service and Prison Industries would reconstruct the documentation and prepare an updated bill of quantities, and the project would be prioritised in the development budget for the Financial Year 2026/2027. The Accounting Officer further submitted that the Embu workshop and showroom stalled due to insufficient development funding, and that a request had been made to include it in the national framework for reviving stalled projects coordinated by the National Treasury.

Committee Observations

162. The Committee observed that-

i) **Three (3) industrial workshops started between 2012 and 2019 had stalled; the Nairobi West Prison Industrial Workshop at foundation level with no records of its total cost; the Embu Main Prison industry workshop and showroom at 23% completion; and the Embu Women Industry block at 7% completion;**

ii) **Value for money had not been obtained from the resources invested in the stalled projects; and**

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

Committee Recommendations

163. The Committee recommends that –

i) **Within three (3) months of the adoption of this Report, the Accounting Officer should reconstruct the documentation and bill of quantities for the Nairobi West Prison Industrial Workshop and submit them to the Auditor-General for audit verification;**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer includes the completion of the three stalled projects in the procurement plan for the next financial year and submits evidence to the Auditor-General for audit verification;**

iii) **Within six (6) months of the adoption of this Report, the Accounting Office, in liaison with the National Treasury, secures funding for and complete the three stalled projects, and submit evidence to the Auditor-General for audit verification; and**

iv) **The Accounting Officer henceforth, maintains complete project records, including the scope, cost estimates and expenditure, regardless of staff transfers.**

7) Dilapidated State of Infrastructure at Nyeri Maximum Security Prison Industry

164. An audit inspection in July, 2025 at Nyeri Maximum Security Prison Industry revealed that the carpentry section lacked adequate tools and modern equipment, its working benches were worn out, and the roof of the carpentry and upholstery section leaked. In the tailoring section, all electrical apparatus were faulty and several machines were grounded, while the metal workshop needed a working shade and roof repairs, and most of its machines were grounded. Failure to repair and maintain the workshops exposes inmates to an unhealthy working environment and may lead to further deterioration.

Submissions by the Accounting Officer

165. The Accounting Officer concurred with the findings and attributed the conditions to prolonged under-investment in maintenance, heavy use and ageing infrastructure, much of it over thirty (30) years old, compounded by limited refurbishment budgets. Management was pursuing the procurement of modern carpentry and metalwork equipment through internally generated funds and support from development partners.

Committee Observations

166. The Committee observed that -

i) **The workshops and equipment at Nyeri Maximum Security Prison Industry were in a dilapidated state, exposing inmates to an unsafe working environment;**

ii) **No evidence was provided of the acquisition of modern machinery, improvements to the workshops or the inclusion of the required works in the procurement plan; and**

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

Committee Recommendations

167. The Committee recommends that -

i) **Within six (6) months of the adoption of this Report, the Accounting Office includes the repairs, refurbishment and equipment for Nyeri Maximum Security Prison Industry in the procurement plan for the next financial year and submit evidence to the Auditor-General for audit verification; and**

ii) **Within six (6) months of the adoption of this Report, the Accounting Officer repairs the leaking roofs and worn-out workstations and repair or replace the**

faulty machinery at Nyeri Maximum Security Prison Industry, and submit evidence to the Auditor-General for audit verification.

8) Unserviceable and Obsolete Assets

168. As previously reported, the property, plant and equipment balance of Kshs. 98,786,321 in Note 16 to the financial statements included scrap machinery of Kshs. 2,926,440 that had been carried for a number of years. The asset register also showed grounded or unserviceable assets with an estimated value of Kshs. 1,237,457. Management had not indicated measures to dispose of or derecognise the assets.

169. In addition, Kamiti Maximum Prison Industry had inventory worth Kshs. 135,273,945 as at 30th June, 2025, which included raw materials of Kshs. 89,085,571 from the number plate section, discontinued in 2022. At the time of the inspection in July, 2025, obsolete stock was estimated at Kshs. 60,447,840. In the circumstances, the effectiveness of controls over asset management could not be confirmed.

Submissions by the Accounting Officer

170. The Accounting Officer confirmed the audit findings and submitted that the State Department had established a committee to review all its assets and liabilities, which would address the matter.

Committee Observations

171. The Committee observed that -

i) **Scrap machinery of Kshs. 2,926,440 and unserviceable machinery of Kshs. 1,237,457 had not been disposed of or derecognized;**

ii) **Kamiti Maximum Prison Industry held inventory of Kshs. 135,273,945, including raw materials of Kshs. 89,085,571 from the discontinued number plate section, and obsolete stock estimated at Kshs. 60,447,840; and**

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

Committee Recommendations

172. The Committee recommends that-

i) **Within six (6) months of the adoption of this Report, the Accounting Officer disposes of or derecognizes the scrap machinery of Kshs. 2,926,440 and the unserviceable machinery of Kshs. 1,237,457 in accordance with Sections 163 and 164 of the Public Procurement and Asset Disposal Act, Cap. 412C and Part XIV of the Public Procurement and Asset Disposal Regulations, 2020, and submit evidence to the Auditor-General for audit verification; and**

ii) **Within six (6) months of the adoption of this Report, the Accounting Office disposes of the obsolete stock of Kshs. 60,447,840 at Kamiti Maximum Prison Industry in accordance with the same provisions, and submit evidence to the Auditor-General for audit verification.**

CHAPTER FOUR

4.0 EXAMINATION OF THE AUDITOR-GENERAL'S REPORTS ON THE FINANCIAL STATEMENTS OF THE PRISON FARMS REVOLVING FUND FOR THE FINANCIAL YEARS 2022/2023 TO 2024/2025

173. As indicated in Chapter Three, Ms. Salome Muhia Beacco, the Principal Secretary, State Department for Correctional Services, appeared before the Committee as the Accounting Officer for the Prison Farms Revolving Fund at the same sitting, accompanied by the officers listed in that Chapter.

4.1 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2022/2023

1) Unsupported Cash and Cash Equivalents

174. The statement of financial position and Note 11(a) to the financial statements reflected cash and cash equivalents of Kshs. 38,397,632. However, as reported in the previous year, one cash book and a single bank account were maintained for both the Prison Farms Revolving Fund and the Prison Industries Revolving Fund, although the two Funds are distinct and prepare separate financial statements. Payments were commingled, making it difficult to identify and apportion the revenue earned by each Fund. In the circumstances, the accuracy, completeness and existence of the balance of Kshs. 38,397,632 could not be confirmed.

Submissions by the Accounting Officer

175. The Accounting Officer concurred that the two Funds shared one cash book and one bank account at the Central Bank of Kenya, and submitted that the draft Public Finance Management (Prisons Enterprise Fund) Regulations, 2025, which would merge the two Funds, were at an advanced stage.The Accounting Officer further submitted that payments of Kshs. 115,526,747 in the bank statement but not in the cash book as at 30th June, 2022 arose from misplaced payment vouchers, which had since been traced and posted, and that the stale cheques had been reversed in the bank reconciliation statements for the Financial Year 2022/2023.

Committee Observations

176. The Committee observed that –

i) **The two Funds operated a single cash book and bank account, and their payments were commingled; and**

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

Committee Recommendations

177. The Committee recommends that –

i) **Within three (3) months of the adoption of this Report, the Accounting Officer should fast-track the finalization and gazettement of the Public Finance Management (Prisons Enterprise Fund) Regulations, 2025 to provide for the merger of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund and the operation of separate bank accounts, and submit evidence to the Auditor-General for audit verification; and**

ii) **The Accounting Officer should, henceforth, ensure that financial statements submitted for audit present a true and fair view of the financial position of the Fund, in compliance with Section 81(3) of the Public Finance Management Act, Cap. 412A and Regulation 23(d) of the Public Finance Management (National Government) Regulations, 2015.**

2) Long Outstanding Debtors

178. The statement of financial position and Note 12 to the financial statements reflected receivables from exchange transactions of Kshs. 89,710,743, which included Kshs. 17,584,345 in long outstanding debts dating back to 2014. No explanation was provided for the delay or the efforts made to recover the amount. In the circumstances, the recoverability of the debts of Kshs. 17,584,345 could not be confirmed.

Submissions by the Accounting Officer

179. The Accounting Officer submitted that the Kshs. 17,584,345 had since been recovered, as shown by the bank statement extract provided.

Committee Observations

180. The Committee observed that –

i) **The Accounting Officer provided a bank statement extract confirming the recovery of the outstanding receivable of Kshs. 17,584,345; and**

ii) **The matter is resolved.**

Committee Recommendation

181. The Committee recommends that -

The Accounting Office, henceforth, pursues the recovery of receivables promptly and maintain an ageing analysis of all debtors.

3) Budgetary Control and Performance

182. The statement of comparison of budget and actual amounts reflected final revenue of Kshs. 318,595,000 against actual revenue of Kshs. 151,539,251, resulting in an under-collection of Kshs. 167,055,749 or 52% of the budget. Similarly, the statement reflected final expenditure of Kshs. 297,447,241 against actual expenditure of Kshs. 145,868,473, resulting in an under-expenditure of Kshs. 151,578,768 or 51% of the budget. Management did not explain the under-performance, which may affect the planned activities of the Fund.

Submissions by the Accounting Officer

183. The Accounting Officer submitted that the Fund does not rely on the Exchequer but on revenue from its own activities, and that it fell 52% short of its budgeted revenue of Kshs. 318,595,000. Some operations were to be financed from savings, but Kshs. 200,000,000 of the savings was transferred to finance other Government activities without reference to the management of the Fund. The Accounting Officer was engaging the National Treasury to recover an equivalent amount.

Committee Observations

184. The Committee observed that –

i) **The Fund recorded an under-collection of revenue of Kshs. 167,055,749 and an under-expenditure of Kshs. 151,578,768;**

ii) **The transfer of Kshs. 200,000,000 of Fund savings to finance other Government activities further constrained the operations of the Fund; and**

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

Committee Recommendation

185. The Committee recommends that -

The Accounting Officer should, henceforth, ensure that annual budgets are realistic, revenue projections are achievable and expenditure is aligned with actual revenue collections.

4) Unresolved Prior Year Matters

186. In the audit report of the previous year, several issues were raised under the Report on Financial Statements and the Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved the issues or explained the failure to adhere to the templates of the PSASB and the National Treasury Circular Ref. AG.3/88/2 Vol. VII (20) of 11th May, 2022.

Submissions by the Accounting Officer

187. The Accounting Officer submitted that the unresolved matters included a receivable of about Kshs. 17,000,000 for food supplied by Prison Farms to prison stations, which had since been recovered, as shown by the bank statement extract provided.

Committee Observations

188. The Committee observed that –

i) **Issues raised in the previous audit report had not been resolved; and**

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

Committee Recommendation

189. The Committee recommends that -

Within three (3) months of the adoption of this Report, the Accounting Officer should resolve the prior year matters as required by Section 68(2)(l) of the Public Finance Management Act, Cap. 412A and submit a status report to the Auditor-General for audit verification.

5) Delay in Disposal of Assets

190. The statement of financial position and Note 17 to the financial statements reflected property, plant and equipment of Kshs. 187,463,796, which included scrap machinery of Kshs. 1,096,300 that had been carried in the financial statements with no plans for its disposal. Further, an audit inspection at Nyandarua Prison Farm in July, 2023 found a grounded tractor that had been left idle without repair and continued to deteriorate. Management had not disposed of the assets as required by Regulation 176(1) of the Public Procurement and Asset Disposal Regulations, 2020, which requires an accounting officer to ensure that an annual asset disposal plan is prepared for unserviceable, surplus or obsolete assets. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

191. The Accounting Officer submitted that the scrap machinery had remained in the books pending formal review and disposal. The State Department had constituted a committee to review all its assets and liabilities and to identify unserviceable and obsolete items for disposal in accordance with the law during the Financial Year 2024/2025.

Committee Observations

192. The Committee observed that-

i) **Scrap machinery of Kshs. 1,096,300 had been carried in the books without a disposal plan, and a grounded tractor at Nyandarua Prison Farm had been left idle without repair; and**

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

Committee Recommendations

193. The Committee recommends that—

i) **Within six (6) months of the adoption of this Report, the Accounting Officer completes the disposal of the scrap machinery valued at Kshs. 1,096,300 in accordance with Sections 163 and 164 of the Public Procurement and Asset Disposal Act, Cap. 412C and Part XIV of the Public Procurement and Asset Disposal Regulations, 2020, and submit evidence to the Auditor-General for audit verification; and**

ii) **Within six (6) months of the adoption of this Report, the Accounting Officer to repair or dispose of the grounded tractor at Nyandarua Prison Farm and submit evidence to the Auditor-General for audit verification.**

6) Failure to Use Information Technology in Finance and Procurement Departments

194. The Prison Farms Revolving Fund was established by Legal Notice No. 87 under the Exchequer and Audit Act (Cap. 412) and was deemed operational from 1st July, 1992. As reported in the previous year, despite being in operation for thirty (30) years, the Fund had not automated its operations, especially financial reporting and procurement, and its transactions, ledgers and financial statements were processed manually.

195. Further, the Fund had not implemented e-procurement, as required by Regulation 49(2) of the Public Procurement and Asset Disposal Regulations, 2020 and Executive Order No. 2 of 2018, and Management did not explain the failure. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

196. The Accounting Officer concurred that the Fund had not automated its operations and that its transactions, ledgers and financial statements were processed manually, and that it had not implemented e-procurement. This was due to the lack of an IFMIS module catering to the Fund's distinct operations. However, its sales and expenditure were processed through IFMIS under class 4 (General Deposits) and payments were made through Central Bank of Kenya internet banking. The Fund had procured an ERP system, which would be rolled out at the headquarters and then to all Prison Industries and Prison Farms stations.

Committee Observations

197. The Committee observed that –

i) **The Fund had not automated its financial reporting and procurement processes;**

ii) **An ERP system had been procured but had not been rolled out, and no implementation timeline was provided; and**

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

Committee Recommendations

198. The Committee recommends that-

i) **Within six (6) months of the adoption of this Report, the Accounting Officer rolls out the ERP system to all Prison Farms and Prison Industries stations and submit evidence to the Auditor-General for audit verification; and**

ii) **Within six (6) months of the adoption of this Report, the Accounting Officer completes the integration of the Fund into the e-procurement system and submit evidence to the Auditor-General for audit verification.**

4.2 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2023/2024

1) Long Outstanding Receivables

199. The statement of financial position and Note 12 to the financial statements reflected receivables from exchange transactions of Kshs. 100,210,528, which included Kshs. 12,584,345 in long outstanding debts dating back to 2014. No explanation was provided for the delay or the efforts made to recover the amount. In the circumstances, the recoverability of the debts of Kshs. 12,584,345 could not be confirmed.

Submissions by the Accounting Officer

200. The Accounting Officer submitted that the receivables related to food and rations supplied by Prison Farms to prison facilities, and that the balance was Kshs. 17,584,345 at the beginning of the year, and that the matter had since been resolved.

Committee Observations

201. The Committee observed that –

i) **The Accounting Officer provided a bank statement extract confirming the recovery of the receivables of Kshs. 12,584,345, which had been outstanding since 2014; and**

ii) **The matter is resolved.**

Committee Recommendation

202. The Committee recommends that -

The Accounting Officer, henceforth, pursues the recovery of receivables promptly and maintains an aging analysis of all debtors.

2) Unsupported Cash and Cash Equivalents

203. The statement of financial position and Note 11(a) to the financial statements reflected a cash and cash equivalents debit balance of Kshs. 36,958,748, which differed from the reconciled cash book balance of Kshs. 102,831,066. Further, the bank reconciliation statement reflected payments in the cash book not in the bank statement of Kshs. 17,937,726, payments in the bank statement not in the cash book of Kshs. 17,326,907 and receipts in the cash book not in the bank statement of Kshs. 218,694. In addition, as reported in the previous year, one cash book and a single bank account were maintained for both Funds, and payments were commingled. In the circumstances, the accuracy and completeness of the cash and cash equivalents balance could not be confirmed.

Submissions by the Accounting Officer

204. The Accounting Officer submitted that the Fund shared one cash book and one bank account with the Prison Industries Revolving Fund at the Central Bank of Kenya, and that the draft Public Finance Management (Prisons Enterprise Fund) Regulations, 2025, which would merge the two Funds, were at an advanced stage.

Committee Observations

205. The Committee observed that-

i) **The Accounting Officer did not explain the variance of Kshs. 65,872,318 between the reported cash and cash equivalents balance of Kshs. 36,958,748 and the reconciled cash book balance of Kshs. 102,831,066;**

ii) **The two Funds continued to operate a single cash book and bank account; and**

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

Committee Recommendations

206. The Committee recommends that within **three (3) months of the adoption of this Report –**

i) **The Accounting Officer reconciles the cash and cash equivalents balance with the cash book, clear the reconciling items and submit the reconciliation to the Auditor-General for audit verification; and**

ii) **The Accounting Officer fast-tracks the finalisation and gazettement of the Public Finance Management (Prisons Enterprise Fund) Regulations, 2025 to provide for the merger of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund and the operation of separate bank accounts, and submit evidence to the Auditor-General for audit verification.**

3) Budgetary Control and Performance

207. The statement of comparison of budget and actual amounts reflected final revenue of Kshs. 273,103,700 against actual revenue of Kshs. 154,727,085, resulting in an under-funding of Kshs. 118,376,615 or 43% of the budget. Similarly, the Fund spent Kshs. 140,790,966 against actual receipts of Kshs. 154,727,085, resulting in an under-utilisation of Kshs. 13,936,119 or 9% of the actual receipts. The under-funding and under-utilisation affected the planned activities of the Fund.

Submissions by the Accounting Officer

208. The Accounting Officer submitted that actual expenditure of Kshs. 140,790,966 against a budget of Kshs. 266,148,961 resulted in an under-expenditure of Kshs. 125,357,995 or 47%. The Fund relies on its own revenue, which fell 43% short of the target, and its operations were scaled down by 53%. Kshs. 200,000,000 of the savings of the Fund had also been transferred to finance other Government activities, and the Accounting Officer was engaging the National Treasury to recover an equivalent amount.

Committee Observations

209. The Committee observed that –

i) **The Fund recorded an under-funding of Kshs. 118,376,61 and an under-utilisation of Kshs. 13,936,119; and**

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

Committee Recommendation

210. The Committee recommends that -

The Accounting Officer, henceforth, ensures that annual budgets are realistic, revenue projections are achievable, and expenditure is aligned with actual revenue collections.

4) Failure to Use Information Technology in Finance and Procurement Departments

211. As reported in the previous year, despite being in operation for thirty-two (32) years, the Fund had not automated its operations, especially financial reporting and procurement, and its transactions, ledgers and financial statements were processed manually. Further, the Fund had not implemented e-procurement, as required by the Public Procurement and Asset Disposal Regulations, 2020 and Executive Order No. 2 of 2018. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

212. The Accounting Officer concurred that the Fund had not automated its operations and that its transactions, ledgers and financial statements were processed manually, and that it had not implemented e-procurement. This was due to the lack of an IFMIS module catering for the distinct operations of the Fund. However, its sales and expenditure were processed through

IFMIS under class 4 (General Deposits), and payments were made through the Central Bank of Kenya internet banking. The Fund had procured an ERP system, which would be rolled out at the headquarters and then to all Prison Industries and Prison Farms stations.

Committee Observations

213. The Committee observed that-

i) **The Fund had not automated its financial reporting and procurement processes;**

ii) **The Fund had not implemented e-procurement, contrary to Regulation 49(2) of the Public Procurement and Asset Disposal Regulations, 2020 and Executive Order No. 2 of 2018;**

iii) **An ERP system had been procured but had not been rolled out, and no implementation timeline was provided; and**

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

Committee Recommendations

214. The Committee recommends that-

i) **Within six (6) months of the adoption of this Report, the Accounting Officer to roll out the ERP system to all Prison Farms and Prison Industries stations and submit evidence to the Auditor-General for audit verification; and**

ii) **Within six (6) months of the adoption of this Report, the Accounting Officer to complete the integration of the Fund into the e-procurement system and submit evidence to the Auditor-General for audit verification.**

4.3 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2024/2025

1) Unbalanced Budget

215. The statement of comparison of budget and actual amounts reflected budgeted receipts of Kshs. 274,193,500 and budgeted expenditure of Kshs. 305,540,448, comprising recurrent and capital expenditure of Kshs. 41,500,000 and Kshs. 264,040,448 respectively, indicating an unbalanced budget with a variance of Kshs. 31,346,948. This was contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015, which requires the budget to be balanced.

Submissions by the Accounting Officer

216. The Accounting Officer submitted that the variance arose because part of the capital expenditure was to be financed from reserves carried forward from the previous financial year, and that the anomaly would be addressed in subsequent years.

Committee Observations

217. The Committee observed that-

i) **Budgeted expenditure of Kshs. 305,540,448 exceeded budgeted receipts of Kshs. 274,193,500 by Kshs. 31,346,948, contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015; and**

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

Committee Recommendation

218. The Committee recommends that -

The Accounting Officer to always prepare balanced budgets in compliance with Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015, and disclose any financing from reserves in the budget estimates.

2) Net Cash Flow from Operating Activities

219. The statement of cash flows reflected net cash flow from operating activities of Kshs. 37,273,958, as disclosed in Note 22 to the financial statements, which included an increase in receivables of Kshs. 16,523,327. However, the statement of financial position reflected receivables from exchange transactions of Kshs. 64,458,226 and Kshs. 100,210,528 for the Financial Years 2024/2025 and 2023/2024 respectively, a decrease of Kshs. 35,752,302, resulting in an unexplained variance of Kshs. 19,228,975. In the circumstances, the accuracy of the financial statements could not be confirmed.

Submissions by the Accounting Officer

220. The Accounting Officer noted the variance and submitted that it would be rectified in subsequent years.

Committee Observations

221. The Committee observed that -

i) **The statement of cash flows reflected an increase in receivables of Kshs. 16,523,327, while the statement of financial position showed a decrease of Kshs. 35,752,302, leaving an unexplained variance of Kshs. 19,228,975;**

ii) **Management acknowledged the variance but did not provide a reconciliation; and**

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

Committee Recommendations

222. The Committee recommends that –

i) **Within three (3) months of the adoption of this Report, the Accounting Office reconciles the statement of cash flows with the statement of financial position, correct the variance of Kshs. 19,228,975 in the financial statements for the Financial Year 2025/2026 and submit the reconciliation to the Auditor-General for audit verification; and**

ii) **The Accounting Office, henceforth, ensures that the financial statements comply with IPSAS 1 and are consistent with one another.**

3) Unsupported Revaluation Reserves

223. The statement of changes in net assets reflected revaluation reserves of Kshs. 18,470,325, which included a revaluation loss of Kshs. 1,808,334 on biological assets. However, the balance was not supported by valuation reports from competent authorities. In the circumstances, the accuracy and completeness of the revaluation reserves of Kshs. 18,470,325 could not be confirmed.

Submissions by the Accounting Officer

224. The Accounting Officer concurred with the audit finding and undertook to ensure that all revaluations are carried out using professional practices and documented assumptions, and that the resulting gains or losses are properly reflected in the financial statements.

Committee Observations

225. The Committee observed that -

i) **The revaluation reserves of Kshs. 18,470,325, including a revaluation loss of Kshs. 1,808,334 on biological assets, were not supported by valuation reports; and**

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

Committee Recommendations

226. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Office engages qualified valuers to value all biological assets of the Fund in accordance with the applicable accounting standards, and submit the valuation reports to the Auditor-General for audit verification; and**

ii) **The Accounting Officer ensures that the revaluation reserves and any resulting gains or losses are accurately reflected in the financial statements and supported by the valuation reports.**

4) Unsupported Cash and Cash Equivalents

227. The statement of financial position and Note 11(a) to the financial statements reflected a negative bank balance of Kshs. 1,584,844. As reported in the previous year, one cash book and a single bank account were maintained for both the Prison Farms Revolving Fund and the Prison Industries Revolving Fund, and payments were commingled. In the circumstances, the accuracy and completeness of the negative bank balance could not be confirmed.

Submissions by the Accounting Officer

228. The Accounting Officer acknowledged the use of one cash book and one bank account for the two Funds, but submitted that the cash book identified the source of each transaction. On the advice of the National Treasury, a taskforce had developed draft regulations, which were with the Office of the Attorney-General, after which separate bank accounts and cash books would be operationalized.

Committee Observations

229. The Committee observed that -

i) **The two Funds continued to operate a single cash book and bank account; and**

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

Committee Recommendations

230. The Committee recommends that –

i) **Within three (3) months of the adoption of this Report, the Accounting Office fast-tracks the finalization and gazettement of the Public Finance Management (Prisons Enterprise Fund) Regulations, 2025 to provide for the merger of the Prison Industries Revolving Fund and the Prison Farms Revolving Fund and the operation of separate bank accounts, and submit evidence to the Auditor-General for audit verification; and**

ii) **The Accounting Office henceforth, ensures that financial statements submitted for audit present a true and fair view of the financial position of the Fund, in compliance with Section 81(3) of the Public Finance Management Act, Cap. 412A and Regulation 23(d) of the Public Finance Management (National Government) Regulations, 2015.**

5) Unsupported Pay Master General (PMG) Balance

231. The statement of financial position and Note 11 to the financial statements reflected a PMG balance of Kshs. 56,021,755. As previously reported, the balance represents amounts held on behalf of the Fund in the former MOHA deposit account, which were yet to be transferred to the new bank account of the Fund. No documents were provided to support the balance. In the circumstances, the existence and recoverability of the balance of Kshs. 56,021,755 could not be confirmed.

Submissions by the Accounting Officer

232. The Accounting Officer submitted that the balance comprised funds not transferred from the former MOHA deposit account during the reorganisation of Government in 2013. While the deposit account was suspended between 1st July and 30th October, 2013, Prison Farms deposited revenue of Kshs. 18,634,357 into it, and only Kshs. 26,589,744 was transferred to the new account, leaving Kshs. 56,021,755 in the PMG account.

Committee Observations

233. The Committee observed that –

i) **The PMG balance of Kshs. 56,021,755 had not been transferred to the Fund since 2013 and was not supported by documents; and**

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

Committee Recommendations

234. The Committee recommends that –

i) **Within six (6) months of the adoption of this Report, the Accounting Officer, in liaison with the National Treasury and the Ministry of Interior and National Administration reconciles and recovers the PMG balance of Kshs. 56,021,755 and submit evidence to the Auditor-General for audit verification; and**

ii) **Where the balance is confirmed to be irrecoverable, the Accounting Officer should seek authority from the National Treasury to write it off in accordance with the law, and submit evidence to the Auditor-General for audit verification.**

6) Long Outstanding Receivables

235. The statement of financial position and Note 12 to the financial statements reflected receivables from exchange transactions of Kshs. 64,458,226, out of which Kshs. 6,021,680 had been outstanding for between one and two years. Further, Kshs. 18,324,328 was paid by various correctional facilities between July and 5th August, 2025. No explanation was provided for the non-recovery of the balance of Kshs. 46,133,898. In the circumstances, the recoverability of the receivables of Kshs. 46,133,898 could not be confirmed.

Submissions by the Accounting Officer

236. The Accounting Officer submitted that the balances related mainly to historical supplies to Government departments, that Kshs. 40,112,219 had been recovered, and that schedules of supplies for the balance had been forwarded to the State Department for settlement.

Committee Observations

237. The Committee observed that -

i) **The Accounting Officer provided a bank statement extract confirming the recovery of Kshs. 40,112,219, and the balance of Kshs. 6,021,680 was cleared in March, 2026; and**

ii) **The matter is resolved.**

Committee Recommendation

238. **The Committee recommends that the Accounting Officer to always ensure that payments for food and rations supplied to correctional facilities are collected promptly.**

7) Unsupported Inventories Balance

239. The statement of financial position and Note 13 to the financial statements reflected inventories of Kshs. 260,959,638, comprising growing crops, harvested crops and farm inputs of Kshs. 223,867,934, Kshs. 29,889,399 and Kshs. 7,202,305 respectively. However, the balances were not supported by stock-take sheets and Board of Survey reports showing the measurement and recognition of the biological assets, as required by IPSAS 27. In the circumstances, the completeness, existence and fair value of the inventories of Kshs. 260,959,638 could not be confirmed.

Submissions by the Accounting Officer

240. The Accounting Officer submitted that stock-taking is carried out at all stations and that the reports were available for verification and provided a sample.

Committee Observations

241. The Committee observed that –

i) **The Accounting Officer provided the stock-take reports supporting the balance of Kshs. 260,959,638; and**

ii) **The matter is resolved.**

Committee Recommendation

242. **The Committee recommends that the Accounting Office, henceforth, submits stock-take sheets and Board of Survey reports supporting the inventory balances together with the financial statements, as required by IPSAS 27.**

8) Budgetary Control and Performance

243. The statement of comparison of budget and actual amounts reflected final revenue of Kshs. 274,193,500 against actual revenue of Kshs. 72,547,091, resulting in an under-funding of Kshs. 201,646,409 or 74% of the budget. Similarly, the Fund spent Kshs. 93,534,801 against actual receipts of Kshs. 72,547,091, resulting in an over-utilisation of Kshs. 20,987,710 or

28% of the actual receipts. The under-funding affected the planned activities of the Fund and may have affected service delivery.

Submissions by the Accounting Officer

244. The Accounting Officer submitted that the Fund does not rely on the Exchequer but on revenue from its own activities, and that it fell 74% short of its budgeted revenue, leading to scaled-down operations. Efforts were being made to ensure that the State Department for Correctional Services pays promptly for food and rations supplied by the Fund.

Committee Observations

245. The Committee observed that -

i) **The Fund recorded an under-funding of Kshs. 201,646,409;**

ii) **The Fund spent Kshs. 93,534,801 against actual receipts of Kshs. 72,547,091, an over-expenditure of Kshs. 20,987,710; and**

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

Committee Recommendations

246. The Committee recommends that-

i) **Within three (3) months of the adoption of this Report, the Accounting Officer develops and implements measures to enhance revenue, including the prompt payment for food and rations supplied to correctional facilities, and submit a report to the Auditor-General for audit verification.**

CHAPTER FIVE

5.0 EXAMINATION OF THE AUDITOR-GENERAL'S REPORTS ON THE FINANCIAL STATEMENTS OF THE LOCAL AUTHORITIES PROVIDENT FUND FOR THE FINANCIAL YEARS 2022/2023 TO 2024/2025

247. Mr. Bernard Mbogoh, the Chief Executive Officer of the Local Authorities Provident Fund, appeared before the Committee on Tuesday, 7th April, 2026 to adduce evidence on the audited financial statements of the Fund for the Financial Years 2022/2023 to 2024/2025. During the meeting, the Accounting Officer was accompanied by-

1.	Mr. Galm Jaldesa	-	General Manager, Strategic Planning
2.	CPA Chemashack Ndiwa	-	General Manager, Fund Management Services
3.	Ms. Velma Okoth	-	General Manager, Legal Services
4.	Ms. Veronicah Soila Leseya	-	General Manager, Member Services
5.	Mr. David Kibet	-	Supply Chain Manager
6.	Ms. Linda Njeru	-	Personal Assistant to the Chief Executive Officer
7.	Ms. Gladys Chepkonga	-	Manager, Finance and Accounts
8.	Mr. Moses Maroa	-	Coordinator, Accounts

5.1 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2022/2023

1) Weaknesses in Collection of Long-Term Receivables from Exchange Transactions

248. The statement of financial position and Note 18 to the financial statements reflected long-term receivables from exchange transactions of Kshs. 19,282,219,000, after deducting a cumulative impairment allowance of Kshs. 29,463,051,000 and transferring Kshs. 1,126,019,000 to current receivables. Non-current receivables increased by Kshs. 6,275,034,000, from Kshs. 43,596,255,000 to Kshs. 49,871,289,000, due to penalties charged on outstanding debts. Management had not aggressively pursued the collection of the receivables to minimise penalties on outstanding contributions. In the circumstances, the existence of an effective mechanism for the full and efficient collection of the long-term receivables could not be confirmed.

Submissions by the Accounting Officer

249. The Accounting Officer submitted that the Fund had made progress in debt recovery, including the following settlements by sponsors:

i) Nairobi City County Government cleared Kshs. 870,000,000 in principal and partially settled accrued interest of Kshs. 8,200,000,000 through a debt-property swap;

ii) Nyeri County Government cleared Kshs. 132,500,000;

iii) Siaya County Government cleared Kshs. 115,000,000 in principal and Kshs. 157,500,000 in interest;

iv) Nairobi City Water and Sewerage Company settled Kshs. 350,000,000 in principal and Kshs. 395,000,000 in interest;

v) Kwale County Government was settling Kshs. 37,000,000 in principal and Kshs. 91,000,000 in interest;

vi) Nakuru County Government paid Kshs. 215,000,000 in interest;

vii) Makueni County Government entered into a repayment plan for Kshs. 157,700,000 in interest, of which Kshs. 39,700,000 had been paid; and

viii) Isiolo County Government entered into a repayment plan for Kshs. 38,000,000 in principal and Kshs. 200,000,000 in interest.

250. The Accounting Officer further submitted that repayment plans had been signed with sponsors including the County Governments of Kisumu, Nandi, Busia, Wajir and Meru and the County Assemblies of Kakamega, Tana River and Taita Taveta. Other recovery measures included collecting 90% of current contributions within the financial year, freezing interest for sponsors who had cleared their principal, providing fully for doubtful accrued interest, monthly statements and quarterly reconciliations, deeds of settlement, legal proceedings against sponsors unwilling to settle, and a multi-agency forum to address non-remittance.

Committee Observations

251. The Committee observed that -

i) Long-term receivables of Kshs. 19,282,219,000 were stated after an impairment of Kshs. 29,463,051,000, and non-current receivables rose by Kshs. 6,275,034,000 to Kshs. 49,871,289,000 due to penalties on outstanding contributions;

ii) The Fund had pursued recovery through repayment plans, debt-property swaps and legal proceedings, but the gross receivables continued to rise; and

iii) The matter is not resolved.

Committee Recommendation

252. **The Committee recommends that within six (6) months of the adoption of this Report, the Accounting Officer submits to the Auditor-General for audit verification a status**

report on the recovery of the long-term receivables, showing the amounts recovered under each repayment plan, debt-property swap and legal proceeding.

5.2 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2023/2024

1) Budgetary Control and Performance

253. The statement of comparison of budget and actual amounts reflected an approved revenue budget of Kshs. 30,895,768,000 against actual revenue of Kshs. 14,366,176,000, resulting in an under-performance of Kshs. 16,529,592,000 or 54% of the budget. The Fund spent Kshs. 1,281,802,000 against an approved expenditure budget of Kshs. 1,328,352,000, resulting in an under-expenditure of Kshs. 46,550,000 or 4% of the budget. The under-funding indicates that some approved programmes were not implemented, which may have affected service delivery.

Submissions by the Accounting Officer

254. The Accounting Officer attributed the under-performance to two factors. Contributions of Kshs. 8,600,000,000 were received against a target of Kshs. 11,000,000,000, because members recruited in the last month had not started contributing and because of stiff competition from new products. In addition, the Board resolved to stop charging interest on the outstanding debts of sponsors who had paid their principal, so interest charged was Kshs. 9,500,000,000 against a budget of Kshs. 21,600,000,000.

Committee Observations

255. The Committee observed that -

i) **The Fund recorded an under-performance of Kshs. 16,529,592,000 and spent Kshs. 1,281,802,000 against a budget of Kshs. 1,328,352,000; and**

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

Committee Recommendation

256. **The Committee recommends that the Accounting Officer ensures that revenue budgets are based on realistic and achievable projections that reflect the decisions of the Board and the operational capacity of the Fund.**

2) Non-Compliance with the Two-Thirds Salary Deduction Rule

257. Review of the payroll records revealed that eight (8) employees had deductions exceeding two-thirds of their basic salary, contrary to Section 19(3) of the Employment Act, Cap. 226, which limits the total deductions from an employee's salary at any one time to two-thirds of the basic pay. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

258. The Accounting Officer submitted that Management ensures that staff retain at least a third of their pay, and that the non-compliance arose from the Affordable Housing Levy, introduced in July, 2023, when most staff had already committed their pay. As the levy is a statutory deduction, Management had to implement it, and it continued to encourage the affected employees to regularise their deductions.

Committee Observations

259. The Committee observed that-

i) **Eight (8) employees had deductions exceeding two-thirds of their basic salary, due to the introduction of the Affordable Housing Levy in July, 2023;**

ii) **The affected employees had since regularised their deductions; and**

iii) **The matter is resolved.**

Committee Recommendation

260. **The Committee recommends that the Accounting Officer ensures that deductions from employees' salaries comply with Section 19(3) of the Employment Act, Cap. 226.**

3) Failure to Submit Annual Almanac to the State Corporations Advisory Committee

261. Review of the Board records revealed that the Board did not submit an annual work plan to SCAC through the parent Ministry, contrary to the Head of Public Service Circular Ref. OB/CAB.9/1A of 11th March, 2020, which requires all Boards to submit their annual almanac by 30th June of every year. In the circumstances, Management was in breach of the circular.

Submissions by the Accounting Officer

262. The Accounting Officer submitted that the Board prepares a work plan based on the budget approved by the National Treasury, but that the dismissal of one Board and the reinstatement of another by the court made it impossible to submit the plan. The Board was now properly constituted, and the work plan had been submitted in line with the guidelines.

Committee Observations

263. The Committee observed that –

i) **The annual work plan was not submitted because the Board was not properly constituted, however, the work plan was submitted in the subsequent financial year; and**

ii) **The matter is resolved.**

Committee Recommendation

264. **The Committee recommends that the Accounting Officer, henceforth, ensures that the annual almanac of the Board is submitted to SCAC by 30th June of every year.**

4) Lack of a Functional Board

265. The report of the Board of Directors in the financial statements revealed that the Board was suspended in January, 2024 by a court decision on a constitutional petition, which reinstated the previous Board members. The ruling had been appealed and was pending in the Court of Appeal. The Fund therefore operated without a properly constituted Board from January, 2024, which may have affected its ability to make governance decisions.

Submissions by the Accounting Officer

266. The Accounting Officer submitted that the Board was appointed on 6th March, 2023, vide Gazette Notice No. 2871, and the Chairperson on 29th June, 2023, vide Gazette Notice No. 8472. The seven (7) members were suspended on 19th January, 2024 by the decision of the court in Constitutional Petition No. E002 of 2023, which reinstated the previous Board. The matter had been appealed, and Management was liaising with the parent Ministry on appointing the Board.

Committee Observation

267. **The Committee observed that the Board has since been properly constituted and therefore the matter is resolved**

5) Weaknesses in Collection of Long-Term Receivables from Exchange Transactions

268. As previously reported, the statement of financial position and Note 18 to the financial statements reflected long-term receivables of Kshs. 19,121,423,000, after deducting a cumulative impairment allowance of Kshs. 39,061,505,000 and transferring Kshs. 1,484,628,000 to current receivables. Non-current receivables increased by Kshs. 9,796,267,000, from Kshs. 49,871,289,000 to Kshs. 59,667,556,000, due to penalties charged on outstanding debts. Management had not demonstrated the measures taken to collect the receivables. In the circumstances, the existence of an effective mechanism for the full and efficient collection of the long-term receivables could not be confirmed.

Submissions by the Accounting Officer

269. The Accounting Officer submitted that Management had intensified debt collection through demand letters, emails and visits to sponsors; negotiated deeds of settlement; initiated legal proceedings under Section 53 of the Retirement Benefits Act, Cap. 197 against sponsors unwilling to settle; and capped the interest of sponsors who had signed repayment plans.

Committee Observations

270. The Committee observed that-

i) **Long-term receivables of Kshs. 19,121,423,000 were stated after an impairment of Kshs. 39,061,505,000, and non-current receivables rose by Kshs. 9,796,267,000 to Kshs. 59,667,556,000;**

ii) **The Fund had pursued recovery through repayment plans, debt-property swaps and legal proceedings, but the gross receivables continued to rise; and**

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

Committee Recommendation

271. The Committee recommends that **within six (6) months of the adoption of this Report, the Accounting Officers submits to the Auditor-General for audit verification a status report on the recovery of the long-term receivables, showing the amounts recovered under each repayment plan, debt-property swap and legal proceeding.**

5.3 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2024/2025

1) Inaccuracies in Classification and Valuation of Investment Property

272. The statement of financial position and Note 23 to the financial statements reflected investment property of Kshs. 36,728,886,000, which included assets under construction of Kshs. 19,570,612,000 that were not complete for sale or occupation. Further, there was no evidence of valuation of the investment property during the year, contrary to paragraph 42 of IPSAS 16, which requires an entity that chooses the fair value model to measure all its investment property at fair value. In the circumstances, the accuracy and completeness of the investment property balance of Kshs. 36,728,886,000 could not be confirmed.

Submissions by the Accounting Officer

273. The Accounting Officer acknowledged weaknesses in internal controls over financial reporting and documentation and submitted that supporting schedules had been prepared to match the reported balances. The Fund was committed to properly classifying its assets and improving documentation.

Committee Observations

274. The Committee observed that—

i) **The investment property balance of Kshs. 36,728,886,000 included assets under construction of Kshs. 19,570,612,000, which were not complete for sale or occupation, and no valuation of the investment property was carried out during the year, contrary to paragraph 42 of IPSAS 16; and**

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

Committee Recommendations

275. The Committee recommends that –

i) **The Accounting Office reclassifies the assets under construction and value the investment property in accordance with IPSAS 16 in the financial statements for the Financial Year 2025/2026, and submit evidence to the Auditor-General for audit verification; and**

ii) **The Accounting Officer ensures that the financial statements are prepared in compliance with the Public Finance Management Act, Cap. 412A and the standards prescribed by the PSASB, as required by Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

2) Budgetary Control and Performance

276. The statement of comparison of budget and actual amounts reflected an approved revenue budget of Kshs. 14,197,395,000 against actual revenue of Kshs. 5,850,672,000, resulting in an under-funding of Kshs. 8,346,723,000 or 59% of the budget. Further, the statement reflected an expenditure budget of Kshs. 11,417,211,000 against actual expenditure of Kshs. 13,159,907,000, resulting in an over-expenditure of Kshs. 1,742,696,000 or 15% of the budget. The significant under-funding and over-expenditure point to weaknesses in the budget-making process.

Submissions by the Accounting Officer

277. The Accounting Officer acknowledged that the statement had been prepared on an accrual basis instead of the cash basis required by IPSAS 24, and submitted that the financial statements had since been amended to include a reconciliation between the budget on a cash basis and the actual amounts on an accrual basis.

Committee Observations

278. The Committee observed that –

i) **The statement reflected an under-funding of Kshs. 8,346,723,000 and an over-expenditure of Kshs. 1,742,696,000;**

ii) **The statement had been prepared on an accrual basis contrary to IPSAS 24, and the amended statements had not been verified by the Auditor-General; and**

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

Committee Recommendations

279. The Committee recommends that –

i) **Within three (3) months of the adoption of this Report, the Accounting Office submits the amended statement of comparison of budget and actual amounts and the related reconciliation to the Auditor-General for audit verification; and**

ii) **The Accounting Officer, henceforth, ensures that the financial statements are prepared in compliance with the Public Finance Management Act, Cap. 412A and the standards prescribed by the PSASB, as required by Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

3) Unapproved Contract Variation

280. The Fund awarded a contract on 25th May, 2022 for the development of its Makasembo project on Plots L.R. No. Kisumu Municipality Blocks 5/359, 5/360, 5/361, 5/362 and 5/363 at a contract sum of Kshs. 6,621,361,185, to be implemented in three (3) phases as shown below:

Phase	Commencement Date	Completion Date	Contract Price	Status as of 10 July, 2025
1	26 June, 2022	26 June, 2024	2,072,817,962	Completed
2	11 October, 2024	11 October, 2026	1,730,328,558	On-going
3	Completion of Phase 2	Not Started	2,818,214,665	Not Started
		Total	**6,621,361,185**	

281. During implementation, the contract sum was revised upwards by Kshs. 693,604,561 to Kshs. 7,314,965,746. However, no evidence of approval or justification was provided, contrary to Section 139(1)(a) and (b) and (2)(a) of the Public Procurement and Asset Disposal Act, Cap. 412C, which require contract variations to be approved in writing by the tender awarding authority and justified by the tenderer. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

282. The Accounting Officer submitted that the variation arose from—

i) moving Block A2 and its external works from Phase II to Phase I;
ii) a design modification after construction began, which added a floor to all blocks to provide hanging areas omitted from the original design;
iii) revisions to convert some premium units into low-cost units, which are in higher demand; and
iv) cost adjustments following increases in the prices of construction materials.

283. The Accounting Officer further submitted that the changes in Phases II and III were being finalised in line with the Public Procurement and Asset Disposal Act, Cap. 412C, to ensure that all approvals and documents are in place.

Committee Observations

284. The Committee observed that -

i) **The contract sum was increased by Kshs. 693,604,561 without written approval or justification, contrary to Section 139(1)(a) and (b) and (2)(a) of the Public Procurement and Asset Disposal Act, Cap. 412C,**

ii) **The variation arose from moving Block A2 and its external works from Phase II to Phase I, adding a floor to all blocks to provide hanging areas, converting some premium units to low-cost units to meet market demand, and increases in the prices of construction materials; and**

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

Committee Recommendations

285. The Committee recommends that –

i) **Within three (3) months of the adoption of this Report, the Accounting Officer submits to the Auditor-General for audit verification the written approvals and justification for the contract variation of Kshs. 693,604,561; and**

ii) **The Accounting Officer ensures that all contract variations are approved before they are implemented, as required by Section 139 of the Public Procurement and Asset Disposal Act, Cap. 412C.**

4) Delay in Completion of Proposed Mixed-Use Development at Bellevue, Nairobi

286. The contract for the mixed-use development at Bellevue, Nairobi was awarded on 31st January, 2023 at a contract sum of Kshs. 16,103,401,273, inclusive of taxes, covering Phases 1 and 2. The project was to take thirty-one (31) months, from 26th April, 2023 to October, 2025.

287. A site visit on 10th July, 2025 revealed that, although the contractor was on site, the project was sixteen (16) months behind schedule, with twenty-five (25) of the thirty-one (31) months, or 81% of the contract period, having elapsed. No revised timelines had been submitted or approved. Further, an advance payment of Kshs. 2,898,604,851 had been made, while the value of works certified as at 30th June, 2025 was Kshs. 1,585,691,063. In the circumstances, the project is unlikely to be completed on time and value for money may not be realised.

Submissions by the Accounting Officer

288. The Accounting Officer acknowledged that there was no revised programme of works, and submitted that the contractor and consultants were working out the permissible contract time, with a completion target of the end of October, 2026.The Accounting Officer further submitted that the contract with CRJE East Africa provides for an advance payment of 20%

of the contract price, secured by a bank guarantee, to be recovered once the works reach 30% of the total cost, and that Management would ensure that the advance is fully recovered.

Committee Observations

289. The Committee conducted a site visit and observed that –

i) **The advance payment of Kshs. 2,898,604,851 made to the contractor was within the contractual limit of 20% of the contract price and was secured by a bank guarantee. The advance would be recovered from payments to the contractor once the works reach 30% of the total cost;**

ii) **The contractor was on site and the works were ongoing and that the completion date for the project is October, 2026; and**

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

Committee Recommendations

290. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer should submit to the Auditor-General for audit verification an approved revised programme of works; and**

ii) **The Accounting Officer should ensure that the advance payment is recovered in accordance with the contract, and that the bank guarantee remains valid until the advance is fully recovered.**

5) Failure to Update Board Charter

291. The Board Charter was adopted in October, 2018 and had not been updated to reflect changes in the business, economic and governance environment. Good corporate governance requires regular review of the Board Charter. In the circumstances, the effectiveness of the Board in aligning the Fund with current corporate governance practice could not be confirmed.

Submissions by the Accounting Officer

292. The Accounting Officer submitted that the delay was caused by the lack of a properly constituted Board, and that the Board Charter had since been updated and approved.

Committee Observations

293. The Committee observed that -

i) **The Board Charter has since been updated and approved; and**

ii) **The matter is resolved.**

Committee Recommendation

294. **The Committee recommends that the Accounting Officer ensures that the Board Charter is reviewed regularly in line with the Mwongozo Code of Governance for State Corporations, 2015.**

6) Weaknesses in Collection of Long-Term Receivables from Exchange Transactions

295. As previously reported, the statement of financial position and Note 18 to the financial statements reflected long-term receivables of Kshs. 17,700,703,000, after deducting a cumulative impairment allowance of Kshs. 46,275,809,000 and transferring Kshs. 1,892,208,000 to current receivables. Non-current receivables increased by Kshs. 6,201,164,000, from Kshs. 59,667,556,000 to Kshs. 65,868,720,000, due to penalties charged on outstanding debts. Management had not demonstrated the measures taken to collect the receivables. In the circumstances, the existence of an effective mechanism for the full and efficient collection of the long-term receivables could not be confirmed.

Submissions by the Accounting Officer

296. The Accounting Officer submitted that Management had frozen interest for County Governments that had cleared their principal and signed repayment plans, including Nairobi City County; signed deeds of settlement with several counties; worked with the National Treasury, the Office of the Controller of Budget and the Senate through a taskforce, which proposed that contributions be deducted at source; initiated legal proceedings against persistent defaulters; issued monthly statements and quarterly demand letters; visited sponsors to reconcile accounts; negotiated interest arrears; used debt-property swaps; and reported defaulters to the RBA.

Committee Observations

297. The Committee observed that –

i) **Long-term receivables of Kshs. 17,700,703,000 were stated after an impairment of Kshs. 46,275,809,000, and non-current receivables rose by Kshs. 6,201,164,000 to Kshs. 65,868,720,000;**

ii) **The Fund had pursued recovery through repayment plans, debt-property swaps and legal proceedings, but the gross receivables continued to rise; and**

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

Committee Recommendation

298. **The Committee recommends that within six (6) months of the adoption of this Report, the Accounting Officer submits to the Auditor-General for audit verification a status report on the recovery of the long-term receivables, showing the amounts recovered under each repayment plan, debt-property swap and legal proceeding.**

CHAPTER SIX

6.0 EXAMINATION OF THE AUDITOR-GENERAL'S REPORTS ON THE FINANCIAL STATEMENTS OF THE TOURISM PROMOTION FUND FOR THE FINANCIAL YEARS 2022/2023 TO 2024/2025

299. Mr. Stephen Kinyanjui, the Chief Executive Officer of the Tourism Promotion Fund, appeared before the Committee on Thursday, 23rd April, 2026 to adduce evidence on the audited financial statements of the Fund for the Financial Years 2022/2023 to 2024/2025. During the meeting, the Accounting Officer was accompanied by—

1. Ms. Doreen Okayana - Director, Programmes Management
2. Ms. Seline Wandera - Principal Fund Accountant
3. Mr. Makau John - Finance Manager

6.1 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2022/2023

1) Inaccuracy in Proceeds Realised under Section 3 of the Air Passenger Service Charge Act

300. The statement of financial performance and Note 5 to the financial statements reflected proceeds realised under Section 3 of the Air Passenger Service Charge Act of Kshs. 2,322,387,828, which differed from the recomputed amount of Kshs. 2,329,702,284 in Note 5, resulting in an unexplained variance of Kshs. 7,314,456. Further, the statement of financial performance of KAA reflected transfers to the Fund of Kshs. 2,015,256,000, resulting in an unreconciled variance of Kshs. 307,131,828. In the circumstances, the accuracy and completeness of the proceeds of Kshs. 2,322,387,828 could not be confirmed.

Submissions by the Accounting Officer

301. The Accounting Officer submitted that the total of Kshs. 2,329,702,284 resulted from an error in the dollar conversion in Note 5. The amount actually received was Kshs. 2,322,387,828, collected in United States dollars and converted at the Central Bank of Kenya exchange rates on the transaction dates.

302. The Accounting Officer further submitted that KAA recorded Kshs. 2,015,256,000 as the cash transferred at the point of remittance, and that the variance of Kshs. 307,131,828 was due to exchange rate movements between the Fund's recognition of the receivable and KAA's remittance, and to timing differences. The Fund would engage KAA regularly to reconcile the figures.

Committee Observations

303. The Committee observed that –

i) **The variance of Kshs. 7,314,456 arising from the dollar conversion error was explained through the schedule provided by the Accounting Officer;**

ii) **The Accounting officer did not provide a reconciliation of the amounts collected, recognised as revenue and actually remitted by KAA; and**

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

Committee Recommendations

304. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Accounting Officer reconciles the records of the Fund with those of KAA, resolve the variance of Kshs. 307,131,828 and submit the reconciliation to the Auditor-General for audit verification; and**

ii) **The Accounting Officer s together with KAA, establishes a periodic reconciliation of all proceeds collected and remitted under Section 3 of the Air Passenger Service Charge Act.**

2) Inaccuracy in Cash and Cash Equivalents

305. The statement of financial position reflected cash and cash equivalents of Kshs. 1,668,635,544, which included a dollar account balance of Kshs. 1,302,483,624, converted from the closing balance of USD 10,237,643.56 as at 30th June, 2023. The balance was converted at Kshs. 127.94 to the dollar instead of Kshs. 140.52, the Central Bank of Kenya mean rate on 30th June, 2023, which would give Kshs. 1,438,593,673. This was contrary to the significant accounting policies of the Fund, and the resulting exchange gain of Kshs. 136,110,049 was not explained. In the circumstances, the accuracy and completeness of the balance could not be confirmed.

Submissions by the Accounting Officer

306. The Accounting Officer confirmed that the dollar balance was translated at Kshs. 127.94 instead of the Central Bank of Kenya mean rate of Kshs. 140.52 on 30th June, 2023, contrary to the requirement to translate cash balances at the closing rate, and submitted that the closing rate had been applied in the subsequent financial years, with the exchange gains or losses recognised.

Committee Observations

307. The Committee observed that -

i) **The dollar balance was translated at Kshs. 127.94 instead of the closing rate of Kshs. 140.52, contrary to the accounting policies of the Fund;**

ii) **The Accounting Officer provided extracts of the financial statements for the Financial Years 2023/2024 and 2024/2025 showing that the closing rate was applied in those years, but the balance for 2022/2023 had not been corrected; and**

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

Committee Recommendations

308. The Committee recommends that -

i) **Within one (1) month of the adoption of this Report, the Accounting Officer corrects the cash and cash equivalents balance for the Financial Year 2022/2023 by applying the closing rate of Kshs. 140.52, recognise the resulting exchange gain, and submits evidence of the correction to the Auditor-General for audit verification; and**

ii) **The Accounting Officer should translate foreign currency balances at the closing rate on the date of the financial statements.**

3) Budgetary Control and Performance

309. The statement of comparison of budget and actual amounts reflected budgeted expenditure of Kshs. 3,040,227,000 against actual expenditure of Kshs. 1,464,290,873, resulting in an under-expenditure of Kshs. 1,575,759,386 or 52% of the budget. The under-expenditure may have affected the planned activities of the Fund.

Submissions by the Accounting Officer

310. The Accounting Officer attributed the under-expenditure to some MDAs approved for funding not meeting the disbursement conditions in the Tourism Promotion Fund Regulations, so their funds could not be disbursed. The Fund has since engaged the MDAs through sensitization and other support to ensure that the conditions are met on time.

Committee Observations

311. The Committee observed that -

i) **The Fund spent Kshs. 1,464,290,873 against a budget of Kshs. 3,040,227,000, an under-expenditure of 52%, and**

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

Committee Recommendation

312. **The Committee recommends that the Accounting Officer ensures that the MDAs allocated funding under the Fund's budget meet the funding and disbursement conditions in Regulation 29 of the Public Finance Management (Tourism Promotion Fund) Regulations, 2019, in a timely manner, to enable full absorption of the approved budget.**

4) Oversight Board not Fully Constituted

313. The terms of the two members of the Oversight Board appointed by the Cabinet Secretary expired in April, 2022 and no appointments were made, contrary to Regulation 14(1)(h) of

the Public Finance Management (Tourism Promotion Fund) Regulations, 2019, which provides that the Oversight Board shall include two persons of opposite gender appointed by the Cabinet Secretary responsible for tourism. In the circumstances, Management was in breach of the Regulations.

Submissions by the Accounting Officer

314. The Accounting Officer confirmed that the terms of the two members had expired in April, 2022, and submitted that the Fund had forwarded names to the appointing authority and was awaiting a response, as shown by the correspondence and minutes of the Oversight Board provided.

Committee Observations

315. The Committee observed that –

i) **The terms of the two members appointed by the Cabinet Secretary expired in April, 2022 and had not been filled, contrary to Regulation 14(1)(h) of the Public Finance Management (Tourism Promotion Fund) Regulations, 2019;**

ii) **The Fund had forwarded names of prospective members to the appointing authority; and**

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

Committee Recommendations

316. The Committee recommends that –

i) **Within one (1) month of the adoption of this Report, the Cabinet Secretary responsible for tourism appoints two members of opposite gender to the Oversight Board in compliance with Regulation 14(1)(h) of the Public Finance Management (Tourism Promotion Fund) Regulations, 2019; and**

ii) **The Accounting Officer follows up on the appointments and submit evidence to the Auditor-General for audit verification.**

5) Staff Acting beyond Six Months

317. The entire management team had been in acting positions for over one year, contrary to Section 34(3) of the Public Service Commission Act, Cap. 185, which limits acting appointments to six months. Further, the Fund paid acting allowances of Kshs. 1,282,105, which would have been avoided had the officers been appointed substantively. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

318. The Accounting Officer confirmed that the entire management team had acted for over one year, and submitted that the officers were deployed from the Ministry of Tourism and Wildlife and their acting appointments were renewed every six months pending the filling of the posts. The Fund had received the approval of the Salaries and Remuneration Commission to guide the filling of the positions through the Oversight Board and the Public Service Commission. The acting allowances of Kshs. 1,282,105 were paid under Section C14(1) of the Human Resource Policies and Procedures Manual, May 2016.

Committee Observations

319. The Committee observed that –

i) **The entire management team had been in acting positions for over one year, contrary to Section 34(3) of the Public Service Commission Act, Cap. 185, and the Fund paid acting allowances of Kshs. 1,282,105;**

ii) **Management provided evidence of steps taken towards filling the positions substantively; and**

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

Committee Recommendations

320. The Committee recommends that –

i) **Within one (1) month of the adoption of this Report, the Principal Secretary, State Department for Tourism, in liaison with the Accounting Officer, the Oversight Board, the Salaries and Remuneration Commission and the Public Service Commission, expedites the substantive filling of all positions held in an acting capacity; and**

ii) **Within three (3) months of the adoption of this Report, the Accounting Officer submits evidence of the substantive appointments to the Auditor-General for audit verification.**

6.2 UDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2023/2024

1) Budgetary Control and Performance

321. The statement of comparison of budget and actual amounts reflected final receipts of Kshs. 4,695,410,567 against actual receipts of Kshs. 5,107,157,327, resulting in an over-funding of Kshs. 411,746,760 or 9% of the budget. However, the Fund spent Kshs. 4,679,273,661 against actual receipts of Kshs. 5,107,157,327, resulting in an under-expenditure of Kshs. 427,883,666 or 8% of the actual receipts. The under-expenditure affected the planned activities and may have affected service delivery to the public.

Submissions by the Accounting Officer

322. The Accounting Officer attributed the under-expenditure to some MDAs approved for funding not meeting the disbursement conditions in the Tourism Promotion Fund Regulations, and submitted that the Fund was sensitising the MDAs to ensure that the conditions are met on time.

Committee Observations

323. The Committee observed that -

i) **The Fund received Kshs. 411,746,760 or 9% more than its budget but spent Kshs. 427,883,666 or 8% less than its actual receipts; and**

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

Committee Recommendation

324. The Committee recommends that -

The Accounting Officer ensures that the MDAs allocated funding under the Fund's budget meet the funding and disbursement conditions in Regulation 29 of the Public Finance Management (Tourism Promotion Fund) Regulations, 2019, in a timely manner, to enable full absorption of the approved budget.

2) Unresolved Prior Year Matters

325. In the audit report of the previous year, two (2) issues were raised under the Report on Financial Statements, the Report on Lawfulness and Effectiveness in Use of Public Resources and the Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues as at 30th June, 2024.

Submissions by the Accounting Officer

326. No submission was made on this matter.

Committee Observations

The Committee observed that –

i) **Two (2) issues raised in the previous audit report had not been resolved as at 30th June, 2024; and**

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

Committee Recommendation

327. **The Committee recommends that within six (6) months of the adoption of this Report, the Accounting Officer resolves the prior year matters as required by Section 68(2)(l) of**

the Public Finance Management Act, Cap. 412A and submit a status report to the Auditor-General for audit verification.

3) Oversight Board not Fully Constituted

328. Review of the Board records revealed that the Oversight Board was not duly constituted, as the members to be appointed by the Cabinet Secretary had not been appointed, contrary to Regulation 14(1)(h) of the Public Finance Management (Tourism Promotion Fund) Regulations, 2019. In the circumstances, Management was in breach of the law.

Submissions by the Accounting Officer

329. The Accounting Officer confirmed that the terms of the two members appointed by the Cabinet Secretary had expired in April, 2022 and submitted that their replacement had taken long despite various correspondences.

Committee Observations

330. The Committee observed that -

i) **The two positions on the Oversight Board to be filled by the Cabinet Secretary remained vacant, contrary to Regulation 14(1)(h) of the Public Finance Management (Tourism Promotion Fund) Regulations, 2019; and**

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

Committee Recommendation

331. The Committee recommends that **within one (1) month of the adoption of this Report, the Cabinet Secretary responsible for tourism appoints the two members of the Oversight Board, and the Accounting Officer submits evidence of the appointments to the Auditor-General for audit verification.**

4) Lack of Audit Committee

332. Review of the Board documents revealed that the Fund operated without an audit committee, contrary to Regulations 174(1) and 175(1) of the Public Finance Management (National Government) Regulations, 2015, which require each national government entity to establish an audit committee to support the accounting officer on risk, control and governance and to follow up the implementation of audit recommendations. In the circumstances, the effectiveness of internal controls, risk management and governance in the Fund could not be confirmed.

Submissions by the Accounting Officer

333. The Accounting Officer confirmed that the Oversight Board operated without an Audit and Risk Compliance Committee, because the independent members who must sit on it had not been appointed, and submitted that the request had been forwarded to the Oversight Board in line with Treasury Circular No. 16 of 2005.

Committee Observations

334. The Committee observed that -

i) **The Fund operated without an audit committee, contrary to Regulations 174(1) and 175(1) of the Public Finance Management (National Government) Regulations, 2015, because the independent members of the Oversight Board had not been appointed; and**

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

Committee Recommendation

335. **The Committee recommends that within three (3) months of the adoption of this Report, the Accounting Officer constitutes an audit committee in compliance with Regulations 174(1) and 175(1) of the Public Finance Management (National Government) Regulations, 2015, and submits evidence to the Auditor-General for audit verification.**

5) Purchase of Motor Vehicle for the Cabinet Secretary

336. The Fund purchased a Toyota Prado at a cost of Kshs. 20,587,000 for the Cabinet Secretary, Ministry of Tourism and Wildlife. However, in the same year, the State Department for Tourism spent Kshs. 61,401,537 on three Toyota Prado vehicles for the Cabinet Secretary and the Principal Secretaries for Tourism and Wildlife. The double purchase of a vehicle for the Cabinet Secretary diverted resources from other projects. In the circumstances, value for money on the additional vehicle could not be confirmed.

Submissions by the Accounting Officer

337. The Accounting Officer submitted that the vehicle was purchased, with National Treasury approval, as an asset of the Fund for use by the Oversight Board and Management to monitor and evaluate funded projects in areas with difficult terrain. The three vehicles procured by the State Department for Tourism were assets of the State Department, not the Fund. The logbook and service invoice of the vehicle, registration No. KDK 873P, were provided.

Committee Observations

338. The Committee observed that –

i) **The Fund purchased a Toyota Prado at Kshs. 20,587,000, which is registered as an asset of the Fund for monitoring and evaluation of funded projects;**

ii) **The vehicle is distinct from the three vehicles procured by the State Department for Tourism, and the logbook and service invoice were provided; and**

iii) **The matter is resolved.**

Committee Recommendation

339. **The Committee recommends that the Accounting Officer ensures that the acquisition of motor vehicles and other assets is based on demonstrable operational need and value for**

money, in compliance with Section 68(1) of the Public Finance Management Act, Cap. 412A.

6.3 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2024/2025

1) Budgetary Control and Performance

340. The statement of comparison of budget and actual amounts reflected final receipts of Kshs. 5,050,000,000 against actual receipts of Kshs. 4,502,199,298, resulting in an under-funding of Kshs. 603,975,000 or 11% of the budget. However, the Fund spent Kshs. 4,440,236,259 against actual receipts of Kshs. 4,502,199,298, resulting in an under-utilisation of Kshs. 61,963,039 or 1.2% of the actual receipts. The under-funding and under-utilisation may have affected the planned activities and service delivery to the public.

Submissions by the Accounting Officer

341. The Accounting Officer submitted that the shortfall in receipts was due to lower collections by KAA, on which disbursements to the Fund are based, and that expenditure was kept within actual receipts. Some core mandate expenditure was not implemented because some MDAs did not meet the disbursement conditions, and the Fund continued to sensitise the MDAs.

Committee Observations

342. The Committee observed that -

i) **The Fund received Kshs. 4,502,199,298 against a budget of Kshs. 5,050,000,000, and spent Kshs. 4,440,236,259, leaving Kshs. 61,963,039 or 1.2% of the actual receipts unspent; and**

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

Committee Recommendation

343. The Committee recommends that -

The Accounting Officer ensures that the MDAs allocated funding under the Fund's budget meet the funding and disbursement conditions in Regulation 29 of the Public Finance Management (Tourism Promotion Fund) Regulations, 2019, in a timely manner, to enable full absorption of the approved budget.

2) Unresolved Prior Year Matters

344. Review of the status of prior year matters during the audit for the Financial Year 2024/2025 revealed that the following matters from the Financial Year 2023/2024 remained unresolved:

i) Oversight Board not fully constituted;

ii) Lack of an audit committee; and

iii) Purchase of a motor vehicle for the Cabinet Secretary.

Submissions by the Accounting Officer

345. The Accounting Officer submitted that the matters had been addressed as set out in the responses for the Financial Year 2023/2024.

Committee Observations

346. The Committee observed that-

i) **The three matters from the Financial Year 2023/2024 remained unresolved; and**

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

Committee Recommendation

347. **The Committee recommends that within six (6) months of the adoption of this Report, the Accounting Officer resolves the prior year matters as required by Section 68(2)(l) of the Public Finance Management Act, Cap. 412A and submit a status report to the Auditor-General for audit verification.**

3) Failure to Deduct and Remit Public Procurement Capacity Building Levy

348. Note 6 to the financial statements reflected expenditure of Kshs. 178,341,644 on use of goods and services. However, payments on signed contracts of Kshs. 112,535,887 were not subjected to the procurement capacity building levy of 0.03% of the contract value. Therefore, Kshs. 33,760 was not collected and remitted to PPRA as required by Legal Notice No. 206 of 6th November, 2023. In the circumstances, Management was in breach of the Legal Notice.

Submissions by the Accounting Officer

349. The Accounting Officer acknowledged that the signed contracts were not subjected to the levy, and undertook to comply with the Levy Order, 2023 in future.

Committee Observations

350. The Committee observed that –

i) **Contracts of Kshs. 112,535,887 were not subjected to the procurement capacity building levy, and Kshs. 33,760 was not remitted to PPRA, contrary to Legal Notice No. 206 of 2023; and**

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

Committee Recommendations

351. The Committee recommends that-

i) **Within one (1) month of the adoption of this Report, the Accounting Officer s remit the Kshs. 33,760 to PPRA and submit evidence to the Auditor-General for audit verification; and**

ii) **The Accounting Officer henceforth deducts and remits the levy on all signed contracts in compliance with Legal Notice No. 206 of 2023.**

4) Expected Merger of the Tourism Fund and the Tourism Promotion Fund

352. Cabinet Decision No. 1 of 21st January, 2025 directed that the Fund be merged with the Tourism Fund, with the transition to be completed by the end of the Financial Year 2024/2025. However, the merger had not been completed as at 30th June, 2025, and information on the staff, assets and mandate of the Fund was not provided for audit. In the circumstances, the regularity of the Fund could not be confirmed.

Submissions by the Accounting Officer

353. The Accounting Officer confirmed that the Fund was to be merged with the Tourism Fund in line with the Cabinet decision, and submitted that the process was ongoing and further direction on the transition would be issued.

Committee Observations

354. The Committee observed that –

i) **The merger directed by the Cabinet had not been completed as at 30th June, 2025, and no information on the staff, assets and mandate of the Fund was provided;**

ii) **Some functions, including the collection and disbursement of the Air Passenger Service Charge, had been transferred to the Tourism Fund; and**

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

Committee Recommendations

355. The Committee recommends that -

i) **Within three (3) months of the adoption of this Report, the Cabinet Secretary Ministry of Tourism and Wildlife, in liaison with the National Treasury, to finalise the merger of the Fund with the Tourism Fund and submit evidence to the Auditor-General for audit verification;**

ii) **Within three (3) months of the adoption of this Report, the State Department for Tourism, in liaison with the Accounting Officer, submits to the Auditor-General a transition plan for the staff, assets, liabilities and mandate of the Fund; and**

iii) **The Accounting Officer ensures that all functions, assets and liabilities transferred to the Tourism Fund during the transition are documented and accounted for.**

SIGNED.....**DATE**.....4/NOV/2025

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

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 05 NOV 2025 THURSDAY
TABLED BY: CHAIRPERSON Hon. Fatuma Zainab Mohammed
CLERK-AT-THE-TABLE: J. Lemerle

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

Date: 16th September, 2026 **Venue:** Pride Inn Paradise Beach Resort

Adoption of The Reports on the Consideration of the Audited Financial Statements of the following Funds:

Prisons Industries Revolving Fund for the FY 2022/2023 – 2024/2025
Prisons Farms Revolving Fund for the FY 2022/2023 to 2024/2025
Local Authorities Provident Fund for the FY 2022/2023 – 2024/2026
Tourism Promotion Fund for the FY 2022/2023 to 2024/2025.

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	