REPORT OF THE AUDITOR-GENERAL FOR THE NATIONAL GOVERNMENT FOR THE YEAR 2019/2020
# Table of Contents

<table>
<thead>
<tr>
<th>Vote</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>iv</td>
</tr>
<tr>
<td>Introduction</td>
<td>vi</td>
</tr>
<tr>
<td>1071 The National Treasury</td>
<td>1</td>
</tr>
<tr>
<td>1072 State Department for Planning</td>
<td>51</td>
</tr>
<tr>
<td>1011 The Presidency</td>
<td>75</td>
</tr>
<tr>
<td>1021 State Department for Interior</td>
<td>78</td>
</tr>
<tr>
<td>1023 Statement Department for Correctional Services</td>
<td>88</td>
</tr>
<tr>
<td>1024 State Department for Immigration and Citizen Services</td>
<td>95</td>
</tr>
<tr>
<td>1032 State Department for Devolution</td>
<td>97</td>
</tr>
<tr>
<td>1035 State Department for Development of the Arid and Semi-Arid Lands (ASALS)</td>
<td>110</td>
</tr>
<tr>
<td>1041 Ministry of Defence</td>
<td>113</td>
</tr>
<tr>
<td>1052 Ministry of Foreign Affairs</td>
<td>115</td>
</tr>
<tr>
<td>1064 State Department for Vocational and Technical Training</td>
<td>117</td>
</tr>
<tr>
<td>1065 State Department for University Education</td>
<td>130</td>
</tr>
<tr>
<td>1066 State Department for Early Learning and Basic Education</td>
<td>141</td>
</tr>
<tr>
<td>1068 State Department for Post Training and Skills Development</td>
<td>149</td>
</tr>
<tr>
<td>1081 Ministry of Health</td>
<td>150</td>
</tr>
<tr>
<td>1091 State Department for Infrastructure</td>
<td>180</td>
</tr>
<tr>
<td>1092 State Department for Transport</td>
<td>232</td>
</tr>
<tr>
<td>1093 State Department for Shipping and Maritime</td>
<td>247</td>
</tr>
<tr>
<td>1094 State Department for Housing and Urban Development</td>
<td>249</td>
</tr>
<tr>
<td>1095 State Department for Public Works</td>
<td>271</td>
</tr>
<tr>
<td>1107 Ministry of Water and Sanitation</td>
<td>277</td>
</tr>
<tr>
<td>1108 Ministry of Environment and Forestry</td>
<td>329</td>
</tr>
<tr>
<td>1112 Ministry of Lands and Physical Planning</td>
<td>354</td>
</tr>
<tr>
<td>1122 State Department for Information, Communication Technology and Innovation</td>
<td>363</td>
</tr>
</tbody>
</table>
1123  State Department for Broadcasting and Telecommunications ..........................371
1132  State Department for Sports ........................................................................377
1134  State Department for Culture and Heritage ..................................................386
1152  Ministry of Energy ......................................................................................389
1162  State Department for Livestock ...................................................................421
1165  State Department for Crop Development ....................................................432
1166  State Department for Fisheries, Aquaculture and the Blue Economy ............472
1167  State Department for Irrigation ....................................................................479
1168  State Department for Agricultural Research ..................................................482
1173  State Department for Co-operatives ..............................................................486
1174  State Department for Trade and Enterprise Development ...........................492
1175  State Department for Industrialization ..........................................................494
1184  State Department for Labour .......................................................................501
1185  State Department for Social Protection .........................................................510
1192  State Department for Mining ......................................................................516
1193  State Department for Petroleum ..................................................................521
1202  State Department for Tourism ......................................................................528
1203  State Department for Wildlife .....................................................................532
1212  State Department for Gender .......................................................................534
1213  State Department for Public Service .............................................................546
1214  State Department for Youth Affairs ...............................................................558
1221  State Department for East African Community .............................................576
1222  State Department for Regional and Northern Corridor Development ...........579
1252  The State Law Office and Department of Justice ..........................................585
1261  Judiciary .......................................................................................................593
1271  Ethics and Anti-Corruption Commission ......................................................600
1281  National Intelligence Service .......................................................................603
1291  Office of the Director of Public Prosecutions ...............................................605
1311  Office of the Registrar of Political Parties .....................................................606
1321  Witness Protection Agency ...........................................................................610
2011  Kenya National Commission on Human Rights ..........................................611
2021  The National Land Commission ..................................................................613
| 2031 | Independent Electoral and Boundaries Commission ........................................618 |
| 2041 | Parliamentary Service Commission ..................................................................621 |
| 2042 | National Assembly .............................................................................................626 |
| 2043 | Parliamentary Joint Services ............................................................................628 |
| 2051 | Judicial Service Commission .............................................................................630 |
| 2061 | Commission on Revenue Allocation ...................................................................631 |
| 2071 | Public Service Commission ...............................................................................633 |
| 2081 | Salaries and Remuneration Commission .............................................................635 |
| 2091 | Teachers Service Commission ............................................................................636 |
| 2101 | National Police Service Commission ................................................................639 |
| 2121 | Office of the Controller of Budget .....................................................................640 |
| 2131 | Commission on Administrative Justice ...............................................................642 |
| 2141 | National Gender and Equality Commission .........................................................643 |
| 2151 | Independent Policing Oversight Authority ........................................................644 |
Foreword

This report, popularly referred to as the Blue Book, is a compilation of the audit reports of Ministries, Departments and Agencies including their respective Funds and Donor Funded Projects for the year ended 30 June, 2020.

The Auditor-General is mandated by the Constitution of Kenya, 2010, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

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

Further, as previously reported, an effective mechanism for follow up on implementation of audit recommendations is lacking and as such most audit queries recur in subsequent audit reports due to lack of requisite action. Section 204(1)(g) of the Public Finance Management Act, 2012 provides that the Cabinet Secretary for matters relating to finance may apply sanctions to a national government entity that fails to address issues raised by the Auditor-General, to the satisfaction of the Auditor-General.

However, despite numerous reports indicating lack of accountability and documents to support the legality and effectiveness in the use of public resources, the failure to apply the requisite sanctions and consequences has resulted to some Accounting Officers not adequately accounting for the management and use of public resources with impunity. The lack of action and sanctions has also led to fiscal indiscipline including misallocations, wastage of resources, lack of value for money in implementation of projects and loss of public funds, thereby impacting negatively on development programmes. This in turn threatens economic growth and sustainability of service delivery to citizens. There are instances where some Accounting Officers fail to adequately prepare for audit which is exhibited by numerous inaccuracies in financial statements presented for audit, lack of requisite supporting documents and, in some cases, reluctance to cooperate with the auditors during the audit process.

A summary highlighting key cross-cutting audit findings will be submitted separately.
The Office of the Auditor-General has been continuously improving on the effectiveness and quality of the audit process to ensure that the results of audit and the recommendations thereof are credible, relevant, reliable and value adding. This is geared towards influencing improved decision making and positive impact on the lives and livelihoods of citizens and other stakeholders. Provision of quality and effective audit services and confirmation of the lawfulness and effectiveness in programme implementation requires comprehensive scrutiny and evaluation of supporting documents. Most critical is the physical confirmation of the existence and utilization of projects or programmes implemented throughout the country. To achieve this, therefore, requires an independent and well-resourced audit Office with guaranteed adequate fund to enable efficient, effective and timely execution of the audit cycle as well as retention of optimal staffing to ensure continuous, quality and sustainable audit operations.

The Office continues to seek financial independence and support from Parliament and The National Treasury for enhancement of resources to enable it build technical capacity, expand its presence in the counties, widen the scope and comprehensiveness of audit and motivate staff. We continue to devolve our services closer to the people through establishment of regional offices and construction of office premises to accommodate our staff in order to address the audit needs at the grassroot level. We have so far constructed regional offices in Garissa, Kakamega and Eldoret, while construction works in Embu is almost complete. Plans for construction of our Headquarters in Nairobi, which is currently at the design stage, has been delayed by lack of funding. However, the Office continues to make appeals to Parliament and The National Treasury for adequate funds to enable us perform our functions and achieve our mandate in enhancing accountability across government, both at the national and county levels, and in all other entities funded from public funds.

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

Specific reports together with my opinion for each entity are contained in the respective MDA’s audited financial statements for the year ended 30 June, 2020, which I have already submitted to Parliament and to each Accounting Officer.
1.0 Introduction

1.1 Constitutional Mandate of the Auditor-General

The Auditor-General is mandated by the Constitution of Kenya, 2010, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include; the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

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

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

1.2 Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) Cash Basis, as prescribed by the Public Sector Accounting Standards Board (PSASB), and for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

Further, Management is required to ensure that the activities, financial transactions and information reflected in the financial statements, are in compliance with the law and other relevant or applicable authorities, and that public resources are applied in an effective way.
Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how each entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

1.3 Auditor-General’s Responsibility

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

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

I am independent in accordance with Article 249(2) of the Constitution of Kenya and ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of public entities in the Republic of Kenya.

1.4 Reporting Structure

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

In addition, the International Standards of Supreme Audit Institutions (ISSAIs), require the incorporation of Key Audit Matters in the report on the financial statements, which are those matters that I determine in my professional judgment, are of most significance in the audit of the financial statements as a whole, for the year under review.

In order to address these requirements, my audit reports contain the following:
i. **Report on Financial Statements**, in which I give an audit opinion on whether the financial statements present fairly, in all material respects the financial position and performance of the entity.

ii. **Report on Lawfulness and Effectiveness in Use of Public Resources**, in which I give a conclusion on whether or not public resources have been applied lawfully and in effective way.

iii. **Report on Effectiveness of Internal Controls, Risk Management and Governance**, in which I give a conclusion on whether internal controls, risk management and overall governance were effective.

iv. **Report on Other Legal and Regulatory Requirements** is included where applicable, especially for the entities that are registered under the Companies Act, 2015 and any other enabling legislation or authorities that require such disclosure.

1.5 **Audit Opinions**

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

a) **Unmodified/ Unqualified Opinion**

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

b) **Qualified Opinion**

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

c) **Adverse Opinion**

The financial statements exhibit significant misstatements with the underlying accounting records. There exists significant disagreement(s) between the financial statements and the underlying books of accounts and/or standards. These problems are widespread, persistent and require considerable interventions by the management to rectify. The financial statements with adverse opinion are listed in Appendix C.
d) Disclaimer of Opinion

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

The key findings noted during the audit of the financial statements for the year ended 30 June, 2020 are highlighted in the ensuing pages.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1. Accuracy of the Financial Statements

The financial statements of The National Treasury for the year ended 30 June, 2020 reflect various differences between the financial statements/general ledger presented for audit review and the Integrated Financial Management Information System (IFMIS) generated financial statements as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount as per Financial Statements/ General Ledger/ Other Supporting Documents (Kshs.)</th>
<th>Amount as per IFMIS Generated Financial Statements (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from Domestic Borrowings</td>
<td>-</td>
<td>(558,870,164,000)</td>
<td>558,870,164,000</td>
</tr>
<tr>
<td>Bank Balances</td>
<td>670,932,773</td>
<td>(207,268,684,434)</td>
<td>207,939,617,210</td>
</tr>
<tr>
<td>Cash Balances</td>
<td>390,518</td>
<td>45,618,690,325</td>
<td>(45,618,299,807)</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>889,462,799</td>
<td>600,355,853</td>
<td>289,106,946</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>86,848,069</td>
<td>394,355,514,906</td>
<td>(394,268,666,837)</td>
</tr>
<tr>
<td>Fund Balance b/fwd</td>
<td>2,071,634,749</td>
<td>3,069,187,148</td>
<td>(997,552,399)</td>
</tr>
<tr>
<td>Surplus/Deficit for the Year</td>
<td>358,500,354</td>
<td>412,394,681,889</td>
<td>(412,036,181,535)</td>
</tr>
<tr>
<td>Prior Year Adjustments</td>
<td>(956,197,623)</td>
<td>-</td>
<td>(956,197,623)</td>
</tr>
<tr>
<td>Net Financial Assets</td>
<td>1,473,937,480</td>
<td>(555,405,153,165)</td>
<td>556,879,090,645</td>
</tr>
<tr>
<td>Net Financial Position</td>
<td>1,473,937,480</td>
<td>415,463,869,038</td>
<td>(413,989,931,558)</td>
</tr>
</tbody>
</table>

No explanation or reconciliations have been provided for the above variances.

2. Long Outstanding Reconciling items

The statement of asset and liabilities reflects a cash and cash equivalents balance of Kshs.671,322,790 as at 30 June, 2020 which includes an amount of Kshs.15,747,925 held in the recurrent bank account. However, the bank reconciliation statement for the recurrent bank account reflected an amount of Kshs.5,632,659 payments in the bank statement not in the cashbook as at 30 June, 2020, out of which an amount of Kshs.2,192,655 related to 2018/2019 and earlier years. No explanation has been
provided on why the payments were not recorded in the Cashbook and why the long outstanding amount of Kshs.2,192,655.35 remained uncleared as at 30 June, 2020.

Under the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.671,322,790 as at 30 June, 2020 could not be confirmed.

Other Matter

3. Pending Bills

As disclosed in Note 19.1 to the financial statements, The National Treasury had pending bills of Kshs.111,788,207 as at 30 June, 2020. The bills comprised of Kshs.2,241,906 under construction of buildings, Kshs.35,533,799 under civil works and Kshs.74,012,502 under supply of goods that were not settled in the year under review but were carried forward to 2020/2021 financial year. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

4. Refurbishment of The National Treasury Building

4.1 Refurbishment of Budget Offices

The proposed refurbishment works of the 13th Floor was awarded to a local firm at a total cost of Kshs.28,942,000. The contract between The National Treasury and the firm was signed on 19 June, 2020 with an expected contract period of twelve (12) weeks. Included in the contract sum of Kshs.28,942,000 is an amount of Kshs.700,000 described as provisional sum. However, no information was provided on how the provisional sum was determined and utilized.

4.2 Refurbishment Works of 6th and 7th Floor, Treasury Building

Tender No.TNT/041/2019-2020 was awarded to a local construction firm at a total cost of Kshs.37,109,374. The contract was signed between The National Treasury and the contractor on 19 June, 2020 with an expected contract duration of twelve (12) weeks. Included in the contract sum of Ksh.37,109,374 is an amount of Kshs.800,000 described as provisional sum. However, no information was provided on how the provisional sum was determined and utilized.

The reported pending bills of Kshs.111,788,207 as at 30 June, 2020 includes amounts of Kshs.5,186,800 and Kshs.3,488,680 payable to a local firm. The pending payments were in relation to the contract for the supply, installation, testing and commissioning of baggage scanners, walk through scanners, hand-held metal detectors and associated works at both the Treasury Building and Bima House. The pending bills owed to the firm were subsequently paid on 26 November, 2020 and 27 November, 2020 respectively being the 2\textsuperscript{nd} Payment Certificate and the 10\% Retention monies respectively.

A physical verification carried out at the baggage scanners and walk through scanners at the Treasury Building and Bima House revealed that the scanners had not been in operation since June, 2020 and it was not possible to confirm if they were in good working condition.

Under the circumstances, The National Treasury may not have received value for money for the expenditure of Kshs.8,675,480.

4.4 Inventory and Stock Taking Report

Section 162(2) of the Public Procurement and Asset Disposal Act, 2015 requires the Head of Procurement Function to arrange for occasional visits of inspection to the stores, at least quarterly in each calendar year, and conduct quarterly and annual inventory and stock taking in order to ensure compliance with all respective governing laws and submit the report to the Accounting Officer. Contrary to the requirement, the Inventory and Stock Taking Report for the year under review was not availed for audit review.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

5. Failure to Provide Assets Register for Audit

Annex 4 to the financial statements - summary of fixed assets register reflects assets with a cumulative historical cost of Kshs.48,006,657,017 as at 30 June, 2020. The balance includes assets worth Kshs.41,264,665,564 brought forward from 2018/2019 financial year and additional assets acquired in 2019/2020 at a cost of Kshs.6,741,991,453. The National Treasury did not avail for audit review an assets’ register supporting the reported value of assets of Kshs.48,006,657,017.

In the absence of an assets register, the accuracy and existence of the assets of Kshs.48,006,657,017 as at 30 June, 2020 could not be confirmed.
NATIONAL EXCHEQUER ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

7. Budgetary Control and Performance

The statement of comparison of budget and actual performance reflects revised revenue estimates of Kshs.2,734,317,604,515 and total revenue collections of Kshs.2,577,956,860,980 resulting to an under collection of Kshs.156,360,743,535 or 5.7% of the budget. The statement also reflects budget realization on Exchequer transfers to National Government; Recurrent and Development Votes, County Governments and Consolidated Fund Services of 96%, 88%, 90% and 92% of the budgets respectively. However, as reflected in the detailed analysis of transfers-National Government Development Budget under Annex I to the financial statements, twenty-five (25) Ministries, Departments and Agencies (MDAs) received transfers that were significantly lower than the average disbursement of 87.7% ranging between 0% and 86.88% of the budgeted amounts.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

8. Failure to Disburse County Governments’ Revenue Allocation

The 2019 Appropriation Act provided for disbursements of Kshs.347,887,806,302 to the forty-seven (47) County Governments inclusive of IDA (WB) -KDSP Level 2 Grant of Kshs.4,890,000,000. However, the total disbursements to the County Governments during the year amounted to Kshs.315,970,821,168 with a nil disbursement on the IDA (WB) -KDSP Level 2 Grant. The undisbursed balance of Kshs.31,916,985,134 negatively impacted on the service delivery in the Counties.

Further, disbursements to the County Governments were inconsistent and did not follow the provisions of Section 17(6) of the Public Finance Management Act, 2012 which states that The National Treasury shall, at the beginning of every quarter, and in any event not
later than the fifteenth day from the commencement of the quarter, disburse monies to
County Governments.

The National Treasury was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT
AND GOVERNANCE

Conclusion

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

CONSOLIDATED FUND SERVICES – PUBLIC DEBT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

10. Unexplained Variance in Bank Balance

As disclosed in Note 5 to the financial statements, the statement of assets and liabilities
reflects a bank balance of Kshs.4,537,769,205 in respect of the recurrent bank account
held at the Central Bank of Kenya. However, the trial balance reflected a bank balance of
Kshs.6,352,687,882 resulting in an unexplained difference of Kshs.1,814,918,677.

Consequently, the accuracy of the reported bank balance of Kshs.4,537,769,205 as at 30
June, 2020 could not be confirmed.

11. Unexplained Variance of Short-Term Borrowing Balances

The summary statement of public debt reflects internal loans - short-term borrowing
balance of Kshs.887,141,500,000 as at 30 June, 2020. However, a re-computation of the
expected closing balances based on the opening balance of Kshs.952,250,000,000
adjusted for proceeds from issues and redemptions during the year of
Kshs.1,125,311,850,000 and Kshs.1,192,420,350,000 respectively, yielded a balance of
Kshs.885,141,500,000 resulting into an unexplained variance of Kshs.2 Billion. The over-
redemption of Kshs.2 Billion was not acknowledged by the Central Bank of Kenya and
may therefore not be recoverable.

Consequently, the accuracy of the reported short-term borrowing balance of
Kshs.887,141,500,000 as at 30 June, 2020 could not be confirmed.
12. **Inaccurate Treasury Bonds Balances**

The summary statement of public debt reflects treasury bonds balance of Kshs.2,220,339,804,765 as at 30 June, 2020. However, a re-computation of the expected closing balance based on the opening balance of Kshs.1,724,207,207,062 adjusted for proceeds from issues and redemptions during the year of Kshs.580,894,063,036 and Kshs.110,977,783,887 respectively yielded a balance of Kshs.2,194,123,486,211 resulting into an unexplained variance of Kshs.26,216,318,554.

Consequently, the accuracy of the reported Treasury Bonds balances of Kshs.2,220,339,804,765 as at 30 June, 2020 could not be confirmed.

13. **Non-Disclosure of Public Debt Procured**

The summary statement of public debt reflects total External and Internal loans balance of Kshs.6,368,793,827,633 as at 30 June, 2020. This is an increase of Kshs.917,640,023,917 or 16.8% from the prior year’s closing balance of Kshs.5,451,153,803,416. The statement also reflects loan repayments of Kshs.1,482,249,906,300 but does not reflect the new loans procured during the year.

Consequently, the accuracy of total loan balance (External and Internal) of Kshs.6,368,793,827,633 as at 30 June, 2020 could not be confirmed.

**Other Matter**

14. **Unresolved Prior Year Matters**

In the previous year’s audit report, several issues were raised under the Report on Financial Statements. The issues raised as disclosed in Note 13 to the financial statements on progress on follow up of prior years’ auditor’s recommendations, remained unresolved as at 30 June, 2020.

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

**Conclusion**

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

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

**Conclusion**

16. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REVENUE STATEMENTS (RECURRENT)

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

17. Variances Between Revenue Statements and IFMIS Balances

The balances reflected in the revenue statements differed with those in the Integrated Financial Management Information Systems (IFMIS) trial balance presented in support of the revenue statements as detailed below:

<table>
<thead>
<tr>
<th>Revenue Stream</th>
<th>Revenue Statements Balances (Kshs.)</th>
<th>IFMIS Balances (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Income Tax</td>
<td>334,858,363,317</td>
<td>335,454,369,727</td>
<td>(596,006,410)</td>
</tr>
<tr>
<td>Custom Duties – 1150101</td>
<td>97,629,669,017</td>
<td>97,109,094,059</td>
<td>520,574,958</td>
</tr>
<tr>
<td>Excise Taxes 1140301</td>
<td>198,064,266,866</td>
<td>351,593,841,997</td>
<td>(153,529,575,131)</td>
</tr>
<tr>
<td>Import Declaration Inspection Fee</td>
<td>30,020,864,091</td>
<td>867,857,703</td>
<td>29,153,006,388</td>
</tr>
<tr>
<td>Income Tax – PAYE</td>
<td>399,993,010,934</td>
<td>387,153,646,498</td>
<td>12,839,364,436</td>
</tr>
<tr>
<td>Loan Interest</td>
<td>1,794,949,798</td>
<td>1,854,835,850</td>
<td>(59,886,052)</td>
</tr>
<tr>
<td>NAT/DGIPE - Loans repayment by Non Financial Public Enterprises</td>
<td>3,221,416,321</td>
<td>3,159,525,176</td>
<td>61,891,145</td>
</tr>
<tr>
<td>NAT/DGIPE - Other Profits and Dividends</td>
<td>90,663,124,335</td>
<td>90,660,883,189</td>
<td>2,241,146</td>
</tr>
<tr>
<td>Receipts from VAT on Domestic</td>
<td>213,815,135,569</td>
<td>760,010,461</td>
<td>213,055,125,108</td>
</tr>
<tr>
<td>Receipts from VAT on Imports</td>
<td>170,003,509,503</td>
<td>1,850,971,157</td>
<td>168,152,538,346</td>
</tr>
<tr>
<td>Rent of Land</td>
<td>471,591,701</td>
<td>6,142,336</td>
<td>465,449,365</td>
</tr>
<tr>
<td>Stamp Duty</td>
<td>9,086,236,458</td>
<td>58,312,086</td>
<td>9,027,924,373</td>
</tr>
<tr>
<td>Sundry Revenue</td>
<td>230,176,894</td>
<td>375,211</td>
<td>229,801,683</td>
</tr>
</tbody>
</table>

No explanation or reconciliation was provided for the variances.

Consequently, the accuracy and completeness of the above balances included in the revenue statements and consequently the total reported revenue could not be confirmed.

18. Unresolved Prior Year Audit Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.
Other Matter

19. Budgetary Control and Performance

As disclosed under Notes 4, 5, 6 and 8 to the revenue statements, there was significant under-collection of the following revenues:

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Budgeted Revenue (Kshs.)</th>
<th>Actual Revenue Collected (Kshs.)</th>
<th>Under – Collection (Kshs.)</th>
<th>% of Under-Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on Property</td>
<td>856,956,010</td>
<td>Nil</td>
<td>856,956,010</td>
<td>100</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>11,376,532,880</td>
<td>9,086,236,458</td>
<td>2,290,296,422</td>
<td>20</td>
</tr>
<tr>
<td>Fees on Use of Goods and on Permission to Use Goods or Perform Services</td>
<td>8,214,035,811</td>
<td>5,556,413,179</td>
<td>2,657,622,633</td>
<td>32</td>
</tr>
<tr>
<td>Property Income</td>
<td>128,582,051,829</td>
<td>92,929,617,079</td>
<td>35,652,434,750</td>
<td>28</td>
</tr>
</tbody>
</table>

The under-collection may have impacted negatively on funding the budgets of the various public activities and therefore service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

21. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REVENUE STATEMENTS (DEVELOPMENT)

REPORT ON THE REVENUE STATEMENTS

Unqualified Opinion

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

Other Matter

23. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.70,856,005,404 and Kshs.57,277,784,419 respectively resulting to under performance of Kshs.13,578,220,985 or 19% of the budget. Management has attributed the under collection to the requirement by The National Treasury that implementing units should exhaust funds released to them in the prior periods before accessing new disbursements, delays in releasing no objection letters and stringent conditions from the Development Partners. The under funding of the planned development activities may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

25. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REVENUE STATEMENTS – GOVERNMENT INVESTMENTS AND PUBLIC ENTERPRISES

REPORT ON THE REVENUE STATEMENTS

Basis for Adverse Opinion

26. Accuracy of Schedule of Outstanding Loans

The summary schedule of outstanding loans reflects an outstanding loans balance of Kshs.867,005,661,272 as at 30 June, 2020. However, circularization of a sample of debtors for the loan balances revealed significant discrepancies between the reported book balances and the amounts confirmed as owing by the respective institutions as detailed below:

<table>
<thead>
<tr>
<th>No</th>
<th>Entity</th>
<th>Balance as per Financial Statement (Kshs.)</th>
<th>Confirmed Balance (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>South Nyanza Sugar Company Limited</td>
<td>199,027,420</td>
<td>818,968,527</td>
<td>(619,941,107)</td>
</tr>
<tr>
<td>2</td>
<td>Agro Chemical and Food Company Limited</td>
<td>2,846,884,000</td>
<td>9,636,239,308</td>
<td>(6,789,355,308)</td>
</tr>
<tr>
<td>3</td>
<td>IDB Capital Limited</td>
<td>1,555,675,500</td>
<td>347,150,310</td>
<td>1,208,525,190</td>
</tr>
<tr>
<td>4</td>
<td>Cooperative Bank</td>
<td>287,416,720</td>
<td>60,951,469</td>
<td>226,465,251</td>
</tr>
<tr>
<td>5</td>
<td>Industrial and Commercial Development Corporation (ICDC)</td>
<td>1,171,848,560</td>
<td>906,348,560</td>
<td>265,500,000</td>
</tr>
<tr>
<td>6</td>
<td>Kenya Electricity Generating Company</td>
<td>115,611,418,276.52</td>
<td>88,353,548,285</td>
<td>27,257,869,992</td>
</tr>
</tbody>
</table>

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

Under the circumstances, the accuracy of the reported outstanding loans balance of Kshs.867,005,661,272 as at 30 June, 2020 could not be confirmed.

Other Matter

27. Dormant Loans

Included in the total loan portfolio of Kshs.867,005,661,272 as at 30 June, 2020 were seventeen (17) loans amounting to Kshs.28,266,447,102 representing 3.3% of the total loan portfolio. As previously reported, the loans had no movements during the year and have remained unpaid over a significant period of time casting doubt on their recoverability. The loan details are as tabulated below:
<table>
<thead>
<tr>
<th>No.</th>
<th>Institution</th>
<th>Balance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Coast Water Service Board</td>
<td>6,756,217,290</td>
</tr>
<tr>
<td>2</td>
<td>East African Sugar Industries Limited, Muhoroni</td>
<td>177,123,100</td>
</tr>
<tr>
<td>3</td>
<td>Halal Meat Products</td>
<td>27,701,420</td>
</tr>
<tr>
<td>4</td>
<td>Kenya Meat Commission</td>
<td>940,241,100</td>
</tr>
<tr>
<td>5</td>
<td>Kenya Urban Transport Various Towns</td>
<td>40,706,140</td>
</tr>
<tr>
<td>6</td>
<td>Lake Victoria North Water Services Board</td>
<td>2,677,512,856</td>
</tr>
<tr>
<td>7</td>
<td>Lake Victoria South Water Services Board</td>
<td>2,025,051,606</td>
</tr>
<tr>
<td>8</td>
<td>Miwani Outgrowers Mills Limited</td>
<td>6,600,000</td>
</tr>
<tr>
<td>9</td>
<td>Miwani Sugar Company (1989) Limited</td>
<td>16,000,020</td>
</tr>
<tr>
<td>10</td>
<td>Miwani Sugar Mills Limited</td>
<td>78,088,180</td>
</tr>
<tr>
<td>11</td>
<td>Mumias Sugar Company Limited</td>
<td>3,000,000,000</td>
</tr>
<tr>
<td>12</td>
<td>National Irrigation Board</td>
<td>2,262,036,544</td>
</tr>
<tr>
<td>13</td>
<td>National Water Conservation and Pipeline Corporation</td>
<td>2,460,874,897</td>
</tr>
<tr>
<td>14</td>
<td>Tana Water Services Board</td>
<td>1,854,116,143</td>
</tr>
<tr>
<td>15</td>
<td>Tanathi Water Services Board</td>
<td>4,381,565,506</td>
</tr>
<tr>
<td>16</td>
<td>Uchumi Supermarkets Limited</td>
<td>1,200,000,000</td>
</tr>
<tr>
<td>17</td>
<td>Water Resource Management</td>
<td>362,612,300</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>28,266,447,102</td>
</tr>
</tbody>
</table>

No evidence of the measures taken by Management to recover the outstanding amounts was provided, casting doubts on recoverability of the loans.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

28. Management of Loan Portfolio and Loaning

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

29. Increased Arrears of Receipts

The statement of arrears reflects total amount in arrears of Kshs.54,100,388,350 (2018/2019-Kshs.39,165,038,029) representing an increment of Kshs.14,935,350,321 during the year under review. Although Management attributed the
situation to financial difficulties experienced by most of the entities, proof by way of reports to the Cabinet Secretary explaining specific difficulties experienced in collecting the debts as spelt out under Regulation 64(2) of Public Finance Management (National Government) Regulations, 2015 was not provided.

Consequently, the Management is in breach of the Regulations.

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

Conclusion

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

STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

31. Presentation and Disclosure

The statement of outstanding obligations guaranteed by the Government of Kenya reflects an outstanding balance of Kshs.152,317,825; (2019-Kshs.152,317,825) being capital and interest owed by the Cereals and Sugar Finance Company. However, the Consolidated National Government Investment Report for the year 2019/2020, prepared by The National Treasury in accordance with Section 89 of the Public Finance Management Act, 2012, indicates that the total outstanding Government guaranteed debt stood at Kshs.159,405,000,000 as detailed out below:

<table>
<thead>
<tr>
<th>Agency</th>
<th>Outstanding Government Guaranteed Debt as at 30 June, 2020 (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Broadcasting Corporation (KBC)</td>
<td>357,000,000</td>
</tr>
<tr>
<td>Tana and Athi River Development Authority</td>
<td>279,000,000</td>
</tr>
<tr>
<td>East African Portland Cement PLC</td>
<td>346,000,000</td>
</tr>
<tr>
<td>Kenya Electricity Generating Company PLC</td>
<td>43,035,000,000</td>
</tr>
<tr>
<td>Kenya Ports Authority</td>
<td>34,061,000,000</td>
</tr>
<tr>
<td>Kenya Railways Corporation</td>
<td>4,603,000,000</td>
</tr>
<tr>
<td>Kenya Airways</td>
<td>76,724,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>159,405,000,000</strong></td>
</tr>
</tbody>
</table>
The total outstanding Government guaranteed debt of Kshs.159,405,000,000 however, does not include the balance of Kshs.152,317,825 reflected in the statement of outstanding obligations guaranteed by the Government of Kenya prepared and submitted for audit by The National Treasury, which is indicated as relating to Capital and Interest owed by Cereals and Sugar Finance Corporation. Further, the parent Ministries for the respective Agencies mentioned above did not prepare and submit for audit their respective statements of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2020. No explanations have been provided for the omissions.

Under the circumstances, the completeness and accuracy of the outstanding balance of Kshs.152,317,825 reflected in the statement of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2020 could not be ascertained.

32. Unsupported Decrease in Guaranteed Obligations

As previously reported, the statement of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2020 reflects an outstanding balance of Kshs.152,317,825 which decreased by Kshs.11,814,920 from the reported balance of Kshs.164,132,745 as at 30 June, 2018. Management did not avail documentary evidence to support the decrease of Kshs.11,814,920 in the 2018/2019 financial year.

Consequently, the accuracy of the outstanding balance of Kshs.152,317,825 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

34. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.
CONSOLIDATED FUND SERVICES - SUBSCRIPTIONS TO INTERNATIONAL ORGANIZATIONS

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

36. Unresolved Prior Year Audit Matters

The following prior year audit matters remained unresolved as at 30 June, 2020.

36.1 Dormancy of CFS - Subscriptions to International Organizations

As reported previously, the financial statements of the Consolidated Fund Services - Subscriptions to International Organizations has not reflected any activity over the last four (4) years. Although an annual budget of Kshs.500,000 had been allocated every year under Consolidated Fund Services - Subscriptions to International Organizations, no activities have been reported during the four (4) year period. The relevance of the Consolidated Fund Services - Subscriptions to International Organizations is, therefore not clear especially in view of the Public Finance Management Regulations (African Union (AU) and Other International Organizations Subscription Fund) Regulations, 2017 which established the AU and Other International Organizations Subscription Fund from which Kenya’s contributions to AU and Other International Organizations should be paid from.

36.2 Comparison of Expenditure with the Appropriation Account

As was reported in 2018/2019 financial year, The National Treasury financial statements reflected payments as grants and transfers amounting to Kshs.1,069,476,595. Included in the amount were membership dues and subscriptions to unspecified international organizations totalling Kshs.48,779,790. The balance of Kshs.1,020,696,805 was indicated to have been paid to four (4) organizations as detailed below: -.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Amounts (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa Capacity Building Foundation</td>
<td>42,333,304</td>
</tr>
<tr>
<td>Shelter Afrique</td>
<td>355,000,000</td>
</tr>
<tr>
<td>MEFMI</td>
<td>81,363,501</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development, IBRD</td>
<td>542,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,020,696,805</strong></td>
</tr>
</tbody>
</table>
There is risk of duplicate payments for expenditure where The National Treasury makes payments without authenticating with organizations responsible for the payments and more specifically where payments are not adequately disclosed as was the case of Kshs.48,779,790. From the foregoing, the National Treasury has not drawn a distinction between subscriptions and grants and hence the pay points of Consolidated Fund Services - Subscription to International Organizations and The National Treasury main account respectively.

36.3 Unsupported Balances

In the audit report of 2015/2016, the detailed statement of Kenya Government share subscriptions and capital contribution to international organizations under Note 5 of the financial statements had reflected local value of subscriptions totalling Kshs.51,403,651,783 against various amounts in foreign currencies as at 30 June, 2016. However, an independent circularization to twelve (12) reported recipient organizations yielded only four (4) confirmations. Further, amounts confirmed by two (2) of the four (4) organizations differed significantly with the reported amounts as per the National Treasury records.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

38. There were no material issues relating to effectiveness of internal controls, risk management and governance.
EAST AFRICA TOURIST VISA FEE COLLECTION ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

39. There were no material issues noted during the audit of the financial statements of the East Africa Tourism Visa Fee Collection Account.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

CONSOLIDATED FUND SERVICES - SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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

CONSOLIDATED FUND SERVICES – PENSION AND GRATUITIES

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

45. Unsupported Accounts Payables

As disclosed in Note 13.6 to the financial statements, the statement of assets and liabilities reflects accounts payables balance of Kshs.5,358,204,131 as at 30 June, 2020. However, the balances were not supported by detailed schedules indicating names, dates and amounts owed to each respective creditor and the corresponding source documents. Further, aging analysis for the balances to establish how long the payables had been outstanding were not provided.

Consequently, the accuracy and fair statement of the reported accounts payables balance of Kshs.5,358,204,131 as at 30 June, 2020 could not be confirmed.

46. Long Outstanding Reconciliation Items in Cash and Cash Equivalents

The statement of assets and liabilities reflects a bank balance of Kshs.516,659,258 which, as disclosed in Note 13.5 to the financial statements, relates to the recurrent bank account of the Fund at the Central Bank of Kenya. However, a review of the bank reconciliation statement for the month of June, 2020 revealed long outstanding payments totalling to Kshs.16,437,581 in the bank statement not in cashbook. Some of the payments dated as far back as 2008. Further, receipts relating to the periods between 2007 and 2018 amounting to Kshs.58,918,772 were recorded in the cashbook but not banked. No satisfactory explanation was provided for failure to resolve the long outstanding reconciling items.

In the circumstances, the accuracy and existence of the reported bank balance of Kshs.516,659,258 as at 30 June, 2020 could not be ascertained.

47. Unbalanced Trial Balance

The trial balance presented in support of the financial statements balances reflected total debit and credit balances of Kshs.78,968,668,938 and Kshs.83,576,796,858 respectively,
resulting in a difference of Kshs.4,608,127,920. The differences have not been reconciled.

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

48. Undisclosed Restatement of Comparative Balances

The statement of assets and liabilities reflects accounts payables and prior year adjustments comparative balances of Kshs.4,451,999,882 and Kshs.268,957,903 respectively. However, the balances differed with the audited balances of Kshs.4,183,043,979 and Nil resulting in unexplained variances of Kshs.268,955,903 and Kshs.268,957,903 respectively.

Consequently, the accuracy of the reported accounts payables balance of Kshs.5,358,204,131 and the fund balance brought forward of Kshs.4,391,374,099 could not be confirmed.

Other Matter

49. Unresolved Prior Year Matter

As disclosed under the progress on follow up of prior years’ audit recommendations section of the financial statements, matters raised in the previous financial years, remained unresolved as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

50. Failure to Adhere to Regulations and Service Level Agreement on Processing Pension and Gratuity Payments

The Pensions Act, Regulations and Service Charter provisions for effective and efficient service delivery requires that the processing and payment of pension and gratuities shall be within ninety (90) days upon enrollment. However, review of 18,618 pension cases during the year under review revealed that only 289 cases or 1.6% were processed within the stipulated timeline resulting in the remainder of 18,329 or 98.4% being late. Of the late processed cases, 15,338 were completed in periods spanning between 91 and 580 days. As at 30 June, 2020, 3073 cases were still underway. In addition, there were notable disparities in the duration taken to process the cases with some being processed within a day while others took longer than 580 days.

Further, Section 16A of the Pensions Act Cap 189 requires that a person to whom a pension or other allowance is payable under this Act shall be entitled to be retained in the service until the payment in full of the gratuity payable to him. However, this is not the
case as the retirees are terminated from their respective payrolls as soon as they attain the retirement age before their pensions and gratuities are processed.

Failure to ensure equity in service delivery and adherence to the Regulations would occasion inequality and suffering by the pensioners who have to wait for long periods with some passing on before receiving their pension.

To the extent, the Department was in breach of the Law.

51. **Failure to Provide Internal Audit Reports**

Section 33(1) of Public Audit Act, 2015 provides that the final report by the Internal Auditor which has been deliberated on and adopted by an Audit Committee of a state organ or public entity may be copied to the Auditor-General. Further, Section 33(2) provides that the Auditor-General has unhindered access to all internal audit reports of a state organ or public entity, which is subject to audit by the Auditor-General as provided for under Article 229(4) of the Constitution. Management did not provide the internal audit reports for review as requested for.

In addition, it could not be confirmed that internal audits in respect of the entity were conducted in accordance with international best practices as required under Section 73(4) of the Public Finance Management Act, 2012 and whether the main functions of the audit committee to support the Accounting Officers with regard to their responsibilities for issues of risk, control and governance and associated assurance; and follow up on the implementation of the recommendations of internal and external auditors as provided for under Regulation 175(a) and (b) of Public Finance Management Regulations, 2015 were effectively executed.

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

**Conclusion**

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

**REVENUE STATEMENTS OF THE PENSIONS DEPARTMENT**

**REPORT ON THE REVENUE STATEMENTS**

**Basis for Qualified Opinion**

53. **Unsupported Revenue Balances**

The statement of revenue and transfers reflects total receipts of Kshs.314,802,204 which, as disclosed under Note 10.1 to the revenue statements, comprised of contributions from
employees at the rates of 2% and 31% of basic salaries, abatement (liabilities owed by retirees recovered from their pension dues) and cap deductions (overpayments made to pensioners recovered from subsequent payments) of Kshs.117,114,819, Kshs.151,722,946, Kshs.38,303,025 and Kshs.7,661,414, respectively. However, the amounts have not been adequately supported by detailed analyses and it was therefore not possible to authenticate the contributor’s identity and the period to which the contributions related.

Consequently, the accuracy and completeness of the revenue receipts of Kshs.314,802,204 for the year ended 30 June, 2020 could not be confirmed.

**Other Matter**

54. **Prior Years Matters**

The following prior year matters remained unresolved as at 30 June, 2020.

54.1 **Discrepancies Between Budget Statement and Printed Estimates**

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

54.2 **Variance Between the Revenue Statement and Trial Balance Figures**

The statement of revenues and transfers for the year ended 30 June, 2019 reflected total non-tax receipts of Kshs.262,230,402; (2018 – Kshs.308,019,086) comprising of receipts from MDAs and other receipts of Kshs.262,091,309 and Kshs.211,093 respectively. However, the trial balance and revenue analysis availed for audit reflected a total of non-tax receipts balance of Kshs.270,789,739 resulting to an unexplained variance of Kshs.8,559,337.

54.3 **Incomplete Progress Report on Follow-up of Auditor’s Recommendations**

As reported in the 2017/18 audit report, a difference of Kshs.1,379,147 between the total revenue collected and transferred to the Exchequer and transfers of receipts reflected in the bank statement was not explained. Further, the receiver of revenue failed to provide a budget of the estimated revenue collections. These issues were not captured under progress on follow up of auditor’s recommendation section of the financial statements for the year ended 30 June, 2019.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

FINANCIAL SECTOR SUPPORT PROJECT (IDA CREDIT NO. 5627-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

58. Pending Bills

Note 9 to the financial statements reflects pending bills amounting to Kshs.3,689,780 as at 30 June, 2020. Management has explained that the bills represented invoices locked out of the procurement system before being paid. Although Management has committed to adhere to the Public Procurement and Asset Disposal Act, 2015, the Project is at risk of incurring additional costs in case of legal disputes due to non-payment for services rendered.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

59. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

61. Non-Disclosure of Government Counterpart Contribution

The Grant Agreement provides for counterpart contribution from the Government of Kenya equivalent to 15% of the Project Grant. However, the financial statements have not disclosed counterpart funds received by the Programme from the The National Treasury in the year under review, and in previous years. As a result, the audit has not established the value of the Government’s contribution to the Programme since its inception.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

62. Delay in Completion of KEMSA Warehouse and Office Construction Project

The contract for construction of the Kenya Medical Supplies Authority (KEMSA) modern warehouse and office block is jointly funded by the Global Fund and the Government of Kenya at a contract sum of Kshs.3,079,998,860. The works commenced on 28 March, 2018 and were due for completion on 12 March, 2019. However, site inspection in November, 2020 indicated that construction was still ongoing, 20 months after the project’s scheduled completion date. Management reported that the works on the warehouse were 95% complete. The contract has since been extended several times with the latest completion date having been set for December 23, 2020. No plausible explanation has been provided by Management for the delay in completing the buildings.
In view of the delay, no value has been obtained on the expenditure incurred on the project and in addition, the objects for which it was started have not been met.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

63. Lack of a Professional Procurement Unit

Contrary to the provisions of Section 47(1) of the Public Procurement and Asset Disposal Act, 2015 that require procurement activities in public entities to be managed by procurement professionals with qualifications recognized in Kenya, the Programme’s Procurement Unit does not fulfil this legal requirement. To that extent, the Programme is operating in breach of the Law.

Management has explained that the omission is caused by lack of a budgetary provision for the purpose.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

66. There were no material issues relating to effectiveness of internal controls, risk management and governance.
PUBLIC FINANCIAL MANAGEMENT REFORMS PROGRAM (CREDIT NO.6133-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

67. Bank Balances

As disclosed in Note 9.13A to the financial statements, the statement of financial assets and liabilities reflects bank balances of Kshs.1,436,982,430 as at 30 June, 2020. However, this balance does not include a sum of Kshs.21,151,077 relating to proceeds from encashment of a performance bond that was yet to be transferred into the Project bank account.

Consequently, the accuracy and fair statement of the reported bank balances of Kshs.1,436,982,430 as at 30 June, 2020 could not be confirmed.

Other Matter

68. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.1,195,985,108 against budgeted receipts of Kshs.1,285,075,789 resulting in a shortfall of Kshs.89,090,681 or 9% of the total budget. The shortfall was mainly recorded under proceeds from domestic and foreign grants where actual receipts amounted to Kshs.1,140,000,000 against the budgeted receipts of Kshs.1,233,000,000 resulting in a shortfall of Kshs.93,000,000 or 8% of the budgeted receipts. Further, actual expenditure for the year amounted to Kshs.502,322,315 against the actual receipts of Kshs.1,195,985,108 resulting to under expenditure of Kshs.693,662,793, for which Management attributed to slow down in implementation of work plans due to the COVID 19 pandemic.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

69. Contract for Supply, Delivery, Installation and Commissioning of Enterprise Data Warehouse and Business Intelligence Solution

The Kenya Revenue Authority (KRA), one of the implementing agencies, contracted for the supply, delivery, installation and commissioning of an enterprise data warehouse and business intelligence solution. The contract was for a period of 18 months commencing 27 November, 2015 and ending 26 May, 2017. Review of the contract performance during the period revealed the following unsatisfactory issues:
69.1 Failure to Charge and Recover Liquidated Damages

The contract was terminated on 24 January, 2020 for delays in delivery. However, contrary to the provisions of section (140) of the Public Procurement and Asset Disposal Act, 2015 and clause 3.17 of the general conditions of the contract which required the Program to charge default liquidated damages of 10% of the delayed goods and services accumulated to Kshs.59,385,238 (USD544,818.70) as at the date of termination, this had not been effected. The liquidated damages ought to have been charged on each certificate of performance and subsequently recovered from the contractor’s payment certificates. No explanations were rendered for failure to recover.

The Program is in breach of the law to this extent.

69.2 Advance Payment

The contractor was paid an advance payment of Kshs.93,204,451 equivalent to USD904,898 on 18 December, 2015. However, after termination of contract on 24 January, 2020, only Kshs.21,151,077 had been recovered as at 30 June, 2020. The balance of Kshs.72,053,374 was still outstanding.

Consequently, the likelihood of loss of public resources due to non-recovery of the advance payment in contravention of Regulation 8(3)(t) and 8(3)(u) of the Public Procurement and Disposal Regulations, 2006 is high.

70. Staff Establishment

As previously reported, a number of program positions continue to remain vacant or not substantively filled as per the approved establishment. The positions of Programme Officer I and II (M&E) were however, overstaffed.

Consequently, Management is in breach of the approved establishment. This may impact on Program efficiency and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

71. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STUDY AND CAPACITY BUILDING FUND PROJECT (CREDIT NO. CKE 6015 01K)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

73. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects approved receipts budget and actual on comparable basis amount of Kshs.5,475,000 and Kshs.2,025,000, respectively, resulting to shortfall in receipts of Kshs.3,450,000 or 63%. Further, the Project’s approved expenditure budget was Kshs.5,475,000 while the actual expenditure was Kshs.2,025,000, resulting to under-expenditure of Kshs.3,450,000 or 63% of the budget. Consequently, planned activities of the Project may possibly not have been implemented, thus affecting achievement of the intended goals of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

74. Irregular Termination of Technical Assistant Contract

Contrary to the provisions of Section 153(1) of the Public Procurement and Asset Disposal Act, 2015, the contract for a technical assistant (consultant) was terminated without the approval of the Accounting Officer. Further, no prior written notice was served to the consultant contrary to clause 13 of the signed contract.

The Project is in breach of the law to the extent.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

75. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

77. Non-Receipts of Budget

The statement of comparative budget and actual amounts reflects budgeted receipts from proceeds of domestic and foreign grants and actual on comparable basis of Kshs.5,300,000 and Kshs.242,208 respectively resulting into under-funding of Kshs.5,057,792 or 95%. This is indicative of a project whose future is uncertain. Management has however, indicated intention to close the project immediately the prior year audit issues are resolved.

78. Unresolved Prior Year Matters

The following prior year audit matters remained unresolved as at 30 June, 2020.

78.1 Co-operative Bank Dormant Accounts

The Project continues to maintain two local currency Accounts No. 01141419783101 and No. 01141419783100 with Co-operative Bank of Kenya with bank balances of Kshs.1,136,902 and Kshs.359 respectively as at 30 June, 2020. No deposits or withdrawals have been made for the last four (4) financial years. The explanation that the balance of Kshs.1,136,902 in account No. 01141419783101 was insufficient to be paid back to the European Commission owing to ineligible expenditures, was not supported by way of documentary evidence. No cash books are maintained for these accounts hence the accuracy of the cash and cash equivalents balance of Kshs.24,202,681 reflected in the financial statements could not be ascertained. The continued maintenance of the dormant account may expose the Programme Account to risk of loss of funds.

78.2 Non-Disclosure of Pending Bills

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

78.3 **Unsupported Transfer to the Donor**

During the prior year, the Programme transferred an amount of Kshs.13,257,502 to European Commission without details. Further, no transmittal documentation or acknowledgement from the European Commission were availed for verification in support of the transaction. In absence of sufficient and relevant supporting documents, it has not been possible to determine whether or not the amount in question was received.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS ON INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE.

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

82. **Amount Withdrawn but Unclaimed**

Part B of the statement of special (designated) account reconciliation for the Project reflects Euro1,152,653.73 (Kshs.139,516,976.95), at the then exchange rate of 1 Euro at Kshs.121.04, as withdrawn but unclaimed as at 30 June, 2020. This represents cumulative funds transfers to the local Project bank account but whose expenditure
returns have not been submitted to The National Treasury by the close of the financial year. Further, an additional Euro 30,000 (Ksh3,631,194.00) cash advance to the Project reflected in the list of advances is yet to be justified under the Grant Facility CKE 6010.

My opinion in respect of this matter is not qualified.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

83. Failure to Close Project

As per Clause 10 of the financing agreement, the Project was to close on 31 October, 2010 but the closing date was later extended to 31 December, 2014. However, the Project Management is yet to formally prepare and submit the Project closure report. Consequently, the Project is in breach of the agreement with Agence Francaise Development (AFD) with its continued operation without a formal extension. Further, no explanation has been provided for failure to surrender to the Exchequer the balance of Kshs.90,491,999 which has been lying idle in the Project account at the Central Bank of Kenya.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

85. There were no material issues noted during the audit of the financial statements of the Project.
Emphasis of Matter

86. Low Absorption of Project Funds

Note 1.7 on funding summary indicates that the Donor had made commitments amounting to Kshs.3,033,000,000 (USD30,330,000) for both the grant and loan. The actual amount received during the Programme’s period totalled to Kshs.2,860,600,000 (USD28,606,000) leaving a balance of Kshs.170,600,000 (USD1706,000) undrawn. With the Project closing date of 30 June, 2019, the credit has since lapsed without being fully utilized and the Programme’s planned deliverables earmarked for completion using the funding may not have been realized. Further, Management has not initiated the Project’s closure process or sought for an extension of the Programme from the Donor.

My opinion in respect of this matter is not modified.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

89. Inaccuracies in the Financial Statements

The statement of receipts and payments reflects cumulative receipts from proceeds from domestic and foreign grants of Kshs.379,198,112. However, the amount differs from the
report on funding summary cumulative amount received to date of Kshs.2,957,238,212 as detailed under paragraph 1.7 resulting to an un-explained variance of Kshs.2,578,040,100.

Consequently, the accuracy and completeness of the reported receipts from proceeds from domestic and foreign grants of Kshs.379,198,112 for the year ended 30 June, 2020 could not be confirmed.

90. Non-Disclosure of Counterpart Contribution

The statement of receipts and payments did not disclose the counterpart funding from the National Treasury. Further the Government of Kenya’s contribution for the financial year and cumulatively cannot be established.

Consequently, the accuracy and completeness of the reported receipts balance of Kshs.345,113,745 cannot be ascertained.

Other Matter

91. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.345,113,745 against final budget receipts of Kshs.666,102,955 resulting in a shortfall of Kshs.320,989,210 or 48% of the total budget. Further, actual expenditure for the year amounted to Kshs.322,760,765 against the final budget expenditure of Kshs.666,102,955 resulting to an under absorption of Kshs.343,342,190 being 52% of the expenditure budget. Management attributed the slowdown in implementation of work plans to the COVID-19 pandemic and delays in procurement arising from late receipt of the tax exemption certificate.

92. Pending Bills

According to Note 10.1 to the financial statements, the Project had pending accounts payables totalling Kshs.379,687 (2019: Kshs.861090) as at 30 June, 2020. During the year under review, the Project Management made payments totalling Kshs.861,090 while accumulating bills totalling Kshs.379,687. Management has not explained why the bills were not settled during the year they occurred. The Project is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

93. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

95. Non-Disclosure of Counterpart Contribution

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

Consequently, the accuracy and completeness of the reported receipts balance of Kshs.2,799,519,735 cannot be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

97. There were no material issues relating to effectiveness of internal controls, risk management and governance.
ADDITIONAL FINANCING FOR THE INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIP PROJECT (IDA CREDIT NO. 6121-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

99. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects budgeted and actual receipts on comparable basis of Kshs.200,000,000 and Kshs.111,967,300 respectively resulting into underfunding of Kshs.88,043,700 or 44%. Similarly, the statement reflects approved budget and actual expenditure of Kshs.200,000,000 and Kshs.82,749,638 respectively resulting in an under-expenditure of Kshs.117,250,362 or 59%. Management has attributed the under-absorption of funds to delayed implementation of the planned activities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

FINANCING LOCALLY-LED CLIMATE ACTION PROGRAM (PREPARATION ADVANCE No. IDA V319-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

102. There were no material issues noted during the audit of the financial statements of the Project.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCIES UNDER THE NATIONAL TREASURY

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

106. Pending Bills

Note 10.1 to the financial statements reflects pending bills totaling Kshs.3,991,800 as at 30 June, 2019 that has been outstanding since the beginning of the financial year. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring interest costs and penalties with the continued delay in making payments.

107. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final expenditure budget and actual expenditure on comparable basis of Kshs.204,733,000 and
Kshs.18,490,000 respectively resulting in an under expenditure of Kshs.186,243,000 (91%). The under expenditure of the approved budget indicates that some Project activities in the annual work-plan were not implemented which is likely to have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EQUALISATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

111. Non-Compliance with the Constitution and the Law

The statement of receipts and payments for the financial year 2019/2020 reflects nil receipts as there was no budget provision to the Fund. Further, the Equalisation Fund's Information and Management Report indicates Fund accumulated entitlement of Kshs.45,044,075,763 over the last eight (8) years (2011/2012 – 2018/2019) based on 0.5% of the most recent audited and approved revenues. However, only Kshs.12,400,000,000 or 27.5% of the entitlement had been appropriated and transferred to the Fund account contrary to the provisions of Article 204(1) of the Constitution which
requires that one half per cent of all the revenue collected by the National Government each year calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly shall be paid into the Equalisation Fund.

Further, out of the appropriated and available funds of Kshs.12,400,000,000, only an amount of Kshs.10,116,573,051 or 82% has been disbursed to the implementing Ministries, Departments and Agencies (MDAs) to fund projects in the beneficiary Counties while the remaining balance of Kshs.2,283,426,949 is held in the Fund bank accounts. Management has attributed lack of disbursements to a court ruling on Petition No. 272 of 2016 dated 12 November, 2019 that declared the Equalisation Fund Guidelines, 2015 null and void. However, in the absence of disbursements, the Fund may not realise its intended objectives of providing basic services to the marginalised areas to achieve equality and equity in the provision of basic services with other regions.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

CONTINGENCIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

114. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

PETROLEUM DEVELOPMENT LEVY FUND (HOLDING ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

116. Variance Between Receipts in the Financial Statements and Actual Collections by Kenya Revenue Authority

The statement of receipts and payments for the year ended 30 June, 2020 reflects petroleum development levy receipts from the Kenya Revenue Authority (KRA) of Kshs.1,986,101,670. However, the petroleum development levy receipts reflected in KRA Revenue Accountability Statement and transferred to the Fund is Kshs.2,016,099,111 leading to an unexplained difference of Kshs.29,997,441. Further, the Fund Management did not provide the general ledger and the trial balance to support the balances reflected in the financial statements.

Under the circumstances, the accuracy of the balances reflected in the financial statements could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

118. There were no material issues relating to effectiveness of internal controls, risk management and governance.
RURAL ENTERPRISE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

119. Unbanked Cash

As disclosed in Note 1 to the financial statements, the statement of assets and liabilities reflects bank balances totaling Kshs.3,348,895 which relates to balances brought forward from 2012/2013 and prior years. The balances comprise cash with District Commissioners on account of loans repaid, interest on loans and balances held in miscellaneous deposit accounts amounting to Kshs.1,951,921, Kshs.108,840 and Kshs.1,288,135 respectively. However, evidence to confirm actual existence of the balance of Kshs.3,348,895 was not provided. Further, the balance of Kshs.1,951,921 relating to District Commissioners (Loans Repaid) included advances amounting to Kshs.207,344 in form of IOUs issued from the Fund to five (5) officers working at the District Commissioner’s Office, Kisumu in 1997/1998. The IOUs had not been surrendered as at 30 June, 2020.

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

120. Unreconciled Balances

As was reported in the previous year, the statement of assets and liabilities for deposits as at 30 June, 2013 reflected a debit balance of Kshs.1,828,388 in respect of the Fund while the Fund account for the same year reflected a balance of Kshs.397,908,774. The significant difference of Kshs.396,080,387 between the two sets of records had not been reconciled or explained as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

121. Winding Up of the Fund

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

Conclusion

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

COVID-19 EMERGENCY RESPONSE FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

124. Fund Board

Regulation 7(1) of the Public Finance Management (COVID-19 Emergency Response Fund) Regulations, 2020 provides for establishment of the Fund Board comprised of a Chairperson appointed by the President, the Cabinet Secretary responsible for matters relating to Interior and Co-ordination of National Government, the Chairperson of the Council of County Governors and eight (8) other members who shall not be public officers appointed by the President. Regulation 7(2) also provides for the appointment of a Secretary to the Board appointed by the President. Contrary to these Regulations, the Fund operated without a Board during the year under review.

The Fund was therefore in breach of the Regulations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

125. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

127. Low Fund Performance

The State Officers and Public Officers Motor Car Loan Scheme Fund was established in 2015 through Legal Notice No. 195 of 25 September, 2015 and pursuant to guidelines provided by Salaries and Remuneration Commission on Car Loan benefit for State Officers and other Public Officers in December, 2014. The Fund Management has, however, not undertaken any significant activities since then. Although the Secretariat of the Fund had begun processing fifty seven (57) applications for loans totalling to Kshs.44,074,539, the performance of the Fund was relatively low at 1.15% in comparison to the cash and cash equivalents amount of Kshs.3,826,841,308 held in the Fund’s bank accounts as at 30 June, 2020. The fund is still performing below expectations and Management has not indicated measures put in place to attract more State Officers and Public Officers to apply for motor car loans.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

129. There were no material issues relating to effectiveness of internal controls, risk management and governance.
GOVERNMENT CLEARING AGENCY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

130. Non-disclosure of Receipts and Payments

The statements of receipts and payments reflects an amount of Kshs.2,174,171 received in the 2018/2019 financial year that was transferred to the Exchequer in 2019/2020. However, analysis of entries in the bank statement for the Fund bank account No. 01001007625100 operated at the National Bank of Kenya revealed that the Agency received a total of Kshs.252,459,894 and made payments amounting to Kshs.213,585,119 during the year under review. No explanation was provided on why the Agency did not disclose the receipts and the payments in the financial statements. Further, supporting documents for the transactions reflected in the bank statement were not provided for audit.

Consequently, the accuracy and completeness of the reported receipts and payments of Kshs.2,174,171 could not be confirmed.

131. Unresolved Prior Year Audit Matters

As disclosed under progress on follow up of prior years’ auditor’s recommendations section of the financial statements, issues reported in the prior year, remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified of Opinion

134. Long Outstanding Accounts Receivables – Debtors

As reported previously, the statement of assets and liabilities reflects accounts receivables-debtors balance of Kshs.12,503,607,446 as at 30 June, 2020. The balance has been outstanding for a long period of time with no movement which is indicative of nil recoveries. Further, details and breakdown of Kshs.2,341,896,518 being remittance to an agent and included in the balance was not provided for audit.

Consequently, and in absence of a provision for doubtful debts, the recoverability of the long outstanding accounts receivables - debtors balance of Kshs.12,503,607,446 could not be confirmed.

135. Unsupported Accounts Payables – Creditors

As previously reported, the statement of assets and liabilities reflects accounts payables – creditors balance of Kshs.12,490,478,941 as at 30 June, 2020. However, detailed listings in support of the balances were not availed for audit review.

Consequently, the accuracy and completeness of the accounts payables - creditors balance of Kshs.12,490,478,941 as at 30 June, 2020 could not be ascertained.

136. Unsupported Deficit Balance Brought Forward

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

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

Other Matter

137. Failure to Wind Up the Fund

As reported previously, the Fund has been dormant for a significant duration. In spite of the recommendations of the Public Accounts Committee and instructions of The National Treasury to wind up all dormant funds, the Fund continues to subsist, prepare financial statements and present them for audit. As at the time of finalizing this audit, the process of winding up the Fund was yet to be completed.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA LOCAL LOANS SUPPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

140. Unsupported Balances

The financial statements presented for audit are not supported by trial balance and ledgers. In the circumstances, the accuracy of the reported balances could not be ascertained.

Other Matter

141. Winding Up of the Fund

As reported previously, the Fund has been dormant for a significant duration. In spite of the recommendations of the Public Accounts Committee and the instructions of The National Treasury to wind up all dormant funds, the winding up process was yet to be completed as at the time of finalizing the audit.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

142. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

PROVIDENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

144. Un-Supported Other Payables

The statement of financial position reflects a balance of Kshs.9,715,111 being other payables brought forward from previous years. The balance includes surplus cash remitted by Departments and interest due to National Government entities of Kshs.9,622,726 and Kshs.92,385 respectively. The supporting documents or analysis for the balances were not availed for audit review.

Under the circumstances, the accuracy and validity of the balances could not be confirmed.

Other Matter

145. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects Nil approved budget for both receipts and payments items. The Fund however, received dividends totalling Kshs.67,867,933 during the year under review. The explanatory notes indicated that there was no budget drawn, even though the Fund expected dividends from both Kenya Power and Lighting Company PLC and East African Breweries Limited.

The Fund therefore, violated provisions of Public Finance Management Act, 2012 that requires preparation of estimates of expenditure and revenue of the entity in conformity with the strategic plan of the entity.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

146. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EUROPEAN WIDOWS AND ORPHANS PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

148. Failure to Prepare a Budget

The statement of comparison of budget and actual amounts shows an expenditure of Kshs.100,680 incurred on dependant pension during the year under review. However, this amount was not included in the national budget estimates for the financial year 2019/2020. To this extent, the Management of the Fund is in breach of Section 68 (2) (h) of the Public Finance Management Act, 2012 which requires an Accounting Officer to prepare estimates of expenditure and revenues.

149. Accounts Payables

The statement of financial position reflects accounts payables of Kshs.16,780 being amount paid out as monthly pensions and returned in the financial year 2017/2018. The documentation to support the balance and details of the payees were however not availed for audit review. In addition, no explanation was provided on why the pensioners have not been paid three years down the line.

Consequently, the validity of the accounts payables balance of Kshs.16,780 could not be ascertained.

150. Failure to Provide Ledger and Trial Balance

The financial statements reflect various balances as at 30 June, 2020 which were not supported by a Ledger or Trial Balance as detailed below:

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Amounts (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Payment of Pensions</td>
<td>100,680</td>
</tr>
<tr>
<td>2 Investments</td>
<td>21,608,573</td>
</tr>
<tr>
<td>3 Receivables</td>
<td>21,221,715</td>
</tr>
<tr>
<td>4 Cash Balances</td>
<td>172,651,989</td>
</tr>
<tr>
<td>5 Payables</td>
<td>16,780</td>
</tr>
<tr>
<td>6 Capital Accounts</td>
<td>11,598,063</td>
</tr>
</tbody>
</table>
Under the circumstances, the accuracy and validity of the financial statements could not be confirmed.

151. Unsupported Capital Accounts Adjustment

As previously reported, the Fund adjusted its investment account balance from Kshs.25,516,932 downwards to Kshs.21,608,573 by crediting the account with Kshs.3,908,360 in the financial year 2017/2018. The Capital account was debited with a similar amount of Kshs.3,908,360 adjusting the closing balance from Kshs.125,506,423 to Kshs.121,598,063. The two accounts had earlier been adjusted in 2011/2012 financial year with an amount of Kshs.17,364,820 in recognition of bonus shares which had been omitted. The Fund Management has not provided the journal vouchers to support the adjustments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

ASIAN OFFICERS FAMILY PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

154. Failure to Prepare Budget

The statement of receipts and payments and the statement of comparison of budget and actual amounts reflects actual receipts and expenditure amounts of Kshs.5,998 and Kshs.1,601,196 respectively. However, there was no approved budget for the Fund contrary to the provisions of Section 68(1) and (2)(h) of Public Finance Management Act, 2012.
155. **Accuracy of the Financial Statements**

Some balances reflected in the Trial Balance prepared and presented for audit were omitted in the financial statements as detailed out below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Items</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pension Payment</td>
<td>1,156,505</td>
</tr>
<tr>
<td>2</td>
<td>Pension Payment</td>
<td>134,456,751</td>
</tr>
<tr>
<td>3</td>
<td>Income and Expenditure Account</td>
<td>50,554</td>
</tr>
<tr>
<td>4</td>
<td>Interest on Investment Asian</td>
<td>1,075,843,820</td>
</tr>
<tr>
<td>5</td>
<td>Interest on Investment Asian</td>
<td>592,085,314</td>
</tr>
<tr>
<td>6</td>
<td>Expenses of Management</td>
<td>10,613,702</td>
</tr>
<tr>
<td>7</td>
<td>Appreciation/Depreciation Account</td>
<td>337,703</td>
</tr>
</tbody>
</table>

Further, the items listed below were reported in the financial statements but were not reflected in the Trial Balance:

<table>
<thead>
<tr>
<th>No.</th>
<th>Items</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dividend Income</td>
<td>5,998</td>
</tr>
<tr>
<td>2</td>
<td>Payment of Pension</td>
<td>1,601,196</td>
</tr>
<tr>
<td>3</td>
<td>Cash Equivalent</td>
<td>446,890,321</td>
</tr>
<tr>
<td>4</td>
<td>Dividend Receivable</td>
<td>5,291,730</td>
</tr>
<tr>
<td>5</td>
<td>Payables</td>
<td>521,292</td>
</tr>
</tbody>
</table>

The Fund Management has not explained or reconciled the balances.

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

**Other Matter**

156. **Unresolved Prior Year issues**

The following prior year audit issues remained unresolved as at 30 June, 2020.

156.1 **Irregular Payment of Pension**

As reported previously, the Management paid Kshs.519,800 to two deceased pensioners between the year 2007 and 2015. A further payment of Kshs.42,000 was made between July, 2015 and January, 2016 despite the dependents of the deceased pensioners having notified the Department of their demise in September, 2007 and February, 2008.

The Fund Management subsequently recovered Kshs.418,710 while the balance of Kshs.143,090 remains outstanding.
156.2 Items in the Trial Balance Omitted in the Financial Statements

The Trial Balance presented in support of the financial statements for the year ended 30 June, 2018 reflected some balances which were omitted from the financial statements as detailed below:

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Debit (Kshs.)</th>
<th>Credit (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciations/Appreciations</td>
<td>337,703.00</td>
<td></td>
</tr>
<tr>
<td>Expenses of Management</td>
<td>10,613,702.35</td>
<td></td>
</tr>
<tr>
<td>Interest on Investment-Asian</td>
<td>592,078,739.65</td>
<td>1,219,565.05</td>
</tr>
<tr>
<td>Interest on Investment Asian</td>
<td>-</td>
<td>1,075,831,824.85</td>
</tr>
</tbody>
</table>

No explanation was provided by Management on what the balances relate to and the reasons for their omission. Further, the total debits and credits in the Trial Balance amounting to Kshs.1,042,467,389 and Kshs.1,491,614,679 respectively, differed by Kshs.449,147,290 which was not explained or reconciled.

Consequently, the financial statements did not reflect a true and fair position of the Fund as at 30 June, 2018.

156.3 Long Outstanding Reconciling Items

The bank reconciliation for the month of June, 2018 in support of the cash book reflected payroll payments for the months of May and June, 2015 totaling to Kshs.237,646 but not recorded in the bank statement. Consequently, the validity of the reconciling items and the accuracy of the reported bank balances could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

158. There were no material issues relating to effectiveness of internal controls, risk management and governance.
ASIATIC WIDOWS AND ORPHANS PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

160. Failure to Wind Up the Fund

As reported previously, the Fund has been dormant since June, 2002 after the death of the only surviving beneficiary. The Cabinet through memorandum dated 26 June, 2012 authorized the Attorney General, the Minister of State for Public Service and The National Treasury to commence the winding up process of the Fund. Subsequently, a task force was appointed by The National Treasury to wind up dormant Funds in August, 2015 and a draft legal notice for the de-gazettement of the Fund was prepared. Further, information availed indicates that the Office of Attorney General recommended that The National Treasury prepare a draft Bill for the repeal of Asiatic Widows and Orphans Pension Fund Act (Cap 193) by Parliament. The draft Bill has been prepared but is yet to be discussed by the Parliament for enactment. As at the time of finalizing this audit, the process was yet to be completed.

My opinion in respect of this matter is not qualified.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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

Conclusion

162. There were no material issues relating to effectiveness of internal controls, risk management and governance.
AFRICAN UNION AND OTHER INTERNATIONAL ORGANIZATIONS
SUBSCRIPTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Basis for Conclusion

164. Irregular Transfer of Funds to the Exchequer Account

During the year under review, an amount of Kshs.5,000,000,000 was transferred from the
Fund Account No.1000323876 to the Exchequer Account No.1000003987. The transfer
was contrary to Regulation 4 of the Public Finance Management (African Union and Other
International Organizations Subscription Fund) Regulations, 2017 which states that the
object and purpose of the Fund shall be to make Kenya’s Contribution to the African Union
and any other International Organisation, to which Kenya has a financial obligation. The
Fund was therefore in breach of the Regulations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT
AND GOVERNANCE

Basis for Conclusion

165. Lack of a Fund Secretariat

Regulation 7(1) of the Public Finance Management (African Union and Other International
Organizations Subscription Fund) Regulations, 2017 designates the Principal Secretary
of The National Treasury as the Fund Administrator. Regulation 7(2) further requires the
Fund Administrator to control the administration of the Fund, cause to be kept proper
books of accounts and other records relating to the Fund. However, the Fund
Administrator has not established a Secretariat to undertake the duties specified in the
Regulations.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

166. Unsupported District Suspense Balances

The statement of assets and liabilities reflects an accounts receivables amount of Kshs.26,098,637 which, as disclosed in Note 9 to the financial statements, includes an amount of Kshs.25,506,369 in respect of district suspense being the difference between monies disbursed to various regional authorities in the financial year 2016/2017 for drought intervention measures totalling to Kshs.700,500,000 and Kshs.674,993,630 which was converted to expenditure. However, expenditure returns from the regional authorities indicated that out of the total amount of Kshs.674,993,631 shown as converted expenditure, only Kshs.632,905,707 had the relevant supporting documents, leaving an unsupported balance of Kshs.67,594,293 as detailed below:

<table>
<thead>
<tr>
<th>Regional Authority</th>
<th>Total AIE Amount Issued (Kshs.)</th>
<th>Amount Reported as Converted to Expenditure (Kshs.)</th>
<th>Verified Expenditure Amount (Kshs.)</th>
<th>Unsupported Expenditure (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coast Development Authority</td>
<td>42,500,000</td>
<td>39,692,998</td>
<td>39,692,998</td>
<td>2,807,002</td>
</tr>
<tr>
<td>Ewaso Nyiro South Development Authority</td>
<td>142,000,000</td>
<td>142,000,000</td>
<td>135,288,842</td>
<td>6,711,158</td>
</tr>
<tr>
<td>Lake Basin Development Authority</td>
<td>24,000,000</td>
<td>17,986,657</td>
<td>21,862,504</td>
<td>2,137,496</td>
</tr>
<tr>
<td>TARDA</td>
<td>402,000,000</td>
<td>402,000,000</td>
<td>351,773,250</td>
<td>50,226,750</td>
</tr>
<tr>
<td>Kerio Valley Development Authority</td>
<td>45,000,000</td>
<td>28,313,976</td>
<td>39,288,113</td>
<td>5,711,887</td>
</tr>
<tr>
<td>Ewaso Nyiro North Development Authority</td>
<td>45,000,000</td>
<td>45,000,000</td>
<td>45,000,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>700,500,000</strong></td>
<td><strong>674,993,630</strong></td>
<td><strong>632,905,707</strong></td>
<td><strong>67,594,293</strong></td>
</tr>
</tbody>
</table>

Further, even though the funds disbursed in 2016/2017 financial year were to be utilized in the year of disbursement and in accordance with the approved work plans, the regional authorities have continued to utilize the funds over the last four years without seeking further approvals on the activities being implemented outside the approved work plan and execution time lines.

Consequently, the propriety on utilization of district suspense amounting to Kshs.67,594,293 and the accuracy of the reported accounts receivables balance of Kshs.26,098,637 could not be confirmed.
167. Unsupported Pending Bills

Note 16.1 to the financial statements reflects pending bills of Kshs.3,908,434 as at 30 June, 2020 which related to 2017/2018 and prior years. However, supporting documents including requisitions by the user departments, service orders and proof that services having been provided were not availed for audit review. Lack of supporting documentation has led to the delay by Management to initiate payment process of the bills.

Consequently, the accuracy and validity of the reported pending bills of Kshs.3,908,434 as at 30 June, 2020 could not be confirmed.

Other Matter

168. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

169. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflected actual receipts of Kshs.41,070,157,347 against a budget of Kshs.55,264,056,577 resulting into a receipts shortfall of Kshs.14,193,899,230 or 26% of the budgeted receipts. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.55,264,056,577 and Kshs.41,064,170,664 respectively resulting to an under-expenditure of Kshs.14,199,885,913 or 26% of the budget which occurred mainly under transfers to other government units. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

170. Advance Payments

The Department paid in advance for the supply of flowers, newspapers and cleaning services amounting to Kshs.618,000, Kshs.787,156 and Kshs.1,307,040 respectively. Although Management explained that the payments were done to ensure continuity at the start of the subsequent financial year and that no funds were lost, advance payments for goods or services before they are delivered and accepted is prohibited under Section 146 of the Public Procurement and Assets Disposals Act, 2015.

Management was therefore in breach of law.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

DATA COLLECTION AND DATABASE DEVELOPMENT PROJECT (UNFPA-KEN7P32A) - KENYA NATIONAL BUREAU OF STATISTICS

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

173. Status of Project Activities

As reported in the previous three financial years, the Project remained dormant in the year under review. However, it had an opening cash in bank balance amounting to Kshs.2,166,658 against which bank charges amounting Kshs.4,320 were debited resulting in a closing balance of Kshs.2,162,338, as reflected in the statement of financial assets and liabilities as at 30 June, 2020.

Management has indicated that activities for the Project were implemented under GOK/UNFPA 8th County Programme and therefore, no new programme agreement was signed in respect to the Project’s activities, which entailed financing preparatory activities for the 2019 Kenya Population and Housing Census. Management has further indicated that although no funding was received in the four financial years ended 30 June, 2020, UNFPA has indicated they will finance a 9th GOK/UNFPA Country Programme on data collection and database management. Management says it has maintained the Project bank account for the purpose.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

COORDINATION OF POPULATION POLICY IMPLEMENTATION PROJECT (UNFPA PROJECT NO. KEN08POP)—NATIONAL COUNCIL FOR POPULATION AND DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

176. Unauthorized Borrowings from National Council for Population and Development (NCPD)

The Project’s records examined indicated that during the year under review, Management withdrew funds totaling to Kshs.38,067,000 from the Secretariat Account as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 October, 2019</td>
<td>16,667,000</td>
</tr>
<tr>
<td>31 December, 2019</td>
<td>6,304,845</td>
</tr>
<tr>
<td>30 January, 2020</td>
<td>15,095,159</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38,067,000</strong></td>
</tr>
</tbody>
</table>

The withdrawals were designated as borrowings made to implement project activities and occasioned by delays in receipt of the Project’s Funds. However, there was no evidence to show Management sought authority from the Accounting Officer or the UNFPA before withdrawing the funds.

The records further show that Kshs.22,971,845 was refunded later in the financial year which left Kshs.15,095,159 outstanding as at 30 June, 2020. However, whereas the withdrawals and refunds were, though inappropriately, treated as payments and receipts...
in the project accounts, the outstanding balance amounting to Kshs.15,095,159 as at 30 June, 2020 has not been disclosed in the Notes to the financial statements. As a result, the financial statements do not present a true and fair view of the financial position of the Project as at 30 June, 2020 and its operations for the year then ended.

177. Unreconciled Cash on Hand Balance

The statement of financial assets and liabilities reflects cash on hand totaling Kshs.94,248 held in five regional project offices namely Mombasa, Machakos, Kisumu, Eldoret, and Garissa. However, records at the offices reflected cash on hand balances totaling to Kshs.499,833 as at 30 June, 2020. No information has been provided to reconcile the two balances. As a result, the accuracy and fair statement of the cash on hand balance totaling Kshs.94,248 reflected in the statement of financial assets and liabilities as at 30 June, 2019 has not been confirmed.

Other Matter

178. Unresolved Prior Year Matters

The outstanding tax refunds amounting to Kshs.500,400 due from the Kenya Revenue Authority, and insufficient disclosure made on expenditures totaling Kshs.24,781,975 highlighted in the audit report for the financial year ended 30 June, 2019 were not resolved during the year under review.

No plausible explanation has been provided by Management for the failure to address the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

180. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

182. Status of Project Activities

The financial statements indicate that the Project did not receive any funds from UNICEF or the Government of Kenya during the year under review. In addition, no project activities were carried out in the year and the only expense incurred amounting to Kshs.4,320 related to bank charges for the Project account. Management has previously indicated the intention to close the Project Bank account to avoid the bank charges but is yet to do so.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

183. Undisclosed Financing Conditions

As in the previous financial year, the Project financing agreement signed between the Government of Kenya and UNICEF was not availed for audit review. Management has explained that no agreement was signed in respect to the Project as funding from UNICEF was based on workplans for various activities. However, Management has not disclosed the terms and conditions attached to the workplans. As a result, the validity of the cumulative receipts and payments amounting to Kshs.86,392,917 and Kshs.86,335,930 respectively transacted during the years ended 30 June, 2020 has not been confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

184. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

185. Incorrect Domestic and Foreign Grants Balance

The statement of receipts and payments reflects proceeds from domestic and foreign grants totaling Kshs.57,079,875, as further disclosed in Note 9.3 to the financial statements. Included in the balance are unknown receipts totaling to Kshs.7,200,000 not captured in the Project’s records.

Had the records reflected the correct balance, the Project would have reported a deficit amounting to Kshs.2,378,047 instead of the surplus amounting to Kshs.4,812,950 reflected in the statement of receipts and payments for the year under review.

No plausible explanation has been provided by Management to explain how the error occurred.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

186. Induction Costs Incurred on Non-Project Staff

Examination of payments on use of goods and services indicates that during the year under review, the Project held a staff induction workshop at a cost of Kshs.5,584,687. However, the expenditure included Kshs.3,738,200 spent on 33 staff members of the Bureau who were not attached to the Project. No plausible explanation was provided by Management for inclusion of the large number of non-project staff in the induction workshop. As a result, value for money on the Project’s funds incurred on the staff not engaged by Project has not been confirmed.

187. Overpayment of Salary to Officer

Management advertised for and appointed a Project Finance Officer at a gross monthly pay of Kshs.290,758. However, the successful candidate was awarded gross pay of Kshs.465,212 per month upon appointment in September, 2019, resulting to a monthly excess pay of Kshs.174,454. As at 30 June, 2020, the aggregate overpayments amounted to Kshs.1,133,951.

No plausible explanation has been provided by Management for the discrepancy.
188. Imprest Issued to Staff on Behalf of Others

During the year under review, two staff members of the Kenya National Bureau of Statistics were issued with imprest totalling Kshs.4,648,468 on behalf of participants for two Project events organized in Kisumu and Mombasa. The issuance of imprest to the two on behalf of others was contrary to Regulation 91 of Public Finance Management Regulations of 2015 on Management of imprest which provides for issue of individual and not group temporary imprest.

No plausible explanation has been provided by Management for the anomaly.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – CENTRAL BANK OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

192. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

193. Receivables from Exchange Transactions

As disclosed in Note 18 to the financial statements, the statement of financial position reflects a balance of Kshs.3,374,822,384 in respect of receivables from exchange transactions. Examination of records relating to the expenditure revealed the following anomalies:

193.1 Doubtful Receivables - LPO Loans / Financing

Included in the balance of Kshs.3,374,822,384 are loans relating to LPO financing of Kshs.15,157,590 that were due but not paid as at 30 June, 2020. Out of the latter balance, an amount of Kshs.8,072,303 has been outstanding for more than one (1) year contrary to the loans policy of the Fund. Recoverability of these loans is doubtful since they had been in arrears beyond their respective repayment periods as stipulated in the loan agreements.

193.2 Doubtful Receivables - Constituency Women Enterprise Schemes Loans

Included in the balance of Kshs.3,374,822,384 is an amount due from Constituency Women Enterprise Scheme of Kshs.785,844,387 which has been outstanding for more than one (1) year. Out of the latter balance of Kshs.785,844,387, no repayments were made in respect of receivables of Kshs.47,530,500 during the year under review. Although the Fund made a general provision for doubtful debts of 1% in line with its credit policy and guidelines, its adequacy cannot be confirmed.

193.3 Non-Performing Loans to Financial Intermediaries Partners

The receivables from exchange transactions balance also includes amounts due from eight (8) financial intermediary partners with non-performing loans totaling to Kshs.71,330,000 (2019-Kshs.71,062,200). There are ongoing court cases between the Fund and the Intermediaries which is indicative that the loans may not be recoverable in full. Further, there are no collaterals to support an advance of Kshs.60,000,000 to two (2) financial intermediaries who did not make any repayments during the year. No specific provisions by way of bad debts adjustments have been made in the financial statements to recognize the impairment.

193.4 Pikipiki Loan Financing

Included in the receivables from exchange transactions balance of Kshs.3,374,822,384 is pikipiki loan amount of Kshs.1,297,916 which represents loan advanced to field officers. The amount includes outstanding loans totalling Kshs.150,000 from two (2) staff members for whom no recoveries have been effected over the last one (1) year.
193.5 Imprests and Advances

Further, included in the receivables from exchange transactions account balance are imprests and advances of Kshs.1,697,024. This amount includes salary advances of Kshs.184,581 owed by staff who have exited the service. The recoverability of the balance is therefore doubtful.

In view of the foregoing, the accuracy and fair statement of receivables from exchange transactions balance of Kshs.3,374,822,384 as at 30 June, 2020 could not be confirmed.

194. Accuracy of the Financial Statements

194.1 Unreconciled Training Expense Ledger

The statement of financial performance reflects an expenditure of Kshs.108,460,546 under general expenses. Included in the amount are training expenses totaling to Kshs.32,308,404 which was at variance with the supporting schedule figure of Kshs.32,979,908, resulting to an unexplained and unreconciled difference of Kshs.671,504.

194.2 Unsupported CWEs Loans Adjustment

Note 18 to the financial statements discloses loans due from Constituency Women Enterprise Scheme amounting to Kshs.3,060,508,449. However, the ledger presented in support of the amount includes an adjustment of Kshs.11,388,465 which has not been explained.

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

Other Matter

195. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

196. Imprests Management and Control

During the year under review, the Fund did not maintain a complete imprest management record to aid in the issuance and the control of the imprests. This resulted in multiple imprests issuance to staff before clearing the previous ones totalling to Kshs.1,142,285 and imprests due but unsurrendered amounting to Kshs.470,637 as at 30 June, 2020.
Consequently, it was not possible to confirm whether the imprests issued were managed lawfully and in an effective manner.

197. Staff Appointments Not Meeting the Requisite Criteria

The Fund placed an advertisement in the Government website on 12 November, 2019, to fill eight (8) vacant positions of Assistant Credit Managers. The minimum requirements for appointment to this position amongst others were membership to a relevant professional body and in good standing status. However, review of employment records and documentation revealed that three (3) of the eight (8) staff appointed to this position did not meet the requisite criteria or qualifications of being members of a relevant professional body at the time of application. No justification was rendered for this inconsistency.

Under the circumstances, the legality of the appointment of the three (3) officers not meeting the requisite criteria could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

199. Inaccuracies of the Financial Statements

199.1 Unexplained Adjustments to the Financial Statements

The financial statements for the year ended 30 June, 2020 were submitted within the statutory deadline of 30 September, 2020 and were subsequently amended and revised. However, the adjustments processed between the first set of financial statements and the final revised set of financial statements were not supported with relevant journal vouchers and other supporting documents.
<table>
<thead>
<tr>
<th>Item</th>
<th>Initial Financial Statements (Kshs.)</th>
<th>Revised Financial Statements (Kshs.)</th>
<th>Unsupported Change (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Goods and Service - Others</td>
<td>774,159</td>
<td>685,259</td>
<td>88,900</td>
</tr>
<tr>
<td>Staff costs - Travel, M/Car, Accommodation</td>
<td>8,895,330</td>
<td>9,150,930</td>
<td>(255,600)</td>
</tr>
<tr>
<td>M&amp;E Expenses - Secretariat Field activities</td>
<td>4,205,500</td>
<td>3,166,400</td>
<td>1,036,100</td>
</tr>
<tr>
<td>Provision for Gratuity - Liability</td>
<td>21,091,469</td>
<td>29,087,210</td>
<td>7,995,741</td>
</tr>
</tbody>
</table>

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

199.2 Unexplained Restatement of the Financial Statements

The comparative figures in financial statements have been indicated as restated. However, the explanations for the restatement of the balances as detailed below were not availed for audit verification.

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance Per Audited Financial Statements (Kshs.)</th>
<th>Balance Per Current Financial Statements (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Financial Performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers to Counties – Counties Expenditure</td>
<td>1,969,632,174</td>
<td>1,967,868,415</td>
<td>1,763,759</td>
</tr>
<tr>
<td>Staff Cost</td>
<td>97,543,299</td>
<td>97,636,899</td>
<td>(93,600)</td>
</tr>
<tr>
<td>General Expenses/ Use of Goods &amp; Services</td>
<td>45,438,110</td>
<td>43,347,509</td>
<td>2,090,601</td>
</tr>
<tr>
<td>Statement of Cash Flow</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalent at 01 July, 2019</td>
<td>708,173,717</td>
<td>715,320,150</td>
<td>(7,146,433)</td>
</tr>
<tr>
<td>Cash and Cash Equivalents at 30 June, 2019</td>
<td>955,911,652</td>
<td>951,792,041</td>
<td>4,119,611</td>
</tr>
<tr>
<td>Statement of Financial Position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated Surplus</td>
<td>926,245,345</td>
<td>1,027,129,353</td>
<td>(100,884,008)</td>
</tr>
<tr>
<td>Capital Fund</td>
<td>178,305,138</td>
<td>0</td>
<td>178,305,138</td>
</tr>
<tr>
<td>Statement of Changes in Net Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance b/f as at July 1, 2018 (Accumulated Surplus)</td>
<td>782,807,989</td>
<td>801,356,052</td>
<td>(18,548,063)</td>
</tr>
</tbody>
</table>

Under the circumstances the accuracy of the comparative balances in financial statements as at 30 June, 2020 could not be confirmed.

200. Unsupported Transfers to Other Government Units

The statement of the financial performance and as disclosed under Note 9 to the financial statements reflects transfers to other government units of Kshs.1,945,772,973. The amount relates to expenditures purportedly incurred in the forty-seven counties. However, the amounts were not supported by way of County Committees’ expenditures returns.
Further, copies of the relevant bank statements, cash books, board of survey reports and bank reconciliation statements for the year under review for all the forty-seven counties were not availed for audit review. The amounts reported have been derived from adjusting the opening cash balances of Kshs.4,997,725, adding the disbursements of Kshs.2,415,765,435 in the year and subtracting the reported unspent county cash balances of Kshs.474,990,187 as at year end which is not supported.

In addition, records held by the Fund indicate that four counties namely; Kilifi, Turkana Nyamira and Nairobi did not acknowledge receipt of funds amounting to Kshs.160,895,470 indicated as having been disbursed by the Fund Secretariat for the year under review.

In the circumstances, the accuracy of the reported transfers to Counties of Kshs.1,945,772,973 and the unspent fund balances held at the Counties of Kshs.474,990,187 as at 30 June, 2020 could not be confirmed.

201. Accuracy of Reported Loss on Disposal

The statement of the financial performance and as disclosed under Note 17 to the financial statements discloses disposal loss of Kshs.7,265,000. The loss was arrived at after deducting the sale proceeds of Kshs.1,585,000 from the cost value of Kshs.8,850,000 in respect of two (2) motor vehicles disposed during the year. However, the disposed assets have not been adjusted for depreciation charge for the duration of usage.

Consequently, the accuracy of the reported loss on disposal of Kshs.7,265,000 for the year ended 30 June, 2020 could not be confirmed.

202. Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.907,396,510 and as disclosed under Note 19(a) to the financial statements. Included in the balances is cash held by forty (40) Counties amounting to Kshs.474,990,187. Management did not provide the supporting information and documents by way of bank reconciliation statements and the respective cash books. Further, the balance excludes cash balances in seven (7) Counties that had received disbursements totalling to Kshs.349,996,936 during the year.

Consequently, the accuracy and fair statement of the reported cash and cash equivalents balance of Kshs.907,396,510 as at 30 June, 2020 could not be confirmed.

203. Irregular Payment of Board Allowances

The statement of financial performance and as disclosed under Note 12 of the financial statements reflects renumeration of Directors’ expenses amount of Kshs.12,016,791. This includes an amount of Kshs.283,400 paid to the former Chairperson of the Board in the form of sitting, accommodation and lunch allowances without evidence of discharge of Board functions.
Consequently, the validity of the renumeration of Directors expenses amount of Kshs.12,016,791 could not be confirmed.

204. Property, Plant and Equipment

204.1 Non-compliance with International Public Sector Accounting Standards (IPSAS)

The statement of financial position reflects Property, Plant and Equipment balance of Kshs.208,983,468 and as disclosed under Note 21 to the financial statements. However, the Property, Plant and Equipment have not been prepared in accordance with International Public Sector Accounting Standards (IPSAS) No. 17 which requires an entity to discloses for each class of asset recognized in the statements; the measurement bases for determining the carrying amounts, depreciation methods used, useful lives or depreciation rates used, accumulated depreciation at the beginning and end of the period, additions, reconciliation of the amount at the beginning and end of the period showing additions and disposals, revaluations, impairments, depreciation and net book values.

204.2 Written-off Motor Vehicle

Included in the Property, Plant and Equipment balance of Kshs.208,983,468 is a motor vehicle with a historical cost of Kshs.14,500,000 which was involved in a road accident in the financial year 2018/2019. However, the carrying value has not been written down to reflect the salvage value realizable as it has been confirmed as uneconomical to repair.

Consequently, the accuracy and fair statement of the reported Property, Plant and Equipment balance of Kshs.208,983,468 as at 30 June, 2020 could not be confirmed.

Other Matter

205. Unauthorized Expenditure Charge to Monitoring and Evaluation Reserves

The statement of comparison of budget and actual amounts under explanatory Note (a) reflects that the Fund brought forward balances of Kshs.26,604,647 were approved for utilization at the beginning of the financial year. However, evidence of authorization to charge none monitoring and evaluation expenditure items to the reserves comprising of; fuel and lubricants of Kshs.1,000,000, training and skill development of Kshs.7,341,940, renovation-Barclays Plaza of Kshs.26,210,630, reallocated staff cost of Kshs.10,681,845 and NHIF lumpsum payment of Kshs.7,516,667 all totalling to Kshs.52,751,082 was not provided for audit review.

Consequently, the validity of the authorization and the proper charge of the resultant expenditure could not be confirmed.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

206. Operations of the National Government Affirmative Action Fund County Committees

206.1 Kisumu County-Irregular Procurement

The Kisumu County Committee undertook the construction of a market project at a cost of Kshs.11,711,047. The project was proposed by Akado Market Traders Group in January, 2019 and tabled in the Board during the second quarter of financial year 2018/2019. The following gaps were however noted:

(i) Although the construction was approved by Kisumu County Government’s department of business energy and industry vide letter referenced CGK/BEI/PM/9/Vol. II / (26) dated 06 February, 2019, the land ownership documents to confirm the Group’s rightful ownership to the land parcel were not provided for audit review;

(ii) The County Committee did not have a memorandum of understanding with the Group indicating their commitment to the project as required under National Government Affirmative Action Fund Access Guidelines, 2017, Section IV;

(iii) The tender notice advertisement through the Government Advertising Agency and the dailies listed several mandatory requirements for an eligible bidder to be presented as proof of compliance. Scrutiny of documents availed revealed that the contractor awarded, had not availed as required; (1) Audited accounts for the last three years, (2) Bank accounts in the name of the company with six months bank statement, and (3) Proof of work of similar magnitude and complexity undertaken by the firm in the last three years.

206.2 Homabay County-Irregular Procurement

A project was proposed by Rangwe business community vide letter dated 07 February, 2020 for the erection of market sheds and pit latrines at Rangwe market at a cost of Kshs.15,525,530. The procurement was done by the Homabay County service delivery coordinating unit by way of request for quotation using Homabay County Government 2019/2020 prequalified contractors. However, this was irregular as the cost of the project exceeded the stipulated threshold of Kshs.4,000,000 in the Public Procurement and Disposal (Amendment) Regulations, of 2013 on use of request for quotations method of procurement.

Consequently, Management was in breach of law in implementing the projects.
206.3  Kwale County

206.3.1  Ineligible Groups

In Kwale County twenty-eight (28) groups were funded at Kshs.9,596,000 that was disbursed to various groups in the year under review. However, the groups did not qualify for funding as they did not meet the threshold of a minimum 100 membership, operating revolving bank accounts with minimum group funding of at least three hundred thousand shillings (Kshs.300,000) and the groups existence for a period exceeding at least six months as provided for in the regulations and the guidelines.

Further, neither the resolutions of proper constituted meetings and resolutions nor the agreements between the County Committee, on behalf of the Fund, and the identified beneficiary groups on the terms of revolving the fund prior to release of funds in the prescribed form were provided for audit review.

206.3.2  Lack of Public Participation in Projects Identification

The County undertook projects valued at Kshs.14,066,189; County Wide/Constituency Projects – Kshs.4,347,659, Women Economic Empowerment - Kshs.5,622,123 and Value Addition – Kshs.4,096,407. However, there is no evidence of public participation in the identification process at the constituency and ward levels by the County Committee.

206.3.3  Ineligible Projects

Projects worth Kshs.4,196,000 funded under value addition category, did not qualify as provided by the National Government Affirmative Action Fund Access Guidelines, 2017, Section 2.0 (ii), Project Proposal Evaluation Guidelines, which identifies six projects classification to be funded. Under the category of projects to be funded, are those that are involved in processing of farming and livestock products, green energy innovations and any other economic activity involving value addition.

206.3.4  Irregular Procurement

i)  Tender Opening and Evaluation by the Same Committee Members

During the year under review, NGAAF - Kwale County undertook tender opening for various procurements worth Kshs.4,261,940. However, the opening of the bids, evaluation and award was done contrary to Section 78 of the Public Procurement and Asset Disposal Act, which requires at least one of the members not to be directly involved in the processing or evaluation of the tenders. By using the same members for both tender opening and evaluation, the Management was in breach of the Act. Further, the committee was paid allowances of Kshs.50,000 and Kshs.39,000 for undertaking opening and evaluating of the tenders respectively.

ii)  Irregular Procurement of Motor Vehicle Repair Services

National Government Affirmative Action Fund (NGAAF) - Kwale County paid a garage Kshs.127,252 vide payment voucher No. 4112/56 dated 29 June, 2020 and invoice No.
4980 of 30 June, 2020 for repair services of vehicle registration No. GKB 494M. It also paid another garage vide payment voucher No. 4111/55 dated 29 June, 2020 and invoice No. 28 of 30 June, 2020 an amount of Kshs.138,000 for repairs of the same vehicle. However, the pre-inspection report for the repairs of the car vide report Ref: KWL/MECH/INSP/VOL.IV/37 dated on 18 December, 2019 issued by the Ministry of Transport and Infrastructure, Kwale County Mechanical Officer had been used to support the two different payments. Further perusal of the two invoices from the two service providers both dated 30 June, 2020 indicates that the same nature of services were carried out on the vehicle.

No explanations have been rendered for the anomalies. There was also no post repairs inspection report from the Ministry of Transport and Infrastructure, Kwale County for services done by the second service provider.

206.3.5 Bank Reconciliation Statement

The bank reconciliation statement for National Government Affirmative Action Fund (NGAAF) Kwale County reflects payments in cash book but not recorded in bank statement amounting to Kshs.8,038,931. Included herein are six (6) cheques amounting to Kshs.3,848,000 dated between 29 and 30 June, 2020 and drawn in the name of the Fund Coordinator. The amounts were set aside for Civic Education exercise and Bursaries which were not conducted or issued due to Ministry of Health COVID-19 protocols on public gatherings. However, no explanations were rendered on why the payments had not been cancelled and the balances written back into the cash book.

Consequently, Management was in breach of law.

206.4 Embu County

206.4.1 Non-Utilization of Funds

Records held by the Fund indicated that Embu Roadmap Savings and Credit Cooperative Society Limited was registered on 8 February, 2018, with the aim of encouraging groups to borrow money at an interest of 5% had been awarded funds under the Women Economic Empowerment over the years. However, the SACCO which should have commenced operations in 2018 had not begun to extend loans to groups. The SACCO’s bank statement reflected a balance of Kshs.11,946,193 as at 30 June, 2020. The purpose and objective of the funds advanced to the Sacco is therefore not being met. No explanations were provided on why the intended groups were not accessing the funding.

206.4.2 Unsupported Bursary Funds

Examination of documents at the Embu County National Government Affirmative Action Fund (NGAAF) office revealed that the office awarded and paid bursaries for approximately 600 students in various institutions in the County totalling to Kshs.4,524,000. No evidence in form of reports or minutes of the participatory process undertaken to identify and award the students was provided. In addition, out of the disbursement, beneficiaries of bursaries amounting to Kshs.2,168,000 had not acknowledged receipt.
It was, therefore, not possible to ascertain whether the award was merit-based as per the set guidelines and whether the bursary funds were for the beneficial use of the intended institutions and individuals.

206.4.3 Irregular Procurements

Examination of documents availed for audit indicated that the Embu County Coordinator incurred expenditure of Kshs.390,000 on COVID-19 emergencies. However, it was observed that direct method of procurement through cash was applied in the procurement of the items despite the value exceeding the low value threshold for procurement.

The County National Government Affirmative Action Fund (NGAAF) paid Kshs.1,200,000 for training and NTSA registration of two hundred (200) boda boda riders under Bursary and Scholarship Project. The services were procured through request for quotations issued to three service providers. However, it was noted that;

i. all the service providers requested to quote were not included in the list of the County’s registered suppliers,

ii. there was no formal request from the Fund to use the County register of suppliers as required,

iii. the request for quotations did not indicate the details of the requirements for the service provider and,

iv. the quotations evaluation report was not prepared.

In absence of the information it was not possible to confirm how the service providers were identified and whether the service provider was qualified and had the capacity to provide the services required.

206.5 Tharaka Nithi County

206.5.1 Irregular Diversions of Funds

Mitheru Plot 10 Self Help Group registered on 16 March, 2017, requested for a grant of Kshs.150,000 to purchase an incubator for hatching chicks. The funding of Kshs.165,000 was recommended for approval by the County Committee and approved for funding by the Board. However, the group diverted the funds and bought a motor bike costing Kshs.106,000 and shared amongst the members the balance of Kshs.59,000.

Further, Mutindwa Sub Location Persons living with Disabilities registered on 4 November, 2014, submitted a proposal in the year under review seeking Kshs.236,000 to purchase an incubator for hatching chicks for sale. Out of the amount applied for, Kshs.189,000 was approved for funding. However, the funds were diverted and each of the sixteen (16) group members received Kshs.10,000 and the balance of Kshs.29,000 used for table banking.

No explanations were provided for the irregular diversions.
206.5.2 Unsupported Bursary Payments

Tharaka County National Government Affirmative Action Fund (NGAAF) awarded and paid bursaries for six hundred (600) students amounting to Kshs.3,784,286 to various institutions. However, the beneficiary institutions did not acknowledged the receipt of the bursaries amounting to Kshs.3,304,286. Consequently, it was not possible to ascertain whether the funds were put to the beneficial use of the intended institutions and individuals.

206.6 Meru County

206.6.1 Gender Based Violence (GBV) Rescue and Rehabilitation Center

Meru County National Government Affirmative Action Fund (NGAAF) constructed Mwangaza GBV rescue and rehabilitation center in Tigania West at a cost of Kshs.38,536,394. However, no evidence was availed to confirm that the following funding conditions were met;

i. the facility co-exists and is attached to an existing functional facility with a related mandate,

ii. the Community Based Organization or Group is registered with relevant Government department, is operating in the Constituency, has a bank account and up to date financial records and,

iii. there are arrangements in place on how the facility daily operating costs will be met.

In absence of this information, the propriety of the expenditure and the project viability could not be ascertained.

206.6.2 Unsupported Bursaries

The National Government Affirmative Action Fund (NGAAF) Office awarded and paid bursaries for six hundred (600) County students in various institutions amounting to Kshs.8,335,000. However, evidence of the participatory process applied for identification of the needy students, applications vetting reports, the qualifying beneficiaries and the beneficiary learning institutions receipts acknowledgements were not provided for review.

In absence of the information it was not possible to confirm the validity of the expenditures.

206.7 Nyandarua County - Bursary/Scholarship Program

On 27 February, 2020, the Fund, on 27 February, 2020, incurred an expenditure of Kshs.3,174,500 on bursaries for 291 needy students. However, the bursaries were granted to University students contrary to the funding guidelines.

Examination of the payment voucher no. 067 of Kshs.3,175,102 dated 29 June, 2020 in respect of bursaries and scholarships for needy students revealed that the payment was
fully processed on 30 June, 2020 but the amount was not released to the beneficiaries as required. Further, the bank reconciliation statement as at 30 June, 2020 indicated the payment as unrepresented while the cheque was still in the custody of the Sub-county Treasury.

206.8 Nyeri County-Bank Reconciliation Statement

The bank reconciliation statement reflects payments in cash book but not recorded in bank statement amounting to Kshs.18,753,585. Included in this amount are stale cheques totaling to Kshs.3,260,985 with some dating back to 1 July, 2017. No explanation has been rendered for failure to write back the stale cheques.

The bank reconciliation statement also reflects payments in bank statement but not recorded in cash book amounting to Kshs.324,553. The amounts relate to bank charges dating back to March 2018. No explanation has been rendered for failure to resolve the reconciling items on a timely basis.

206.9 Kirinyaga County-Diversion of Funds

Kamiriji Progressive Youth Group received Kshs.100,000 from the National Government Affirmative Action Fund (NGAAF) Kirinyaga County for chicken rearing project. However, the group diverted the funding into table banking project without the approval of the Fund and the Board. There were also no records in support of the operation of the table banking project.

206.10 Kilifi County-Direct Procurements

The National Government Affirmative Action Fund (NGAAF) Kilifi County incurred expenditure amounting to Kshs.5,711,090 through direct cash procurements. However, review of the supporting records revealed that the procurements did not qualify for direct procurement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

207. Board Membership

The Fund Board of Directors membership as governed by Section 8(3) of the Public Finance Management (National Government Affirmative Action Fund) Regulations, 2016 should consist of:

- Chairman - Appointed by the Cabinet Secretary,
- Principal Secretary - Gender,
- Principal Secretary -National Treasury,
- Principal Secretary -Social Security Services,
v. One person representing Persons Living with Disabilities (PLWD) appointed by the CS,

vi. One person representing Youth appointed by the Cabinet Secretary,

vii. Three other persons appointed by the Cabinet Secretary for their knowledge or expertise in affirmative action and,

viii. The Chief Executive Officer who shall be the Secretary to the Board.

An amendment of Section 8(3) through Legal Notice No. 104 of 12 July, 2019 introduced sub-section (d)(a) which introduced the Principal Secretary - Planning as an additional member of the Board, deleted subsections (e) and (f) and substituted the two with (e) which requires one person to represent the youth or PLWD and also removed the Chief Executive Officer as a Secretary to the Board without a replacement.

Arising from the changes brought about by the legal notice, the following anomalies were noted;

i. The removal of the CEO as the Secretary contravened the provisions of Section 1.1(4) of Mwongozo Code of Governance for State Corporations which requires that the CEO be a Board Member with no voting rights.

ii. When the Chief Executive Officer wrote to both the Principal Secretary and Cabinet Secretary highlighting the anomalies noted in the amendments, the guidance given was that the persons representing the Youth and the PLWD should both remain in the Board as further consultations are done. The amendments required one person to represent the youth or persons living with disabilities and not two representations. The Cabinet Secretary guidance that the two should remain in the Board as the Legal Notice did not constitute a legal instrument. The Board as currently constituted is not consistent with the amendments contained in the Legal Notice No 104.

Consequently, the Board is operating illegally.

208. Board Meetings Held Without Quorum

During the year under audit, the Board of Directors held three meetings without the requisite statutory quorum. In particular, it was noted that the Board had planned for a meeting on 4 October, 2019 and the requisite notice were circulated to Members of the Board on time. However, the Members who attended the meeting did not form a quorum. The Members present un-procedurally constituted an ad hoc Committee of the full Board chaired by the Chairperson of the Board contrary to the State Corporations Advisory Council (SCAC) guidelines and Mwongozo requirements. The ad hoc committee discussed the agenda items as earlier circulated to the Members, an indication that the Committee did not have its own clear terms of reference.

In the absence of quorum as provided for in Mwongozo Code of Conduct for State Corporations, it was not possible to confirm the validity of the decisions made by the Board in the above three meetings.
209. Appointment of County NGAAF Committee

The Meru County NGAAF Committee held several meetings during the year under review. However, the Gazette notices for the appointment of the Committee Members were not provided for audit verification. The Committee also did not maintain a meeting attendance register and therefore it was not possible to confirm the attendance or otherwise of the members or their representatives. Further, three constituencies, Igembe North, Imenti South and Igembe South, out of the nine Meru County Constituencies were not represented in the County Committee as required of the NGAAF Regulations. No explanation was given for the anomaly.

It was, therefore, not possible to verify their appointments and operation of the committee.

NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND BOARD

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

210. Errors and Inaccuracies in Financial Statements

210.1 Cash Flow Statement

The statement of cash flows reflects unexplained adjustments amounting to Kshs.29,137,631 under net cash flows from investing activities. Further, the negative cash generated from operations of Kshs.779,064,561 as reflected under Note 23 includes unexplained adjustments amounting to Kshs.46,203,695. The basis and supporting documents for the adjustments were not provided for audit verification.

Under the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

210.2 Statement of Changes in Net Assets- Unsupported Adjustments

The statement of changes in net assets for the year ended 30 June, 2020 reflects unexplained adjustments amounting to Kshs.90,700,920 which has not been supported by verifiable documentary evidence for audit verification.

Under the circumstances, the accuracy and completeness of the statement of changes in net assets could not be confirmed.

211. Dormant Bank Accounts

As disclosed under Note 15 to the financial statements, the statement of financial position reflects an amount of Kshs.844,115,140. However, the balance constitutes an amount of
Kshs.32,504,840 and Kshs.371 held in Kenya Commercial Bank (ESP) account and ABC Bank respectively. However, the bank accounts had been dormant for over three years and continue to incur unnecessary running expenses.

Further, the above balance of Kshs.844,115,140 includes a balance of Kshs.38,022,921 held in a Kenya Commercial Bank (KCB) account. However, a review of the KCB account bank reconciliation statement for the month of June, 2020 revealed payments in bank statement not in cash book of Kshs.32,585,588. The unrecorded amounts relate to monies fraudulently withdrawn from the Fund’s KCB bank account in the year 2011/2012 and which have not been recovered to date.

In the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.844,115,140 could not be confirmed.

212. Unfunded Employee Benefit Obligation

The statement of financial position and Note 21 reflect of Kshs.91,917,981 and Kshs.38,873,438 being employee benefit obligation payable within one year and the non-current obligation respectively. However, the reconciled bank balance for the gratuity bank account held at Equity Bank had a balance of Kshs.52,571,694 as at 30 June, 2020 resulting in an unfunded balance amounting to Kshs.78,219,734.

Consequently, the ability of the Board to meet its obligations in respect to employee benefits as they fall due could not be confirmed.

Other Matter

213. Unresolved Prior Year issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Public Account Committee has not deliberated on the issues.

214. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.1,958,194,000 and Kshs.1,454,631,234 respectively resulting to an under-funding of Kshs.503,562,766 or 26% of the budget. Similarly, the Fund expended Kshs.1,635,281,329 against an approved budget of Kshs.1,958,194,000 resulting to an under-expenditure of Kshs.322,912,671 or 16% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**215. Non-Compliance with International Public Sector Accounting Standards (IPSAS)**

The statement of financial position reflects Best Practice Demonstration (BPD) liability of Kshs.357,821,365 which as disclosed at Note 5 to the financial statements was as a result of adoption of the grant accounting approach for the BPD projects. However, Management did not comply with the provisions of Paragraph 24(b) of IPSAS No.3 which provides that when an entity changes an accounting policy voluntarily, it shall apply the changes retrospectively.

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

**Conclusion**

**216.** There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

217. There were no material issues noted during the audit of the financial statements of the Presidency.

Other Matter

218. Pending Bills

As disclosed in Note 20.1 to the financial statements, The Presidency had pending bills totalling Kshs.779,894,882 as at 30 June, 2020 which were not settled during the year but were instead carried forward to the financial year 2020/2021. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

KENYA DEVELOPMENT RESPONSE TO DISPLACEMENT IMPACTS PROJECT (IDA CREDIT NO.6021-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

221. There were no material issues noted during the audit of the financial statements of the Project.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

TECHNICAL ASSISTANCE TO ENHANCE THE CAPACITY OF THE PRESIDENT’S DELIVERY UNIT (ADB GRANT NO.5500155012902)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

225. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual receipts on comparable basis of Kshs.175,466,216 and Kshs.149,543,373 respectively resulting to an under-funding of Kshs.25,922,843 or 24% of the budget. Also, the statement of comparative budget and actual amounts reflects final payments budget and actual expenditure on comparable basis of Kshs.175,466,216 and Kshs.138,880,373 respectively resulting to an under-funding of Kshs.36,585,843 or 33% of the actual receipts.

Management explained the underutilization to be a result of late disbursement of funds and minimal activities arising from the Covid-19 pandemic.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

227. There were no material issues relating to effectiveness of internal controls, risk management and governance.
Basis for Qualified Opinion

228. Unreconciled Variances Between the Financial Statements and the Integrated Financial Management Information System (IFMIS) Trial Balance

A review of the amounts and balances reflected in the financial statements for the year ended 30 June, 2020 and the IFMIS trial balance as at that date revealed the following variances:

<table>
<thead>
<tr>
<th>Account Item</th>
<th>Financial Statements (Kshs.)</th>
<th>IFMIS Trial Balance (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Balance - Recurrent</td>
<td>85,940,500</td>
<td>316,075,188,409</td>
<td>(315,989,247,909)</td>
</tr>
<tr>
<td>Bank Balance - Development</td>
<td>1,062,692,688</td>
<td>49,632,679,269</td>
<td>(48,569,986,581)</td>
</tr>
<tr>
<td>Bank Balance - Deposits</td>
<td>568,027,540</td>
<td>362,816,658</td>
<td>205,210,882</td>
</tr>
<tr>
<td>Cash in Hand/transit</td>
<td>76,912,183</td>
<td>336,183,534,750</td>
<td>(336,106,622,567)</td>
</tr>
<tr>
<td>Accounts Receivables</td>
<td>97,097,606</td>
<td>18,912,751,895</td>
<td>(18,815,654,289)</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>568,027,540</td>
<td>117,568,400,626</td>
<td>(117,000,373,086)</td>
</tr>
<tr>
<td>Suspense and Clearance</td>
<td>Nil</td>
<td>15,491,331,447</td>
<td>(15,491,331,447)</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>Nil</td>
<td>137,493,097</td>
<td>(137,493,097)</td>
</tr>
<tr>
<td>General Deposits</td>
<td>Nil</td>
<td>9,892,463,734</td>
<td>(9,892,463,734)</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>Nil</td>
<td>3,422,581,072</td>
<td>(3,422,581,072)</td>
</tr>
</tbody>
</table>

According to the Management, the unreconciled variances was as a result of challenges in the IFMIS - bank auto reconciliation. However, no reconciliation was provided for the above variances.

In the circumstances, the completeness and accuracy of the financial statements could not be ascertained.

229. Long Outstanding Balances in Bank Reconciliation Statements

The statement of assets and liabilities as at 30 June, 2020 reflects cash and cash equivalents amount of Kshs.1,793,572,911 comprising bank balances of
Kshs.568,027,540, Kshs.85,940,500 and Kshs.1,062,692,688 held in the deposits, recurrent and development bank accounts and cash in hand of Kshs.76,912,183. However, included in the bank reconciliation statements were payments in the cash book not in the bank statements amounting to Kshs.3,570,850,358 which had been outstanding since the year 2015. Further, receipts in the bank statements not in the cash books of Kshs.1,162,179,134 had also been outstanding since 2015.

In addition, payments in the bank statements not in the cash books included long outstanding items totalling Kshs.6,778,532,994 and relating to the period between 2015 to 2019 while receipts in the cash books not in the bank statements totalling Kshs.412,234,356 had also been outstanding for long and related to the period between 2015 to 2019. The Management cited lack of documents to clear the outstanding items and that the State Department had written to The National Treasury requesting for approval to write off the long outstanding balances.

Under the circumstances, the accuracy of the bank balances of Kshs.1,716,660,728 included in the reported cash and cash equivalents balance as at 30 June, 2020 could not be ascertained.

Other Matter

230. Pending Bills

Note 30.1 to the financial statements reflects pending bills totalling Kshs.3,803,126,660 which were not settled during the year under review but were instead carried forward to the 2020/2021 financial year. A review of the pending bills as at 15 February, 2021 indicated that the State Department had cleared bills amounting to Kshs.2,737,974,360 leaving an amount of Kshs.1,065,152,301 uncleared. Failure to settle bills during the year to which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form the first charge for the subsequent year.

231. Late Exchequer Releases

Exchequer issues totalling Kshs.13,634,968,553 comprised of recurrent and development expenditures of Ksh.11,890,320,245 and Kshs.1,744,648 308 respectively, were received in the bank account of the State Department during the month of June, 2020. The late Exchequer releases may have hindered timely implementation of the State Department’s programmes.

232. Unresolved Prior Year Matters

As disclosed under progress on follow up of prior years’ auditor’s recommendations section of the financial statements, some of the issues reported in the prior year remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

233. Fixed Assets Register with Nil Balances
The statement of receipts and payments reflects an expenditure of Kshs.6,357,915,058 under acquisition of assets. However, the summary of fixed assets register disclosed under Annex 2 to the financial statements reflects nil balances and does not contain any information on the various classes of assets owned by the State Department including the historical costs brought forward, additions and disposals during the financial year 2019/2020, and the cumulative cost as at 30 June, 2020 as required by the Public Sector Accounting Standards Board.

234. Lack of Ownership Documents for Mombasa Police Stations
A review of records held at Mombasa Police Headquarters revealed that various police stations and posts in Mombasa County lack ownership titles for parcels of land on which they are situated namely; Regional Police Headquarters Mombasa - MI/XXVI/GL; Mbaraki Deport - MI/XXIII/GL; Central Police - MI/XXIV/16; Makupa Police Station - MI/XIII/I; Divisional Police Headquarters - MI/XXVI/26 and Tononoka Police Post - XXII/1390. According to the Management, the process of acquiring legal ownership documents was ongoing with the objective of having legal documents for all parcels of land owned by the police country wide. In the absence of title documents, it was not possible to confirm the land ownership for the Mombasa police stations and posts.

235. Proposed Gusii Stadium Fabricated Steel Terraces (Breaches)
The tender for the proposed Gusii Stadium fabricated steel terraces was awarded to a local company at a total cost of Kshs.107,013,691 for two (2) steel flanking - Kshs.21,683,160 and ten (10) spectator terraces - Kshs.89,129,410. The contract was signed on 30 March, 2020 for a period of 8 weeks. Further, the Bill of Quantities included an amount of Kshs.2,759,946 for prime costs whose supporting documents were not provided.

236. Proposed Masonry Perimeter Wall at Kisii County Commissioner Residence
The State Department awarded the contract for the proposed masonry wall at Kisii County Commissioner residence to a local firm at a contract sum of Kshs.13,911,482. However, field inspection of the project status revealed that wall skirting, plastering and painting on some sections were not done and the electric burglar proofing on the wall was falling off. If these defects are not rectified, the perimeter wall is at risk of not lasting for long and value for money in its construction may not be realized. Further, examination of documents revealed that the contractor was paid the retention money in full without fixing the said defects.

237. Proposed Phase III of Nyamarambe Police Post Residential Houses
The Police Department awarded the tender for construction of the proposed Nyamarambe Police Post Residential Houses Phase III to a local firm at a contract sum of Kshs.9,976,150. The contract was for 36 weeks (9 months). However, the original bid
document was not provided for audit verification. Further, audit inspection conducted on 25 November, 2020 revealed that although some works were still outstanding, the full contract sum had been paid according to the payment records and certificate of practical completion dated 23 June, 2020. The outstanding works included: fixing of grills to the stair cases and balconies; installation of electrical fittings; wiring of the whole building; fixing of window on staircase; fixing of grills to all windows as per the Bill of Quantities; fixing of grills on first and second floors elevations; construction of a septic tank and; fencing and installation of a gate. In addition, fixing of ceiling was done without wiring; staircase tiles were put without fixing of the staircase grills; doors were poorly fixed; door hinges were not aligned and some parts of the building were not properly painted.

Consequently, it was not possible to confirm whether the State Department got value for money for the Phase III Project.

238. Avoidable Payment of Legal Claims Penalties and Interests

Examination of records and documents relating to legal claims revealed that the State Department incurred expenditure of Kshs.389,246,434 being penalties and interests imposed for failure to clear or pay court claims when awarded or due. The State Department attributed the delay in settling court awards and claims to lack of adequate funds. Further, a review of the legal documents revealed that claims amounting to Kshs.1,919,858,883 had not been paid as at 30 June, 2020 despite the court awards having been decreed in earlier years. Failure to clear the legal dues on time has resulted in heavy penalties and accumulated interests.

239. Provision of Comprehensive Medical Cover

The National Police Service procured a comprehensive medical cover for a period of two years commencing 1 October, 2017 to 30 September, 2019. The tender was awarded to the National Hospital Insurance Fund on 26 September, 2017 at a contract sum of Kshs.4,785,805,560. Included in the contract sum of Kshs.4,785,805,560 was Kshs.200,000,000 for excess of loss cover to cushion members who might exhaust their limit. However, no documentary evidence has been provided to date to show whether an amount of Kshs.400,000,000 in respect of excess of loss covers for 2018/2019 and 2019/2020 was refunded.

Although the National Police Service wrote to the National Hospital Insurance Fund (NHIF) vide letter Ref: NPS/IG/SEC/1/1//29Vol.IV/25 dated 19 February, 2021 requesting for details on the excess of loss, no response had been received from the NHIF by the time this audit report was finalized.

Consequently, it was not possible to determine whether the National Police Service got value for money from the amount of Kshs.400,000,000 that was due for refund from the National Hospital Insurance Fund at the end of the comprehensive medical cover contract period.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REVENUE STATEMENTS - STATE DEPARTMENT FOR INTERIOR

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

241. Long Outstanding Arrears of Revenue

The statement of arrears of revenue as at 30 June, 2020 reflects a balance of Kshs.401,584,900. The outstanding arrears of revenue includes Kshs.188,802,500, Kshs.2,218,800 and Kshs.210,563,600 relating to Security of Government Buildings, Kenya Police Service and Directorate of Criminal Investigations, respectively.

As reported in 2018/2019 financial year, the amounts of Kshs.188,802,500 and Kshs.210,563,600 are owed by the Kenya Revenue Authority (KRA) for security services rendered by the Security of Government Buildings (SGB) Unit and the Postal Corporation of Kenya for fees collected in respect of certificates of good conduct on behalf of Directorate of Criminal Investigations (DCI), respectively. These amounts have been outstanding for a long period of time.

In the circumstances, the recoverability of the arrears of Kshs.188,802,500 and Kshs.210,563,600 included in the statement of arrears of revenue could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

242. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

243. Manual Collection of Revenue at Civil Registration Department

Examination of the Civil Registration Department revenue records revealed that an amount of Kshs.116,184,053 was collected during the year under review from certificates of births and deaths. Included in the amount is Kshs.83,428,086 which was received in cash instead of through the e-citizen online platform. The Management explained that the Department continued to collect revenue directly without embracing the e-citizen because the staff had not been trained on how to operate the system. It was further explained that the pre-requisite hardware and software had not been installed.

Considering the huge investment by the government on e-citizen platform, the explanations for failure to use the platform fully in the collection of revenue are not plausible. The manual system for collection of revenue appears to be weak and prone to manipulation.

NATIONAL COHESION AND INTEGRATION COMMISSION

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

244. Unsupported Expenditure

As disclosed in Note 10 to the financial statements, the statement of financial performance reflects an expenditure balance of Kshs.142,142,932 under general expenses which includes various unsupported payments amounting to Kshs.24,853,232. The unsupported payments include allowances paid for meetings, retreats, workshops, burials and court attendance. The allowances are not supported with relevant documents including attendance sheets by the participants and workshop or retreat reports.

In the circumstances, it has not been possible to confirm the accuracy and validity of the reported general expenses balance of Kshs.142,142,932.

245. Lack of Fixed Assets Register

The statement of financial position reflects a balance of Kshs.79,965,371 under property, plant and equipment as at 30 June, 2020. The Commission, however, did not avail a register of fixed assets during the year under review. As a result, it has not been possible to ascertain the completeness and accuracy of the property, plant and equipment net balance of Kshs.79,965,371. Further, it could not be confirmed that preventative mechanisms required under Regulation 139 of Public Finance Management Regulations,
2015 were in place to eliminate theft, security threats, losses, wastage and misuse of assets.

Failure to provide a register of fixed assets is also contrary to the provisions of Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NATIONAL HUMANITARIAN FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

248. Unsupported Payments to Internally Displaced Persons

As disclosed in Note 4 to the financial statements, the National Humanitarian Fund made payments totalling Kshs.237,822,385 to Internally Displaced Persons (IDPs) under cash payments programme in 2019/2020 financial year. However, examination of the records and documents provided to support the expenditure of Kshs.237,822,385 revealed that the payment schedules provided, though duly stamped and signed by the branch managers of the banks from which the disbursements were made to the IDPs, were in excel sheet format. They were not system generated and had no specific reference codes of individual IDPs indicating how each account was credited for both Equity and KCB banks. Further, no contact details were provided to enable confirmation of receipt of funds by the beneficiaries. In addition, the Kenya Commercial Bank payment schedules and bank statements reflects an additional amount of Kshs.94,277,314 paid to the IDPs which was not reported in the financial statements.
In the circumstances, it has not been possible to ascertain the completeness and accuracy of the payments of Kshs.237,822,385 included under other grants and transfers in the statement of receipts and payments for the year ended 30 June, 2020.

249. Unaccounted for Advances

As previously reported, the statement of financial assets and liabilities as at 30 June, 2020 reflects outstanding advances totalling Kshs.71,960,000. As disclosed in Note 5B to the financial statements, the outstanding advances of Kshs.68,960,000, Kshs.2,000,000 and Kshs.1,000,000 were issued to County Commissioners of Mandera, Nakuru and Bomet, respectively in 2014/2015 financial year for onward transmission to the beneficiaries (IDPs). Although the State Department for Interior provided copies of payment vouchers from Mandera County Commissioner amounting to Kshs.67,598,164 paid to four (4) contractors for construction of IDP’s housing units at Rhamu, the payment vouchers were not supported by contract documents, Bills of Quantities (BQs), invoices and certificates of work done to confirm that the funds were utilized prudently and for the intended purposes.

In the circumstances, it has not been possible to ascertain the completeness and accuracy of advances balance of Kshs.71,960,000 as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

251. There were no material issues relating to effectiveness of internal controls, risk management and governance.
GOVERNMENT PRESS FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

252. Long Outstanding Debtors

The statement of financial position reflects receivables from exchange transactions balance of Kshs.235,470,668 as at 30 June, 2020. Included in the balance are long outstanding debts amounting to Kshs.183,816,360 which have been outstanding for more than five (5) years. No reason has been provided for failure to collect these debts whose recovery is doubtful. Further, no provision has been made in the financial statements for these long outstanding debts.

Under the circumstances, the receivables from exchange transactions balance of Kshs.235,470,668 may not be fairly stated as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

254. Poorly Maintained Stores

Inspection of the Government Press Fund stores revealed that the stores are poorly ventilated, and a forklift used to deliver goods emits a lot of fumes hence making the working environment a health hazard to the officers. The stores are not fitted with CCTV cameras at various points within and outside the stores to monitor the events or activities taking place. Further, the Department does not have adequate safety and firefighting equipment for use in case of a fire outbreak or any emergency.

255. Risk Assessment on Revenue Management

During the year under review, the Government Press Fund collected a total of Kshs.1,863,199 through receipts in cash from the bookshop. However, the Department does not have a formal risk assessment policy on revenue. In addition, the Department
does not perform periodic risk assessments in relation to revenue so as to identify threats, assess vulnerability, and design automated systems that could help in revenue collection.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

256. Unsupported Cash Withdrawal
The statement of assets and liabilities reflects cash and bank balances of Kshs.247,700 and Kshs.122,767,693, respectively as at 30 June, 2020. Examination of cash book and bank statements of the State Department for Correctional Services revealed that an amount of Kshs.2,300,000 was withdrawn on 30 June, 2020 from the Kenya Commercial Bank account but recorded in the cash book on 26 June, 2020. However, no records were kept to support the amount of cash withdrawn or any related expenditure.

In the circumstances, it has not been possible to ascertain the propriety of cash withdrawal of Kshs.2,300,000 or the completeness and accuracy of bank and cash balances as at 30 June, 2020.

257. Unsupported Transfers from Development Vote to Deposits Account
The statement of assets and liabilities reflects a balance of Kshs.123,953,168 under accounts payables – deposits which includes an amount of Kshs.56,588,053 that was transferred from the State Department’s Development Account to Deposits Account on 30 June, 2019. According to Management, the transfer was in relation to retention money withheld from various contractors. However, no documentary evidence was provided for audit review to confirm the contracts in respect of which the retention money was withheld, and the amount deducted and withheld for each contract.

In the circumstances, it has not been possible to confirm the validity and accuracy of the accounts payables – deposits balance of Kshs.123,953,168 as at 30 June, 2020.

258. Transfers to Other Government Units
The statement of receipts and payments for the year ended 30 June, 2020 reflects an amount of Kshs.5,724,820,121 in respect of transfers to other government units. As disclosed in Note 5 to the financial statements, the amount was transferred to the deposit pending bills account during the year under review. As explained in the Note, the amount was budgeted for in 2019/2020 financial year under Supplementary II to pay pending bills but due to time constraint it was not possible to pay the pending claims within 2019/2020 financial year.

In the circumstances, the amount of Kshs.5,724,820,121 reflected in the financial statements is not the actual expenditure incurred but a transfer to deposits account awaiting settlement of pending bills. Further, it was not explained why the amount could
not have been re-voted in the 2020/2021 financial year instead of being transferred to the deposits account thus holding funds which could have been utilized to fund more urgent projects or financial obligations.

Other Matter

259. Pending Bills

Disclosed in Note 17.1 to the financial statements are pending bills amounting to Kshs.6,326,536,196 that are related to construction of buildings and the supply of goods and services as at 30 June, 2020 and which were not settled in the year under review but were instead carried forward to the 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year’s provisions against which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

260. Irregular Payments

Examination of payment records at the State Department for Correctional Services in respect of payments of historical pending bills during the financial year 2017/2018 revealed that payments totalling Kshs.555,652,356 were made at the State Department’s Headquarters on behalf of various prison stations. However, verification of the payment vouchers at the stations revealed various irregularities as indicated below:

i. Suppliers paid who did not actually make any supplies;

ii. Payment vouchers attached to unverifiable S13 accountable documents;

iii. Suppliers paid at the Headquarters who were not known to the stations;

iv. Suppliers paid who had never been contracted to supply rations in those stations;

v. Stations having not ordered for or received ration on the dates indicated in the delivery notes;

vi. Seven (7) prison stations book not reflecting orders or deliveries of the same; and

vii. Prison stations counter receipt book register (CRBR) not having series of those counter receipt vouchers (S13) used.

Further, examination of historical pending bills detailed data and a comparison between National Treasury IFMIS and total expenditure returns at prison stations level revealed that an amount of Kshs.419,976,543 was overpaid compared to actual deliveries at the stations. The actual supplies amounted to Kshs.190,347,882 and IFMIS payments amounted to Kshs.610,324,425. The unsupported claims or payments relate to historical supplies covering financial years 2014/2015 up to 2017/2018.
It should however, be noted that the above matters regarding irregular payments, doubtful procurements and overpayments are currently under investigation by the EACC.

261. Stalled Projects

Audit inspection and verification at the various prison stations in Nairobi, Eastern, Nyanza, Western, Rift Valley and Coastal regions revealed a series of projects that had stalled largely due to challenges in funding as follows:

i. Shimo La Tewa Medium Prison - construction of a two-bedroom unit staff housing stalled in the year 2009 when the works were 67% complete with an expenditure of Kshs.2,000,000.

ii. Manyani Maximum Prison - construction of a two-bedroom senior officers’ houses stalled in the year 2010 when the works were 30% complete with an expenditure of Kshs.2,000,000.

iii. Kitale Main Prison - construction of prisoners’ dining hall and kitchen at Kitale Prison Women Wing stalled when 89% of the work had been done at a cost of Kshs.4,000,000.

iv. Bungoma GK Prison - construction of Women Wing at Bungoma Prison stalled when 23% of the work had been done at an expenditure of Kshs.2,000,000.

v. Kakamega Main Prison - construction of a store in Kakamega Main Prison stalled at 33% after an expenditure of Kshs.3,000,000.

vi. Kericho Medium Prison - prisoners mixed block stalled in the year 2016 at 49% after an expenditure of Kshs.2,500,000.

vii. Naivasha Women Prison – construction of the women ward stalled for lack of funds in the year 2016 when it was 70% complete and with an expenditure of Kshs.6,100,000.

Management has not explained satisfactorily the efforts being made for completion of the projects. Consequently, value for money from the expenditure totalling Kshs.21,600,000 incurred so far on the stalled projects could not be ascertained.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

262. There were no material issues relating to effectiveness of internal controls, risk management and governance.
PRISON INDUSTRIES REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

263. Unauthorized Expenditure on School Examinations - National Industrial Training Authority

The statement of financial performance for the year ended 30 June, 2020 reflects an expenditure balance of Kshs.35,581,502 under general expenses. Included in the expenditure, as disclosed in Note 11 to the financial statements, is an amount of Kshs.20,895,500 incurred on school examinations – National Industrial Training Authority (NITA). The expenditure of Kshs.20,895,500 was processed vide two (2) payment vouchers which were not authorized for payment in 2019/2020 financial year and were expensed under general expenses.

In the circumstances, the accuracy and validity of the general expenses figure of Kshs.35,581,502 could not be confirmed.

264. Unsupported Sales

The statement of financial performance for the year ended 30 June, 2020 reflects sales of furniture and number plates totalling to Kshs.319,494,022. However, Management did not provide monthly sales orders, cash book extracts, receipt books, bank statements and schedules in support of the sales amount of Kshs.319,494,022. Further, an audit verification at Kamiti Industry Prison revealed sales of furniture and number plates worth Kshs.14,050,440 and Kshs.334,195,020, respectively both totalling Kshs.348,245,460 during the year ended 30 June, 2020.

In the circumstances, the accuracy and completeness of the sales figure of Kshs.319,494,022 could not be ascertained.

265. Unreconciled Creditors Balance

The statement of financial position as at 30 June, 2020 reflects creditors balance of Kshs.356,655,099 which differs with the amount of Kshs.356,143,099 disclosed in Note 17 to the financial statements. The resulting difference of Kshs.510,000 has not been reconciled or explained.

Other Matter

266. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reveals that the Prison Industries Revolving Fund realized an actual revenue amount of Kshs.319,494,022 or 37% against budgeted revenues of Kshs.857,929,352. Further, the statement indicates that the Fund utilized an amount of Kshs.177,867,060 which represents 26% of the budget expenditure figure of Kshs.674,432,436, resulting to an under expenditure of
Ksh.496,565,376 or 74% of the budgeted expenditure. Consequently, the Fund may not have implemented all programs and work plans fully as approved in the budget.

267. Unresolved Prior Year Matters

267.1 Pay Master General (P.M.G) Account

The statement of financial position reflects a balance of Kshs.175,987,430 under Pay Master General (P.M.G) Account. The balance represents amounts held on behalf of the Fund in the former Ministry of Home Affairs Deposits Account which was yet to be transferred to the Fund’s new account as at 30 June, 2020. In addition, documentary evidence including bank certificates and bank reconciliation statements for the said deposits account have not been provided to support this balance.

In the circumstances, the existence, completeness and accuracy of the P.M.G Account balance of Kshs.175,987,430 as at 30 June, 2020 could not be confirmed.

267.2 Cash in Transit

As disclosed in Note 12 to the financial statements, the statement of financial position reflects a balance of Kshs.30,318,327 in respect of cash in transit as at 30 June, 2020. The balance represents revenue collected by the Kenya Prisons Service (KPS) from sale of manufactured products but not yet deposited to the Fund account. The existence, validity and accuracy of the cash in transit balance of Kshs.30,318,327 as at 30 June, 2020 could not therefore be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

268. Stalled Project for Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle Number Plate Blanks

As previously reported, records at Kamiti Main Prison Industry revealed that machines for producing modern motorized vehicle number plates which were supplied and delivered in the year 2016 at a cost of Kshs.15,295,500 have not been used for the intended purposes and have remained idle to date. In addition, a three-year contract for supply and delivery of motorized vehicle number plate blanks was signed on 7 November, 2017 and the raw material supplied. However, the raw materials (motorized vehicle number plate blanks) are still held at the Kamiti Main Prison Industry stores.

Information available indicates that a case relating to the Supply and Delivery of Motorized Vehicle Number Plate Blanks: Tender No. KPS/T/ICB/10/2014-2017 was filed in the Milimani High Court, Case No. E321 of 2020, between a technology company and the Principal Secretary State Department for Correctional Services seeking specific performance of the contract or in the alternative compensation for the full contract value of Kshs.1,050,000,000.
In the circumstances, the Government may not obtain value for money in respect of the contracts for supply and delivery of machines for producing modern motorized vehicle number plates and related raw materials owing to the delay in implementing the project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

PRISON FARMS REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

270. Unsupported and Unreconciled Pay Master General Account Balance

The statement of financial position reflects a Pay Master General (P.M.G) Account balance of Kshs.56,021,755 as at 30 June, 2020. As disclosed in Note13 to the financial statements, the P.M.G. account represents unspent income from all stations and is held in the Ministry's Deposit Account on behalf of the Fund. However, the Ministry`s Deposits Bank Account reflected a balance of Kshs.127,732,298 resulting to a difference of Kshs.71,710,543 which has not been analyzed or explained.

Consequently, the completeness and accuracy of the P.M.G. Account balance of Kshs.56,021,755 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

Other Matter

271. Pending Bills

As disclosed in Note 14 to the financial statements, the Fund had pending bills totalling Kshs.1,700,000 as at 30 June, 2020. These bills were not settled during the year under review but were instead carried forward to the 2020/2021 financial year. Failure to settle bills during the year to which they are incurred adversely affects the provisions of the subsequent financial year for which they have to be charged and paid.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

272. Unused Tractors

The statement of financial position reflects an amount of Kshs.28,035,111 under tractors as at 30 June, 2020. As disclosed in Note 20 to the financial statements, the balance
includes an amount Kshs.19,965,600 relating to additions during the year under review. However, the additional tractors were acquired without operational accessories and have thus remained unused to date. The required operational accessories includes 6-ton tipping trailers (2), lateral boom sprayers (3), 22-disc harrow (2), 4-row crop planters (2) and 3-disc plough (4).

Under the circumstances, the Kenya Prison Service has not obtained value for money from the acquisition of tractors worth Kshs.19,965,600.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

273. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

274. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

275. Pending Bills

Annex 1 to the financial statements reflects pending bills totalling Kshs.90,611,425 as at 30 June, 2020. The bills are not, however, disclosed in the notes to the financial statements under other important disclosures as required by the Public Sector Accounting Standards Board. Failure to settle bills in the year to which they relate will adversely affect the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.

276. Budgetary Control and Performance - Late Exchequer Releases

The statement of receipts and payments indicates that the State Department for Immigration and Citizen Services received a total of Kshs.2,531,794,241 in form of Exchequer releases during the year under review. However, Exchequer issues totalling Kshs.572,849,850, comprising of Kshs.349,153,456 and Ksh.223,696,394 for recurrent and development votes respectively, were received by the State Department in June, 2020. The late Exchequer releases resulted in under absorption of the State Department’s budget and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

278. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REVENUE STATEMENTS - STATE DEPARTMENT FOR IMMIGRATION AND CITIZEN SERVICES

REPORT ON THE REVENUE STATEMENTS

Unqualified Opinion

279. There were no material issues noted during the audit of the revenue statements of the State Department.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

281. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE DEPARTMENT FOR DEVOLUTION - VOTE 1032

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

282. Unaccounted for District Suspense

The statement of assets and liabilities reflects an accounts receivables (outstanding imprests, district suspense, salary advance) balance of Kshs.60,178,070 as at 30 June, 2020. As disclosed in Note 9 to the financial statements, the balance comprises of district suspense of Kshs.60,124,820 and salary advances of Kshs.253,250. Although Management explained that the district suspense of Kshs.60,124,820 balance related to Authority to Incur Expenditure (AIE) issued to various Deputy County Commissioners (DCC) to meet the cost of transporting relief food to various regions across the Country, supporting documents by way of requisitions and evidence of receipt of the funds by the DCCs were not availed for audit review. Further, no explanations were provided for the delays in the surrender of the AIEs.

Under the circumstances, the accuracy, existence and full recoverability of the reported accounts receivables balance of Kshs.60,178,070 as at 30 June, 2020 could not be ascertained.

283. Unsupported Grants and Transfers to Other Government Entities

The statement of receipts and payments reflects an amount of Kshs.1,858,800,000 in respect of transfers to other government units. As disclosed in Note 5 to the financial statements, the balance includes other grants amounting to Kshs.1,410,000,000 being Kshs.30,000,000 transferred directly by the National Treasury to each of the forty-seven (47) County Governments under the Kenya Devolution Support Program (KDSP). However, only twenty-five (25) Counties confirmed receipt of the funds totalling to Kshs.750,000,000 leaving out transfers to twenty-two (22) Counties amounting to Kshs.660,000,000 unconfirmed. Whereas the requisite conditions for disbursement include commitment letters, approved annual capacity building plans, demonstration of satisfactory implementation of the previous year’s disbursements and demonstration of adherence to the capacity building plans, no documentary evidence was availed for audit review to confirm that respective Counties had fulfilled the conditions prior to the disbursements.

Consequently, the accuracy and validity of the transfers to other government entities expenditure of Kshs.1,858,800,000 could not be confirmed.

284. Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers of Kshs.1,363,294,349 which, as disclosed under Note 6 to the financial statements, is in respect of emergency relief and refugee assistance. However, the amount includes
Kshs.1,479,210 incurred on printing and stationeries thus overstating the expenditure. Further, documents provided revealed that relief commodities were delivered to the Deputy County Commissioners but details of the actual beneficiaries were not availed for audit review. It was, therefore, not possible to confirm whether the relief and assistance was received by the intended beneficiaries.

Consequently, the accuracy and validity of other grants and transfers of Kshs.1,363,294,349 could not be confirmed.

Other Matter

285. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.5,251,670,662 and Kshs.4,669,339,785 respectively, resulting to an under-funding of Kshs.583,330,877 or 11% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.5,251,670,662 and Kshs.4,599,321,298 respectively, resulting to an under-expenditure of Kshs.653,542,543 which occurred mainly under transfers to other government units. The under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

286. Pending Bills

Note 17.1 and Note 17.2 to the financial statements reflects pending bills totalling Kshs.6,735,297,709 comprised of pending accounts payables of Kshs.3,467,119,693 and other pending payables of Kshs.3,268,178,016 respectively. Management has not provided an explanation for non-payment of the pending bills. Failure to settle bills during the year to which they relate distorts the financial statements for the year and adversely affects the provisions of the subsequent year to which they have to be charged.

287. Unresolved Prior Year Audit Matters

As disclosed under progress on follow up of prior years’ auditor’s recommendation section, some of the audit matters reported in the previous financial years remained unresolved as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

288. Use of Goods and Services

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.1,064,133,915 which, as disclosed under Note 4 to the financial statements, includes other operating expenses of Kshs.917,731,873. The following matters were, however, noted:
288.1 Consultancy Contracts

This expenditure includes two (2) payments totaling to Kshs.70,786,929 for consultancy services for the development of Kenya Devolution Support Program (KDSP) Management Information System (MIS) and Annual Capacity Building and Performance Assessment (ACPA) at Kshs.24,963,929 and Kshs.45,823,000 during the financial years 2018/19 and 2019/20 respectively. However, the following anomalies were noted:

i) No documentary evidence inform of tender documents and contract were provided to confirm the method used to procure and award the contracts. Consequently, the adherence to the requirements of Article 227(1) of the Constitution of Kenya which 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 could not be confirmed.

ii) There is no evidence of terms of reference for the two contracts having been approved by the KDSP Joint Steering Committee as required by the KDSP financing agreement and Part 27 of the program appraisal document of the project documents.

iii) KDSP MIS consultancy was for the development of a Management Information System in the forty-seven (47) counties and had a commencement date of 26 February, 2018 and a contract period of twenty-four (24) months to 25 February, 2020. As at the time of audit in December, 2020 which was ten (10) months after the lapse of the contract period, there was no documentary evidence by way of reporting dashboards, certificates of completion as well as inspection and acceptance reports availed for audit verification to confirm completion.

From the foregoing, it was not possible to confirm if value for money was obtained from the expenditure of Kshs.70,786,929 on the two (2) consultancies.

288.2 Procurements Outside the IFMIS e-Procurement Module

Included in the other operating expenses of Kshs.917,731,873 is expenditure amounting to Kshs.364,246,316 for goods and services procured outside the IFMIS e-procurement module as evidenced by diverse professional opinions availed in support of the quotations. Consequently, the State Department was in breach of the Executive Order No. 6 of 6 March, 2015 that directed all MDAs including State Corporations and Public Universities to immediately migrate their procurement systems to the e-Procurement platform developed by The National Treasury.

In view of the foregoing, it was not possible to confirm fairness in award of tenders and whether the Government received value for money for the expenditure totalling Kshs.364,246,316.

288.3 Replenishment of Stores

Included in the other operating expenses of Kshs.917,731,873 are purchases amounting to Kshs.49,863,200 made against a requisition for replenishment of stores originated by
the Officer in Charge of stores and approved by the Senior Finance Officer on 21 June, 2019. However, there was no documentary evidence in the form of counterfoil receipts and issue vouchers availed for audit verification to confirm that the various items of furniture and computers were received and to whom they were issued.

In absence of the delivery and issue documents, it was not possible to confirm the propriety and validity of the expenditure of Kshs.49,863,200.

**288.4 Lack of Budget for Kenya Devolution Support Programme (KDSP)**

The other operating expenditure of Kshs.917,731,873 was spent under Kenya Devolution Support Programme (KDSP) without a budget in contravention to Part 32 and 64 of the program appraisal document and Section 53(2) of the Public Procurement and Asset Disposal Act, 2015. These Sections require the Accounting Officer to prepare an annual procurement plan within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

**288.5 Unsupported Expenditure on Air Tickets**

Included in other operating expenses figure of Kshs.917,731,316 are payments for purchase of air tickets amounting to Kshs.60,285,800 made to various suppliers. However, documentary evidence of travel including boarding passes and certificates of inspection and acceptance were not provided for audit verification to confirm receipt of the tickets and also authenticate that the utilization of the funds was for the benefit of the State Department.

In absence of the supporting documentation, it was not possible to confirm the propriety and validity of the expenditure of Kshs.60,285,800 on purchase of air tickets.

**289. Irregular Payment of Acting Allowance**

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.312,215,099 under compensation of employees which include an amount of Kshs.118,423,887 in respect of personal allowance paid as part of salary. The latter balance includes an amount of Kshs.629,602 paid to an officer appointed the Secretary, Relief, Rehabilitation and Mobilization Affairs on 7 November, 2019 in an acting capacity. However, the appointment was backdated to 5 July, 2017 which was more than two years in contravention of Section C.14(1) of the Public Service Commission – Human Resource Policies and Procedures Manual, 2016 which provides that acting allowance will not be payable to an officer for more than six (6) months. The officer has been in acting capacity for a period exceeding four (4) years.

To the extent, the State Department was in breach of the Law.

**290. Routine Maintenance - Vehicles and Other Assets**

The statement of receipts and payments reflects an expenditure of Kshs.1,064,133,914 under use of goods and services which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.6,535,992 in respect of routine maintenance - vehicles and other transport equipment. However, included in the routine
maintenance - vehicles and other transport equipment expenditure is Kshs.1,876,001 issued to an officer as standing imprest of Kshs.100,000 and reimbursed eighteen (18) times. However, examination of supporting documents revealed use of imprest to make purchases that did not meet the thresholds for low-value procurements, carrying out procurement work that should ordinarily be done by procurement professionals and for activities that had not been included in the approved Procurement Plan. The State Department was therefore in breach of Regulation 91(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that imprest is issued to officers who in the course of duty are required to make payments which cannot conveniently be made through the cash office of a government entity or bank account.

Under the circumstances, the validity and propriety of the expenditure of Kshs.1,876,001 included in expenditure on routine maintenance - vehicles and other assets of Kshs.6,535,992 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECT

INSTRUMENTS FOR DEVOLUTION ADVICE AND SUPPORT PROJECT - GRANT NO.KE/FED/024/230

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

292. Inaccuracies in the Financial Statements

The financial statements contain the following anomalies:

(i) The statement of receipts and payments reflects other grants and transfers and payments cumulative to date balance totalling Kshs.938,849,773 which however differs with the audited comparative balance totalling Kshs.987,669,026 reflected in the financial statements for the year ended 30 June, 2018. The variance amounting to Kshs.48,819,253 between the two sets of records has not been reconciled.

(ii) Note 8.4 to the financial statements reflects comparative proceeds from domestic and foreign grants balance totalling Kshs.1,043,810,965 instead of the audited
balance amounting to Kshs.977,503,313 reflected in the audited financial statements for the previous year. The difference amounting to Kshs.66,307,652 has not been explained.

(iii) The financial statements presented for audit namely, statement of financial assets, statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year ended 30 June, 2020, are labeled as relating to the year 2018/19 even though the balances reflected therein are for the year 2019/20.

(iv) The statement of receipts and payments reflects receipts for the year under review totalling Kshs.28,484,747 whereas the statement of comparative budget and actual amounts reflects a total of Kshs.85,035,540. No explanation has been provided for the difference amounting to Kshs.56,550,793 between the two balances.

In view of these anomalies, the financial statements for the financial year ended 30 June, 2020 are inaccurate.

293. Variances Between the Financial Statements and IFMIS Ledger Balances

Several of the balances reflected in the financial statements differ from identical account balances reflected in the Integrated Financial Information System (IFMIS) ledgers presented for audit. In other instances, the IFMIS ledgers do not indicate the balances for some of the accounts reflected in the financial statements. These anomalies are summarized in the table below:

<table>
<thead>
<tr>
<th>Account Name</th>
<th>Financial Statements (Kshs.)</th>
<th>Balance (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Balance</td>
<td>13,595,445</td>
<td>13,694,323</td>
<td>(98,898)</td>
</tr>
<tr>
<td>Domestic Travel and Subsistence</td>
<td>7,347,226</td>
<td>3,042,600</td>
<td>4,304,626</td>
</tr>
<tr>
<td>Compensation of Employees</td>
<td>5,632,312</td>
<td>8,751,220</td>
<td>(3,118,908)</td>
</tr>
<tr>
<td>Purchase of Goods and Services</td>
<td>72,000</td>
<td>-</td>
<td>72,000</td>
</tr>
<tr>
<td>Hospitality</td>
<td>1,681,764</td>
<td>-</td>
<td>1,681,764</td>
</tr>
<tr>
<td>Stationary</td>
<td>80,000</td>
<td>-</td>
<td>80,000</td>
</tr>
</tbody>
</table>

As a result of the anomalies, the accuracy and validity of the financial statements has not been confirmed.

294. Unconfirmed Cash and Cash Equivalents Balance

The Statement of financial assets reflects cash and cash equivalents balance totalling Kshs.13,595,445, as further disclosed in Note 8.8 to the financial statements. However, the bank reconciliation statement as at 30 June, 2020 reflects a cash book balance amounting to Kshs.13,124,323 resulting to a difference of Kshs.471,122 which has not been reconciled.
Further, the bank reconciliation statement reflects payments in cashbook not recorded in the bank statement totalling Kshs.633,104 which sum consists of long outstanding items dating back to October, 2019. Management has not explained why the payees failed to present the cheques for payment, and why the stale ones among these have not been written back into the cash book.

As a result of these anomalies, the accuracy of the reported bank balances totalling Kshs.13,595,445 as at 30 June, 2019 has not been confirmed.

**295. Unconfirmed Compensation of Employees Expenditure Balance**

The statement of receipts and payments reflects compensation of employees payments totalling Kshs.5,632,312, as further disclosed in Note 8.6 to the financial statements. However, examination of salary payment vouchers indicated that compensation of employees payments made by the Project during the year under review totalled Kshs.6,630,000. No explanation has been provided for the difference amounting to Kshs.997,688 between the two sets of records.

In view of the anomaly, the accuracy and completeness of the compensation of employees payments totalling Kshs.5,632,312 reflected in the statement of receipts and payments for the year ended 30 June, 2020 has not been confirmed.

**Other Matter**

**296. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects budgeted and actual receipts on a comparable basis totalling Kshs.708,711,733 and Kshs.85,035,540 respectively, resulting to underfunding of Kshs.623,076,193 equivalent to 12% of the budget. Contrary to the reporting requirement set by the Public Sector Accounting Standards Board, Management has not explained the underperformance.

**297. Unresolved Prior Year Issues**

The Project’s financial statements for the year ended 30 June, 2018 reflected several unsatisfactory matters that were highlighted in the Audit Report for the year then ended. These included unsupported expenditures on transfers to other Government Agencies and unconfirmed training and payments reportedly made to third parties on behalf of the project. The Report, in addition, highlighted unauthorized purchases of promotional merchandize.

Management has indicated that transfers made to Government Agencies have since been acknowledged by the parties. However, the evidence to confirm the assertion was not availed.

Nonetheless, contrary to the reporting requirement set by the Public Sector Accounting Standards Board, Management has not disclosed the progress made in resolving the rest of the issues.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

298. Failure to Achieve the Project’s Mandate

The key objective of the Project is to contribute to the implementation of the devolution process as outlined in the Constitution of Kenya, 2010. The project is expected to provide the following interventions:

(i) Support The National Treasury and other public financial management entities to establish Integrated planning and budgeting guidelines at County Level.

(ii) Design and test county performance and assessment tools based on service delivery of quality of service.

(iii) Facilitate establishment of Local Economic Development (LED) units within selected counties.

However, during the year under review, the project reported expenditures totalling only Kshs.14,889,302. Further, the expenditures were not supported with an approved work plan for the year. Consequently, the activities carried out during the year may not have been on target.

Should the low activity trend continue in coming years, the Project is unlikely to attain its goals and objectives before its closing date.

299. Irregular Procurement of Hospitality Services

Procurement records indicated that Kshs.360,190 was spent on hire of conference facilities procured directly through imprest issued to Officers contrary to the requirements of Section 107(b) of the Public Procurement and Asset Disposal Act, 2015.

Further, other conference facilities hired at Kshs.1,326,900 were not properly sourced as the procurement committee that evaluated the bids was not formally appointed. In addition, minutes of the meetings of the Committee were not presented for audit verification and further, the invoices were paid without withholding statutory Value Added Tax (VAT) deductions.

As a result of these anomalies, the validity and propriety of the expenditures amounting to Kshs.360,190 and Kshs.1,326,900 incurred on hospitality services has not been confirmed.

300. Unsatisfactory Implementation of Projects

The following observations were made during sampled audit inspections conducted on the Project’s activities in Taita Taveta and Kwale Counties during the months of September and October, 2020.
300.1 Taita Taveta County – Construction of Factory for Banana Value Addition

i. The contractor was not on site at the time of field inspection;

ii. The newly built factory building had cracked walls which indicated that the workmanship was of low quality;

iii. The audit could not establish that the Project owned the land on which the building was built as the land titles were not made available for audit review;

iv. The works were one year behind the original completion date of 31 October, 2019, which had since been extended to October, 2020; and

v. Structural plans and Bills of Quantities to confirm that the works executed conformed to specifications were not presented for audit.

In addition, procurement records for the works indicated that:

• The Company contracted to execute the works was incorporated in July, 2014 and was, therefore, five (5) years old at the time of tendering. The tender qualification criteria had specified that bidders were required to have operated for at least six years at the time of tendering.

• The statement of directors in the audited financial statements for the winning bidder were not signed by the Chairman and were therefore invalid.

• No proper explanation was provided for the variation of the contract sum by Kshs.6,408,420 from Kshs.39,740,573 to 46,148,993. The variation was made on request by the Project Engineer.

• The extension of the completion period by one year to October, 2020 was not authorized in writing.

Further, examination of the payment vouchers revealed that payments totalling Kshs.36,036,480 were not authorized, dated and serialized as financial regulations require.

In view of these anomalies, the execution of the Banana Value Addition Project did not follow public procurement regulations and as a result, value for the money on the project’s cost may not be achieved.

300.2 Kwale County – Construction of Kombani Fresh Produce Wholesale Market

i. The contractor was not on site at the time of the field inspection;

ii. Available records indicated that the design of the building was changed from the original plan - the cereals store was swapped with the meat center but no explanations or approvals were provided for the change;
iii. Work on the refuse bin costed at Kshs.327,700 had not started in spite of payment of Kshs.314,442 made to the contractor;

iv. Cabro works at the parking area were at 50% level of completion against payments made to the contractor totaling Kshs.12,434,166 equivalent to 86% of the item’s budget;

v. Payments for construction of the septic tank totalled Kshs.1,799,118 against the item’s budget amounting to Kshs.2,058,050 even though only the pit had been dug and no concrete works had been initiated; and

vi. Gate C provided for in the design of the market, was blocked off by an adjacent building. No remedial measures had been taken to redeem the space and as a result the Gate was not of any use.

No plausible explanations have been provided for these anomalies that are likely to result in the works not meeting the needs of the residents of Kwale County who were the intended beneficiaries.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AN AGENCY UNDER THE STATE DEPARTMENT FOR DEVOLUTION

KENYA SYMBIOCITY PROGRAMME-GRANT NO.51110060 - COUNCIL OF GOVERNORS

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

303. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.98,832,746 and Kshs.58,200,000 respectively
resulting to an under-funding of Kshs.40,632,746 or 41% of the budget. Similarly, the Project expended Kshs.13,026,496 against an approved budget of Kshs.157,756,696 resulting to an under-expenditure of Kshs.144,730,201 or 91% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

304. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Public Accounts Committee has not deliberated on them.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STREET FAMILIES REHABILITATION TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

307. Property, Plant and Equipment

The statement of financial position reflects Kshs.9,744,614 in respect of property, plant and equipment which excludes the value of various parcels of land that have no ownership documents as indicated below:

307.1 Land LR No.209/11325 at Mukuru Kwa Njenga Slum

As previously reported, the Kenya Pipeline Company (KPC) donated and surrendered to the Trust Fund a parcel of land L.R No.209/11325 on 23 August, 2007. The title deed was
surrendered to the Commissioner of Lands on 6 August, 2007 for purposes of transferring and registering the property in the name of the Trust Fund. However, review of the matter during the month of January, 2021, thirteen (13) years after the donation, revealed that the transfer has not been effected and the land in Mukuru Kwa Njenga slum has since been encroached upon by members of the public.

307.2 Parcels of Land in Embu, Murang’a and Laikipia

Information available indicates that the defunct Local Authorities of Embu, Murang’a and Laikipia allocated land to the Trust Fund informally as captured in the Minutes dated 19 September, 2016. The Trust Fund is however, yet to identify where the parcels of land are located or to obtain title deeds or any legal or formal documents of allocation. In addition, Management has not demonstrated any efforts put in place to acquire ownership documents.

307.3 LR. NO. Mavoko Town Block 3/2545

As was reported in the previous year, the Trust Fund purchased land measuring 8.09 hectares in Mavoko Town at a cost of Kshs.38 Million on 6 December, 2013. The original title was surrendered to the Ministry of Land for subsequent transfer in the same month. A review of the position during the audit, in the month of January, 2021, revealed that the said property had not been transferred to the Trust Fund.

In the circumstances, it is not possible to confirm the accuracy and completeness of the property, plant and equipment balance of Kshs.9,744,614 reflected in the statement of financial position as at 30 June, 2020.

Other Matter

308. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects budgeted and actual expenditure of Kshs.245,000,000 and Kshs.274,587,264 respectively resulting into an over expenditure of Kshs.29,587,264 or 12% which has not been explained in the notes to the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

309. Incomplete Assets Register

Regulation 143 of the Public Finance Management (National Government) Regulations, 2015 requires an Accounting Officer to maintain a register of assets under his or her control or possession as prescribed by the relevant laws. However, the register of assets
maintained by the Trust Fund did not include the date of purchase of some of the assets, the costs and the current location.

In the circumstances, it could not be confirmed that the assets of the Fund were properly safeguarded.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

310. Lack of Information Technology Policy, Risk Management Policy and Data Recovery Strategy

A review of the internal controls at the Trust Fund revealed weaknesses that included the absence of documented Data Recovery Strategy, Risk Management Policy or an Information Technology Policy. There were no measures in place to mitigate against risks. The Trust Fund is therefore exposed to threats in terms of loss of strategic data and information regarding its operations, exposure to cyber-attacks, poor response to fire outbreaks and unsafe storage of information technology resources.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

311. Unsupported and Long Outstanding Accounts Payable - Deposits

The statement of assets and liabilities reflects a balance of Kshs.10,174,387 under accounts payables-deposits. However, the supporting schedule and the analysis provided under Annex 9 to the financial statements did not provide details of the construction projects undertaken by the various contractors. Further, the retention amounts related to payments made in the period March, 2014 to March, 2016. Management did not explain why the retention amounts remained unpaid despite the defects liability period having lapsed.

Consequently, the accuracy and validity of the deposits and retentions balance of Kshs.10,174,387 as at 30 June, 2020 could not be confirmed.

312. Unauthorized Reallocation of Funds- Acquisition of Assets

The statement of receipts and payments reflects an expenditure of Kshs.21,572,277 under acquisition of assets which, as disclosed in Note 7 to the financial statements, includes an amount of Kshs.17,222,079 incurred on purchase of certified seeds, breeding stock and live animals. However, examination of documents presented in support of these payments revealed that the amounts related to daily subsistence allowance paid to officers for undertaking various activities under the ECORAD II project. No explanation was provided as to why the amount was included and reported under acquisition of assets expenditure under intangible assets in the summary of Fixed Assets Register at Annex 4 to the financial statements.

Consequently, the validity and accuracy of the reported acquisition of assets expenditure of Kshs.21,572,277 could not be confirmed.

Other Matter

313. Pending Bills

Note 16.1 to the financial statements reflects pending bills amounting to Kshs.6,599,322 that were not settled in the year under review but were carried forward to 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.
314. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues were not disclosed under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

315. Budgetary Control and Performance

The summary statement of appropriation- recurrent and development combined reflects actual receipts of Kshs.5,788,484,222 against a budget of Kshs.6,646,655,032 resulting into a receipts shortfall of Kshs.858,170,810 or 13% of the budgeted receipts. Similarly, actual expenditure amounted to Kshs.5,785,133,560 against the approved budget of Kshs.6,646,655,032 resulting to an under-expenditure of Kshs.861,521,472 or 13% which occurred mainly under transfers to other government units. The under-collection affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

316. Incomplete Fixed Assets Register

Annex 4 to the financial statements – Summary of Fixed Assets Register reflects assets with a cumulative historical cost of Kshs.70,138,139 as at 30 June, 2020. However, the summary did not reflect any values for motor vehicles and ICT equipment and yet these assets existed at the State Department. In addition, the assets register provided for audit was not comprehensive as required under Regulation 143 of the Public Finance Management (National Government) Regulations, 2015 and The National Treasury guidelines as per Circular No. 5/2020 dated 25 February, 2020 which required all public entities to keep a comprehensive register to protect public assets.

Consequently, the State Department was in breach of the Regulations and it could not be confirmed that the assets had been properly safeguarded.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

317. Failure to Establish an Audit Committee

The State Department did not have an independent Audit Committee as required under Section 73(5) of the Public Finance Management Act, 2012, which provides that every national government public entity shall establish an Audit Committee whose composition and functions shall be as prescribed by the Regulations. The Audit Committee forms a key component in the governance process by providing an independent expert
assessment of the activities of top management, the quality of the risk management, financial reporting, financial management and internal audit to the top management.

In the circumstances, the effectiveness of the internal controls, risk management and overall governance for the State Department could not be confirmed.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

318. There were no material issues noted during the audit of the financial statements of the Ministry.

Other Matter

319. Pending Bills

Disclosed under Note 19.1 to the financial statements are pending bills totalling Kshs.8,166,532,367 as at 30 June, 2020. Further, as disclosed under Note 19.3 to the financial statements, the Ministry has contingent liabilities of Kshs.1,071,137,645 arising from a court award of Kshs.1,421,137,645 on a disputed contract. During the year, the Ministry paid an amount of Kshs.350,000,000 as part payment for the court award. The remaining balance of Kshs.1,071,137,645 is still outstanding subject to an outcome of a court determination of a Civil Case 39 of 2014 on the same matter. The above amount has not been included as part of the pending bills during the year.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form the first expenditure to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

321. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATEMENTS OF REVENUE - MINISTRY OF DEFENCE

REPORT ON THE REVENUE STATEMENTS

Unqualified Opinion

322. There were no material issues noted during the audit of the revenue statements of the Ministry.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

324. There were no material issues relating to effectiveness of internal controls, risk management and governance.
MINISTRY OF FOREIGN AFFAIRS - VOTE 1052

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

325. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June, 2020 reflects cash and cash equivalents balance of Kshs.2,177,798,670 which includes bank balances of Kshs.2,177,403,861. As disclosed in Note 10 A to the financial statements, the bank balance of Kshs.2,177,403,861 includes recurrent and development accounts balances of Kshs.524,746 and Kshs.134,300 in accounts No.1000302337 and No.1000302356, respectively, at the Central Bank of Kenya.

However, the Central Bank of Kenya certificate of balances reflects recurrent account and development account balances of Kshs.21,848,532.61 and Kshs.299,128.85 while the bank reconciliation statements for 30 June, 2020 reflect balances of Kshs.65,580,230.56 and Kshs.667,436.10 under recurrent and development accounts, respectively resulting in differences between the three sets of records.

Under the circumstances, the accuracy of the bank balance of Kshs.2,177,403,861 as at 30 June, 2020 could not be confirmed.

Other Matter

326. Pending Bills

As disclosed under Annex I to the financial statements, the Ministry had pending bills of Kshs.244,616,266 as at 30 June, 2020. The bills were not paid during the year under review but were instead carried forward to the 2020/2021 financial year. Failure to settle bills during the year to which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

327. Irregular Procurement of ICT Equipment

Examination of records revealed that the Ministry of Foreign Affairs purchased twenty-seven laptops, two desktop computers and twenty-eight printers at a total cost of Kshs.10,047,119 in the year under review. It was observed that the ICT equipment were delivered before Local Purchase Orders were issued.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

328. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE DEPARTMENT FOR VOCATIONAL AND TECHNICAL TRAINING - VOTE 1064

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

329. Unreconciled Bank Balance Variances

The statement of assets and liabilities reflects bank balances of Kshs.187,133,948 which as disclosed under Note 11A to the financial statements comprised balances held in various bank accounts including bank accounts for donor funded projects. However, the balances for the project bank accounts differed with the balance reflected in the respective financial statements of the projects as follows:

<table>
<thead>
<tr>
<th>Project</th>
<th>Bank Balance as per the Financial Statements of the State Department (Kshs.)</th>
<th>Bank Balance as per the Financial Statements of the Project (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>3,354,258</td>
<td>Nil</td>
<td>3,354,258</td>
</tr>
<tr>
<td>KIDDP</td>
<td>26,342,444</td>
<td>26,159,554</td>
<td>182,890</td>
</tr>
<tr>
<td>EASTRIP</td>
<td>72,009,480</td>
<td>71,945,910</td>
<td>63,570</td>
</tr>
</tbody>
</table>

Management has not explained or reconciled the variances, casting doubt on the accuracy of the reported bank balances of Kshs.187,133,948 as at 30 June, 2020.

330. Non-Disclosure of Pending Bills

Note 17 to the financial statements on pending accounts payables reflects pending bills amounting to Kshs.4,188,368. Information available, however, indicates that the State Department had pending bills amounting to Kshs.1,146,714,979 as at 30 June, 2020. Consequently, pending bills amounting to Kshs.1,142,526,611 were not disclosed. Failure to disclose and settle bills during the year to which they relate, distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

331. Accounts Receivables

331.1 Unsupported District Suspense

The statement of assets and liabilities reflects a receivables balance of Kshs.1,355,512 which as disclosed at Note 12 to the financial statements includes district suspense of Kshs.945,112 which was not adequately supported with the relevant supporting documents or schedules. In addition, no evidence was provided that Management had carried out investigations on the cause of the suspense account balance.
331.2 Undisclosed Outstanding Imprests

The reported accounts receivables balance of Kshs.1,355,512 did not include outstanding imprests as at 30 June, 2020. The manual Imprest Register reflected outstanding imprest of Kshs.494,800 as at 30 June, 2020 while the Integrated Financial Management Information Systems (IFMIS) Imprest Register reflected an outstanding temporary imprest balance of Kshs.1,654,520 as at the same date, resulting into an unexplained variance of Kshs.1,159,720 between the two sets of records. Further, the imprests were outstanding contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulation, 2015, which requires temporary imprest holders to account or surrender the imprest within 7 working days after returning to duty station.

In the circumstances, the recoverability and accuracy of the receivables balance of Kshs.1,355,512 as at 30 June, 2020 could not be confirmed.

Other Matter

332. Budgetary Control and Performance

As reflected in the summary statement of appropriation-recurrent and development combined, the State Department’s actual receipts amounted to Kshs.17,847,414,199 against budgeted receipts of Kshs.26,105,171,972 resulting in a shortfall of Kshs.8,257,757,773 or 32% of the budget.

Similarly, the State Department’s actual expenditure for the year amounted to Kshs.17,847,485,026 against budgeted expenditure of Kshs.31,095,310,078 resulting in an overall under absorption of Kshs.13,247,825,052 or 57% efficiency. Management attributed the under expenditure to delayed Exchequer releases.

333. Delay of Exchequer Releases

Review of records maintained by the State Department revealed that the State Department received Kshs.2,887,044,148 Exchequer releases from The National Treasury in the month of June 2020, as detailed below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Received (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>02 June, 2020</td>
<td>171,714,588</td>
</tr>
<tr>
<td>04 June, 2020</td>
<td>1,550,127,430</td>
</tr>
<tr>
<td>25 June, 2020</td>
<td>495,889,488</td>
</tr>
<tr>
<td>30 June, 2020</td>
<td>669,312,642</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,887,044,148</strong></td>
</tr>
</tbody>
</table>

The above delay in release of Exchequer may have resulted in low absorption of the budget thus negatively affecting timely implementation of programmes of the State Department and provision of services to the public.
334. Unresolved Prior Year Audit Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

335. Non-Compliance to the Two Thirds Rule on Salary Deductions

Analysis of the payroll data for the year ended 30 June, 2020 revealed that payroll deductions for fifty (50) and twenty-one (21) employees in the months of March and June respectively were earning less than two thirds of their gross pay. Further, sixteen (16) employees had negative net pays in the month of June, 2020. This contravenes Section 19(3) of the Employment Act, 2007 which states that the total amount of all deductions made by an employer from the wages of his employees at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

In the circumstance, the State Department was in breach of the Law.

336. Continued Retention of Retired Public Officers

A review of sample personnel files for staff revealed that the State Department had appointed forty-one (41) officers who had attained the mandatory retirement age of sixty (60) years and were not registered as persons living with disability on local contract terms. In addition, two (2) of the forty-one (41) officers have had their contracts extended severally. This is contrary to Section B.20(1) subsection (ii) and (iv) of the Public Service Commission-Human Resource Policies and Procedures Manual, 2016 which outlines circumstances for appointment on contract terms.

The Public Service Commission while authorizing the contract extensions advised the State Department to plan on building capacity by competitively filling the positions. Although the Management provided explanations for the extensions, the affected officers had been heading their respective Departments for significantly long durations prior to their retirement. The multiple contract extensions might have resulted from poor or lack of succession planning on the key positions at the State Department.

337. Incomplete Technical Training Institutes

As previously reported, records maintained by the State Department revealed that construction of eight (8) Technical Training Institutes that started as early as June, 2014 and which ought to have been completed within one year were still at varying stages of completion and no extension of the contract periods had been granted. Although Management attributed the delayed completion to various challenges ranging from insecurity to disputes over land, completion of the projects was not achieved as at the time the audit was finalized and solutions for the challenges were not indicated.
338. Collapse of Chepareria Technical Training Institute

The contract for the construction of Chepareria Technical Training Institute was awarded to a local contractor at a contract sum of Kshs.48,743,504. However, the building collapsed while under construction and after more than Kshs.26,700,000 had been disbursed to the Institution and paid to the contractor. The collapse was attributed to poor workmanship by the contractor who seemed not to have been familiar with the site and who is since demanding for a new site and Bills of Quantities among other conditions in order to redo the work. The State Department had not taken any action against the contractor - over five (5) years after the collapse of the building and abandonment of the site by the contractor. An update of the situation was not provided for audit review.

339. Non-Operational Institutions

As previously reported, the State Department completed sixteen (16) Technical Training Institutes in fifteen (15) Counties. The institutions though completed, were not operational as at the time of audit casting doubt on their viability and whether proper feasibility studies were conducted. In addition, the non-operational Institutions continued to draw Kshs.2,000,000 annually for operational costs from the Government.

Under the circumstances, value for money may not have been realized.

340. Proposed Kakrao Technical Training Institute

As previously reported, the contract for the construction of the Proposed Kakrao Technical Training Institute was awarded at a contract sum of Kshs.53,720,833. The contract commenced on 1 November, 2014 with an expected completion date of 1 November, 2015 for a period of 52 weeks. The contract was terminated on 4 July, 2017. According to the termination letter, the contractor had already been paid Kshs.46,214,053 being 86% of the contract sum. The level of completion at the time of termination was 73% and the contractor, therefore, ought to have been paid Kshs.33,844,125 or 63% of the contract sum given 10% portion requirement. The contractor was therefore overpaid by Kshs.12,369,928 which may constitute loss of public funds. In addition, the incomplete Institution with no learners was fitted with furniture and donor funded equipment which are now subject to wear and tear without being put to any economical use.

In the circumstances, the objectives of the project may not have been attained and value-for-money may not be realized on the expenditure.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

341. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECTS

KENYA ITALY DEBT FOR DEVELOPMENT PROGRAM (KIDDP)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

343. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects nil receipts and nil actual on comparable basis. However, the project spent an amount of Kshs.17,077,694 against the approved budget of Kshs.46,641,000 resulting to an under expenditure of Kshs.29,563,306. Management has explained that the Project utilized past savings and attributed the under expenditure to late uploading of the Project’s budget into Integrated Financial Management Information System (IFMIS), and challenges of the Covid-19 pandemic.

In the circumstances, the citizens have not received services as planned as a result of the slow implementation of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

344. Delay in Completion of Construction

The statement of receipts and payments reflects an expenditure of Kshs.10,262,746 under acquisition of non-financial assets which includes an amount of Kshs.3,083,317 in respect to works at Ebusiralo Vocational Training Center in Vihiga County and Mfangano Vocational Training Center in Homabay County. The contracts were awarded in January and March, 2017 respectively for a contract period of ten (10) weeks at a combined contract sum of Kshs.30,074,140. Examination of the contract documents and Program Progress Reports as at the time of audit in the month of November, 2020 revealed that the two projects were incomplete and that the contract periods expired in the month of April and March, 2020. No further contract period extensions had been approved. Although Management has explained that the projects were practically complete, hand over certificates and certificates of completion were not availed for audit review.

In the circumstances, stakeholders may not get value for money, if the projects are not completed and put into their intended purposes.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

SUPPORT TO TECHNICAL VOCATIONAL EDUCATION AND TRAINING FOR RELEVANT SKILLS DEVELOPMENT PROJECT - PHASE II (LOAN NO.2100150033295)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

347. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects an actual expenditure of Kshs.642,954,865 against the approved budget of Kshs.614,408,265 under acquisition of non-financial assets resulting to an over expenditure of Kshs.28,546,600 or 5%. Management has explained that the over expenditure was caused by supplementary budget cuts which were effected after the expenditures had been incurred and captured in the Integrated Financial Management Information System (IFMIS).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

349. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR VOCATIONAL AND TECHNICAL TRAINING

EAST AFRICA SKILLS FOR TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (IDA LOAN NO. 6334-KE) – MERU NATIONAL POLYTECHNIC

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

353. There were no material issues noted during the audit of the financial statements of the Project.
Other Matter

354. The statement of comparative budget and actual amounts reflects nil payments against an approved budget of Kshs.200,000,000 resulting to an under-expenditure of Kshs.200,000,000 or 100% of the budget. Management has attributed the under-expenditure to lengthy procurement processes which had not been concluded by the end of the financial year. The delay affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

356. Lack of Segregation of Duties

Review of the internal control procedures for the Project revealed that there was no proper segregation of duties in the accounting function since the roles of maintaining of the cashbook, preparation of bank reconciliation statements and drawing of cheques were all performed by one officer who was also a signatory to the Project bank account.

In the circumstances, it could not be ascertained that the internal controls were functioning properly.

357. Audit Committee

Although the Project had an Audit Committee in place, the Committee met only once on 19 September, 2019 in the year under review. This is contrary to Regulation 179(1) of the Public Finance Management (National Government) Regulations, 2015 which requires Audit Committees to meet at least once in every three months.

In the circumstances, the Project Management is in breach of law.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

359. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.258,350,000 and Kshs.200,000,000 respectively resulting to an under-funding of Kshs.58,350,000 or 23% of the budget. Similarly, the Project expended Kshs.17,766,663 against an approved budget of Kshs.258,350,000 resulting to an under-expenditure of Kshs.240,583,337 or 93% of the budget. The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

360. Approval of the Strategic Investment Plan

The Kisumu National Polytechnic had provided in its annual work plan for the period 2019-2020 to spend US Dollars.2,583,500 equivalent to Kshs.258,350,000 out of which Kshs.200,000,000 was disbursed to the project during the period. However, the annual work programs implemented by the project during the period had not been approved as required under the terms of the Financing Agreement at Schedule 2, Section I A (2) which states that the National Steering Committee shall be responsible for providing overall guidance and oversight for the project at National level and approving the annual work programs and implementation planning.

Consequently, the Management is in breach of the law.

361. Procurement of Conference Facilities

As disclosed in Note 10.4 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.6,361,543 under purchase of goods and services which includes expenditure on conference facilities amounting to Kshs.690,400. However, the conference facilities were procured through direct procurement even though
no evidence was provided that the conditions for use of the method as provided under Section 103(2) of the Public Procurement and Asset Disposal Act, 2015 had been met.

The Management of the Project was therefore in breach of the law and it has not been possible to ascertain if the stakeholders obtained value for money on the expenditure.

362. Unsupported Daily Subsistence Allowances and Consultancy Services

Included in the balance of Kshs.6,361,543 under purchase of goods and services is an amount of Kshs.3,453,300 for staff allowances. The amount includes an amount of Kshs.1,917,100 paid to Project Management for attending a workshop for finalizing Information Security Management System (ISMS) policies and procedures, evaluation of technical proposal for consultancy services and development of terms of reference for stakeholder analysis and project design scope. However, the expenditure was not supported by documents such as motor vehicle work tickets and attendance registers as required for accountability purposes. The payment vouchers were also not duly authorized.

Consequently, the propriety of the amount totalling to Kshs.1,917,100 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT GOVERNANCE

Conclusion

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

EAST AFRICA SKILLS TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (CREDIT NUMBER: IDA 6334-KE) – KENYA COAST NATIONAL POLYTECHNIC

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

365. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total actual receipts of Kshs.200,000,000 against actual expenditure of Kshs.1,794,517 resulting to an overall
under absorption of Kshs.198,205,483 or 99%. The under absorption is attributed to late disbursement of funds and the outbreak of Covid-19 pandemic. This implies that the funds were lying idle impacting negatively on service delivery to the public.

**366. Project Implementation**

According to the statement of performance against the project’s predetermined objectives, the project aims to achieve eight (8) thematic objectives. However, audit review of the approved work plan for the year under audit revealed that the following planned activities had not been implemented as at 30 June, 2020:

<table>
<thead>
<tr>
<th>No.</th>
<th>Component</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strengthening Governance and Management</td>
<td>Conduct training for council and administration &amp; key staff on project operation&lt;br&gt;Sensitization on project expectations&lt;br&gt;Review and revise the strategic plan and master plan&lt;br&gt;Conduct international benchmarking for top management and key staff&lt;br&gt;Formulate project management measures/regulations (Guidelines)&lt;br&gt;Conduct monitoring and inspection of the project&lt;br&gt;Provide students scholarship</td>
</tr>
<tr>
<td>2</td>
<td>Institutionalizing Industry Linkages</td>
<td>Organize stakeholder forums&lt;br&gt;Industry Advisory Committee in operation&lt;br&gt;Establish collaboration with local industries&lt;br&gt;Establish students’ attachment with industries&lt;br&gt;Arrange graduate internship&lt;br&gt;Establish Alumni Association&lt;br&gt;Conduct tracer study&lt;br&gt;Engage part time trainers from industries&lt;br&gt;Establish linkage with overseas industries and intuitions</td>
</tr>
<tr>
<td>3</td>
<td>Developing Market Relevant and Competency-Based Training Programs</td>
<td>Carry out training needs assessment&lt;br&gt;Train staff on CBET curriculum development&lt;br&gt;Develop CBET curriculum&lt;br&gt;Train assessors&lt;br&gt;Develop digital programmes/online courses</td>
</tr>
<tr>
<td>4</td>
<td>Training of School Managers and Teachers</td>
<td>Conduct training needs assessment&lt;br&gt;Long term professional training abroad and locally for new programs&lt;br&gt;Train managers to build capacity (domestic and abroad)&lt;br&gt;Train staff to improve the capacity of profession, pedagogy, IT and entrepreneurship (abroad)</td>
</tr>
</tbody>
</table>
### No. | Component | Activity
--- | --- | ---
1 | | Train staff to improve the capacity of profession, pedagogy, IT and entrepreneurship (domestic)
2 | | Improve research and innovation capacity
3 | Upgrading Key Training Facilities and Equipment | Conduct extension, repair and rehabilitation of existing facilities with support of expert services
4 | | Construct hostel facilities with consultancy of expert services
5 | | Construct training restaurant and staff quarters with consultancy from expert services
6 | | Construct academic, administration, workshops and labs complex with consultancy of expert services
7 | | Upgrade sewerage, water, electrical and ICT infrastructure and establish E-learning platform and expert services
8 | | Procure training equipment with consultancy of expert services
9 | | Procure project vehicles

### No. | Component | Activity
--- | --- | ---
1 | Rosalia Dzombo | Procurement Officer<br>Procurement Specialist
2 | Paul Omolo | Department, Medical Service<br>Environment and Social Safeguards Officer
3 | Magdelene Kituku | Department, Secretarial and Liberal Studies<br>Project Industrial Liaison Officer
4 | Kevin Ochieng | Centre Leader – Maritime transport and Port Logistics<br>Centre leader

Although the Management has attributed the state of affairs to late disbursement of funds and the outbreak of Covid-19 Pandemic, the project is clearly behind schedule. Delayed implementation of planned activities could adversely affect achievement of intended project activities within the set time limit.

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

**Basis for Conclusion**

**367. Staff Secondment**

The Kenya Coast National Polytechnic Management redeployed key personnel to various key roles in the management of the project as detailed below:
<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Current Position in the Polytechnic</th>
<th>Project Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Elphas Muge</td>
<td>Business and Media Studies</td>
<td>Monitoring and Evaluation Officer</td>
</tr>
<tr>
<td>6</td>
<td>Clerkson Bolo</td>
<td>Financial Controller</td>
<td>Finance Officer</td>
</tr>
</tbody>
</table>

However, the appointment letters did not clearly indicate how the man hours would be shared between the Institution and the Project. According to the Polytechnic’s staff establishment structure, the Institution is grossly understaffed thus casting doubt on the ability of the staff to deliver on additional roles. The staff capacity might therefore, affect the effectiveness of implementing the project to achieve the set objectives.

REPORT ON EFFECTIVENESS INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

368. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

369. Grants and Transfers to Other Government Entities

The statement of receipts and payments for the year ended 30 June, 2020 reflects an expenditure of Kshs.91,852,932,337 under transfers to other government units which, as disclosed in Note 7 to the financial statements, includes an amount of Kshs.5,790,399,475 in respect of capital grants to government agencies and other levels of government. However, a review of the records maintained by the State Department revealed the following unsatisfactory matters:

369.1 Capital Grants to Universities

As per the circular Ref: MST/FIN/11/4/Vol.XIX/66 dated 6 September, 2016 by the Principal Secretary, State Department for University Education, development budgets to all universities was dependent on specific project completion certificates submitted to the Ministry for consideration and concurrence. However, examination of payment vouchers for the financial year 2019/2020 revealed that an amount of Kshs.5,580,848,844 was disbursed to Universities for various projects. No contract documents, valuation certificates or projects status reports were availed by the State Department in support of the disbursements. In addition, Multimedia University received an amount of Kshs.619,514 above the approved budget.

It was therefore, not possible to confirm the validity and propriety of capital disbursements totaling Kshs.5,580,848,844 for the year ended 30 June, 2020.

369.2 Capital Grants with no Specific Projects

A review of the development appropriation account for the financial year 2019/2020 revealed that Kshs.834,817,364 was disbursed to various Universities as analysed below:

<table>
<thead>
<tr>
<th>University</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Koitalel Samoei University College</td>
<td>79,982,744</td>
</tr>
<tr>
<td>Gatundu University College</td>
<td>82,693,639</td>
</tr>
<tr>
<td>Bomet University College</td>
<td>275,000,000</td>
</tr>
<tr>
<td>Tom Mboya University College</td>
<td>105,870,989</td>
</tr>
<tr>
<td>Alupe University College</td>
<td>150,215,378</td>
</tr>
<tr>
<td>Kaimosi University College</td>
<td>141,054,614</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>834,817,364</strong></td>
</tr>
</tbody>
</table>

130
However, the disbursements were not linked to specific projects yet a review of the monitoring and evaluation report for the year ended December, 2019 indicated ongoing projects in the respective institutions. In the circumstances, the funds disbursed may be prone to misuse.

Consequently, it has not been possible to ascertain the propriety of the disbursements totalling Kshs.834,817,364 for the year ended 30 June, 2020.

369.3 Current Grants to Government Agencies and Other Levels of Government

The transfers to other government units balance of Kshs.91,852,932,337 also includes an amount of Kshs.83,562,532,863 in respect of current grants to Government agencies and other levels of Government. However, a review of the monthly capitation for the year in comparison to the prior year indicated that eleven (11) out of forty-one (41) Universities had their capitations amount increased by 20% and above while the capitation for Koitalel Samoei University College was reduced by 17% as analysed below:

<table>
<thead>
<tr>
<th>Institution</th>
<th>2019/2020 Capitation (Kshs.)</th>
<th>2018/2019 Capitation (Kshs.)</th>
<th>Variance (Kshs.)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Koitalel Samoei – UON</td>
<td>7,916,667</td>
<td>9,512,366</td>
<td>(1,595,699)</td>
<td>-17</td>
</tr>
<tr>
<td>Embu University</td>
<td>48,348,805</td>
<td>39,244,522</td>
<td>9,104,283</td>
<td>23</td>
</tr>
<tr>
<td>Egerton University</td>
<td>173,379,125</td>
<td>124,154,055</td>
<td>49,225,070</td>
<td>40</td>
</tr>
<tr>
<td>Cooperative University College</td>
<td>19,934,509</td>
<td>16,627,931</td>
<td>3,306,578</td>
<td>20</td>
</tr>
<tr>
<td>Tom Mboya University College</td>
<td>31,832,509</td>
<td>14,204,506</td>
<td>17,628,003</td>
<td>124</td>
</tr>
<tr>
<td>Bomet University College</td>
<td>25,586,129</td>
<td>6,341,577</td>
<td>19,244,552</td>
<td>303</td>
</tr>
<tr>
<td>Kaimosi University College</td>
<td>36,945,599</td>
<td>13,016,316</td>
<td>23,929,283</td>
<td>184</td>
</tr>
<tr>
<td>Turkana University College</td>
<td>15,285,505</td>
<td>9,512,366</td>
<td>5,773,139</td>
<td>61</td>
</tr>
<tr>
<td>South Eastern Kenya University</td>
<td>75,697,821</td>
<td>58,615,825</td>
<td>17,081,996</td>
<td>29</td>
</tr>
<tr>
<td>Dedan Kimathi University</td>
<td>72,982,944</td>
<td>54,263,876</td>
<td>18,719,068</td>
<td>34</td>
</tr>
<tr>
<td>Multi Media University</td>
<td>48,014,677</td>
<td>32,098,637</td>
<td>15,916,040</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>555,924,290.00</strong></td>
<td><strong>377,591,977</strong></td>
<td><strong>178,332,313</strong></td>
<td></td>
</tr>
</tbody>
</table>

The basis of the significant increase of capitation to the respective institutions and the reduction of capitation to Koitalel Samoei University College was not explained.

Other Matter

370. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects a final receipts budget and actual on comparable basis of Kshs.123,555,085,531 and Kshs.103,141,485,134 respectively resulting to an under-funding of Kshs.20,413,600,397 or 17% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.123,555,085,531 and Kshs.103,140,085,948 respectively
resulting to an under-expenditure of Kshs.20,414,999,583 or 17% of the budget which occurred mainly under transfers to other government units. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

371. Delay of Exchequer Release

Review of records maintained by the State Department in relation to Exchequer releases revealed that the State Department received Kshs.15,456,203,902 Exchequer releases from The National Treasury in the month of June, 2020, as detailed below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Received (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>02 June, 2020</td>
<td>3,532,108,755</td>
</tr>
<tr>
<td>05 June, 2020</td>
<td>26,115,666</td>
</tr>
<tr>
<td>24 June, 2020</td>
<td>1,847,136,000</td>
</tr>
<tr>
<td>25 June, 2020</td>
<td>3,450,843,481</td>
</tr>
<tr>
<td>30 June, 2020</td>
<td>3,300,000,000</td>
</tr>
<tr>
<td>30 June, 2020</td>
<td>3,300,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,456,203,902</strong></td>
</tr>
</tbody>
</table>

The above delay in release of Exchequer may have negatively affected timely implementation of the programmes of the State Department and provision of services to the public.

372. Pending Bills

Annex 1 to the financial statements indicates that the State Department had pending bills of Kshs.1,390,300 which were not paid during the year under review but were instead carried forward to the 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year’s provisions, since the bills form the first charge to that year’s budget provisions.

373. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION, SCIENCE AND TECHNOLOGY PROJECT (ID NO. P-KE-IAD-001 - LOAN AGREEMENT NO.2100150027993)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

376. Defects and Delays in Plant and Equipment Supplies to Universities

As disclosed in Note 8.6 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.26,912,063 under acquisition of non-financial assets which relates to purchase of specialized plant, equipment and machinery.

As previously reported, the Project entered into supply contracts with various vendors for supply of specialized science and engineering equipment to selected public universities. Under the terms of the contracts, the vendors were to receive advance payments of 20% of their respective contract values upon submission of bank guarantees of equivalent amounts. A further 60% of the contract sum was to be paid after the equipment was shipped and relevant documents submitted to Management. The remaining 20% was to be paid upon receipt and acceptance of the items supplied.

As at 30 June, 2020, the project’s cumulative expenditure on procurement of specialized plant, equipment and machinery totalled Kshs.2,751,344,354 from 2013/2014 financial
year. However, records availed for audit revealed that the Project was expected to end by 31 December, 2020 and that equipment worth Kshs.119,572,617 was rejected by the respective Inspection and Acceptance Committees.

The Management explained that as a result of the delays by the suppliers in addressing the anomalies noted by the Inspection and Acceptance Committees, the Project Management through the State Department for University Education terminated the contracts and recalled the performance securities of eight (8) contracts from which Kshs.138,568,038 was recovered. This enabled the State Department to recover all the amounts that had been paid to suppliers as advance payments.

In view of the defective and unfulfilled supplies, it is not possible to confirm the accuracy of the cumulative expenditure of Kshs.2,751,344,354 reported under purchase of specialized plant, equipment and machinery as at 30 June, 2020. In addition, the Project may not be completed by the expected end date of 31 December, 2020 delaying service delivery to the citizens.

Other Matter

377. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects similar figures for final budgeted and actual receipts and expenditure on comparable basis of Kshs.370,256,964 and Kshs.293,604,656 respectively resulting to under collection and under-expenditure of Kshs.76,652,308 or 21% of the budget for the year. The Project activities may not have been implemented as planned delaying service delivery to the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

379. There were no material issues relating to effectiveness of internal controls, risk management and governance.
ESTABLISHMENT OF KENYA ADVANCED INSTITUTE OF SCIENCE AND TECHNOLOGY (KAIST) PROJECT NO. KEN-4

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EASTERN AND SOUTHERN AFRICA HIGHER EDUCATION CENTERS OF EXCELLENCE (ACE II) PROJECT (CREDIT NO. 5798-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

384. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects budgeted receipts of Kshs.352,329,600 and actual receipts on comparable basis of Kshs.187,058,131 only, resulting to a shortfall of Kshs.165,271,469 or 47% of the budgeted receipts. Similarly, Management had budgeted to spend Kshs.352,329,600 but only Kshs.187,058,131 or 53% was actually expended. Management has attributed the low realization of receipts
and low absorption to the effects on the COVID 19 pandemic which culminated to the 
closure of universities as the focal implementing agencies.

The under-utilization of funds implies that the Project may not be achieving its planned 
goals and objectives.

385. Loss of Project Vehicle

As previously reported, disclosed under Note 8.6 to the financial statements, the 
statement of receipts and payment reflects a comparative balance of Kshs.24,285,013 in 
respect of acquisition of non-financial assets, out of which Kshs.22,180,900 relates to 
purchase of vehicles and other transport equipment. Available information indicated that 
the Management acquired a vehicle at a cost of Kshs.8,355,900 in May, 2019. However, 
Management explained that the vehicle was stolen, within days after purchase, in a 
carjacking incident and this was reported to the police. By the time of concluding the audit 
exercise the matter was still under police investigation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC 
RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT 
AND GOVERNANCE

Conclusion

387. There were no material issues relating to effectiveness of internal controls, risk 
management and governance.
OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR UNIVERSITY EDUCATION

AFRICA CENTER OF EXCELLENCE IN SUSTAINABLE USE OF INSECTS AS FOOD AND FEEDS PROJECT (IDA CREDIT NO. 5798-KE) – JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

389. Budgetary Performance Analysis

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.204,903,522 and Kshs.155,801,699 respectively resulting to an under-funding of Kshs.49,101,823 or 24% of the budget. Similarly, the Project spent Kshs.64,791,242 against an approved budget of Kshs.204,903,522 resulting to an under-expenditure of Kshs.140,112,280 or 68% of the budget. The underfunding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

391. There were no material issues relating to effectiveness of internal controls, risk management and governance.
Basis for Qualified Opinion

392. Inconsistencies in Notes to the Financial Statements

The following inconsistencies have been observed between the numbering of notes under account items in various financial statements and the disclosures under the notes to the financial statements:

<table>
<thead>
<tr>
<th>Account Item</th>
<th>Number/Note as Per Financial Statements</th>
<th>Number/Note as Per Disclosure in the Notes to the Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of Goods &amp; Services</td>
<td>9.8</td>
<td>9.7</td>
</tr>
<tr>
<td>Acquisition of Non-financial Assets</td>
<td>9.10</td>
<td>9.8</td>
</tr>
<tr>
<td>Transfer to Other Government Entities</td>
<td>9.11</td>
<td>9.9</td>
</tr>
<tr>
<td>Bank Balances</td>
<td>9.13A</td>
<td>9.10</td>
</tr>
<tr>
<td>Cash Balances</td>
<td>9.13B</td>
<td>-</td>
</tr>
<tr>
<td>Account Receivable - Imprests &amp; Advances</td>
<td>9.14</td>
<td>9.11</td>
</tr>
</tbody>
</table>

This is contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB) and in accordance with Section 194(1) (d) of the Public Finance Management Act, 2012.

393. Unsupported Purchase of Goods and Services

The statement of receipts and payments reflects purchase of goods and service of Kshs.53,136,693 as disclosed under Note 9.7 to the financial statements. The balance includes imprests of Kshs.22,236,807 issued to various officers on official duties. The imprests were expensed on the dates of payments before they were accounted for. Further, Management did not avail supporting documents and analysis for audit review.

Under the circumstances, the accuracy, completeness and validity of the purchase of goods and services of Kshs.53,136,693 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

394. Unsupported Acquisition of Non - Financial Assets

As disclosed under Note 9.8 to the financial statements, the statement of receipts and payments reflects acquisition of non-financial assets of Kshs.12,419,982. The balance
includes an amount of Kshs.8,208,000, under strengthen research capacity excellence-quality and productivity, incurred on the procurement of a plasma enhanced chemical vapor deposition. However, the expenditure had not been budgeted for and was not included in the procurement plan for the year under review.

Management explained that the procurement relates to 2017/2018 financial year and the notification and a Local Purchase Order were issued to the supplier. However, the date of the contract, commencement and completion dates were not indicated in the contract document.

Available information indicates that notification of award was issued on 11 December, 2018 and the contract was signed on 31 January, 2019. The date of signing the contract by the supplier was not indicated. The goods were delivered on 19 August, 2019, and a 'goods received note' was raised on 2 December, 2019, over three (3) months after delivery. In addition, inspection and acceptance certificate was not dated.

Consequently, the accuracy and validity of acquisition of non-financial assets of Kshs.9,476,886 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

395. Unsupported Accounts Receivables

The statement of financial assets reflects accounts receivables - imprests and advances balance of Kshs.5,309,330. However, imprests records made available for audit verification lacked details of the imprests issued such as warrant number, date of issue, date of surrender, surrender payment voucher number and receipt number for cash surrendered.

Under the circumstances, the accuracy, completeness and validity of accounts receivables - imprest and advances balance of Kshs.5,309,330 reflected in the statement of financial assets as at 30 June, 2020 could not be confirmed.

396. Inaccuracy of Statement of Comparative Budget and Actual Amounts

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects total final receipts budget of Kshs.189,628,684 which varies with the approved final receipts budget of Kshs.318,382,168, resulting in an unexplained variance of Kshs.128,753,484. The statement also reflects total final payments budget of Kshs.255,688,515 which varies with the approved total expenditure final payments budget of Kshs.318,382,168, resulting in unexplained difference of Kshs.62,693,653. Further, the budget utilization of 26% could not be confirmed.

Under the circumstances, the accuracy, completeness and validity of the statement of comparative budget and actual amounts for the year ended 30 June, 2020 could not be confirmed.
397. **Unsupported Summary of Fixed Assets Register**

As disclosed in Annex 2A to the financial statements the Summary of Fixed assets register reflects a balance of under office equipment, furniture and fittings of Kshs.42,751,271 which includes an opening balance of Kshs.30,331,289 which varies with the preceding financial year’s audited balance of Kshs.30,221,289. The resulting variance of Kshs.110,000 has not been explained or reconciled.

Although, the Management provided a list of assets, an assets register was not made available for audit verification.

Consequently, the accuracy, completeness and existence of fixed assets with a disclosed total value of Kshs.50,151,271 as at 30 June, 2020 could not be ascertained.

**Other Matter**

398. **Prior Year Matters**

Several paragraphs were raised in the audit report of the previous year. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury’s Circular.

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

**Conclusion**

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

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

**Conclusion**

400. There were no material issues relating to effectiveness of internal controls, risk management and governance.
Basis for Qualified Opinion

401. Undisclosed Bank Accounts

As disclosed in Note 12A to the financial statements, the statement of assets and liabilities reflects bank balances amounting to Kshs.1,527,776,487 as at 30 June, 2020. However, the State Department maintained fifteen (15) holding or suspense accounts with various commercial banks for disbursement of subsidies, grants and transfers to other government entities and in which unspent and unreconciled balances amounting to Kshs.130,604,529 were held as at 30 June, 2020. The balances were not included in the reported bank balances of Kshs.1,527,776,487. In addition, Management was in breach of Regulation 107(2)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which provides for the clearing of suspense accounts to relevant cost centers on a monthly basis as well as conducting monthly reconciliations to confirm the balance of each account.

In view of the foregoing, the accuracy and completeness of the bank balances of Kshs.1,527,776,487 as at 30 June, 2020 could not be ascertained.

402. Accounts Receivables and Suspense Account

The statement of assets and liabilities reflects a balance of Kshs.70,099,009 in respect of accounts receivables which, as disclosed in Note 13 to the financial statements, includes district suspense of Kshs.68,962,383 which was not adequately supported with the relevant supporting documents or schedules. In addition, Management had not carried out any investigations on the cause of the suspense account.

In the circumstances, the correctness and accuracy of accounts receivables balance of Kshs.70,099,009 as at 30 June, 2020 could not be confirmed.

403. Payment of Rent without Valid Lease Agreements

The statement of receipts and payments reflects an expenditure of Kshs.4,572,964,454 under use of goods and services which, as disclosed in Note 6 to the financial statements, includes payments totalling to Kshs.150,490,607 in respect of rentals of produced assets. The latter balance includes an amount of Kshs.86,109,234 being rental charges for office space for various State Department’s offices in the counties. However, valid lease agreements and approvals for the procurement of the offices were not provided for audit verification.
In the circumstances, the accuracy and validity of the payments amounting to Kshs.86,109,234 included in the reported expenditure of Kshs.150,490,609 for rentals of produced assets could not be confirmed.

404. Subsidies

The statement of assets and liabilities reflects subsidies totalling Kshs.58,778,993,798 for the year ended 30 June, 2020. The following observations were made with regard to the expenditure:

404.1 Subsidy Overpayments

The subsidies balance includes an amount of Kshs.1,815,126,548 being overpayment of subsidies to two thousand six hundred and ten (2610) public secondary schools in different counties. The overpayment arose from erroneous computations of July and September, 2019 disbursements, inflation of enrolment numbers in January, 2020 and double payments to some schools.

404.2 Disbursements to Schools whose Existence is Doubtful

Included in the subsidies balance is an expenditure of Kshs.26,835,700 disbursed to five (5) schools whose existence was in doubt since registration certificates, Teachers Service Commission (TSC) appointment letters and posting of the Principals, Boards of Management minutes approving opening of bank accounts and other documents required under the State Department for Early Learning and Basic Education annual guidelines on disbursement of Free Day Secondary Education Funds (FDSE) were not provided.

In the circumstances, it is not possible to confirm the accuracy and validity of the reported subsidies of Kshs.58,778,993,798 for the year ended 30 June, 2020.

404.3 Unsupported Transfers to Moiben Teachers Training College

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.20,387,731,550 in respect of transfers to other government units which include an amount of Kshs.25,000,000 disbursed to Moiben Teachers Training College. Construction of the institution commenced in the financial year 2014/2015 under the mentorship of Tambach Teachers Training for the training of diploma science teachers.

Although the bills of quantities indicated that the contract sum for the construction was Kshs.121,050,383, the State Department had disbursed Kshs.261,500,000 to the institution as at the time of audit and no explanation was provided for the excess disbursements. Further, the progress status for the construction could not be confirmed as complete architectural drawings and the signed contract(s) were not provided for audit scrutiny.
Consequently, it was not possible to confirm the validity of the Kshs.25,000,000 included in the total reported transfer to other government units and the value for money on the cumulative transfers of Kshs.261,500,000 to Moiben Teachers Training College.

Other Matter

405. Pending Bills

Note 20.1 and Note 20.2 to the financial statements indicates that the State Department had pending bills totalling Kshs.91,853,036 as at 30 June, 2020. Management has not explained why the bills were not settled during the year when they occurred. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

406. Delay of Exchequer Releases

Exchequer issues totalling Kshs.540,406,486 were received in the bank account of the State Department during the month of June, 2020 as detailed below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Received (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 June, 2020</td>
<td>213,100,663</td>
</tr>
<tr>
<td>25 June, 2020</td>
<td>314,640,943</td>
</tr>
<tr>
<td>30 June, 2020</td>
<td>12,664,880</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>540,406,486</strong></td>
</tr>
</tbody>
</table>

The delay in Exchequer release may have resulted in low absorption of the budget thus negatively affecting timely implementation of the programmes of the State Department and provision of services to the public.

407. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the status of the unresolved issues and the timeframe within which Management expected to resolve the issues was not indicated under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

408. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

KENYA PRIMARY EDUCATION DEVELOPMENT PROJECT (GRANT NO. TFO18863)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

410. Unexplained Variances in Transfers to Other Government Entities

The statement of receipts and payments reflects transfers to other government entities totaling Kshs.130,955,840. Included in the balance are expenditures incurred by County Directors of Education totalling Kshs.24,672,162. However, aggregate balances derived from records maintained by the respective County Governments and submitted to the State Department for Early Learning and Basic Education amount to Kshs.63,543,005 which differs from the sum of Kshs.95,453,747 derived from the expenditure schedules availed for audit. The difference, amounting to Kshs.31,910,742, between the two sets of records has not been explained.

Consequently, the accuracy and completeness of transfers to other government entities totalling Kshs.130,955,840 reflected in the statement of receipts and payments for the year ended 30 June, 2020 has not been confirmed.

Emphasis of Matter

411. Unreconciled Special Account Statement

The statement of receipts and payments for the year ended 30 June, 2020 reflects proceeds from domestic and foreign grants totalling Kshs.576,810,278 as further disclosed under Note 11.4 to the financial statements. However, the identical account balance reflected in the special accounts statement as at 30 June, 2020 amounted to Kshs.540,216,072 resulting to a variance of Kshs.36,594,206 which, however, had not been reconciled at the time of audit.

My Opinion is not qualified in respect to this matter.
Other Matter

412. Budgetary Control and Performance

The Project’s final budget for the year under review totalled Kshs.562,417,338 and actual expenditure totalled Kshs.325,686,592 resulting to an under-expenditure of Kshs.236,730,746 equivalent to 58% of the budget.

The high under-absorption of the approved budget meant that many of the Project’s activities planned for the year were not implemented. As a result, attainment of the Project’s goals and objectives was hampered.

No plausible explanation has been provided by Management for the underperformance.

413. Unresolved Prior Year Matters

The audit report for the year ended 30 June, 2019 highlighted unreconciled differences totalling Kshs.5,259,898 between balances reflected in the financial statements and those reflected in the Integrated Financial Management Information System (IFMIS). Contrary to the reporting requirements set by the Public Sector Accounting Standard Board (PSASB). Management has not reported on the progress made in resolving the differences.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

415. There were no material issues relating to effectiveness of internal controls, risk management and governance.
GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

416. Inaccuracies in Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents balance of Kshs.1,078,280. However, the bank reconciliation statement as at 30 June, 2020 reflected payments in bank statements not recorded in cash book amounting to Kshs.503,350 in respect of outward payment and whose nature has not been disclosed.

In view of the above, the completeness and accuracy of the cash and cash equivalents of Kshs.1,078,280 reflected in the statement of financial assets as at 30 June, 2020 could not be confirmed.

Other Matter

417. Prior Year Matters

Several issues were raised in the audit report of the previous year. However, Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury’s Circulars.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

419. Lack of Key Programme Information

As previously reported, the management did not avail for audit review the design report, implementation manual, GOK/UNICEF policies, annual work plan and activities report. In the forgoing, it has not been possible to ascertain if the Programme met the expectations of the citizens as outlined in the GOK/UNICEF Country Programme Action Plan, 2014-2016.
SECONDARY EDUCATION QUALITY IMPROVEMENT PROJECT
(CREDIT NO.6138 – KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

421. Unreconciled Special Account Statement
The special account statement for the year ended June, 2020 reflects proceeds from external development partners totaling Kshs.350,207,487. However, the statement of receipts and payments for the year reflects proceeds from loans from external development partners totaling Kshs.345,520,825 resulting to variance of Kshs.4,686,662 between the two set of records. No reconciliation has been provided for the variance.

My opinion is not modified in respect to this matter.

Other Matter

422. Over Expenditure and Insufficient Budgetary Disclosures
The Project’s total budget for the year under review was Kshs.611,669,353 against which expenditure totaling Kshs.1,432,603,439 was incurred resulting to over-expenditure of Kshs.820,934,086 or 234% of the budget. Management has not disclosed the source of the additional funds or the reason for the over-expenditure, and whether it was authorized.

In addition, the expenditure budget disclosed only one item, namely purchase of goods and services, at Kshs.611,669,353 even though the funds were spent on various items.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

423. Delayed Completion of Contracted Architectural Designs - Kshs.43,515,500
The statement of receipts and payments reflects purchase of goods and services payments totaling Kshs.158,193,485 which include Kshs.109,176,796 incurred by the Project on payments for consultancy services. Out of the payments for consultancy services, is a contract valued at Kshs.43,515,500 awarded to an engineering firm for design and supervision of construction of education facilities in various schools in the
Project’s area of activities designated as Region 2. The contract commenced on 18 October, 2018 and was due to end after 15(fifteen) months on 18 January, 2020. However, audit inspection in November, 2020 indicated that the consultant had not submitted the designs, more than eight (8) months after the contract period ended. Payments made to the contractor at the time totaled Kshs.24,866,000 equivalent to 57% of the value of the contract. No plausible explanation was provided by Management for the delay. Further, there was no evidence to confirm whether approval for extension of the contract period was granted.

In view of the delay, there is no certainty that the designs will be completed and the education facilities built as planned. Further, there is risk that value for money may not be obtained on public resources invested in the contract.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

424. Outstanding Imprests

Examination of imprest records revealed that contrary to Regulation 4(b) of the Public Finance Management (National Government) Regulations, 2015 which prohibit issue of new imprests to officers with outstanding imprests, several officers held multiple imprests totalling Kshs.1,169,618 during the year under review. Further, the records indicated imprests totaling Kshs.220,858 were past their due dates of surrender as at 30 June, 2019.

No plausible explanation was provided by Management for these anomalies.
STATE DEPARTMENT FOR POST TRAINING AND SKILLS DEVELOPMENT – VOTE 1068

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

425. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

426. Pending Bills

Note 13 to the financial statements reflects pending bills balance of Kshs.449,405 as at 30 June, 2020. Management has not explained why the bills were not settled during the year when they occurred and the Department is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

428. There were no material issues relating to effectiveness of internal controls, risk management and governance.
MINISTRY OF HEALTH – VOTE 1081

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

429. Un-Surrendered and Unsupported Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June, 2020 reflects a cash and cash equivalents balance of Kshs.117,494,653. This, as previously reported, excludes deposits totalling to Kshs.10,956,114,687 that were held in the former Ministries of Medical Services and Ministry of Public Health and Sanitation which merged in May, 2013 to form Ministry of Health that were never transferred to the new deposit account. This was contrary to Treasury Circular No.AG/CONF.17/01/65 of September, 2013 which required deposits in former Ministries to be analyzed and transferred to new accounts. Further, the bank accounts of the former Ministries were closed on 16 October, 2014 with the Ministry seeking approval from The National Treasury to write off the balance through letter Ref: No/ACC/AUDIT/12/VOL.II(18) dated 6 March, 2019.

In addition, review of bank reconciliation statements revealed that reconciling items relating to the recurrent and deposit bank accounts totalling Kshs.9,125,242,123 and Kshs.10,668,033 respectively were cleared from the reconciliation. However, the respective clearance dates were not indicated.

Consequently, the validity and accuracy of the reported cash and cash equivalents balance of Kshs.117,494,653 as at 30 June, 2020 could not be ascertained.

430. Unexplained Variance in Proceeds from Sale of Assets

The statement of receipts and payments reflects proceeds from sale of assets amounting to Kshs.8,252,948,617 for the year ended 30 June, 2020 while the supporting schedule reflects Kshs.8,252,981,034 resulting into an unexplained or unreconciled variance of Kshs.32,417.

Consequently, the accuracy and completeness of the proceeds from sale of assets amount of Kshs.8,252,948,617 for the year ended 30 June, 2020 could not be confirmed.

431. Accounts Receivables

431.1 Outstanding Imprest and Advances

The statement of assets and liabilities and as disclosed under Note 13 to the financial statements reflects an amount of Kshs.18,446,372 in respect of accounts receivables – outstanding imprest. This included imprests of Kshs.10,425,598 that ought to have been accounted for on or before 30 June, 2020 but were still outstanding as at 31 October, 2020. This is contrary to Regulation 93(5) of the Public Finance Management
Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Regulation 93 (6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

431.2 Unsupported Imprest

The statement of assets and liabilities and as disclosed under Note 13 to the financial statements reflects an amount of Kshs.18,446,372 in respect of accounts receivables – outstanding imprest. The outstanding imprest balance included Kshs.748,566 disclosed as other imprests. Supporting documents in respect of this amount were not provided for audit verification. This is Contrary to Regulation 104(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that all receipts and payment vouchers of public moneys shall be properly supported by the appropriate authority and documentation.

In the circumstances, the accuracy, validity and recoverability of the outstanding imprest amount of Kshs.18,446,372 is in doubt.

432. Compensation of Employees

432.1 Unexplained Variance in Compensation of Employees

The statement of receipts and payments reflects compensation of employees’ payments of Kshs.8,149,395,770 and as disclosed under Note 6 to the financial statements. This amount includes basic salaries of permanent employees and personal allowances paid as part of salary of Kshs.1,058,840,293 and Kshs.2,491,375,847 respectively. However, the supporting schedules reflect Kshs.1,010,562,686 and Kshs.2,416,930,272 resulting in unexplained variances of Kshs.48,277,607 and Kshs.74,445,575 respectively.

432.2 Unauthorized Over Establishment

During the financial year 2019/20, the Ministry employed 1009 staff in 28 departments/sections against an approved staff establishment of 361 vacancies resulting to over employment of 648 staff. No explanation has been provided for the over establishment.

432.3 Irregular Salary Payment

The statement of receipts and payments reflects compensation of employees’ payments of Kshs.8,149,395,770 and as disclosed under Note 6 to the financial statements. Analysis of the staff payroll also revealed that twenty-six (26) employees had a net salary amounting to negative Kshs.1,037,421. They however, received a total of Kshs.1,627,818 in their bank accounts resulting to overpayment of Kshs.2,665,239.
Consequently, the accuracy and validity of the compensation of employees’ balance of Kshs.8,149,395,770 could not be confirmed.

433. Unsupported Expenditure on Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers of Kshs.3,159,808,772 and as disclosed under Note 9 to the financial statements. The amount includes expenditure on emergency relief and refugee assistance amounting to Kshs.3,154,296,199 of which payment vouchers for amounts totalling to Kshs.28,105,636 were not provided for audit verification.

Consequently, the accuracy, completeness and validity of emergency relief and refugee assistance expenditure amount of Kshs.3,154,296,199 could not be confirmed.

434. Unsupported Expenditure on Rentals of Produced Assets

The statement of receipts and payments and as disclosed under Note 7 to the financial statements reflects an amount of Kshs.8,597,415,768 in respect of use of goods and services. This includes expenditure of Kshs.6,021,637,158 relating to rentals of produced assets. The amount includes quarterly payments for hire of transport amount of Kshs.3,017,711 and variations for leased managed equipment services amount of Kshs.1,126,359,946 whose payment vouchers were not availed for audit review.

Consequently, the accuracy, completeness and validity of rentals of produced assets amount of Kshs.6,021,637,158 included under use of goods and services could not be confirmed.

435. Unexplained Variance in Transfer to Other Government Units

The statements of receipts and payments reflects transfers to other government entities of Kshs.85,544,463,723. However, the supporting documents provided for audit reflected transfers of Kshs.85,545,063,722 resulting into an unexplained variance of Kshs.599,999. Further, the transfer to other government entities amount of Kshs.85,544,463,732 included an amount of Kshs.53,021,332,693 to beneficiaries against which Management was only able to provide confirmations from the beneficiaries of Kshs.38,004,592,237 resulting to an unexplained variance of Kshs.15,016,740,456.

Confirmation of receipts by various beneficiary institutions in respect of transfers amount of Kshs.12,351,070,164 were not availed for audit verification.

Consequently, the accuracy, completeness and validity of transfers to other government units of Kshs.15,016,740,456 could not be confirmed.
436. Acquisition of Assets

436.1 Unsupported and Excess Expenditure on Construction of Buildings

The statement of receipts and payments and as disclosed under Note 11 to the financial statements reflects an amount of Kshs.1,265,744,065 in respect of acquisition of assets. This includes expenditure on construction of buildings amount of Kshs.151,588,886 out of which an amount of Kshs.1,882,794 paid to a contractor was not supported with contract documents and payment vouchers. Further, journal vouchers in support of adjustment made on 30 June, 2020 amounting to Kshs.82,716,029 were not availed for audit verification.

In addition, the construction of buildings balance of Kshs.151,588,886 includes Kshs.26,610,826 relating to purchase of one hundred and ninety-eight (198) desktop computers, fifty (50) laptops and thirteen (13) black and white printers. However, according to the prevailing market price index at the time, the amount payable was Kshs.19,070,650 resulting into an over payment of Kshs.7,540,176.

In the circumstances, the accuracy, completeness and validity of the amount of Kshs.84,598,825 in respect of acquisition of assets could not be confirmed.

436.2 Research, Studies, Project Preparation, Design and Supervision

The statement of receipts and payments as disclosed under Note 11 to the financial statements reflects expenditure on acquisition of assets amount of Kshs.1,265,744,065. This includes expenditure on research studies, project preparation, design and supervision amount of Kshs.323,169,684. Management did not provide payment vouchers and supporting documents for expenditure of Kshs.80,007,220 for audit verification.

Consequently, the accuracy, completeness and validity of acquisition of assets expenditure of Kshs.80,007,220 for the year ended 30 June, 2020 could not be confirmed.

Other Matter

437. Budgetary Control and Performance

As reflected in the summary statement of appropriation: recurrent and development combined, the Ministry’s actual receipts amounted to Kshs.106,831,908,804 against budgeted receipts of Kshs.125,644,729,264 resulting into a shortfall of Kshs.18,812,820,460 or 15%. The Ministry’s actual expenditure was limited to the receipts realized.

The under-funding affected the planned activities and may have impacted negatively on service delivery to the public.
438. Unresolved Prior Year Audit Matters

In the previous year’s audit report, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness on Internal Controls, Risk Management and Governance. The issues remained unresolved as at 30 June, 2020 and have been included in Note 21 to the financial statements on Progress on Follow Up of Prior Years’ Auditor’s Recommendations.

439. Pending Bills

439.1 Non-Payment of Bills

As disclosed under Note 20 to the financial statements, pending bills totalling to Kshs.41,657,572,631 were not settled during the year but were instead carried forward to financial year 2020/2021. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

439.2 Unsupported Pending Bills

Included in the pending bills balance of Kshs.41,657,572,631 as at 30 June, 2020, is an amount of Kshs.80,419,835 in respect of fifteen (15) companies whose copies of original documents including certificate of incorporation, tax compliance, pin certificate and confidential business questionnaire were not availed for audit verification. Further, the invoices and delivery notes for the companies provided for audit were computer generated with the same numbers and the local purchase orders raised were not signed.

439.3 Pending Legal Bills and Court Awards

Analysis of the pending bills as at 30 June, 2020 revealed that out of the total pending bills of Kshs.41,657,572,631, an amount of Kshs.40,715,355,848 or 98% of the total bills related to court awards and legal fees. Further, out of the total court awards and legal fees of Kshs.40,715,355,848, a balance of Kshs.33,089,728,834 or 81% of the total court awards and legal fees was in respect to claims by two (2) suppliers.

439.4 Awards Relating to Goods Supplied in 1996

On 31 July, 2000 a supplier sued the Ministry for failure to pay for goods supplied in 1996 and for loss of profit on cancellation of contract. The cancelled contract which the supplier used to sue for claim of loss of profit was however, not availed for audit verification.

Information availed indicated that the goods supplied amounted to Kshs.57,356,951 while the claim for loss amounted to Kshs.20,410,831 totalling to Kshs.77,766,832. On 9 October, 2015, the Court awarded the supplier Kshs.1,862,302,792 for pending amount, outstanding accounts and for lost profits. This comprised of the principal amount of Kshs.77,766,832, legal fees of Kshs.26,602,660 and compounded interest of 2% per month from 31 May, 2000 running to the date of judgement.
This amount had, however, accumulated to Kshs.3,139,492,149 by 2017. Subsequently, the Ministry entered into negotiations with the supplier and the amount was revised downwards to Kshs.1,751,416,684, but continued to attract compounded interest at the rate of 2% per month. On 30 June, 2020, the Ministry paid the supplier Kshs.751,416,684 through the Attorney General, leaving a balance of Kshs.1 billion which continued to attract compounded interest at 2% per month.

It is not clear why the Ministry did not appeal the ruling considering the effect the award was to have on the Ministry’s budget and the precedent created which is likely to result in similar action by other suppliers. This view was also shared by the Solicitor General in his letter Ref:MOH/ADM/LEG/EQUIP/55/2017/35 dated 30 October, 2019 addressed to the Principal Secretary, in which he expressed reservations on why the Ministry did not appeal or have a stay order, negotiate ex parte and seek orders stopping the interest from accruing further.

439.5 Court Awards Relating to Supply of Insecticides and Other Hospital Supplies

The Ministry entered into a contract for supply of insecticides, malaria control equipment, drugs and protective clothing at a contract price of Kshs.1,157,846,150. The contract was to be implemented from 14 July, 1996 to 30 June, 1997. However, the Ministry failed to pay the supplier whereupon the supplier sued for breach of contract. Available information indicates that the court awarded the supplier Kshs.1,862,302,792 plus compounded interest at 18% per annum from 1 March, 1999 to 31 January, 2020 amounting to Kshs.80,522,564,880. However, upon negotiations out of court, the award was revised to Kshs.15,250,000,000 resulting to an escalation of Kshs.13,387,697,208 from the initial award of Kshs.1,862,302,792.

439.6 Accumulated Interest Due to Delayed Payments

The Ministry entered into various contracts with a supplier for supply of hemoglobin scale books and throat swabs, insulin, surgical dressing and sutures, darrow’s solution and disposable needles at a cost of Euros.1,776,907.70 equivalent to Kshs.196,881,373 during the financial years 1992/1993. The agreement provided that payment was to be made strictly within 30 days from the date of the invoice or delivery of the goods and any delay in payment would attract interest at 1.5% or 2% per month on outstanding amount. As at 30 June, 2020, the claim by the supplier stood at Kshs.17,839,728,834 which translates to an increase of Kshs.17,642,847,461 from the initial amount of Kshs.196,881,373.

In the circumstances, the completeness, validity and value for money on the reported pending bills balance of Kshs.41,659,573,232 as at 30 June, 2020 could not be confirmed.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

440. Staff Payroll and Human Resource

A review of staff payrolls for the financial year 2019/2020 revealed that, identity card numbers of ten (10) employees and KRA tax PINs of seventeen (17) employees were omitted in the payrolls. Further, two (2) employees shared the same bank account number.

441. Employees in Service Beyond the Retirement Age

A review of the Human Resource records revealed that there were thirty (30) employees who had attained the mandatory retirement age of sixty (60) years but were still in the staff payroll. This is contrary to Section D.21 of the Public Service Commission - Human Resource Policies and Procedures Manual of May, 2016 on mandatory retirement at the age of 60 years.

Consequently, the Management was in breach of the law.

442. Non-Compliance with the One Third of Basic Salary Rule

Analysis of the staff payroll also revealed that forty-eight (48) employees were earning less than one third of their basic salaries. This is contrary to Section C.1 (3) of the Public Service Commission - HR Policies and Procedures Manual of May 2016. Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

443. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECTS

GLOBAL FUND – EXPANDING HIV PREVENTION, CARE AND TREATMENT SERVICES TO REACH UNIVERSAL ACCESS (80% COVERAGE) TO REDUCE BOTH INCIDENCE AND ASSOCIATED IMPACT PROGRAM (GRANT NO. KEN-H-MOF/KEN-H-TNT NO.853)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

444. Bank Balances

The statement of financial assets reflects a bank balance of Kshs.11,936,241 as at 30 June, 2020. A review of the Project’s bank statement revealed that deposits totalling to Kshs.11,791,000 were made into the account on diverse dates during the year. Explanation from Management indicates that the deposits were from the Clinton Health Access Initiative (CHAI). This is in contravention to the Global Fund Grant Regulations (2014) clause 3.4(d) which provides that the grant funds should not be co-mingled with other funds unless agreed to in writing by the Global Fund. No evidence of approval from Global Fund was availed for audit verification.

In addition, the bank reconciliation statement for June, 2020 reflects receipts in bank statement not in cash book totalling to Kshs.11,791,000 and payments in bank statement not in cash book totalling to Kshs.13,338,430 whose clearance status was not availed for audit verification.

Further, and as reported in the previous year, the bank’s project reconciliation statement for the month of June, 2018 reflected receipts in cash book not captured in the bank amounting to Kshs.1,397,060. However, a review of the bank statements had revealed that the cheques amounting to Kshs.1,397,060 had been cleared in May, 2018.

In the circumstances, the accuracy and validity of cash and bank balance of Kshs.11,936,241 reflected in the statement of financial assets as at 30 June, 2020 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

445. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

446. Inability to Utilize the Grant within the Project Period

As disclosed under the funding summary section of the annual report and financial statements, the Project was for a duration of two (2) years, from 1 October, 2015 to 31 December, 2017 with total available funding of Kshs.3,801,642,328 (USD 43,200,481). A review of the annual report and financial statements for the year ended 30 June, 2020, however reflects undrawn balances of Kshs.1,016,799,046 (USD 9,825,170) and cash and cash equivalents balance of Kshs.11,936,241 as at 30 June, 2020 which is likely to be refunded to the Donor as no Project extension is in place. Although Management has indicated that disbursements of funds to counties remained a challenge, there was need to expand the area of coverage so as to utilize the grant and to maximize the benefits. In the circumstances, the primary objective of reduction of HIV AIDS new infections by 75% and related mortality rate by 25% and value for money for the program may not have been achieved in light of undrawn and unutilized funds.

EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING PROJECT (EAPHLN) CREDIT NO.5616-KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

448. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects approved receipts budget and actual on comparable basis of Kshs.545,617,042 and Kshs.448,510,623 respectively resulting to an under-collection of Kshs.97,106,419. Similarly, the project expended an amount of Kshs.751,103,948 against an approved budget of Kshs.466,088,888 resulting to an under expenditure of Kshs.265,014.610 or 32% of the budget. Management has not explained why the project had budgeted for a deficit budget where the anticipated payments had exceeded the receipts by Kshs.205,486,906. The under expenditure is indicative that some planned activities and programs were not undertaken during the year.

Management has attributed the low absorption to the transfer of funds to a Referral Hospital in Eldoret and at Marsabit for administration from the laboratories and
inadequacy of the fund balance to purchase the goods and services that had been envisaged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROL, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA HEALTH SECTOR SUPPORT (EMMS) PROJECT (IDA CREDIT NO.4771 AND NO. 50340 – KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

451. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a nil bank balance as at 30 June, 2020. However, a review of the financial statements indicates that the project had an opening bank balance of Kshs.135,997,035 as at 1 July, 2019, out of which an amount of Kshs.133,617,037 is indicated as having been surrendered to The National Treasury during the year as disclosed in Note 8.10 to the financial statements. However, no documentary evidence including bank statements, bank confirmation certificate or cash book was availed for audit verification.

In the circumstances, the accuracy of the cash and cash equivalents nil balance as at 30 June, 2020 could not be confirmed.

452. Receivables

The statement of financial assets and liabilities reflects a receivables balance of Kshs.2,380,000 as at 30 June, 2020. This balance was previously reflected as a reconciling item in the bank reconciliation statement dating back to July, 2016. Additional information however, indicates that this balance relates to a double payment that was
made to a company and for which no refund had been effected as at the time of the audit in November, 2020.

In the circumstances, the accuracy and full recoverability of receivables balance of Kshs.2,380,000 as at 30 June, 2020 could not be confirmed.

Other Matter

453. Unresolved Prior Year Matter-Transfer to Other Government Entities

As disclosed in Note 8.7 to the financial statements, the statement of receipts and payments for 2018/2019 financial year reflected transfers to other government entities of Kshs.527,102,564 which included a transfer of Kshs.73,908,356 to International Development Association (IDA) in respect of ineligible funds identified under the Project during implementation period termed as long outstanding un-documented expenditures caused by foreign exchange losses. The Project Management did not avail supporting documents and explanations for the payment by way of clarifications and information on how the amount was tabulated and why such losses could not have been avoided. The matter remained outstanding as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

454. Late Submission of Financial Statements

During the year under review, the Project Management submitted the financial statements to the Auditor-General on 19 October, 2020, nineteen (19) days after the statutory date of 30 September, 2020. This is contrary to Section 47(1) of the Public Audit Act, 2015 which requires that financial statements should be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

Management was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

455. There were no material issues relating to effectiveness of internal controls, risk management and governance.
HEALTH SECTOR SUPPORT PROJECT – SWAp SECRETARIAT (IDA CR. NO. 4771-KE AND CR. NO.5367-KE)

REPORT ON THE FINANCIAL STATEMENTS.

Unqualified Opinion

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

Emphasis of Matter

457. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the period ended 30 June, 2020 reflects actual receipts of Kshs.289,140,119 being miscellaneous receipts on refunds from unutilized KEMSA disbursements during the year 2017/2018 against a NIL budget. Further, the project incurred actual expenditure of Kshs.2,040 on bank charges resulting in underutilization of Kshs.289,138,079 or 99.9% of the actual receipts. There has been not planned activities since the project closure which was earmarked to close on 30 June, 2018. No explanation was provided on why the Project had not been closed despite there being no activities after the Project closure date.

My Opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROL, RISK MANAGEMENT AND GOVERNANCE

Conclusion

459. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

461. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects an approved budget and actual receipts on comparable basis of Kshs.482,000,000 and Kshs.299,397,713 respectively, thus under-funding the budget by Kshs.182,602,287 or 38% of the budgeted receipts. Similarly, the Project utilized Kshs.304,337,413 or 63% of the approved budget of Kshs.482,000,000 resulting into an under-expenditure of Kshs.177,662,587 or 37% of the budget.

Management has attributed the under-expenditure to delays in the approval of hiring of personnel at the Project Coordinating Unit, training of students, procurement of equipment and Covid-19 related mitigation measures.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

462. Delay in Project Implementation

As reported in the previous year, Section 3.0.1 of the financing agreement states that the Borrower shall repay the principal of the loan over a period of thirty-five (35) years, after a five (5) years grace period commencing from the date of signing the agreement. The Project commencement date was 17 December, 2014 with a projected end date of 31 December, 2019. A review of the status as at 30 June, 2020 revealed that an extension was granted for the Project to end on 31 December, 2021. However, Project monthly progress report of June, 2020 indicates that the tender for construction works of East Africa Kidney Institute was signed on 18 July, 2019 and possession of site by the contractor was on 28 August, 2019. On the other hand, construction works commenced on 27 April, 2020 and had only achieved 7% completion despite time lapse of 79% as at 30 June, 2020. Clearly, the project is behind schedule and the delays have adversely affected the project implementation and related activities.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

GLOBAL FUND TUBERCULOSIS GRANT PROGRAMME (GRANT NO.KEN-T-TNT-854 AND KEN-T-TNT-1548)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

465. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects budgeted receipts totalling Kshs.859,847,389 from the External Development Partners and actual receipts on comparable basis of Kshs.421,825,238 resulting to a shortfall of Kshs.438,022,151 or 51% of the budgeted receipts. Similarly, Management had budgeted to spend Kshs.859,847,389 but only Kshs.506,478,971 or 59% was actually expended. The under-utilization of funds implies that the Project may not be achieving its planned goals and objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

466. Failure to Recover Long Outstanding Imprests

As previously reported, the statement of financial assets reflects accounts receivable-imprest and advances balance of Kshs.3,164,169 as at 30 June, 2020. However, and as disclosed under Note 9.10 to the financial statements, the total imprest and advances of Kshs.3,164,169 some dating back to 2012/2013 financial year were overdue as at 30 June, 2020. This is contrary to Section 93(5) of the Public Finance Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Further,
Section 93(6) provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

Consequently, Management is therefore in breach of the law.

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

**Conclusion**

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

**GLOBAL FUND - MALARIA ROUND 10 PROJECT GRANT NO. KEN-011-G13-M AND NO. KEN-M-TNT-1546**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

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

**Other Matter**

469. **Budgetary Control and Performance**

The statement of comparative budget and actual amounts reveals that the Project had budgeted receipts totalling Kshs.754,577,929 from the External Development Partners, but actual receipts amounted to Kshs.719,446,924, resulting to a shortfall of Kshs.35,131,005 or 5% of the budgeted receipts. Similarly, the Project was budgeted to spend an amount of Kshs.754,577,929 but only expended Kshs.391,516,546 or 52% of the approved budget. Management has attributed the under absorption to slow uptake of activities occasioned by delayed Exchequer releases coupled with the transfer of officer from the project and the effect of the COVID 19 pandemic.

The under-utilization of funds may lead to failure by the Project to achieve its planned goals and objectives.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

HEALTH SECTOR SUPPORT PROJECT - HEALTH SECTOR SERVICES FUND (GRANT NO.4771-KE AND TF-16027)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

472. Unsupported Bank Balances

As had been reported in the previous year and as disclosed in Note 8.11.B to the financial statements, the statement of financial assets and liabilities reflects bank balances of Kshs.659,122,494 as at 30 June, 2020. However, the Management did not avail supporting documents by way of bank confirmation certificates, bank reconciliation statements and cash books to account for an amount of Kshs.657,875,266 which is indicated as being held in forty-seven (47) Counties. Further, a review of the audit carried out by the Independent Integrated Fiduciary Review Agent (IIFRA) indicated that supporting documents for a total of Kshs.518,080,255 was availed resulting to unsupported cash balance of Kshs.139,795,011 from twelve (12) Counties. However, no explanation has been given for failing to avail these documents for audit review. In addition, Management has not adjusted the balances in the books of accounts.

Consequently, the validity, completeness and accuracy of bank balances of Kshs.659,122,494 as at 30 June, 2020 could not be confirmed.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

SUPPORT OF THE HEALTH FINANCING STRATEGY - OUTPUT BASED APPROACH (OBA) PROGRAMME (CREDIT NO. 201065853)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

475. Non-Compliance with International Public Sector Accounting Standards (IPSAS) No.1

As disclosed at Note 8.5 to the financial statements, the use of goods and services balance of negative Kshs.577,795 for the year ended 30 June, 2020 is net of foreign exchange gain of Kshs.586,195 attributed to the Project’s Euro account No.22120161840700 held at the Co-operative Bank of Kenya. The exchange gain was offset against expenses contrary to paragraph 48 of IPSAS No.1 which states that assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.

In the circumstances, the financial statement may not present a true and fair view of the operations of the project activities during the year under review.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

476. Discrepancy in Project Timelines

As reported in the previous year’s audit, the Programme was officially scheduled to end on 30 October, 2017 while the Micro Health Project which is operating under the Programme was scheduled to end on 1 October, 2019 with the final report expected on 1 April, 2020. The Management has not demonstrated how the Micro Health Project will be managed beyond the period of the Programme.

In the circumstances, I am unable to confirm the continued existence of the Micro Health Project.

477. Lack of Programme Extension and Undrawn Balances

A review of the funding summary reflects an undrawn balance of Euros 3,954,416 equivalent to Kshs.405,862,527 and the statement of financial assets and liabilities reflects cash and cash equivalent balance of Kshs.20,492,737 which is likely to be refunded to the donor since the Programme’s end date was 30 October, 2017. There is no evidence that the Management have sought for approval for the extension of the Programme upon expiry.

In the circumstances, the Programme may not have realized its set goals and objectives.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

SUPPORT OF THE HEALTH CARE FINANCING STRATEGY - REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH (RH-OBA) PROJECT (CREDIT BMZ NO. KENYA 201065853)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

479. There were no material issues noted during the audit of the financial statements of the Project.
480. Emphasis of Matter

I draw your attention to the disclosure under the funding summary section of the annual report and financial statements. The Project was expected to end in January, 2018 with total available funding of Kshs.3,273,686,056 (Euro 30,200,000). However, a review of the annual report and financial statements for the year ended 30 June, 2020, reflects undrawn balances of Kshs.126,792,873 and cash and cash equivalent balance of Kshs.14,648,976. The Management has attributed the reduction on reimbursable amounts to the Government of Kenya funding on free maternity. The outstanding amount is likely to be refunded to the Donor as no Project extension has been sought or any indication of engagement with the financier on the way forward.

My opinion is not modified on the effects of this matter described above.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

TRANSFORMING HEALTH SYSTEMS FOR UNIVERSAL CARE (THS-UC)
PROJECT GRANT IDA CREDIT NO.5836-KE, TFOA2561 AND TFOA2792

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

483. Long Outstanding Imprests and Advances

The statement of financial assets reflects accounts receivables - imprests and advances balance of Kshs.1,933,500 which includes an amount of Kshs.1,835,300 that had not been recovered as at 30 June, 2020. The unrecovered amount includes a long
outstanding balance of Kshs.1,774,900 issued during the financial year 2016/2017 contrary to Regulations 93(5) and 93(6) of Public Finance Management (National Government) Regulations, 2015 which requires a holder of a temporary imprest to account or surrender the imprest within seven (7) working days after returning to the duty station and Accounting Officers to recover the full amount from the salary of the defaulting officers with interest at the prevailing Central Bank Rate.

Other Matter

484. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final budgeted receipts and actual receipts on a comparable basis of Kshs.5,084,854,605 and Kshs.4,561,176,446 respectively resulting to an under-funding of Kshs.523,678,159 or 10% of the budget. The underfunding might have hindered implementation of the planned activities of the Project impacting negatively on service delivery to the public.

485. Pending Bills

Note 10.12 to the financial statements reflects a pending bills amount of Kshs.63,070,639 as at 30 June, 2020. No explanation has been provided for non-payment of the pending bills. The Project is at risk of incurring interest costs and penalties with the continued delay in making payments.

486. Prior Year Audit Matters

486.1 Comingling of Funds

Regulation 76(1) of the Public Finance Management (County Governments) Regulations, 2015 requires opening and maintenance of a Project account for every Project at Central Bank of Kenya (CBK), unless exempted in writing by the Cabinet Secretary, into which all funds shall be kept and an account shall be in the name of the Project for which it is opened.

A review of Nairobi County transactions in respect of the Project indicated that a separate account was not maintained. The Project transactions were processed through a County Special Purpose Account together with transactions for other Projects.

Consequently, the Management was in breach of the law.

486.2 Irregular Procurement of Conference Facilities in Kiambu County

Section 106(2)(b) of the Public Procurement and Asset Disposal Act, 2015 requires quotations to be given to as many persons as necessary to ensure effective competition. However, during the financial year 2018/2019, the County made payments amounting to
Kshs.4,781,500 for hire and use of conference facilities for training in cash and without any evidence of competitive procurement.

Consequently, value for money for the payments amounting to Kshs.4,781,500 could not be confirmed.

486.3 Transfer to Other Government Entities

The statement for receipts and payments for the year ended 30 June, 2019 reflected total transfers to other government entities of Kshs.2,650,727,789 comprising of transfers by the entity of Kshs.215,286,365 and payments made by third parties of Kshs.2,435,441,424. Signed confirmations or expenditure returns from beneficiaries were however, not availed for audit review. Consequently, it was not possible to establish whether the transfers were received by the intended beneficiaries and utilized for the intended purposes.

In the circumstances, I am unable to confirm whether the transfers were a proper charge to public funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

487. Purchase of Goods and Service

As disclosed in Note 10.5 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.715,840,584 under purchase of goods and services which includes an amount of Kshs.415,286,025 in respect of specialized materials. The latter balance includes an amount of Kshs.304,160,118 paid to the Kenya Medical Supplies Authority (KEMSA) for procurement of Covid-19 related equipment. A review of procurement documents revealed that KEMSA procured the said Covid-19 related items using the direct procurement method retrospectively without putting in place systems and procedures to guide the use of the procurement method contrary to Section 69(2) and Section 45(1) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstance, it is not clear whether the project obtained value for money on the expenditure of Kshs.304,160,118 incurred on procurement of Covid-19 related items.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

488. Lack of Audit Committee Reports

Regulation 160(1)(b) of the Public Finance Management (National Government) Regulations, 2015 stipulates that the internal auditors have a duty to give reasonable
assurance through the Audit Committee on the state of risk management, control and
governance within the organization. Further, Regulation 162(1) requires that the Head of
Internal Audit reports administratively to the Accounting Officer and functionally to the
Audit Committee.

However, as reported in 2018/2019, Management did not avail any supporting documents
as evidence that the Project had approved internal audit work plans and whether there
was any discussion of the audit reports and actions taken. Consequently, the measures
put in place for internal controls, risk management and overall governance may not be
adequate.

GLOBAL FUND HIV AIDS PROGRAM (GRANT NO. KEN-H-TNT GA 1547)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

489. Unsupported Cash and Cash Equivalents

As disclosed under Note 9.7 to the financial statements, the statement of financial assets
reflects cash and cash equivalents balance of Kshs.421,185,310 which constitutes a bank
balance of Kshs.420,811,123 and Kshs.374,187 being Mpesa balance. However, the
reconciliation statement supporting the bank balance indicates payments in bank
statement not in the cashbook totaling Kshs.619,500 and payments in cashbook not in
bank statement amounting to Kshs.2,206,420 and whose clearance status had not been
disclosed at the time of conclusion of the audit in October, 2020.

In addition, the Mpesa balance of Kshs.374,187 includes an opening balance of
Kshs.15,000,000 whose supporting documents by way of Mpesa confirmation certificate
was not availed for audit review.

Consequently, the accuracy and completeness of the cash and cash equivalent balance
of Kshs.421,185,310 reflected in the statement of financial assets as at 30 June, 2020
could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Basis for Conclusion

490. Unaccounted for Imprests

As disclosed under Note 9.8 to the financial statements, the statement of financial assets
reflects a balance of Kshs.1,312,660 under accounts receivable imprests and advances
which includes imprests of Kshs.1,112,660. The outstanding imprests were overdue as at 30 June, 2020 contrary to Section 93(5) of the Public Finance Management Act (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the same within seven (7) working days after returning to the duty station. Further, Section 93(6) provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

Consequently, the Management is in breach of the law.

491. Payments Made Inclusive of VAT Contrary to Guidelines

The statement of receipts and payments reflects purchase of goods and services of Kshs.438,097,261 which includes an amount of Kshs.38,208,319 for printing, advertising and information supplies and services. The balance includes value added tax (VAT) amount totalling to Kshs.4,577,869 paid to suppliers, contrary to the Global Fund Guidelines section 3.5(1) which categorizes use of grant funds to pay for VAT as non-allowable expense.

The Management is therefore in breach of the Grant regulations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

UNITED NATIONS POPULATION FUND (UNFPA) 9TH COUNTRY PROGRAMME FOR KENYA

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

493. There were no material issues noted during the audit of the financial statements of the Programme.
Other Matter

494. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects approved receipts budget and actual on comparable basis of Kshs.23,299,030 and Kshs.23,299,030. However, the project expended an amount of Kshs.3,588,140 or 16% against an approved budget of Kshs.23,299,030 resulting to an under expenditure of Kshs.19,337,390 or 84% of the budget. The under expenditure is indicative that some planned activities and programs were not undertaken during the year.

Management has attributed the low absorption to delays in accessing the donor funds which only came in May, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

COVID-19 EMERGENCY RESPONSE PROJECT (CREDIT NO.6598-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

497. There were no material issues noted during the audit of the financial statements of the Project.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF HEALTH

KENYA HEALTH SECTOR PROGRAMME SUPPORT III – DANIDA REF. 104. KENYA.810.300 (GRANT) - COUNTY GOVERNMENT OF KISII

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

500. Unconfirmed Accuracy and Validity of Financial Statements

The balances reflected in the financial statements are extracted from summary receipts and payments reports instead of a trial balance derived from a general ledger as required by the International Public Accounting Standards and the reporting format prescribed by the Public Sector Accounting Standards Board.

In the absence of a general ledger, the completeness, accuracy and validity of the balances reflected in the financial statements for the year ended 30 June, 2020 has not been confirmed.

501. Cash and Cash Equivalents

The statement of financial assets and liabilities as at 30 June, 2020, reflects bank balances totaling Kshs.42,034,429, comprised of bank account balances for various health facilities totaling Kshs.41,863,305 and the Programme’s Special Purpose Account
at the Central Bank of Kenya amounting to Kshs.171,124. The balances totaling Kshs.41,863,305 in turn include bank balances totaling Kshs.22,987,438 for several health facilities. However, the balances are not supported with relevant records including cash books, bank reconciliation statements and bank balance confirmation certificates.

Similarly, the Special Purpose Account balance totaling Kshs.171,124 operated at the Central Bank of Kenya is not supported with the cash book, bank reconciliation statements and the bank balance confirmation certificate. In view of these anomalies, the accuracy, completeness and validity of the bank balance totaling Kshs.42,034,429 reflected in the statement of assets and liabilities as at 30 June, 2020 has not been confirmed.

Other Matter

502. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects budgeted receipts totaling Kshs.201,989,760 and actual receipts totaling Kshs.86,976,267 resulting to a shortfall of revenue amounting to Kshs.115,013,493 equivalent to 43% of the budget. Further, the statement reflects final budgeted expenditure amounting to Kshs.201,989,760 and actual expenditures amounting to Kshs.53,611,421 resulting to under-expenditure of Kshs.148,378,339 equivalent to 27% of the budget.

No plausible explanation has been provided by Management for the underperformance.

Failure to meet revenue and expenditure targets implied that some of the activities planned for execution in the year under review were not implemented. The underperformance is likely to hinder the Programme from attaining its goals and objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

504. There were no material issues relating to effectiveness of internal controls, risk management and governance.
Basis for Qualified Opinion

505. Purchase of Asset, Equipment and Consumables

The statement of financial performance reflects purchase of assets, equipment and consumables expenditure of Kshs.25,046,348 for the year ended 30 June, 2020. However, the supporting schedule for this expenditure reflects Kshs.641,309,540 resulting in a variance of Kshs.616,263,192 which was offset against differed income without justification.

In the circumstances, the accuracy and validity of purchase of assets, equipment and consumables expenditure of Kshs.25,046,348 for the year ended 30 June, 2020 could not be confirmed.

Basis for Conclusion

506. Non-Compliance with Public Procurement and Asset Disposal Act, 2015

During the year under review, the Kenya Medical Supplies Authority (KEMSA) procured 45,500 dispensing plastic resealable envelops at a cost of Kshs.28,665,000 through tender No. KEMSA/DP03/2019-2021 and pharmaceutical items amounting to Kshs.94,962,092 through tender No. KEMSA/DP15/2018-2020 using direct procurement method. According to the Management, the use of the direct procurement method was aimed at mitigating against stock outs of critical items needed by the counties. The use of the direct procurement method was further justified on the basis that the identified supplier was a not for profit Faith-Based Organization. However, reasons given for the use of the direct procurement method in this case do not satisfy the conditions for use of the method as provided in Section 103(1) (2) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstance, the Management was in breach of the law.

507. Delay in Delivery of Goods

A review of procurement contracts entered into between the Authority and suppliers revealed instances of delay in delivery of goods for periods of 2-6 months by six suppliers with total orders of Kshs.19,718,531
The noted delay in delivery of goods if not addressed could adversely affect timely realization of the project objectives.

**508. Variation of Contract Price**

Contract for supply of chlorhexidine gluconate solution 5% was awarded to a supplier as per framework contract dated 18 October, 2018. The initial quantity was 16,573 units at Kshs.684.50 per unit translating to Kshs.11,344,218.50. Purchase order No. 819731 and 819732 were issued for supply of 7,500 units and 9,073 units respectively. However, out of the initial quantity of 16,573 units, only 7,500 units were delivered leaving a balance of 9,073 units. It was also noted that in call down No. 1 dated 20 November, 2019, the supplier agreed to supply additional quantity of 11,070 units at the price of Kshs.684.50 despite the fact that he had not supplied 9,073 units from the initial contract which was outstanding for more than one year.

Further, in a letter dated 12 November, 2019, the supplier sought a 15% price variation citing increase in global price of raw materials and fluctuation of foreign exchange rates. Consequently, the Authority revised the price upward from Kshs.684.50 to Kshs.787.17 and cancelled purchase order No. 819732 for the 9,073 units and issued purchase order No. 824031 for 11,070 units, thereby resulting in additional cost of Kshs.931,524 for the 9,073 units supplied at the revised price of Kshs.787.17 per unit.

In view of the above, the public may not have realized value for money in respect of the varied contract that resulted in additional cost of Kshs.931,524.

**509. Unresolved Prior Year Issue - Delay in Distribution of Equipment**

In 2018/2019, it was reported that the statement of comprehensive income for the year ended 30 June, 2019 reflected purchase of assets, equipment and consumables amounting to Kshs.400,099,529 out of which equipment valued at Kshs.3,051,499 was still at KEMSA warehouses and had not been distributed for installation and commissioning despite the suppliers having been fully paid. A review of the matter in 2019/2020 indicated that equipment valued at Kshs.511,111 had still not been distributed for installation and commissioning as at 30 June, 2020.

Consequently, the public may not have realized value for money in respect of the undistributed equipment valued at Kshs.511,111 as at 30 June, 2020.

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

**Conclusion**

**510.** There were no material issues relating to effectiveness of internal controls, risk management and governance.
GLOBAL FUND HIV/AIDS PROJECT GRANT NO. KEN-H-TNT-1547 – NATIONAL AIDS CONTROL COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

511. Long Outstanding Imprests

The statement of financial assets and liabilities reflects accounts receivable balance of Kshs.3,506,336 which as disclosed in Note 8.8 comprises of Kshs.770,900, Kshs.2,235,186 and Kshs.500,250 being amounts owed from individual staff members, amounts owed from regional offices and amounts refundable from the Government of Kenya recurrent vote respectively. Included in the balance of Kshs.2,235,186 due from regional offices is an amount of Kshs.1,200,025 relating to 2014/15 financial year in respect of the previous grant whose recovery is in doubt.

Further, examination of records revealed that the amount of Kshs.500,250 refundable from the Government of Kenya recurrent vote related to expenditure for consultancy fees paid from the Project account but relating to the Council’s recurrent vote. Eligibility of the expenditure could not be confirmed.

In the circumstances, the accuracy and validity of the accounts receivables balance of Kshs.3,506,336 as at 30 June, 2020 could not be confirmed.

512. Unconfirmed Funds from Previous Grant

As previously reported, the statement of receipts and payments for the period 30 June, 2019 reflected funds brought forward from the previous Grant of Kshs.79,960,862. Information availed indicated that under Clause 6.1 of the Grant Agreement, the Global Fund gave authority for the Management to utilize the uncommitted balances from the previous Grant KEN-H-TNT-853 to roll out the new Grant KEN-H-TNT-1547. It was however, noted that the previous Grant KEN-H-TNT-853 had not been preparing separate financial statements for the past years and no Grant closure report from the Local Fund Agent was availed for audit.

In the absence of Grant closure reports and clear authorization from the Global Fund on the exact amounts to be transferred to the new Grant, the accuracy of the receipts of Kshs.79,960,862 could not be confirmed.

Other Matter

513. Budgetary Control and Performance

The Projects actual expenditure for the year amounted to Kshs.179,035,756 against an expenditure budget of Kshs.436,362,178 resulting in an under expenditure of Kshs.257,326,422 or 59%. Although Management attributed the low budgetary
absorption to postponement of planned activities due to the Covid–19 outbreak, there is need to expedite the programs to reach the intended beneficiaries in time.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING PROJECT (EAPHLN) CREDIT NO.4732-KE – KENYA MEDICAL SUPPLIES AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROL, RISK MANAGEMENT AND GOVERNANCE

Conclusion

518. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

519. Accounts Receivables-Outstanding Imprest

As disclosed in Note 13 to the financial statements, the statement of assets and liabilities reflects accounts receivables - outstanding imprest and clearance accounts balance of Kshs.26,995,854 which includes an amount of Kshs.25,730,057 described as district suspense. However, Management did not provide an analysis for this amount.

Under the circumstances, the accuracy, completeness and recoverability of the account receivables balance of Kshs.26,995,854 as at 30 June, 2020 could not be confirmed.

520. Prior Year Adjustments

As disclosed in Note 16 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.403,069,649 under prior year adjustments. However, the adjustments are not supported by any documentary evidence to confirm the validity. In the circumstance, it has not been possible to ascertain the accuracy and fair statement of the prior year adjustment amount of Kshs.403,069,649 for the year ended 30 June, 2020

521. Transfers to Other Government Units

The statement of receipts and payments reflects a balance of Kshs.217,885,538,410 under transfers to other government units. However, confirmation from two recipient agencies differed from the schedule of transfers provided in Note 9 to the financial statements as detailed out below:

<table>
<thead>
<tr>
<th>Recipient Entity</th>
<th>Financial Statements (Kshs.)</th>
<th>Confirmed Receipts (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineers Board of Kenya (Development)</td>
<td>61,000,000</td>
<td>67,000,000</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Kenya National Highways Authority (Development)</td>
<td>52,028,513,717</td>
<td>52,151,868,697</td>
<td>123,354,980</td>
</tr>
<tr>
<td>Total</td>
<td>52,089,513,717</td>
<td>52,218,868,697</td>
<td>129,354,980</td>
</tr>
</tbody>
</table>

In the circumstances, the transfers of Kshs.217,885,538,410 to other government units could not be confirmed.
Other Matter

522. Loss of Asset

The summary of fixed assets register at Annex 1 reflects other machinery and equipment balance of Kshs.120,766,040 as at 30 June, 2020. Included in the balance is an amount of Kshs.6,538,892 being the value of motor vehicle GKB 211J belonging to the Kenya Institute of Highways and Building Technology (KIHBT) that was reported stolen on 3 July, 2020. Although the case was reported at Makadara DCIO and the matter is said to be under investigation, the vehicle had not been recovered as at the time of audit.

In the circumstances, the accuracy of the balance of Kshs.120,766,040 reflected in other machinery and equipment could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

523. Proposed Finishes and Roof Works for New Office Block at KIHBT Main Campus

The contract for finishes and roof works for a new office block at KIHBT main campus was awarded on 27 January, 2020 at a contract sum of Kshs.41,202,777 for a contract duration of sixteen (16) weeks. However, tender documents issued to the various bidders were not uniform. Further, the original bid documents, evaluation reports and the monthly progress reports were not availed for audit verification.

In addition, although the works have been certified to be 100% complete, a site verification visit indicated a 60% level of completion as at 30 June, 2020 with Kshs.34,841,144 of the contract sum having been paid.

In the circumstances, it has not been possible to confirm the competitiveness and fairness in the award of the contract as well as the value for money on the expenditure of Kshs.34,841,144 incurred on the Project as at 30 June, 2020.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

524. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECTS

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT (IDA CREDIT NO. 5140-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis Matter

526. Project Closure and Low Absorption of Project Funds

As disclosed under paragraph 1.2 and 1.7 on Project information and overall performance, the funding summary indicates that the Project was to be implemented within a duration of five and half (5.5) years commencing from 3 August, 2013 to 31 December, 2018, with a total expected credit of Kshs.306,900,000 equivalent to US$3,600,000. Technically, the project should have been closed. However, only Kshs.147,521,153 or 48% of the total expected credit had been received as at 30 June, 2020, leaving a balance of Kshs.159,378,847 or 52% undrawn. The Project has been unable to complete its activities and attain its objectives and expected outcomes.

My opinion is not modified based on the effects of the above matter

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

528. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

529. Unsupported Prior Year Adjustments

As disclosed under Note 9.16 to the financial statements, the statement of financial assets reflects prior year adjustments balance of Kshs.3,028,860 (2018 Kshs.6,492,005). However, Management has not supported the adjustments by way of detailed explanation and relevant documentations such as journal entries.

Other Matter

530. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual and budgeted receipts of Kshs.85,490,250 and Kshs.450,000,000 respectively resulting in under-funding of Kshs.364,509,750 or 81% of the budgeted. Similarly, the Project expended an amount of Kshs.51,683,050 against an approved budget of Kshs.450,000,000 resulting to an under absorption on Kshs.398,316,950 or 88% of the budget. Although the Management has attributed the under-funding and under expenditure to the effects of COVID 19 pandemic which has led to the suspension of many activities, the performance is very low.

Consequently, the planned programs and activities may not have been implemented and the public have not received the envisaged services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

532. Weakness in Internal Control - Long Outstanding Imprests and Advances

Further, as disclosed under Note 9.14 to financial statements, the statement reflects a balance of Kshs.38,895,664 under accounts receivable-imprest and advances which
includes an amount of Kshs.1,780,720 which has been outstanding for more than one year. Management has explained that the amount is held against an officer who had retired and subsequently passed on. It has not been explained why the management did not recover the amounts at the point of retirement thereby casting doubts on the effectiveness of the internal control at the point of separation in service

Consequently, the recoverability of the balance is in doubt.

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO. 4926-KE AND NO. 5410-KE (COMPONENT B1 SUPPORT TO MINISTRY OF ROADS)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

534. Slow Release of Counter Part Funding

Note 1.7 on the funding summary indicates that the Project was to be implemented within a duration of six (6) years from 2011 to 2016, with total funding of Kshs.1,628,241,200 comprising of IDA credit and counterpart funding by the Government of Kenya of Kshs.1,489,300,000 and Kshs.138,941,200 respectively. However, the Counterpart funding has lagged behind with Kshs.34,441,168 or 25% having been received as at 30 June, 2020, leaving a balance of Kshs.104,500,003 or 75% of the commitment. Although, a three (3) year extension period to 2019 was granted and which has also lapsed, the Project is not likely to complete its activities and attain its objectives and expected outcomes.

My opinion is not modified based on the effects of the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

535. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EAST AFRICA SKILLS FOR TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (CREDIT NO. 6334-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

539. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

541. Project Implementation Inconsistencies

During the 2019/2020 audit, field inspections were undertaken on three of the five (lots) project implementation sites. The following unsatisfactory issues were however noted:

541.1 Lot 1 - Embu County Roads - 11.7 KM

The contractor had not provided a laboratory and all the laboratory equipment as outlined in the contract but continued to share with the engineer contrary to the contractual terms. This could have hindered the smooth running of the project including running tests.

Further, the performance guarantee for the Lot expired on 12 August, 2018 and was yet to be renewed as at the time of the audit. Instead, the Authority indicated having held back cash deposit in lieu of performance guarantee and as provisioned for in the contract. However, there is no evidence of an account having been opened in accordance with the guidelines set out under Section 28(1) of the PFM Act, 2012 on obtaining express permission of The National Treasury to open and operate the account.

In addition, the asphalt testing on some sections of the road had failed and required the contractor to stop its usage and redo the parts of the road that was done using the defective material. However, the contractor did not adhere to the instructions despite being communicated to as stipulated in the contract. Consequently, the sections of the road have failed before the Project completion. The contractor had also not put in place
safety measures by erecting signages, barriers and protection of the works area raising the risk of accidents due to open culvert.

The Project was behind schedule and pursuant to the Management meeting held on 28 August, 2018, it was agreed that the employer (Authority) would deduct liquidated damages. However, no deductions have been effected in the subsequent Interim Payment Certificates.

The contractor had abandoned the site and the equipment withdrawn thus stalling the project.

Consequently, it has not been possible to confirm if the money being held was for the purpose of performance guarantee and whether value for money would be achieved.

541.2 Lot 2 - Tharaka Nithi County Roads - 29.48 KM

The contract for construction of Lot 2 roads was varied from the original contract sum of Kshs.499,365,944 to Kshs.644,149,313, an increment of Kshs.144,783,369 or 29% contrary to the contract provisions without being subjected to fresh tender. This was also contrary to Section 139 4(e) of the Contract provides for which contract variations provided the cumulative value does not result in an increment of more than twenty-five per cent of the original contract sum.

The contractor had abandoned the site and withdrawn all the equipment. The works had stalled at 49.7% since February, 2019. The contracted Project time had also been exhausted.

541.3 Lot 3 - Meru County Roads - 23.74 KM - Unaccounted for Assets - Laboratory and Survey Equipment

The contract provided that the laboratory and survey equipment were to revert to the employer upon completion of the project. However, there is no evidence on whether the equipment handed over have been received and stored. Further, the project three (3) vehicles and two (2) motor cycles have not been included in the handing over report.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

542. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

544. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,476,155,636 and Kshs.1,363,977,031 respectively resulting to an under-funding of Kshs.1,112,178,605 or 45% of the budget. Similarly, the Project expended Kshs.1,010,088,388 against an approved budget of Kshs.2,476,155,636 resulting to an under-expenditure of Kshs.1,466,067,247 or 41% of the budget.

The underfunding and underperformance affected the planned activities may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

546. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

548. Amount Withdrawn but Unclaimed

The statement of receipts and payments reflects proceeds from domestic and foreign grants of Kshs.229,908,651 and as disclosed under Note 10.4 to the financial statements. However, this excludes amounts withdrawn but unclaimed, of USD 718,463.07 equivalent to Kshs.75,444,958 as at 30 June, 2020 reflected in the Project special account statement. The amount represents cumulative funds transferred to the Project bank account, but whose expenditure returns had not been submitted to The National Treasury by the close of the financial year. Management has not reconciled nor explained the form or where the funds are held.

My Opinion is not modified in respect of this matter

Other Matter

549. Pending Bills

Note 11.1 to the financial statements discloses pending bills amount of Kshs.39,979,158 as at 30 June, 2020. Although Management has committed to liaising with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

550. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.245,550,603 against final receipts budget of Kshs.292,000,000 resulting into shortfall of receipts of Kshs.46,449,397 or 16%. Similarly, out of the approved expenditure budget of Kshs.292,000,000, the project spent Kshs.200,585,003 leading to an under-expenditure of Kshs.91,414,997 or 31%.

The under expenditure was attributed to the project design having been completed.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENOL-SAGANA-MARUA HIGHWAY IMPROVEMENT PROJECT NO. P-KE-DBO-037 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

554. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.27,972,967 against estimated receipts of Kshs.590,000,000 resulting into shortfall of receipts of Kshs.562,027,033 or 95%. Similarly, the statement reflects actual expenditure of Kshs.27,972,967 against estimated expenditure of Kshs.590,000,000 resulting into an under-expenditure of Kshs.562,027,033 or 95%. Management has attributed the under expenditure to prolonged procurement processes.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NAIROBI OUTER RING ROAD IMPROVEMENT PROJECT NO. P-KE-DB0-020 – KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

558. Slow Absorption of Project Funds

Note 1.6 on the funding summary indicates that the Project was to be implemented within a duration of three (3) years from 2014 to 2017, with a total expected credit of Kshs.11,030,000,000. However, an amount of Kshs.9,396,363,385 or 85% of the total expected credit had been received as at 30 June, 2020, leaving a balance of Kshs.1,633,636,615 or 15% undrawn. Although, a two (2) year extension period up to September, 2019 was granted, the Project was unable to complete its activities and attain its objectives and expected outcomes.

559. Pending Bills

Note.11.1 to the financial statements reflects pending bills amounting to Kshs.710,123,917 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the
Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KIBWEZI-MUTOMO-KITUI ROAD PROJECT (CONTRACT NO. BLA2016K001) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

563. Pending Bills

Note 11 to the financial statements reflects pending bills totaling to Kshs.938,115,297 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional interest costs and penalties with the continued delay in making payments.
564. **Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects total receipts of Kshs.6,010,224,695 against budgeted receipts of Kshs.7,106,001,845 resulting into a shortfall of Kshs.1,095,777,150 or 15%. Similarly, the statement reflects actual expenditure totaling Kshs.5,861,085,986 against estimated expenditure of Kshs.7,106,001,845 resulting into an under-expenditure of Kshs.1,244,915,859 or 18% which mainly occurred under acquisition of non-financial assets. The under expenditure was attributed to suspension of work by contractor due to COVID-19 cases reported in Kitui.

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

**Conclusion**

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

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

**Conclusion**

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

**MOMBASA WEST INTEGRATED ROADS NETWORK PROGRAMME**

**PHASE 2 DUALLLING OF MAGONGO ROAD (A109L) AND EXPANSION OF KIPEVU ROAD – KENYA NATIONAL HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

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

**Other Matter**

568. **Pending Bills**

Note 11.1 of the notes to the financial statements reflects pending bills totaling Kshs.2,269,170,914 as at 30 June, 2020. Management has not explained the reason the bills were not settled during the year in which they occurred. The Project is at risk of
incurring significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KAPCHORWA-SUAM-KITALE AND ELDORET BYPASS ROADS (KENYA) PROJECT ID NO. P-Z1-DB0-183 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

572. Pending Bills

Note 11.1 to the financial statements reflects pending accounts payables amounting to Kshs.946,931,517 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.
Failure to settle bills during the year in which they relate to, distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

573. **Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.5,836,706,886 and Kshs.5,002,642,568 respectively resulting to an under-funding of Kshs.834,064,318 or 14% of the budget. The Project expenditure was limited to the amount realised.

Based on the approved estimates, the under funding affected the planned activities and may have impacted negatively on service delivery to the public.

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

**Conclusion**

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

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

**Conclusion**

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

**MOMBASA PORT AREA ROAD DEVELOPMENT PROJECT (LOAN AGREEMENTS NOS.KE-P29 AND KE-P32) – KENYA NATIONAL HIGHWAYS AUTHORITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Unqualified Opinion**

576. There were no material issues noted during the audit of the financial statements of the Project.
Other Matter

577. Pending Bills

As previously reported, Note 11.1 to the financial statements reflects pending accounts payable of Kshs.6,889,049,579 as at 30 June, 2020. Although Management has committed to liaising with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

578. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.4,101,193,511 and Kshs.3,708,213,107 respectively resulting to an under-funding of Kshs.392,980,404 or 10% of the budget. Similarly, the Project expended Kshs.3,477,519,313 against an approved budget of Kshs.4,101,193,511 resulting to an under-expenditure of Kshs.623,674,198 or 15% of the budget.

The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

580. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

582. Pending Bills

As disclosed under Note 11 and Annex 2A, the financial statements discloses pending bills balances of Kshs.67,901,399 against a bank balance of Kshs.2,961,077 as at 30 June, 2020. Management has not explained how these bills will be cleared since the project has closed and may not attract further funding from the Development Partner or the Kenya Government.

583. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.9,188,458 against estimated receipts of Kshs.26,975,193 resulting into shortfall of Kshs.17,786,735 or 66%. Similarly, the statement reflects actual expenditure totalling Kshs.9,065,133 against estimated expenditure of Kshs.26,975,193 resulting into an under-expenditure of Kshs.17,910,060 or 66%. The under expenditure is attributed to the Project having been completed and therefore having minimal activities.

In the circumstances, management should endeavor to complete all the envisaged activities and subsequently prepare for the project closure.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

585. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

587. Pending Bills

Note 11.1 to the financial statements reflects pending bills amounting to Kshs.58,476,169 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

588. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.112,759,438 against estimated receipts of Kshs.142,600,000 resulting into a shortfall of Kshs.29,840,562 or 21%. Similarly, the statement reflects an under-expenditure of Kshs.29,840,562 or 21% of the budget which mainly occurred under acquisition of non-financial assets. The under expenditure was attributed to the fact that the project is complete and open to public use hence low operating costs.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

590. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

592. Pending Bills

Note 11.1 to the financial statements reflects pending bills amounting to Kshs.133,575,356 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

594. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

596. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects budgeted and actual receipts on comparable basis of Kshs.980,000,000 and Kshs.647,528,846 respectively resulting into underfunding by Kshs.332,471,154 or 34%. Similarly, the statement reflects under-expenditure of the same amount. The underfunding was attributed to delays in signing the Financing Agreement which negatively impacted on the Project implementation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

598. There were no material issues relating to effectiveness of internal controls, risk management and governance.
IMPROVEMENT OF RURAL ROADS AND MARKET INFRASTRUCTURE IN WESTERN KENYA PROJECT CREDIT NO. BMZ 2007-65 123 (KFW) YEAR– KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

599. Inaccuracies in Financial Statements

The statement of receipts and payments reflects cumulative receipts from loans from external development partners of Kshs.887,755,032 and as also disclosed under Note 3 to the financial statements. However, this amount differs from the amount disclosed under the report on funding summary cumulative amount received of Kshs.741,906,848 under paragraph 1.7 resulting to an unexplained variance of Kshs.145,848,184. Similarly, the statement reflects counterpart funding from the Government of Kenya of Kshs.542,315,413 which differs from the cumulative amount received under the report on funding summary cumulative amount of Kshs.416,688,951 under paragraph 1.7 resulting to an unexplained variance of Kshs.125,626,462.

Consequently, the accuracy and completeness of the reported cumulative receipts from loans from external development partners and counterpart funding from the Government of Kenya of Kshs.887,755,032 and Kshs.542,315,413 respectively for the year ended 30 June, 2020 could not be confirmed.

600. Accounting for Refund to Donor

Note 11 to the financial statements discloses refund of EUR 720,000 equivalent to Kshs.82,492,200 to the donor KfW pursuant to Clause 8 of Annex 6 of the separate agreement of attachment B (Annex 3). However, the refund has not been properly accounted for through the statement of receipts and payments. Instead, the refund has been deducted from fund balances brought forward in the statement of financial assets and liabilities and lumped together with purchase of goods and services in the statement of cashflows. Disclosure Note 5 to the financial statements on road works expenditure includes the refunded amount of Kshs.82,492,200 which misstates the balances to the extent. Further, disclosure Note 5 to the financial statements on other operating costs does not indicate the total amount.

Consequently, the accuracy and completeness of the donor refund of EUR 720,000 equivalent to Kshs.82,492,200 as at 30 June, 2020 could not be confirmed.

601. Loss of Funding due to Low Absorption

During the year under review, the Project through a letter dated 5 March, 2019 referenced No:22340/200765123 refunded EUR 720,000(Kshs.Kshs.82,492,200) due to non-
absorption of funds. Further, the project incurred avoidable foreign exchange losses in processing the refund of Kshs.2,775,024 due to fluctuations in the exchange rates.

602. Training of Contractors on Labour-Based Contracts

The Project paid the Kenya Institute of Highways and Building Technology - Kisii Campus Kshs.166,534,650 in the financial year 2018/2019 for training of local contractors on labour-based maintenance of roads. Thirty-three (33) contractors from three counties of Bungoma, Kakamega and Vihiga were subsequently trained. However, it was not possible to identify how trainings were carried out as there are no Project files maintained in the regional offices on the training and no contracts have been subsequently awarded to the trained contractors in the year under review.

In the circumstance, it was not possible to ascertain the lawfulness and effectiveness in the use of public funds amounting to Kshs.166,534,650 for training contractors on labour-based contracts.

603. Retention Monies

The Project owes contractors an amount of Kshs.14,603,693 by way of retention monies to guard for shoddy workmanship during the defect liability period. However, the liability has not been reported in the statement of assets and liabilities as prescribed by the International Public Sector Accounting Standards Board (IPSAB).

Consequently, the accuracy and completeness of the retention monies balance of Kshs.14,603,693 and the financial statements as at 30 June, 2020 could not be confirmed.

Other Matter

604. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.91,882,132 against final receipts budget of Kshs.112,282,411 resulting in a shortfall of Kshs.20,400,279 or 18% of the approved budget. Further, actual expenditure for the year amounted to Kshs.141,575,526 against the final expenditure budget of Kshs.112,282,411 resulting to over expenditure of Kshs.29,293,115 or 21% of the approved budget. Management attributed the over expenditure to funding of activities through the accumulated funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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

KENYA SOUTH SUDAN LINK (KITALE MORPHUS) ROAD PROJECT (REF. NO.202062065 AND BMZ NO.202083939) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

607. Failure to Draw Down on the Funding Facility

Note 1.7 on the funding summary indicates that, of the total funding requirement of Kshs.13,637,000,720 for the Project, Kshs.13,635,890,000 was to be received from KfW Frankfurt am Main (“KfW”). However, as at 30 June, 2020 no draw down had been made as a result of the implementing agency’s failure to request for disbursements despite the Project having been in existence for three and half (3.5) years.

Further, the statement of comparative budget and actual amounts reflects an initial budget receipts of Kshs.650,000,000 from grants and loans which was reduced to Nil in the final budget. The reason for the exclusion of the total budgeted receipts from loans and grants in the final budget have not been provided.

In the circumstances, the Project is at risk of not being implemented due to continued delays on the draw down and in view of Section 3.2 of the Loan Agreement which gives right to the financier to decline disbursements after 31 December, 2021.

Other Matter

608. Pending Bills

Note 11.1 to the financial statements reflects pending bills totalling to Kshs.26,614,857 as at 30 June, 2020. Management has not provided an explanation for non-payment of the pending bills. The Project is at risk of incurring additional interest costs and penalties with the continued delay in making payments of the pending bills.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

TIMBOROA-ELDORET ROAD REHABILITATION PROJECT NO. P-KE-DB0-019 (LOAN NO. 2100150023344) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

613. There were no material issues relating to effectiveness of internal controls, risk management and governance.
614. There were no material issues noted during the audit of the financial statements of the Project.

615. Pending Bills

Note 11 to the financial statements reflects pending bills amounting to Kshs.453,623,554 as at 30 June, 2020. The Management has however attributed the delay in the discharge of the bills to delays in Exchequer releases and has committed to liaise with the line Ministry and The National Treasury for timely releases Exchequer for prompt payments in the subsequent financial year. The Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

616. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.529,365,448 and Kshs.400,128,745 respectively resulting to an under-funding of Kshs.129,236,703 or 24% of the budget. The Project expenditure was limited to the amount realised.

Based on the approved estimates, under funding and expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

617. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

619. Inaccuracies in the Financial Statements

The statement of cash flows reflects a balance of Kshs.858,259,368 under comparative cash and cash equivalents at end of the year, which differs with the audited financial statements figure of Kshs.846,902,653 resulting to an unreconciled variance of Kshs.11,356,715 that has not been explained. Further, the statement of comparative budget and actual amounts reflects total receipts utilization variance of Kshs.572,467,024. However, recasting resulted in a balance of Kshs.860,855,866 resulting to misstatement by Kshs.288,388,842 that has not been corrected.

In addition, and as disclosed in Note 8.5 to the financial statements, the statement of receipt and payments reflects a loan from external development partners- receipts and payments controlled by the entity of Kshs.398,476,591. However, the special accounts statement reflects an amount of Kshs.402,756,447 resulting to an unreconciled difference of Kshs.4,279,856.

In the circumstance, the accuracy and completeness of the financial statement as prepared and presented could not be ascertained.

Other Matter

620. Pending Accounts Payable

Notes 9.1 to the financial statements reflects pending bills of Kshs.41,473,682 as at 30 June, 2020. Management has not provided explanations for non-payment of the bills. The Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MULTINATIONAL ARUSHA-HOLILI/TAVETA-VOI ROAD PROJECT
LOAN NO.2100150028894 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

624. Pending Bills

Note 11 to the financial statements reflects pending bills amounting to Kshs.42,523,499 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation, timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

625. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.277,595,443 against estimated receipts of Kshs.214,319,894 resulting into surplus receipts of Kshs.63,275,249 or 29.5%. Further, the statement reflects actual expenditure totalling Kshs.284,905,603 against estimated expenditure of Kshs.214,319,894 resulting into an over-expenditure of Kshs.70,585,709 or 33% under acquisition of non-financial assets. The over expenditure was attributed to the fact that the payment included retention money released to contractors during the year but not factored in the budget.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

PORT REITZ/MOI INTERNATIONAL AIRPORT ACCESS (C110) ROAD (FIDIC EPC/TURNKEY BASED) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

629. Pending Bills

Note 11.1 to the financial statements reflects pending bills amounting to Kshs.29,624,000 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.
630. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.275,581,985 and Kshs.123,480,786 respectively, resulting to an under-funding of Kshs.152,101,199 or 45% of the budget. Similarly, the Project expended Kshs.130,282,360 against an approved budget of Kshs.275,581,985 resulting to an under-expenditure of Kshs.145,299,625 or 47% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DUALLING OF NAIROBI - DAGORETTI CORNER ROAD C60/C61 (PHASE 1) PROJECT - JICA GRANT AGREEMENT NO. 1260210 – KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

634. Non-Closure of the Project

The Project implementation period was for 17.6 months ending 31 July, 2017 with donor funding of JPY.1,565,830,000 equivalent to Kshs.1,444,320,000 and GoK counterpart funding of Kshs.299,900,000. Section 26.1 of the conditions to the contract provides for final inspection of the Project which was done on 12 September, 2019. The final report
confirms that the contractor completed the works satisfactorily and the defects liability period had lapsed. However, Management had not formally closed the Project.

My Opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (IDA CREDIT NO. 4148-KE) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

638. Pending Bills

Note 11 to the financial statements reflects pending bills amounting to Kshs.46,964,093 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional costs by way of interest and penalties with the continued delay in making the payments.
639. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual expenditure amounting to Kshs.178,661,449 against estimated expenditure of Kshs.154,372,813 resulting into an over expenditure of Kshs.24,288,636 or 16%. The over expenditure was attributed to release of retention money from the prior year retention fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

SIRARI CORRIDOR ACCESSIBILITY AND ROAD SAFETY IMPROVEMENT PROJECT: ISEBANIA-KISII-AHERO (A1) ROAD REHABILITATION-CREDIT NO.2000130015238 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

643. Pending Bills

Note 11.1 to the financial statements reflects pending bills amounting to Kshs.1,791,580,693 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer Releases for prompt payments in the subsequent financial year, the
Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR DEVELOPMENT PROJECT NO. P-ZI-DBO-018 (ISIOLO/MERILLE/MOYALE ROAD) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENT

Basis for Qualified Opinion

646. Unsupported Bank Balance

As reported previously, the statement of financial assets and liabilities reflects cash and cash balances of Kshs.18,682,650 as at 30 June, 2020 which is not supported by a certificate of bank balance. Although Management explained that the project account was closed and the amount is being held in the Kenya National Highways Authority's Exchequer bank account awaiting transfer to The National Treasury, it has not been possible to ascertain existence of the funds since the GoK Exchequer account certificate as at 30 June, 2020 reflects a balance of Kshs.20,779,561,755 which has not been supported by analysis of Projects for which the balance represents.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NORTHERN CORRIDOR REHABILITATION PROGRAMME PHASE III (ELDORET-TURBO-WEBUYE-MALABA ROAD IMPROVEMENT PROJECT) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

650. Pending Bills

Note 11 to the financial statements reflects pending bills amounting to Kshs.9,458,068 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional interest costs and penalties with the continued delay in making payments.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA TRANSPORT SECTOR SUPPORT PROJECT CREDIT NO.4926-KE AND NO.5410-KE – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

654. Slow Absorption of Project Funds

As disclosed under Note 1.2 of the Project information, the Project was earmarked to close on 31 December, 2018. However, Note 1.7 on funding summary indicates that the Donor had made commitments amounting to Kshs.34,686,030,249, equivalent to USD 352,621,937 as at 30 June, 2020. However, actual drawdowns during the project life amounted to Kshs.29,495,071,705 equivalent to USD 288,324,163, leaving Kshs.5,190,958,544 undrawn. The credit has lapsed without being fully utilized and the project’s planned deliverables earmarked for completion using the funding may not be realized. However, Management has not availed for audit review, documentary evidence to show that the closure process has been initiated or any mitigation to secure an extension the Project from the Donor.

My opinion is however not modified based on the effects of the matter mentioned above.
Other Matter

655. Pending Bills

Note 11 to the financial statements reflects pending bills amounting to Kshs.1,693,303,263 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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


REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

658. There were no material issues noted during the audit of the financial statements of the Project.
Other Matter

659. Pending Bills

Note 11.1 to the financial statements reflects pending bills of Kshs.141,566,761 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant additional interest costs and penalties with the continued delay in making payments.

660. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.231,523,703 against estimated receipts of Kshs.320,485,224 resulting into a shortfall of Kshs.88,961,521 or 28%. Similarly, there was an under-expenditure of an equal amount. Reasons for the receipts shortfall and the under expenditure were not provided.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NAIROBI MISSING LINK ROADS AND NON-MOTORISED TRANSPORT FACILITIES (GRANT NO. KE/FED/022-951)– KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

663. There were no material issues noted during the audit of the financial statements of the Project.
Other Matter

664. Pending Bills

As disclosed in Note 11.1 to the financial statements the Project had pending bills amounting to Kshs.454,310,178 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills. The Project is at risk of incurring significant interest costs and penalties accruing from the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

665. Delays in Project Implementation

As disclosed under paragraph 1.2 and 1.7 on Project information and overall performance, the funding summary indicates that the Project was to be implemented within a duration of six and half (6.5) years commencing from 5 May, 2014 to 31 December, 2020, with a total expected credit of Kshs.3,403,800,000 equivalent to US$311,23,015 from the Donor with counterpart funding amounting to Kshs.1,372,000,000 equivalent to US$12,495,435. Examination of the latest monthly progress report number 69 of August, 2020 revealed that the Project was incomplete with physical progress of work at 97.5%. This indicative of the project running behind with only six (6) months to the closure of the Project.

Consequently, I am unable to confirm whether the public will receive value for money on the Project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

666. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

668. Pending Bills

Note 11 to the financial statements reflects pending bills amounting to Kshs.2,867,324,245 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

670. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

672. Pending Bills

Note 11 to the financial statements reflects pending bills balances of Kshs.823,181,683 as at 30 June, 2020. The balances relate to disputed claims that arose six years earlier but had not been disclosed as contingent liabilities over the prior periods. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

674. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

676. Pending Bills

Note 11.1 to the financial statements reflects pending accounts payables totalling Kshs.359,885,751 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for timely provision of sufficient budgetary allocations to pay the debts in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties should the bills not be paid in due time.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

678. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

680. Pending Bills

As disclosed in Note 11.1 to the financial statements, the Project’s financial statements reflect pending bills amounting to Kshs.62,927,931 for construction of civil works as at 30 June, 2020. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

682. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

684. Pending Bills

Note 11, of the notes to the financial statements, reflects pending bills balance of Kshs.33,647,688.00 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills. The Project is at risk of incurring significant costs in interest and penalties with the continued delay in making payments.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

685. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.469,025,672 against estimated receipts of Kshs.805,146,398 resulting to underfunding of Kshs.336,120,726 or 42%. Similarly, the statement reflects actual expenditure totalling to Kshs.480,951,034 against estimated expenditure of Kshs.805,146,398 resulting into an under-expenditure of Kshs.324,195,364 or 40%.

Management has attributed the under-performance and under expenditure to the project being complete and already put into use and budgetary allocations were for settlement of the outstanding bills.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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

REGIONAL MOMBASA PORT ACCESS ROAD PROJECT (LOAN NO. 27459, CREDIT NO. 84010 AND GRANT NO. 202061919) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

689. Pending Bills

Note 11.1 to the financial statements reflects pending bills totalling Kshs.15,028,891 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

690. Delays in Project Implementation

Note 1.7 to the annual report on funding indicates the Project implementation period as 41 months commencing August, 2017 to December, 2020. The total Project commitment from Development Partners and counterpart funding from the Government of Kenya amounts to Kshs.18,112,866,000 with only Kshs.454,346,843 (2.56%) having been drawn as at 30 June, 2020 leaving a balance of Kshs.17,658,519,157 as undrawn balance.

Although Management has indicated that there is minimal progress as the procurement for the contractor is underway, the risk of the Project not realizing the envisaged objectives is high with the continued delay in implementation of the Project.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

UPGRADING OF “GILGIL MACHINERY” ROAD PROJECT– KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

695. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

697. Pending Bills

Note 11.1 to the financial statements discloses pending bills balances of Kshs.88,486,748 as at 30 June, 2020. Although Management has committed to liaising with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

698. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final budget and actual on comparable basis of Kshs.100,000,000 and Kshs.1,533,474,035 respectively resulting to an over-funding by 1533%. The project also overspent by a similar margin of the budget. Management explained that it did not have control of offshore payments as the Project is fully funded by JICA.

Consequently, the budget did not give full information.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

700. There were no material issues relating to effectiveness of internal controls, risk management and governance.
KENYA NAIROBI WESTERN BYPASS PROJECT CREDIT NO. CHINA EXIM BANK GCL NO. (2017) 28 TOTAL NO. (633) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

702. Pending Bills

Note 11.1 to the financial statements discloses pending bills amounting to Kshs.2,574,282,080 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial years, the Project is at risk of incurring significant interest cost and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

704. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

706. Pending Bills

Note 11 to the financial statements discloses pending bills balances of Kshs.83,344,955 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

707. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.18,903,530 against estimated receipts of Kshs.83,376,172 resulting into shortfall of receipts of Kshs.64,472,642 or 77%. Similarly, the statement reflects actual expenditure totalling Kshs.20,007,418 against estimated expenditure of Kshs.83,376,172 resulting into an under-expenditure of Kshs.59,368,754 or 71% under acquisition of non-financial assets. The under expenditure was attributed to the project having been completed and put into use with limited budgetary allocations for settlement of outstanding bills.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

709. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

711. Pending Bills

Note 11.1 to the financial statements reflects pending bills amounting to Kshs.1,225,792,738 as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

713. There were no material issues relating to effectiveness of internal controls, risk management and governance.
MECHANICAL AND TRANSPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

714. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents of Kshs.34,676,685. However, the bank reconciliation statement contained long outstanding items comprising: Kshs.12,833,366 receipts in cashbook not in bank statement, payments in cashbook not in bank statement amounting to Kshs.4,248,066 and receipts in the bank statement not in the cashbook of Kshs.33,874,527.

In the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.34,676,685 could not be confirmed.

715. Trade and Other Payables – Pending Bills

According to Note 16 to the financial statements, the statement reflects trade and other payables totalling to Kshs.70,469,907 (2019: Kshs.24,460,277) as at 30 June, 2020. The balance constitutes pending bills balance of Kshs.56,382,898 and unrefunded deposits amounting to Kshs.14,087,009. However, Management did not provide supporting schedules or register for the deposits. Management has not explained why the bills were not settled during the year when they occurred.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

716. Outstanding Imprest

The statement of financial position reflects outstanding imprest of Kshs.1,336,898 as at 30 June, 2020. However, the imprest register provided for audit review reflected total outstanding imprest of Kshs.4,549,966, resulting to an unexplained variance of Kshs.3,213,068.

Further, the balance includes an amount of Kshs.4,549,966 which has been outstanding from various staff for over six months. Failure to surrender imprest is contrary to Regulation 93(5) of the Public Finance Management Regulations, 2015 which requires imprest to be surrendered or accounted for within seven (7) working days after returning to duty station.

Management was therefore, in breach of the law.
Other Matter

717. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,000,000,000 and Kshs.701,179,614 respectively resulting to a deficit of Kshs.298,820,386 or 30% of the budget. Similarly, the fund spent an amount of Kshs.706,834,470 against an approved budget of Kshs.1,000,000,000 resulting to under expenditure of Kshs.293,165,530 or 29.3% of the budget. The Fund’s expenditure was limited to the amount realised.

The revenue deficit and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

718. Unresolved Prior Year Audit Matters

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board, (IPSASB) templates and The National Treasury’s Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

719. Compliance with the Public Procurement and Asset Disposal Act, 2015

The statement of financial performance reflects a balance of Kshs.192,919,891 under routine maintenance of vehicles which includes an amount of Kshs.1,560,000 being repairs through LPO number 976310 which was signed on 10 January, 2020. However, the post-inspection report was dated 6 January, 2020 indicating that the inspection was done before the LPO was signed contrary to the Public Procurement and Asset Disposal Act, 2015.

The Management is therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

720. Lack of Audit Committee

Section 73(5) of the Public Finance Management Act, 2012 provides that every national government public entity shall establish an audit committee whose composition and
functions shall be as prescribed by the regulations. However, the Fund did not have an Audit Committee in place.

In the circumstances, the effectiveness of internal controls, risk management and governance of the Fund could not be confirmed.

ROADS ANNUITY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

723. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE DEPARTMENT FOR TRANSPORT – VOTE 1092

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

725. Pending Bills

Note 15.1 to the financial statements reflects pending bills balance of Kshs.6,168,771,533 (2019-Kshs13,694,139). Management has not explained why the bills were not settled during the year they occurred. The Department is at risk of incurring significant interest costs and penalties arising from continued delay in payment. Further, review of documents in support of the pending bills balances revealed that bills totaling Kshs.78,339,537 were not adequately supported, hence casting doubt on the validity of the disclosed balances.

Failure to settle bills in the year to which they relate adversely affect the implementation of the subsequent year’s budgeted programs as the pending bills form a first charge.

My opinion is not modified based on the effect of the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

727. There were no material issues relating to lawfulness and effectiveness in use of public resources.
DONOR FUNDED PROJECTS

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT CREDIT NO. 5140- KE (MOT COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

729. Under Absorption of Project Funds

As disclosed under Note 1.7 in the funding summary, the project implementation period was six years commencing from 2012 and ending 2018. As at 30 June, 2020, out of the total commitment of Kshs.1,152,400,000 from the International Development Association (IDA), the Project had withdrawn Kshs.935,649,481 or 81%. Similarly, out of the total commitment from GoK counterpart funding of Kshs.347,600,000, the Project had received only Kshs.108,544,369 or 31%.

In view of the continued funding deficit and with the Project implementation period having lapsed in December, 2018, the envisioned objectives of the Project may not be fully achieved.

My opinion is however not modified based on the effects of the matter mentioned above.

Other Matter

730. Prior Year Matter - Procurement of Services

As reported in 2018/2019, the Project procured conference facilities at a cost of Kshs.1,800,000 through request for quotations method of procurement. Although the request was sent to three bidders, only one bidder responded. The single quotation was evaluated and the bidder consequently awarded the contract contrary to Section 106 (2) (d) of the Public Procurement and Asset Disposal Act, 2015 which provides that at least three persons shall submit their quotations prior to evaluation and Section III of the Financing Agreement that requires competitive bidding. Further, no evidence was provided on the procurement procedure followed to identify the resource persons who facilitated the training and were paid Kshs.1,353,000.

A review of the position during the year under review indicates that Management has not resolved the issues and remained unresolved as at 30 June, 2020.
Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT IDA CREDIT NO. 4148-KE AND CREDIT NO. 4977-KE (MOT COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

734. Unresolved Prior Year Matter - Construction of Transport Data Centre

As reported previously, the State Department for Transport entered into an agreement with a local firm on 30 September, 2014 for supply, installation, testing and commissioning of a Transport Data Centre, networking, software and hardware at a cost of Kshs.130,739,261. The State Department for Transport further entered into another agreement with a local university firm for consultancy services for the establishment of the Transport Data Repository Centre Resolution at a contract sum of Kshs.22,390,000. The consultancy services included designing of the Transport Data Repository Centre System; preparation of bid documents for supply and installation; supervision and capacity building of staff to man the data centre. The consultancy agreement dated 4 July, 2012 was to run for a period of sixty-four (64) weeks with effect from the commencement/agreement date ending on 25 September, 2013.

A review of the Project in 2019/2020 financial year revealed that the contract agreement had expired and the contractor and the consultant had been paid Kshs.120,252,245 and Kshs.16,792,500 representing 92% and 75% of the contract sums respectively. Further,
Note 11.1 to the financial statements reflects a contingent liability of Kshs.36 Million relating to the establishment of the Data Centre and supervision of the consultancy services. However, adequate supporting documents for the liability and approval for the variation of the contracts as required under Section 139 of the Public Procurement and Asset Disposal Act, 2015 were not provided for audit.

Under the circumstances, it was not possible to ascertain the fairness of the contingent liability and whether the State Department for Transport obtained value for the total amount of Kshs.137,044,745 paid to the contractor and the consultant.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (MOT/KRC COMPONENT) CREDIT NO.4148-KE AND CREDIT NO. 4977-KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

738. Pending Accounts Payable

Note 11.1 to the financial statements reflects pending accounts payable balance of Kshs.1,517,967,848 as at 30 June, 2020 which relates to Value Added Tax (VAT) refunds on the project whose refund is contingent on verification and certification by the Kenya Revenue Authority and the Kenya Railways Corporation. Management has not provided
reasons for the delay in undertaking the verification and certification of the refunds even though the Project is at risk of incurring significant interest costs and penalties with the continued delay.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA TRANSPORT SECTOR SUPPORT PROJECT CREDIT NO. 4926-KE AND NO. 5410-KE (MOT COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

742. Pending Bills

Note 11.1 to the financial statements reflects pending bills of Kshs.22,716,642 as at 30 June, 2020. Management has not provided reasons for non-payment of the balances. This is despite refunding an amount of Kshs.29,649,678 (USD 276,980) held in the special account to the World Bank in May, 2020 upon winding up of the Project.

743. Ineligible Expenditure

As reported in 2018/2019, the Project Management procured various ICT equipment at a total cost of Kshs.3,970,000 that exceeded the budget ceiling of Kshs.1,801,600 approved by the World Bank. There is no evidence of supplementary approval having
been granted in the year under review for the unapproved over-expenditure of Kshs.2,168,400.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT CREDIT NO. 3930-KE (MOT COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

747. Project Closure

As disclosed under the Project Funding Summary at Note 1.5 to the financial statements, the Project was to run for a period of eleven (11) years from 2004 to 2015. Management has however, not availed for audit review, documentary evidence to show that the closure process has been initiated despite the project being dormant throughout the year. Further, a bank balance of Kshs.18,323,405 as at 30 June, 2020 has not been refunded to the Donor through The National Treasury but continues to incur bank charges.

My opinion is however not modified based on the effects of the matter mentioned above.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR TRANSPORT

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT CREDIT NO. IDA 5140-KE (KRC COMPONENT) – KENYA RAILWAYS CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

751. Pending Bills

Note 10.1 to the financial statements reflects pending bills amounting to Kshs.40,804,058 as at 30 June, 2020. Management has explained, under Section 1.8 under Project information and Overall Performance section of the annual report, that a Project cancellation letter from the World Bank was received on 27 December, 2018 and the credit account closed. As a result, the Project has experienced challenges in settling the pending bills and is engaging the National Government to settle all pending bills amicably. However, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.
Low Absorption of Project Funds

Sections 1.2 and 1.7 under Project information and Overall Performance section of the annual report, indicates that the Project was to be implemented within a duration of six (6) years from 2012 to 2018, with a total expected Donor credit of Kshs.1,071,552,600 equivalent to US$11,930,000. However, only Kshs.117,813,333 or 11% of the expected credit had been received from the Donor as at 30 June, 2020, leaving a balance of Kshs.953,739,267 or 89% undrawn. Similarly, out of the expected receipts of Kshs.332,324,000 from the Government of Kenya, only a sum of Kshs.109,337,077 has been received leaving a balance of Kshs.222,996,923 or 67% undrawn. Under the circumstances, the Project’s strategic goals may not be achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA AVIATION MODERNIZATION PROJECT (PREPARATION ADVANCE NO. V0440) - KENYA AIRPORTS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

Outstanding Disputed Claim

On 19 April, 2017, consulting services for the Rehabilitation of Existing Passenger Terminal Facilities at Jomo Kenyatta International Airport (JKIA) was awarded to a consulting firm at a contract sum of Kshs.454,337,996 (USD.4,498,396). The contract
entailed the provision of preliminary and detailed design for the rehabilitation of existing passenger terminal facilities. However, examination of the records revealed that there exists an outstanding claim amounting to Kshs.79,799,191 (US$, 790,091) by the consultant which has been disputed by Management on the basis that the claim was disapproved by the Project Steering Committee. However, no evidence was availed to confirm whether this decision or position was communicated to the consultant or subsequent agreement was reached with the consultant. Consequently, the project is faced with the risk of penalties or legal action with the continued delay in resolving the matter amicably.

My opinion is not modified due to the effects of the matter described above.

Other Matter

757. Budgetary Control and Performance

The statement of comparative budget and actual amounts indicates that the Project realised all the approved budgeted receipts of 70,000,000. Similarly, the statement reflects actual expenditure totaling Kshs.55,282,000 against estimated expenditure of Kshs.70,000,000 resulting into an under-expenditure of Kshs.14,718,000 or 11% of the budget. Management has attributed the low absorption to the recovery from the contractor to offset the advance paid earlier.

In the circumstances, the under absorption of the approved budget is an indication of the activities not implemented by the project management leading to non-provision of services to the stakeholders.

758. Pending Bills

As disclosed under Note 11.9 to the financial statements, the Project had pending payables balance of Kshs.194,223,000 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills. The Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

759. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO. 4926-KE AND 5410-KE) - KENYA CIVIL AVIATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

762. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.120,840,711 and Kshs.64,975,108 respectively resulting to an under-funding of Kshs.55,865,603 or 46% of the budget. Similarly, the Project expended Kshs.143,996,091 against the approved budget of Kshs.120,840,711 resulting to an over expenditure of Kshs.23,155,380 or 19% over the budgetary provision.

In particular, the Management has not explained the utilization of Kshs.16,000,000 under other grants and transfers that had not been budgeted for.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

763. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA TRANSPORT SECTOR SUPPORT PROJECT (CREDIT NO. 4926-KE AND NO. 5410-KE) - KENYA AIRPORTS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

766. Low Absorption of Project Funds

Note 1.7 on the funding summary indicates that the Project was to be implemented within a duration of eight (8) years from 2011 to 2018 with further extension of 1 year to December, 2019. The total expected credit was US$110,000,000 equivalent to Kshs.10,038,000,000 at the agreed exchange rate. However, only Kshs.5,414,000,000 or 54% of the total expected credit had been received as at 30 June, 2020, leaving a balance of Kshs.4,624,000,000 or 46% undrawn.

Despite the one (1) year extension granted, the Project has been unable to complete its activities and attain its objectives and expected outcomes.

Prior year Matters

767. Non-Compliance with Public Procurement and Asset Disposal Act, 2015

As reported previously, the contract for the supply of firefighting equipment was awarded to an international firm in January, 2018 at a contract sum of Kshs.209,000,000 through direct procurement. However, the specifications of the equipment to be supplied were varied on 13 October, 2018, nine (9) months after the contract award contrary to Section 139(4) of the Public Procurement and Asset Disposal Act, 2015 which provides that a
variation of a contract should only be considered after twelve (12) months from the date of signing the contract and only if specified conditions are met.

Management has not explained how it has resolved the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MULTI-NATIONAL LAKE VICTORIA MARITIME COMMUNICATIONS AND TRANSPORT PROJECT (ADF LOAN NO. 2100150036247) – KENYA MARITIME AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

771. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.13,261,000 and Kshs.0 respectively resulting to an under-funding of Kshs.13,261,000 or 100% of the budget. Similarly, the Project expended Kshs.6,830,791 against an approved budget of Kshs.13,261,000 being 51.5% of the amount budgeted during the year under review resulting to an overall under absorption of Kshs.6,430,209 or 48.5% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.
Management attributed the non-disbursements of fund to delays in takeoff of civil works for SAR Centres and non-attendance of training on SAR management due to COVID-19 Pandemic.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

772. Opening Bank Account Without Approval from The National Treasury

As previously reported, Kenya Maritime Authority opened and operates Multi-National Lake Victoria Maritime Communications and Transport Project bank account at Kenya Commercial Bank (Kilindini Branch) for Project related activities. However, no documentary evidence was provided to confirm that approval of The National Treasury was obtained for opening and operating the bank account as required under Section 28(1) of the Public Finance Management Act, 2012.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

SAFE ROADS/USALAMA BARABARANI PROGRAMME (EU GRANT NO. KE/FED/037-778) FOR THE YEAR ENDED 30 JUNE, 2020 - NATIONAL TRANSPORT AND SAFETY AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

775. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

RAILWAY DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

778. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.63,792,219,146 against estimated receipts of Kshs.63,050,686,811 resulting into over collection of receipts of Kshs.741,532,336. Similarly, the statement reflects actual expenditure totaling Kshs.63,792,219,146 against estimated expenditure of Kshs.63,050,686,811 resulting into an over-expenditure of Kshs.741,532,336 which mainly occurred under acquisition of non-financial assets. Although Management explained that the expenditure had been incurred by the time the budget reduction was effected, the legality of the expenditure could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

780. There were no material issues relating to effectiveness of internal controls, risk management and governance.
RAILWAY DEVELOPMENT LEVYFUND (HOLDING ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

781. Discrepancy in Receipts Balance

The statement of receipts and payments reflects an amount of Kshs.23,528,463,126 being receipts from the Kenya Revenue Authority. However, records maintained by the Kenya Revenue Authority indicates that a total of Kshs.23,421,650,520 was transferred to the Fund during the year under review. The resultant difference of Kshs.106,812,606 between the two sets of records has not been reconciled or explained.

Under the circumstances, the accuracy of the reported receipts balance of Kshs.23,528,463,126 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

783. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

785. Unresolved Prior Year Issue- Unconfirmed Motor Vehicle Maintenance Cost

As reported in 2018/2019, the statement of receipts and payments reflected an amount of Kshs.86,282,596 under use of goods and services which, as disclosed in Note 3 to the financial statements, included an expenditure of Kshs.3,784,997 on routine maintenance - vehicles and other transport equipment. The latter balance included an expenditure of Kshs.1,974,371 on account of motor vehicle repairs for GKA 665V. However, there was no proof of the repairs having been undertaken by way of pre and post repairs report by the engineer, Mechanical and Transport Fund detailing out the nature of repairs undertaken or confirmation of works done. Further, the vehicle has been grounded since July, 2018 casting doubt on whether the repairs were undertaken.

Consequently, the accuracy of the expenditure on use of goods and services of Kshs.86,282,596 for the year ended 30 June, 2019 cannot be ascertained.

786. Pending Bills

As disclosed under Note 14 to the financial statements, the State Department for Shipping and Maritime had pending bills totalling to Kshs.8,667,707 as at 30 June, 2020. Failure to settle bills during the year to which they relate will adversely affect the budget provisions for the subsequent year. Further, bills of Kshs.604,500 were paid during the year for the purchase of ICT goods delivered in the financial year 2017/2018. However, review of the State Department did not reflect the amount as pending bills in the two preceding financial years. Consequently, the accuracy of the disclosed pending bills balances of Kshs.8,667,707 as at 30 June, 2020 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

787. Contracts Without Performance Security

During the year under review, the State Department awarded contracts for provision of cleaning and security services at contract sums of Kshs.3,250,520 and Kshs.1,760,000 respectively for its offices at NSSF Annex Building. However, there were no performance
security bonds from the service providers. This is contrary to clause 3.6 of the conditions of the contract which stipulated that within thirty (30) days of receipt of the notification of contract award, the successful tenderer shall furnish to the procuring entity with the performance security where applicable in the amounts specified in the special conditions of contract.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

788. Lack of Audit Committee

Contrary to the provisions of Section 74(1) of the Public Finance Management Act, 2012 the State Department does not have an Audit Committee in place. Further, the internal audit function did not prepare quarterly reports as required by Section 173(1) of the Public Finance Management (National Government) Regulations, 2015. The State Department is therefore in breach of the law.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

790. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects a final receipts budget and actual on comparable basis of Kshs.28,805,231,686 and Kshs.25,792,593,103 respectively resulting to a shortfall of Kshs.3,012,638,583 or 10% of the approved budget. Further, the statement reflects a final expenditure budget and actual on comparable basis of Kshs.28,805,231,686 and Kshs.26,179,742,023 respectively, resulting to underutilization of Kshs.2,625,489,663 or 9% of the approved budget. The underfunding and underperformance may have negatively affected service delivery to citizens due to failure to implement the planned programmes and activities.

791. Unbalanced Budget

The summary statement of appropriation-recurrent and development combined reflects actual receipts of Kshs.25,792,593,103 and actual expenditure of Kshs.26,179,742,023 resulting into a budget deficit of Kshs.387,148,920 contrary to Regulation 33(e) of the Public Finance Management (National Governments) Regulations, 2015 which provides that the total budget revenue shall cover the total budget expenditure.

792. Pending Bills

Note 16 to the financial statements reflects pending bills amounting to Kshs.1,189,505,411 which include Kshs.749,033,051 brought forward from 2018/2019 financial year. These bills were not paid during the year under review but were instead carried forward to the 2019/2020 financial year. Management has not explained why the bills were not settled during the year to which they occurred. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

793. Failure to Collect Rent on Government Houses

The total number of government houses across the forty-seven (47) Counties stood at fifty-six thousand eight hundred and ninety-two (56,892) houses with an expected monthly rental income of Kshs.127,048,750 resulting into an annual rent potential of Kshs.1,524,585,000 assuming full occupancy. However, rent collections on Government houses for the financial year 2019/2020 amounted to Kshs.724,299,195 leading to an under performance of Kshs.800,285,805 or 52% of the potential. Further, for the Government houses occupied by the County Governments’ staff, deductions totaling to Kshs.113,409,750 were made through the respective payrolls but only a total of Kshs.16,377,978 was remitted to the State Department resulting into unremitted revenue of Kshs.97,031,772 as at 30 June, 2020.

Consequently, the State Department failed to put in place measures to ensure that all rent income due was collected in accordance with Regulation 43(c) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to ensure that all Appropriations-In-Aid due to a national government entity are collected and properly accounted for in accordance with the relevant laws, rules and regulations.

794. Abandoned Projects

As previously reported, the construction of one hundred (100) housing units at Emali Administration Police Training Camp at a cost of Kshs.136,705,536 had been abandoned at 85% completion stage. Management has not provided any evidence of efforts towards resumption of the works.

In the circumstances, it has not been possible to confirm if and when value for money will be realized from the public funds committed to the project.

795. Lack of Updated Market Rates

Regulation 43 (d) of the Public Finance Management (National Government) Regulations, 2015 provides that an Accounting Officer shall manage, control and ensure that policies are carried out efficiently and wastage of public funds is eliminated. However, the government house rents were last reviewed in the year 2001 and are therefore not aligned to current market rent rates. This is despite the civil servants’ house allowances having been reviewed severally to reflect the cost of living and the market rates for the rent.

Consequently, the Government is losing out on revenue with the continued application of outdated rental rates.
796. Gaps in Government Residential Houses Register

According to the inventory of Government houses availed for audit review, the Government had a total of 56,892 houses categorized into institutional, police and pool houses. The houses were further categorized into low, medium and high grades. However, the register maintained by the State Department did not contain key information such as the dates of occupancy and vacancy, occupants’ details and reason for non-occupancy. The register was also incomplete as some police houses were not included.

Failure to maintain a comprehensive register makes it difficult to keep track of government houses and tenants in relation to occupancy, vacancy of the houses, houses with rent arrears and their respective maintenance costs. It is contrary to Regulation 139(1)(a) of the Public Finance Management Regulations, 2015 which provides that the Accounting Officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

797. Lack of a Policy on Government Houses Rent

One of the mandates of the State Department is to develop and manage Government houses. To address this, the Accounting Officer constituted an informal committee (Housing and Allocation Committee) in February, 2019. However, there is no evidence of policies or guidelines having been developed and rolled out to manage the allocation of vacant houses in the various counties.

798. Digitization of Estate Management

The management of government houses and collection of rent is largely manual as it is yet to be digitized. The benefits that accrue with digitization such as ability to establish expectation on rental income from the individual Ministries, Departments, Agencies or Counties, invoicing, rent collections, booking of revenue, reconciliations and maintenance of houses have not been realized. These gaps in the manual system may lead to undetected loss of revenue.
DONOR FUNDED PROJECTS

KENYA INFORMAL SETTLEMENT IMPROVEMENT PROJECT
NO. P113542

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

800. Special Account Reconciliation

The statement of receipts and payments reflects proceeds from domestic and foreign grants of Kshs.1,558,304,909 and as disclosed under Note 10.5 to the financial statements. However, this excludes amounts withdrawn but unclaimed of USD12,998,243.20 equivalent to Kshs.1,335,530,325 as at 30 June, 2020 reflected in the Project special account statement. The amount represents cumulative funds transfers to the Project bank account, but whose expenditure returns had not been submitted to the National Treasury by the close of the financial year.

My opinion is however not modified on the effects of the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

802. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

804. Pending Bills

Note 9.1 to financial statements reflects pending bills of Kshs.13,482,306 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

805. Delay in Taking over Completed Projects

Review of Project implementation documentation revealed that Kangundo and Mathira fire stations, Athi River, Dandora, Donholm and Embakasi railway stations were complete and the defect liability period had lapsed but they were yet to be taken over from the contractor. Under the circumstances, the Projects' assets have not been put to their intended use. Value for money may not be realized from the investment with the delay in taking over the assets.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

806. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

807. Unsupported Transfers to Counties

As disclosed under Note 10.7A to the financial statements, the statement of receipts and payments reflects transfers to Counties amounting to 8,515,676,121. However, there were no expenditure returns from the County Governments to show utilization of the funds transferred to them.

Consequently, the accuracy of transfers to Counties amounting to Kshs.8,515,676,121 for the year ended 30 June, 2020 could not be ascertained.

808. Motor Vehicles Without Log Books

As disclosed in Note 10.6 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.10,620,000 under acquisition of non-financial assets which includes the cost of two project motor vehicles GKB 851V and GKB 852B for which log books were not made available for audit review. Consequently, the rightful ownership to the vehicles could not be established.

Other Matter

809. Pending Bills

Notes 11.1 to the financial statements reflects pending bills of Kshs.2,661,615 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills which exposes the Project to the risk of incurring significant interest costs and penalties for the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

810. Disbursement of Funds to Counties

As previously reported, according to Section V (Withdrawal of Credit Proceeds) of the Financing Agreement between the International Development Association (IDA) and the Republic of Kenya, funds were to be disbursed in two tranches. The first tranche was to facilitate formation of County Program Coordination Teams, which, among other responsibilities is to manage the use of Urban Institutional Grants (UIG) and also to provide support to participating County Governments for the formulation of Urban Development Plans including the establishment and operation of Urban Institutional...
Arrangements such as Charters, Board administration and operation of Urban Institutional Arrangements and for the initial preparation of Urban Infrastructure Investments.

However, during the year under review, Urban Development Grants (UDG) amounting to Kshs.8,128,476,121 (2019-Kshs.11,464,702,500) was released to the participating Counties. The Urban Institutional Grants (UIG) of Kshs.387,200,000 (2019-Kshs.1,854,000,000) was also released during the year, indicative of release of Urban Development Grants (UDG) preceding the Urban Institutional Grants (UIG) contrary to the Financing Agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT

KISUMU URBAN PROJECT (PROJECT ADVANCE ACCOUNT)-CKE 1035.01.G - COUNTY GOVERNMENT OF KISUMU

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

812. Inaccuracies in the Financial Statements

812.1 Statement of Financial Assets

The statement of financial assets reflects a balance of Kshs.823,593,699 which differs with the net financial position balance of Kshs.845,169,035 by Kshs.21,575,336. No explanation has been provided for the difference.

812.1.1 Fund Balance

The statement of financial assets reflects an aggregate fund balance of Kshs.670,945,090, as detailed in Note 9.10 to the financial statements. However,
summation of the account balances included in the balance in Note 9.10 yields a sum of Kshs.823,593,699 resulting to a difference of Kshs.152,648,609 which has not explained.

In the circumstance, the completeness, accuracy and validity of the fund balance totalling Kshs.670,945,090 reflected in the statement of financial assets as at 30 June, 2020 has not been confirmed.

812.2 Statement of Receipts and Payments

812.2.1 Transfers from Department of Housing and Urban Development

The statement of receipts and payments reflects transfers from the Department of Housing and Urban Development totalling Kshs.805,926,100 as detailed at Note 9.3 to the financial statements. However the special accounts statement of the Kisumu Urban Project report reflects a transfer of EUR 7,000,000, equivalent to Kshs.806,206,400, resulting to a difference of Kshs.280,300, which Management has not explained.

In the circumstance, the completeness, accuracy and validity of transfers from government entities totaling Kshs.805,926,100 for the year under review has not been confirmed.

812.2.1.1 Cumulative Funding to Date

The statement of receipts and payments reflects cumulative funding balance of Kshs.2,658,509,300. However, the funding summary in Note 1.7 to the financial statements reflects funding totaling Kshs.3,962,000,000 resulting to a difference of Kshs.1,303,490,700 which Management has not explained.

In the circumstance, the completeness, accuracy and validity of transfers from government entities totaling Kshs.2,658,509,300 reflected in the statement of receipts and payment for the year ended 30 June, 2020 has not been confirmed.

812.2.2 Acquisition of Non-Financial Assets

The statement of receipts and payments reflects an acquisition of non-financial assets balance totaling Kshs.301,141,525, as detailed in Note 9.6 to the financial statements. However, summation of the amounts included in the balance yields a sum of Kshs.302,141,525 resulting to a variance of Kshs.1,000,000 which, however, has not been explained.

In the circumstance, completeness and accuracy of the acquisition of non-financial assets balance amounting to Kshs.301,141,525 reflected in the statement of receipts and payments for the year ended 30 June, 2020 has not been confirmed.
812.3 Anomalies in the Cashflow Statement

The statement of cashflow for the year ended 30 June, 2020 reflects the following anomalies:

812.3.1 Cash and Cash Equivalent

The statement reflects Kshs.723,901,685 as cash and cash equivalents at the beginning of the year which, however, varies from the comparative balance amounting to Kshs.669,144,199 shown in Note 9.8 to the financial statements. The difference of Kshs.54,757,486 between the two sets of records has not been explained.

In addition, the statement of cashflow reflects cash and cash equivalents at the end year totalling Kshs.898,125,630 which varies with the account’s balance amounting to Kshs.822,287,913 reflected in the statement of financial assets. The difference of Kshs.75,837,717 between the two balances expected to tally has not been explained. Further, the increase in accounts receivables amounting to Kshs.1,022,986 has been omitted in the statement of Cashflow.

In the circumstance, the completeness, accuracy and authenticity of the cash and cash equivalents balance amounting to Kshs.898,125,630 reflected in the statement of cashflow for the year ended 30 June, 2020 has not been confirmed.

812.3.2 Refund of Performance Bond

The statement of cashflow reflects a comparative balance of Kshs.10,851,362 under refund of performance bond. However, the balance was not reflected in the audited financial statements for year ended 30 June, 2019.

In the circumstance, validity of the comparative balance has not been confirmed.

812.4 Fixed Assets Register

The fixed assets register at Annex 3 reflects assets valued at Kshs.430,738,274 for the year ended 30 June, 2020. However, summation of the amounts in the aggregate balance yielded assets totaling to Kshs.554,761,710 resulting to an unreconciled variance of Kshs.124,023,436 which the Management has not explained. Further, the register reflects additions of motor vehicles and motor cycles totalling Kshs.13,166,198 and Kshs.588,500 respectively, totalling to Kshs.13,754,698 which balance however, is not reflected as expenditure in the statement of receipts and payments for the year under review. Therefore, the expenditures reflected in the statement of receipts and payments are understated.

In addition, the fixed assets register reflects cumulative closing assets totalling Kshs.430,738,274 while the cumulative acquisition of non-financial assets reflected in the statement of receipts and payments amounts to Kshs.1,230,026,660 resulting to an
unexplained variance of Kshs.799,288,386 which suggests that the fixed assets register is not updated regularly.

In the circumstance, the completeness, accuracy and authenticity of the reported balance of Kshs.430,738,274 reflected in Annex 3 of the summary of fixed assets register has not been confirmed.

813. Presentation of the Financial Statements

The statement of receipts and payments and statement of cash flows are labeled ‘for the period ended 30 June, 2020’ instead of ‘for year ended 30 June, 2020’ to which they relate. As a result, the presentation of the accounting period under review is not correct.

Consequently, the financial statements are not prepared in accordance with Accounting Standards as prescribed by IPSAS.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

814. Acquisition of Assets

The statement of receipts and payments reflects acquisition of assets balance totaling Kshs.301,141,525 for the year ended 30 June, 2020, as detailed in Note 9.6 to the financial statements. However, examination of the respective expenditure records revealed the following anomalies:

815. Construction of Roads

815.1 Proposed Completion of Low Volume Access Roads- (Kemri-Otonglo-Tiengere-Rota Road)

Included in the construction of roads balance totalling Kshs.302,141,525 in Note 9.6 to the financial statements is expenditure totalling Kshs.5,841,397 spent on construction of low volume access roads namely the 5.5 (five and a half ) kilometres long Kemri-Otonglo-Tiengere-Rota Road. However, physical verification of the works in October, 2020 revealed the following:

i. The drainage works done in all the sections along the road were of poor quality and further, some sections of the murrum laid had been washed off by floods.

ii. Works on construction of the bridge/box culvert at Tiengere were abandoned by the contractor before completion.

iii. The contractor was not on site and the site office had been abandoned.
iv. All the access culverts along the road were not backfilled.

v. Gravel on some sections of the road was swept off by flood waters due to poor drainage.

vi. A section measuring 0.005 Kilometers from Tiengere was not graded and graveled. Further no drainage works were done at the said section.

vii. Monthly progress of work reports indicated that challenges facing the Project included inadequate materials, equipment and labor mobilization, slow execution of work. No plausible explanation was provided by Management for the anomaly.

viii. In August, 2019, the contractor requested for an extension of the contract period from 30 September, 2019 to 31 December, 2019. However, the request was not approved by the Tender Evaluation Committee as regulations require.

In the circumstances, it has not been possible to confirm that value for money was achieved on the expenditure totaling Kshs.5,841,397 spent on the works.

815.1.1 Construction of Nairobi Road-Nyamasaria-KFW Primary School-Sije Road

Similarly, a sum of Kshs.29,328,404 was spent on the construction of the 2.139 kilometres long Nairobi Road-Nyamasaria-KFW Primary School-Sije Road contracted at Kshs.99,489,639. The contract was to commence on 15 January, 2018 and be completed on 14 October, 2018. Addendum 1 to the contract indicates that the contract sum was increased by Kshs.24,872,409.75 to Kshs.125,362,048. No justification was provided by Management for the increase equivalent to 25% of the original contract price.

However, physical verification of the project in the month of October, 2020 revealed the following:

i. Only about 1.1km of the road had been tarmacked.

ii. The contractor built one instead of the two bridges contracted to be built over River Auji.

iii. As per letter reference number AGC/KUP/NYAM/PN/2018/141 of 12 August, 2020, the contractor requested for extension of the completion date to 30 November, 2020. However, no evidence was availed to confirm that the Tender Evaluation Committee approved the request.

iv. The progress of work report availed for audit indicated that the works were 71% complete but the contractor’s frequent absence from the project site had delayed their completion.
In the circumstances, it has not been possible to confirm that value for money was obtained on the expenditure amounting to Kshs.29,328,404 spent on the road project during the year under review.

**815.1.2 Construction of Family Planning-Naselica Roads**

The expenditure records further indicated that Kshs.8,230,386 was spent on construction of Family Planning Naselica Road at a cost of Kshs.15,803,864. The contract period commenced on 28 February, 2018 and was to end by 25 February, 2019. However, Addendum 1 to the contract indicates that the date was changed to 30 January, 2020 and the Project cost increased to Kshs.18,820,911. No explanation was provided for the increase. However, physical verification of the project in October, 2020 revealed the following:

i. The contractor was not on site and no works were ongoing.

ii. A section of the road measuring about eighty (80) meters along a supermarket building had no walkway and side drains because the supermarket had, allegedly, encroached on the road. However, no documentary evidence was presented to confirm the encroachment.

iii. The Bills of Quantities (BQs) included cost of two (2) project publicity road signs worth Kshs.100,000 but only one was on site.

iv. Stone pitching on both sides of the drains measuring about one hundred and fifty (150) meters of the road was not done.

v. Contrary to provisions in the Bills of Quantities, only a small portion of the walkway had cabro stone installed.

vi. Although the project was 71% complete, the Progress of works report availed for audit indicated that frequent absence of the contractor from the site was the main cause for the delayed completion of the works.

vii. The Tender Committee meeting held on 23 January, 2020 allowed the contractor's request to extend the contract period to 30 January, 2020 and increase the contract cost further by Kshs.3,017,047. However, there was no evidence of approval for any further extension of the contract even though the works were reported as ongoing in November 2020.

In the circumstances, it has not been possible to confirm whether taxpayers obtained value for money on expenditure amounting to Kshs.8,230,386 spent on the project up to 30 June, 2020.
815.1.3 Construction of Otonglo-Prison-Auji and Auji-Pundo Roads

The records further indicate that a sum of Kshs.45,106,657 was incurred on construction of 3.9 kilometres of Otonglo-Prison-Auji and Auji-Pundo Roads. The contract was valued at Kshs.108,513,615 in aggregate with works set to start on 13 October, 2015 and be completed by 12 May, 2016. Audit review of Addendum No. 3, indicated that the completion date was reset for 31 December, 2019 and the contract sum increased by Kshs.26,303,745 or 24% of the original contract cost, to Kshs.134,685,860. No adequate explanation was provided by Management for the cost increase. Records available indicate that in late 2019, the original contractor sub-contracted the incomplete works to another company in late 2018 at a sum of Kshs.40,000,000. However, physical verification, of the project in October, 2020 revealed the following:

i. Audit review of Addendum No. 3 indicated that the completion date of the contract was moved to 31 December, 2019 and the contract sum increased by Kshs.26,303,745 to Kshs.134,685,860.

ii. The contractor was not on site and there was no site office or machinery to indicate that the works were ongoing.

iii. Culverts constructed on the roads were blocked and as a result, sections of the road were washed away and cut-off by run-off waters.

iv. A section of about one hundred (100) meters from the railway line to Pundo Market was not graveled and proper drainage works were not done.

v. Progress reports availed for audit indicated that works were 95% complete and cited the contractor’s absence as the main reason for the delay in their completion.

vi. In April, 2019, the contractor requested for extension of the completion date to 31 December, 2019 and the request was approved by the Tender Committee.

vii. The performance guarantee provided by the contractor expired on 5 August, 2019 but no evidence of its renewal was availed for audit review.

viii. Included in the assessed works was Interim Payment Certificate No. 5 for preliminary and supervisory/support services costed at Kshs.4,457,633. However, the expenditure was not supported with documentary evidence and as a result, it’s validity and accuracy could not be confirmed.

In the circumstances, taxpayers may not have obtained value for money on the expenditure amounting to Kshs.45,106,657 spent on the project as at 30 June, 2020.
815.1.4 Construction of Impala-Dunga-Nanga-Five Ways Road

Expenditure totalling Kshs.124,686,364 was incurred on construction of Impala-Dunga-Nanga-Five Ways Road contracted at a cost of Kshs.301,145,590. The contract agreement had scheduled the works to start in April, 2018 and end on 12 April, 2019. However, Addendum No. 1 to the contract indicates that the contract completion period and cost were revised to 30 November, 2019 and the contract sum increased by Kshs.31,377,728 or 9% to Kshs.332,523,317. Other records indicated that the completion date for the contract was moved forward to 30 November, 2019 after additional works to install street lights were added to the contract during the defects liability period. However, physical verification of the project in October, 2020 revealed the following:

i. The street lights installation works were not carried out and the contractor was not on site.

ii. Preliminaries and general expenses of Kshs.14,288,004 included in the Interim Payment Certificate No. 8 were not supported with documentary evidence. As a result, the validity and propriety of the expenditure could not be confirmed.

In the circumstances, it has not been possible to confirm that taxpayers obtained value for money on the expenditure amounting to Kshs.124,686,364 spent on the project as at 30 June, 2020.

815.1.5 Construction of Car Wash-Sije Road

A sum of Kshs.44,528,395 was incurred on construction of Impala-Dunga-Nanga-Five Ways Road. The works were contracted at Kshs.97,166,159. The contract period was expected to take forty (40) weeks from 19 July, 2018 to 25 April, 2019. However, audit verification of the works in October, 2020 revealed the following:

i. Only a short section of about eight hundred (800) meters out of a total of 2.12Km contracted had been tarmacked.

ii. Records availed for audit indicated that the contractor requested for extension of the contract period by 310 days. However, there was no evidence to confirm whether the extension was approved by the Tender Evaluation Committee.

iii. The progress of works report availed for audit indicated that the works were at 55% level of completion. However, the report cited absenteeism as the main cause for the slow pace of work. There was no evidence of the actions taken by Management to compel the contractor to respect the timelines set for the works.

In the circumstances, it has not been possible to confirm whether taxpayers obtained value for money on expenditure amounting to Kshs.44,528,395 spent on the project for the year ended 30 June, 2020.
815.1.6 Renovation of Kisumu Urban Project Offices

Examination of payment records, in addition, indicated that Kshs.1,608,157 was spent on purchase of materials and labour used in renovating the Kisumu Urban Project offices. However, the procurement records and specifications for the works, issues and receipt vouchers were not availed for audit.

In the circumstance, the occurrence and propriety of the expenditure could not be confirmed.

815.1.7 Idle Road Sweeper Tractor

The project purchased a road sweeper tractor at a cost of Kshs.3,718,412 during the year. However, verification of the purchase in October, 2020 revealed that the tractor was not put to use but was instead left to idle at the City Works Unit yard.

In the circumstances, no value was obtained out of the public funds totaling Kshs.3,718,412 spent on purchase of the tractor.

815.1.8 Outstanding Imprests

The statement financial assets reflects accounts receivables totalling Kshs.1,305,786 being outstanding imprests and advances. However, a review of the financial documents presented for audit indicated that some of the imprests were issued in the year 2019. Failure to recover the imprests contravenes Regulation 93(6) of Public Financial Management (National Government) Regulations, 2015 which requires the Accounting Officer to recover overdue imprest from the salary of the defaulting officer and charge interest at the prevailing Central Bank of Kenya rates. The schedule also indicated that some officers were issued with more than one imprest contrary to Regulation 93(4)(c) which prohibits the issue of new imprests to Officers with outstanding imprests.

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

In addition, the respective imprest warrants were not availed for audit and as a result, the accuracy and validity of the balance could not be confirmed.

815.1.9 Unsupported Receivables from Related Parties

The statement of receipts and payments reflects a balance of Kshs.3,146,405 as at 30 June, 2020 in respect of receivables from third parties, as detailed in Note 9.11 to the financial statements. However, examination of records on the expenditure indicated that cash expenditure totalling Kshs.3,078,819 out of a total of Kshs.3,146,405 was incurred through Project Advance Account (PAA) without authority (No Objection) by the lender as required by Clause 3.4.3(a), Paragraph 3 of the Credit Facility Agreement. Further, no documents were availed to support the expenditure.
In the circumstances, the occurrence and validity of the expenditure has not been confirmed. Further, Management is breach of the Financing Agreement and the expenditure of Kshs.3,078,819 may not be a proper charge on public funds.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KISUMU URBAN PROJECT (CASH EXPENDITURE FUND) - CKE 1035.01.G - COUNTY GOVERNMENT OF KISUMU

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

817. Unconfirmed Balances in the Financial Statements

817.1 Statement of Financial Assets

The statement of financial assets reflects a financial asset balance totalling Kshs.6,273,235 which however, differs from the net financial position balance of Kshs.6,461,695 reflected in the statement resulting in a difference of Kshs.188,460 between the two balances which should tally. No explanation has been provided by Management for the anomaly.

In the circumstance the accuracy of the statement of financial assets as at 30 June, 2020 has not been confirmed.

817.2 Fund Balance

The statement of financial assets as at 30 June, 2020 reflects a net financial position balance amounting to Kshs.6,461,695. However, the sum of the comparative (2018/19) fund balance component accounts reflected in Note 9.7 to the financial statements is Kshs.6,009,299 against Kshs.6,518,027 reflected in the audited financial statements for the previous year. The variance of Kshs.508,728 between the two sets of records has not been explained.

In the circumstance, the accuracy of the statement of financial assets as at 30 June, 2020 has not been confirmed.
817.3 Cash and Cash Equivalents

The statement of cash flow reflects cash and cash equivalents credit balance at the year-end of Kshs.(733,175) which is at variance with the account’s debit balance amounting to Kshs.9,572 reflected in the statement of financial assets. The difference amounting to Kshs.(742,747) between the cash and cash equivalents balances reflected in the two statements has not been explained.

In the circumstance, the accuracy of the cash and cash equivalents balance amounting to Kshs.9,572 reflected in the statement of financial assets as at 30 June, 2020 has not been confirmed.

817.4 Transfers from Kisumu Urban Project Advance Account

The statement of receipts and payment reflects cumulative transfers from the Project Advance Account (PAA) totalling Kshs.52,147,613 by the year ended 30 June, 2020. However, the funding summary at Note 1.7 to the financial statements reflects transfers totalling Kshs.59,045,119 resulting to a difference of Kshs.6,897,506. No explanation has been provided for the anomaly.

In the circumstance, the accuracy of the cumulative transfers from the PAA totalling Kshs.52,147,613 as at 30 June, 2020 has not been confirmed.

817.5 Presentation of the Financial Statements

The statement of receipts and payments is labeled ‘for the period ended’ instead ‘for year ended’. The label does not tally with the operations of the Project under audit review which are for the year ended 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

818. Purchase of Goods and Services—Expenditure on Fuel

Examination of expenditure records indicated that Kshs.1,200,518 was spent on purchase of fuel, oils and lubricants during the year under review as disclosed in Note 9.4 to the financial statements. The fuel records presented for audit indicated that the fuel was used on heavy machinery such as excavators, landfill compactors and fire engines. However, work tickets for the machines and the vehicles were not availed for audit and as a result, it was not possible to validate the records. Also, the nature of work done by the excavators and landfill compactors in particular was not clear since all road construction work under the project was contracted out.

Further, the purchase of fuel was not included in the procurement plan for the year contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015.
In the circumstances, the purchase of the fuel by the Project was irregular. In addition, there is no confirmation that the expenditure totaling Kshs.1,200,518 was a proper charge on public funds.

819. Outstanding Imprests

The statement of financial assets reflects accounts receivables totalling Kshs.6,263,663 being imprests and advances, as further disclosed in Note 9.8. to the financial statements. However, a review of the financial documents presented for audit indicated that some of the imrests were issued in the year 2015 and had therefore, remained outstanding for five years. Also, imrest warrants were not provided to support the outstanding imrests and as a result, their validity could not be confirmed. The delay in surrender of the imrests contravenes Regulation 93(6) of the Public Finance (National Government) Regulations, 2015 which requires Accounting Officers to recover imrests from the salaries of defaulters and charge interest on delayed surrenders at the prevailing Central Bank of Kenya rates. The schedule also indicated that some officers were issued with multiple imrests contrary to Section 93(4)(c) of the Regulations.

In the circumstances, Management is in breach of the law and further, recoverability of the imrest totalling Kshs.6,263,663 is doubtful.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

CIVIL SERVANTS HOUSING SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

821. Cash and Cash Equivalents

As previously reported, and as disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.2,848,427,463 under cash and cash equivalents. However, there were unbanked receipts amounting to Kshs.263,875,422, out of which receipts amounting to Kshs.37,454,290 were for more than one (1) year. In addition, payments in the bank statement not in the cash book amounted to Kshs.13,373,209 while payments in the cash book not in the bank statement
amounted to Kshs.33,092,751 of which Kshs.16,911,231 related to the period earlier than 30 June, 2019.

Further, the cash and bank balance of Kshs.2,848,427,463 reflected in the statement of financial position is as per the bank balance and not as per the cash book balance. This is contrary to basic accounting principles.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the reported cash and cash equivalents balance of Kshs.2,848,427,463 as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

822. Delay in Completion of Machakos Housing Project

As reported in the previous year, the contract for the project was awarded on 25 August, 2017 at a sum of Kshs.706,500,000 for a duration of ninety-six (96) weeks ending on 21 June 2019. An extension of time was subsequently granted to 20 November, 2020. As at 12 July, 2020, the value of work done and certified amounted to Kshs.687,415,007 representing 97% completion status. This is indicative of the project being behind schedule and the likelihood of cost escalation is high. The Fund has not rendered satisfactory explanation for the delays and the measures being put in place to ensure completion within the revised timelines.

Further, payments amounting to Kshs.10,639,982 was paid out from the contract without adequate supporting documents contrary to Section 99(3) of the Public Finance Management (National Government) Regulations, 2015.

822.1 Delay in Completion of Embu Housing Project

The contract for the project was awarded at a sum of Kshs.843,932,665 for a duration of ninety-six (96) weeks ending on 31 May, 2018. As at August 2020 the value of work done and certified amounted to Kshs.714,176,978 representing 84% completion status. This is indicative of the project being behind schedule and the likelihood of cost escalation is high. The Fund has not rendered satisfactory explanation for the delays and the measures being put in place to ensure completion within the revised timelines.

822.2 Delay in Completion of Kiambu Housing Project

The contract for the project was awarded at a contract sum of Kshs.684,859,645 for a duration of ninety-six (96) weeks ending on 21 June, 2019. As at 12 July, 2020, the value of work done and certified amounted to Kshs.415,912,245 representing 65% completion status. This is indicative of the project being behind schedule and the likelihood of cost escalation is high. The Fund Management has not rendered satisfactory explanation for
the delays and the measures being put in place to ensure completion within the revised timelines.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, RISK MANAGEMENT SYSTEMS AND GOVERNANCE

Conclusion

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

STATE OFFICERS HOUSE MORTGAGE SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

824. Non-Performing Loans

The statement of financial position reflects mortgage interest receivable of Kshs.10,267,863 and long-term receivables from exchange transactions (mortgage recoverable) of Kshs.2,677,058,237. However, a review of loans records revealed that loans totalling Kshs.111,087,255 due from six (6) individuals were not being serviced and had accumulated arrears amounting to Kshs.8,040,701 as at 30 June, 2020. No evidence of measures taken by Management to recover the loans was provided for audit and no provision for doubtful debts has been made against the receivables.

Consequently, the recoverability of loans amounting to Kshs.111,087,255 included in the long-term receivables balance of Kshs.2,677,058,237 and of mortgage interest receivable of Kshs.10,267,863 could not be confirmed.

825. Overstated Long -Term Receivables

The statement of financial position reflects an amount of Kshs.2,677,058,237 in respect of long-term receivables from exchange transactions. However, the supporting schedule provided for audit reflected long-term receivables amounting to Kshs.2,508,421,496 as at 30 June, 2020 resulting to an unexplained difference of Kshs.168,636,741.

In the circumstances, the accuracy of the reported balance of Kshs.2,677,058,237 for long-term receivables could not be confirmed.
Other Matter

826. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,810,029,774 and Kshs.873,465,318 respectively resulting to an under-funding of Kshs.936,564,456 or 52% of the budget. Similarly, the Fund spent a total of Kshs.514,684,136 against an approved budget of Kshs.1,808,380,000 resulting to an under-expenditure of Kshs.1,293,695,864 or 72% of the budget. No explanation was provided for the material differences.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA SLUM UPGRADING LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND (KENSUF)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

829. Long Outstanding Mortgage Arrears

The statement of financial position reflects receivables from exchange transactions balance of Kshs.750,379,608. Included in this amount are mortgage arrears amounting to Kshs.36,830,313 which has been outstanding for long and whose recoverability remains doubtful. Management has not provided any evidence of measures taken to recover the arrears.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

830. Outstanding Temporary Imprest

The statement of financial position reflects a balance of Kshs.2,326,379,681 under current assets which includes an amount of Kshs.3,056,430 being outstanding imprest as at 30 June, 2020. The temporary imprest was not accounted for within the stipulated time of 7 days after returning to duty station contrary to Regulation 93(6) of the Public Finance Management (National Government) Regulations, 2015. Management is in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

831. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

832. Cash and Cash Equivalents

As disclosed in Note 9A to the financial statements, the statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.729,336,006 comprised of Kshs.2,259,045, Kshs.30,054,514 and Kshs.697,022,447 under recurrent, development and deposit accounts respectively. However, review of the records in support of the balances revealed various inconsistencies as follows:

832.1 Recurrent Bank Account

The recurrent bank account amount of Kshs.2,259,045 differed with the cash book balance of Kshs.3,120,236 resulting to an unexplained variance of Kshs.681,191. The balance did not also agree with the trial balances negative amount of Kshs.71,234,209 resulting to an unexplained variance of Kshs.73,493,254.

832.2 Deposit Bank Account

The deposit account balance of Kshs.697,022,447 also differed with the cash book balance of Kshs.14,982,686 resulting to an unexplained variance of Kshs.682,039,761. Further, bank reconciliation statements in support of the balance were not provided for audit verification.

832.3 Cash in Hand

Note 9B to the financial statements reflects a nil cash balance while the trial balance presented in support of the financial statements reflected a balance of Kshs.163,896,334 resulting in an unexplained difference of Kshs.163,896,334.

In the circumstance, it has not been possible to confirm the accuracy and fair statement of the reported cash and cash equivalents balances of Kshs.729,336,006 as at 30 June, 2020.

833. Unresolved Prior Year Audit Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the status of prior year audit issues has not been reflected in the progress on follow up of prior years’ auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.
Other Matter

834. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects a final receipts budget and actual on comparable basis of Kshs.3,551,055,543 and Kshs.3,382,760,539 respectively resulting to an under-funding of Kshs.168,295,004. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.4,704,927,605 and Kshs.3,347,327,415 respectively resulting to an under-expenditure of Kshs.1,357,600,190 or 29% of the budget which occurred mainly under transfers to other government units. The State Department may not have implemented all planned activities and this may have negatively impacted on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

835. Construction Projects

A review of sampled projects undertaken by the State Department revealed a number of shortcomings in the projects implementation as follows:

835.1 Completion of Voi Pool Housing Contract

As previously reported, the proposed completion of Voi Pool Housing contract was awarded at a contract sum of Kshs.747,290,699 for a contract period of one hundred and four (104) weeks commencing 1 December, 2012. The estimated completion date of 30 November, 2014 was later revised to 31 December, 2019. However, as at 30 June, 2020 the works progress was at 51.5% indicating that the project was significantly behind schedule. Further, an amount of Kshs.19,479,450 had already been incurred on interest payments due to late settlement of certified works.

835.2 Completion of Lamu Police Station and Management Housing

As reported previously, the proposed completion of Lamu Police Station and Management Housing project was awarded at a contract sum of Kshs.615,848,997, for a duration of seventy-two (72) weeks. The estimated completion date was to be 19 February, 2014 which was later revised to 19 January, 2017. However, the project progress report dated 14 December, 2017 indicated that an amount of Kshs.267,196,753 representing 46% of the contract sum had been certified and that the project was behind schedule. Further, an amount of Kshs.12,952,170 had been incurred on interest on payments due to late settlement of certified works. Management did not avail any progress reports on the project and it was not possible to ascertain the status of the Project as at 30 June, 2020.
835.3 Proposed Headquarters for Nyandarua County at Ol Kalou

The contract was awarded at a contract sum of Kshs.617,644,564 for a duration of 104 weeks beginning 16 March, 2017 and ending on 23 May, 2019 but was terminated on 25 March, 2019 at a completion stage of 16%. At the time of termination, payments amounting to Kshs.101,623,125 had already been made to the contractor of which Kshs.13,078,306 was for installation of lifts for a structure that had stalled at the foundation level. Further, the contractor had filed claims amounting to Kshs.112,871,385 for idle labor and removal of equipment which Management indicated was under arbitration. As at 30 June, 2020 a total of Kshs.181,625,240 had been paid to the contractor.

835.4 Proposed Completion of Migori District Headquarters

The contract was awarded at a contract sum of Kshs.639,707,128 for a duration of 16 weeks commencing 31 July, 2009 and ending on 27 July, 2011. The total payments as at 30 June, 2020 amounted to Kshs.614,306,179 with completion status of 80% with 315% of time lapsed. The project is significantly behind schedule on its completion.

From the foregoing, the Projects are behind schedule and the likelihood of cost escalations is high. Further, no satisfactory explanations have been provided for the delays in completing the projects. It has therefore, not been possible to confirm whether public resources have been used in an effective manner.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STORES AND SERVICES FUND

Basis for Disclaimer of Opinion

837. Lack of Underlying Records and Budget

The Fund has not availed for audit review, the underlying records used to prepare the financial statements by way of budget, ledgers and trial balance. In addition, the financial statements prepared and presented for audit did not comply with paragraph 24 of the Public Sector Accounting Standards Board (PSASB) reporting framework as they did not include the statement of comparison of budget and actual amounts.
Consequently, it was not possible to confirm the completeness of the financial statements.

838. Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions of Kshs.1,232,261;(2019-Kshs.1,232,261) which has been outstanding for over two (2) years casting doubt to its recoverability. Further, no provision for bad and doubtful debts has been made in the financial statements.

Consequently, the accuracy and fair statement of receivables from exchange transactions balance of Kshs.1,232,261 could not be confirmed.

839. Payments Received in Advance

As reported previously, the statement of financial position reflects payments received in advance balance of Kshs.57,166,713 as at 30 June, 2020. However, documents in support of the balance by way of bank statements and the dates of deposits were not made available for audit review. Further, the amount decreased by Kshs.9,708,535 from Kshs.66,875,248 2018/2019. No supporting documents have been availed to support the decrease.

Under the circumstances, the accuracy and fair statement of the payments received in advance balance of Kshs.57,166,713 could be confirmed.

840. Suspense Account

The statement of financial position reflects suspense account balance of Kshs.19,641,489 as at 30 June, 2020. However, supporting documents for the balance were not availed for audit review.

Consequently, the accuracy and validity of the suspense account balance of Kshs.19,641,489 could be confirmed.

841. Bank Overdraft

The statement of financial position reflects borrowings - bank overdraft (CBK) balance of Kshs.282,619,627 (2018/2020-Kshs. 283,002,643). However, the supporting documents for the balance was not availed for audit review.

Consequently, the accuracy and fair statement of the bank overdraft of Kshs.282,619,267 could be confirmed.

842. Late Submission of Financial Statements

The Fund’s 2019/2020 financial statement were submitted for audit on 11 January, 2201 which is three and half months after the statutory deadline of 30 September. This is contrary to Section 68(2)(k) of the Public Finance Management Act, 2012 that requires the entity’s Accounting Officer to prepare and submit financial statements within three (3) months after the end of the financial year for audit. The Fund is therefore, in breach of the law.
843. Unresolved Prior Year Audit Matters

843.1 Lack of Acknowledgement of Stocks

As reported in the previous year and disclosed in Note 10 to the financial statements, the statement of financial position reflects inventories balance of Kshs.197,048,168; (2018/2019-Kshs.130,736,547). The balance is net of stock valued at Kshs.5,138,117 transferred to the regional offices at Kisumu and Kisii of Kshs.3,162,689 and Kshs.1,975,428 respectively in 2018. However, the returns acknowledging receipt and utilization of the inventories at the regional offices were not available for audit review.

Consequently, the accuracy and fair statement of inventories balance of Kshs.197,048,168 as at 30 June, 2020 could not be confirmed.

843.2 Doubtful Surplus for the Year

As previously reported, the statement of financial performance reflects revenue from exchange transactions - sale of goods of Kshs.383,376; 2018/2019-Kshs.488,800 against a nil expenditure resulting into net surplus of Kshs.383,376. However, there was no matching of revenue and expenditure as required by the matching concept.

In the circumstance, the accuracy and validity of the reported net surplus of Kshs.383,376 for the year ended 30 June, 2020 could not be confirmed.

843.3 Cash and Cash Equivalents

As disclosed in Note 8 to the financial statements, the statement of financial position reflected cash and cash equivalents balance of Kshs.479,031 (2018/2019-Kshs.9,804,190). However, the following unsatisfactory issues were noted:

843.3.1 Cash in Transit

Included in the cash and cash equivalents balance of Kshs.9,804,190 was Kshs.377,860 reflected as cash in transit that has been outstanding since 2016/2017 and is unsupported.

843.3.2 Unreconciled Balances

The cash book in support of the cash and cash equivalents balance of Kshs.479,031 (2018/2019-Kshs.9,804,190) reflected an amount of Kshs.4,185,991 resulting to an unreconciled difference of Kshs.5,618,199. Further, the statements of cash flows reflected cash and cash equivalents balance of Kshs.64,459,585 resulting to an unreconciled variance of Kshs.54,655,395.

Under the circumstances, the accuracy and fair statement of cash and cash equivalents balance of Kshs.479,031 as at 30 June, 2020 could not be confirmed.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

845. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.
MINISTRY OF WATER AND SANITATION – VOTE 1107

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

846. Unconfirmed Direct Payments

The statement of receipts and payments reflects transfers to other government units amounting to Kshs.44,537,950,942 which, as disclosed in Note 7 to the financial statements, includes direct payments totaling Kshs.14,302,775,320 made by the Ministry on behalf of various self-reporting entities. However, Management has not provided documentary confirmations of payments amounting to Kshs.9,294,463,628 by the receiving entities for audit verification.

In the circumstances, it has not been possible to ascertain the completeness and accuracy of the reported direct payments balance of Kshs.14,302,775,320.

847. Variances Between Financial Statements and Confirmations from Other Government Agencies

Included in transfers to other government units balance of Kshs.44,537,950,942 are transfers made to various self-reporting entities. However, some of the transfers differ with the balances confirmed received by the receiving entities as detailed below:

<table>
<thead>
<tr>
<th>Government Agency</th>
<th>Financial Statements (Kshs.)</th>
<th>Confirmation from Receiving Entities (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanathi Water Works Development Agency (Development)</td>
<td>594,486,283</td>
<td>591,956,283</td>
<td>2,530,000</td>
</tr>
<tr>
<td>Rift Valley Water Works Development Agency (Development)</td>
<td>2,341,250,000</td>
<td>2,042,500,000</td>
<td>298,750,000</td>
</tr>
<tr>
<td>National Water Harvesting and Storage Authority (Development)</td>
<td>1,709,485,831</td>
<td>1,531,485,831</td>
<td>178,000,000</td>
</tr>
<tr>
<td>Thwake Multipurpose Project (Development)</td>
<td>4,558,562,930</td>
<td>4,550,837,635</td>
<td>7,725,295</td>
</tr>
<tr>
<td>Kenya Water Security and Climate Resilience Project (Development and AIA)</td>
<td>2,891,773,892</td>
<td>3,303,403,461</td>
<td>(411,629,569)</td>
</tr>
<tr>
<td>Coastal Region Water Security and Climate Resilience Project (Development and AIA)</td>
<td>2,560,291,339</td>
<td>2,550,676,785</td>
<td>9,614,554</td>
</tr>
<tr>
<td>Government Agency</td>
<td>Financial Statements (Kshs.)</td>
<td>Confirmation from Receiving Entities (Kshs.)</td>
<td>Variance (Kshs.)</td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
<td>-----------------------------</td>
<td>---------------------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Water and Sanitation Development Project (Development)</td>
<td>207,948,603</td>
<td>209,150,026</td>
<td>(1,201,423)</td>
</tr>
<tr>
<td>Tana Water Works Development Agency (AIA)</td>
<td>1,311,182,042</td>
<td>1,392,247,242</td>
<td>(81,065,200)</td>
</tr>
</tbody>
</table>

In the absence of explanation or reconciliation of the differences between the two sets of records, it has not been possible to confirm the accuracy of the reported balance of Kshs.44,537,950,942 under transfers to other government units. Similarly, it has not been possible to confirm the accuracy of the Kshs.4,558,872,930 reflected in the financial statements under acquisition of assets.

Other Matter

848. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects total budgeted receipts of Kshs.61,006,675,053 against actual receipts of Kshs.49,720,190,456, resulting to underfunding of Kshs.11,286,484,598 or 19%. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.61,006,675,053 and Kshs.49,720,171,437 respectively resulting to an underexpenditure of Kshs.11,286,503,616 or 19% of the budget which occurred mainly under transfers to other government units. Although Management attributed the underfunding to lack of Exchequer releases from The National Treasury and lengthy procurement process, the Ministry may not have implemented all planned activities, impacting negatively on delivery of services to the public.

849. Inconsistency in Budgeting and Reporting for Projects

Review of the Ministry’s budget and financial statements revealed inconsistencies on how projects were budgeted for and reported in the financial statements. For instance, Thwake Multipurpose Development Project was budgeted for and reported under acquisition of assets while other similar projects were budgeted for and reported under transfers to other government units. In addition, it was observed that a number of Headquarter projects were budgeted for and reported under transfers to other government units, yet the amounts were not transferred to other government agencies.

In the absence of consistent budget procedures and reporting for similar projects, it may not be possible to get comparable project information from the Ministry’s financial statements as presented.
850. Delay of Exchequer Releases

Review of records maintained by the Ministry in relation to Exchequer Releases revealed that the Ministry received Kshs.14,007,760,890 as Exchequer releases from The National Treasury in the months of June and July ,2020, as detailed below.

<table>
<thead>
<tr>
<th>Date of Receipt</th>
<th>Recurrent / Development</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 June 2020</td>
<td>Development</td>
<td>300,000,000</td>
</tr>
<tr>
<td>9 June 2020</td>
<td>Development</td>
<td>5,371,747,307</td>
</tr>
<tr>
<td>12 June 2020</td>
<td>Development</td>
<td>28,604,196</td>
</tr>
<tr>
<td>15 June 2020</td>
<td>Development</td>
<td>1,425,200,000</td>
</tr>
<tr>
<td>19 June 2020</td>
<td>Development</td>
<td>158,338,300</td>
</tr>
<tr>
<td>25 June 2020</td>
<td>Development</td>
<td>200,000,000</td>
</tr>
<tr>
<td>25 June 2020</td>
<td>Recurrent</td>
<td>286,439,258</td>
</tr>
<tr>
<td>26 June 2020</td>
<td>Development</td>
<td>2,112,797,670</td>
</tr>
<tr>
<td>30 June 2020</td>
<td>Recurrent</td>
<td>19,250,782</td>
</tr>
<tr>
<td>2 July 2020</td>
<td>Development</td>
<td>105,383,377</td>
</tr>
<tr>
<td>2 July 2020</td>
<td>Development</td>
<td>4,000,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>14,007,760,890</strong></td>
</tr>
</tbody>
</table>

The delay in Exchequer releases may have resulted in low absorption of the budget and this may have affected the development programmes of the Ministry and provision of services to the public.

851. Pending Bills

Note 15.1 to the financial statements reflects pending bills of Kshs.42,157,239 which were not paid during the year under review but were instead carried forward to the 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year’s provisions, since the bills form the first charge to that year’s budget provisions.

852. Unresolved Prior Year Matters

As disclosed under progress on follow up of prior years’ auditor’s recommendations section of the financial statements, some of the issues reported in the prior year, remained unresolved as at 30 June, 2020.

REPORT ON LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

853. Failure to Establish the Water Tribunal

The Water Act, 2016 established a Water Tribunal with the powers to hear and determine appeals from any person or institution affected by the decisions or order of the Cabinet
Secretary, Water Resources Authority and Water Services Regulatory Board or of any person acting under the authority of the Cabinet Secretary, the Authority and Regulatory Board. According to the Act, the Tribunal was to commence its functions upon commencement of the Act, and all the assets, property, rights, liabilities, obligations, agreements and other arrangements entered into by the Water Appeals Board, established under the repealed Water Act, 2002, were to be transferred to the Water Tribunal. However, by the time of this audit in December 2020, the Ministry had not gazetted the Water Tribunal and therefore, it had no legal mandate to hear disputes or appeals inherited from the Water Appeals Board or new appeals. Failure to operationalize the Tribunal may result in backlog of cases, delayed justice to stakeholders and a breach of the law.

854. Expired Performance Security for Sagana River Restoration Project

The Ministry entered into a contract for the Sagana River Restoration Project on 9 January, 2019 at a contract price of Kshs.1,194,801,722. The expected construction period for the Project was eighteen (18) months. The scope of work included construction of an intake, two dams on Kahiti River, a balancing tank, six (6) distribution tanks and wayleaves. A review of the Project’s implementation documents revealed that the contractor’s performance guarantee expired on 9 July, 2020, and it had not been renewed by the time of this audit in December, 2020. This is contrary to Section 142 of the Public Procurement and Assets Disposal Act, 2015, which requires a contractor to provide performance security for construction works.

855. Delay in Project Implementation due to Delayed Handover of the Site

The Ministry entered into a contract for the Maragua Bulk Water Supply and Irrigation Project on 14 February, 2020 at a contract price of Kshs.889,397,520. The expected construction period was eighteen (18) months. The scope of work included construction of a 14-meter-high composite dam, 8,000 m3 per day full water treatment plant at Gakaigo and supply and installation of all valves and fittings for the pipelines and other ancillary works. A review of the Project records revealed that the construction of the water treatment plant of 8,000 m3 per day capacity was supposed to be constructed on a land parcel owned by Nginda Coffee Farmer’s Co-operative Society Limited. By the time of this audit in December 2020, the co-operative members had not handed over the site to the Ministry, to pave way for the construction of the treatment plant. This may result in delays in implementation of the Project. This is contrary to sub clause 20.1 of the general conditions of the contract, which required the employer to give possession of the site to the contractor within 28 days of signing of the contract, and in the event that this was not done, the employer would be considered to have delayed commencement of the Project, and this would require compensation.

Consequently, the delay in site handover may result into additional Project costs and delay in achievement of Project objectives. Further, additional Project costs will give rise to lack of value for money and wastage of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

UPPER TANA CATCHMENT NATURAL RESOURCES MANAGEMENT PROJECT IFAD LOAN NO.1-867-KE AND SPANISH TRUST FUND LOAN NO.1-E-8-KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

858. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects approved final budgeted expenditure of Kshs.659,050,821 against actual expenditure of Kshs.521,234,691 resulting to an under-expenditure of Kshs.137,816,130 or 21%. Management has attributed the under-expenditure to the Covid-19 Pandemic which negatively impacted on the Project implementation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

859. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

COASTAL REGION WATER SECURITY AND CLIMATE RESILIENCE PROJECT (IDA CR. NO.5543-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

862. Low Absorption of Funds

The annual report for the year under review indicates that the Project has been in operation for five (5) years, which covers 83% of its six (6) year duration expected to end in December 2021. However, as at 30 June, 2020, the Project had only absorbed Kshs.3,147,037,049 out of the total loan amount of Kshs.20,000,000,000 (USD 200 million) translating to 15% of the total funding. In the year under review, the Project failed to utilize Kshs.849,323,215 or 25% of its annual budget.

In view of the above indicators, it is unlikely that the Project will utilize the whole loan amount by the time it should be completed, and its expected outputs and objectives may not be achieved.

863. Delayed Implementation of Resettlement Plan for Mwache Multipurpose Dam Project

Review of Project records revealed that the Ministry of Water, Sanitation and Irrigation transferred Kshs.650,000,000 to the National Land Commission for compensation for land for the Mwache Project. However, as at December 2020, the compensation process was yet to be completed, more than five (5) years after the first transfer was made.

Further, the Ministry awarded the contract for construction of the Dam on 21 March, 2019. However, by the time of audit in December 2020, the contractor had not been issued with a commencement of work notice, since the land compensation process was yet to be
finalized. The delayed compensation to land owners may make it difficult to achieve the Project’s objectives within the funding period.

864. Pending Bills

Note 10.1 to the financial statements reflects pending bills totaling to Kshs.2,939,056 as at 30 June, 2020. Management has not provided an explanation for non-payment of the pending bills. The Project is at risk of incurring additional interest costs and penalties with the continued delay in making payments of the pending bills.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

865. Unrecovered Funds on Terminated Contract

The Ministry of Water, Sanitation and Irrigation, through Coastal Region Water Security and Climate Resilience Project entered into a contract for construction of Rain Water Harvesting Facilities and Sanitation blocks, for schools in Kwale County Phase 2. This contract, which was signed on 22 October, 2018 was for a sum of Kshs.55,113,821. However, on 9 June, 2020, the contract was terminated with approximately 90% of the works pending and the contractor was paid an amount of Kshs.20,410,667 as advance and certified work done. A joint inspection team determined that the contractor was to pay the Ministry Kshs.27,752,838 as penalties on value of uncompleted work and unrecovered advances. By the time of this audit in December 2020, this payment was yet to be received by the Ministry.

Under the circumstances, the intended objectives of the Project may not be achieved and there may be loss of Project funds.

866. Sustainability of Livelihood Programme

As reported in the previous year, the Project disbursed grants totalling Kshs.22,465,136 to 62 (sixty-two) community groups in Kwale County under the Livelihood Programme. The programme was to carry out a series of activities aimed at improving sustainable livelihoods and sharing the Project’s benefits in the rural areas of the County. The activities included establishment of tree nurseries, greenhouses and horticulture, dairy and poultry farming, among other economic activities. However, an audit inspection carried out in September, 2019 revealed that some beneficiary groups diverted funds to activities not stated in their respective Grant Agreements. In addition, the groups did not keep proper records, their incomes did not cover the incurred expenses and as a result, the activities were unlikely to be sustained for long. Management has not provided evidence to indicate that the shortcomings have been addressed or measures taken to ensure that the programme achieves the desired objectives.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

THWAKE MULTI-PURPOSE WATER DEVELOPMENT PROGRAM PHASE-I (AfDB LOAN NO. 2100150029993, NO. 2000200003351 AND NO. 5050200000501; AND AfDB GRANT NO. 2100155025973)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

869. Funding and Continuity of the Program

As reported in the previous year, Phase I of the Program, which entails construction of a Dam and associated structures, is currently under implementation. As at 30 June, 2020, approximately 37% of the work had been completed and the programme of work indicated that the Dam will be completed by September, 2022.

The Program is divided into four phases with an estimated cost of Kshs.81.63 billion.

Although the African Development Bank (AfDB) and the Government of Kenya (GOK) funding for the first phase of Kshs.42.365 billion has been approved, funding amounting to Kshs.39.845 billion in respect to the remaining three phases is yet to be secured, planned or sought from financiers.

Consequently, it is not clear how the three phases will be financed in the ensuing period towards the Program completion.

870. Water Pollution in Athi River

The Thwake Multipurpose Dam is expected to draw water from Athi River whose main tributary is Nairobi River. Studies carried out by various agencies indicate that the Nairobi River is heavily polluted with heavy metal and the water is unfit for human consumption.
There was no evidence of efforts by the implementing agency to mitigate against the risk and ensure that the river will be free from pollutants and fit for human consumption before the expected completion of the Program in November, 2022.

Consequently, in absence of any mitigation efforts to avert the pollution, the water and the food crops to be grown under irrigation in the proposed dam may not be fit for human consumption and the program’s objective may not be achieved.

871. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects that the Program received an amount of Kshs.4,550,837,635 or 89% against the approved budget of Kshs.5,103,000,000. However, the project utilized an amount of Kshs.4,552,473,330 against an approved budget of Kshs.5,103,000,000 resulting into under expenditure of Kshs.550,526,670 or 11% of the budget. Management has attributed the under absorption to failure by the National Land Commission to carry out planned land compensation due to delays in valuation.

In the circumstances, the under absorption of the approved budget is an indication that the planned activities may not have been implemented by the project management leading to non-provision of services to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

872. Contract Variation on Motor Vehicles

It was observed that item no. 1A.36 and 1A.37 b of the Bill of Quantities for the construction contract for Thwake Multi-Purpose Dam required the contractor to supply ten (10) Toyota Land Cruisers and fifteen (15) Toyota Hilux for the employer and engineer, at a cost of Kshs.135,817,768. However, review of the interim payment certificate no. 1 revealed that changes in specifications of the vehicles by the employer resulted to an upward cost variation by Kshs.37,604,672, representing a variation of 28% against the allowable 25%. There was no evidence that the changes in specifications were duly approved and no explanation on why the specifications were not included in the tender documents at the bidding stage. The variation was contrary to Section 139(1)(a) of the Public Procurement and Assets Disposal Act, 2015 which provides that an amendment or a variation to a contract resulting from a procurement proceeding is effective only if the variation or amendment has been approved in writing, by the respective tender awarding authority, within a procuring entity.

Consequently, the Management is in breach of Law.
873. Non-Construction of Temporary Site Offices

Item No. 1.A/1.30 of the Bill of Quantities for construction contract for the Dam required the contractor to design, construct and furnish temporary site offices for the Employer and Engineer, including air conditioning, office equipment, computers, printers, copiers, computer network, software, among others, all at a cost of Kshs.22,164,684. Review of Program documents revealed that the contactor provided furniture and other equipment at a cost of Kshs.19,994,419. However, there was no evidence that site offices were constructed as stipulated in the contract. Field verification revealed that the contractor had opted for a lease of building for the Employer and Engineer. There was no evidence that the change was duly approved. In addition, it was not clear whether the balance of Kshs.2,170,265 on the item would cover the lease charges on the property for the construction period.

Consequently, the Program may incur cost overruns, arising from the changes thereby leading to wastage of public resources over the project period.

874. Delayed Development of Physical Hydraulic Model

Item No.1C.3 of the Dam construction contract provided for developing and running a physical hydraulic model as per the specifications at a cost of Kshs.30,000,000. Further, Section S1.38.3(3) of the contract specifications states that the contractor shall be prepared to finance the cost of the hydraulic model immediately upon signing of the contract and issuance of instruction to commence the work by the Engineer. This cost was to be reimbursed to the contractor through the interim payment certificates in accordance with the contract. A review of the Program documents revealed that the contractor was yet to procure the physical hydraulic model test which may cause possible delays in the concrete works for the main spillway. Further, field inspection at the Program’s site revealed that the contractor had carried out substantial excavation works on the main spillway yet the design was yet to be tested.

Consequently, delays in development of the hydraulic model may result in delayed Program implementation.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

875. Proper Management and Custody of Project Vehicles

Review of the Program’s documents revealed that the Employer and Engineer received twenty-six (26) vehicles from the contractor. However, the Program vehicles which have private number plates, were not branded and did not bear any Program identification. Consequently, these vehicles were exposed to the risk of misuse or loss.
In absence of such specific distinction of the Program’s assets from other Departments’, the motor vehicles and other Program’s assets may be misused or employed to activities other than those designated by the Program.

KENYA ITALY DEBT FOR DEVELOPMENT PROGRAMME

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

877. Long Outstanding Advance

According to Article III.1 of the Programme’s Financing Agreement, the Programme funds should be utilized by the Government of Kenya on goods and services for implementation of jointly agreed initiatives within the framework of the poverty eradication strategies. However, as previously reported, and as disclosed in Note 7.2 to the financial statements, the statement of financial assets reflects a balance of Kshs.12,991,890 under imprest and advances. The amount was advanced to the Ministry of Water and Irrigation on 17 September, 2014 to pay an outstanding travel bill due to a service provider. The advanced amount had not been refunded to the Programme by the time of concluding this audit in November, 2020 - more than six years since the advance was made.

In the circumstances, the advance was not utilized for the Programme activities and the Ministry risks being required by the Government of Italy to make a refund as provided for under Article II.6 of the Financing Agreement.

878. Slow Absorption of Programme Funds

During the year under review, the Programme received Kshs.31,000,000 for the implementation of a water Programme in Homa Bay County. However, no disbursement had been made to the water Programme as at the close of the financial year and the funds were held in the Programme’s bank account for over eleven (11) months, hence the water programme was not implemented.

In addition, the Programme bank account reflected a balance brought forward of Kshs.87,769,824 from 2018/2019 financial year. According to the Programme Management, the funds were for ongoing Projects whose disbursements had not been
completed. However, only an amount of Kshs.6,237,004 was disbursed by the Programme during the year under review.

Consequently, the slow absorption of the Programme funds may have resulted in delayed implementation of the planned Project activities thus the possibility of the Programme not achieving its intended objectives.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA WATER SECURITY AND CLIMATE RESILIENCE PROJECT (IDA CR. NO. 5268/5674-KE AND GRANT NO. TFOA0761A

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

881. Withdrawal from Special Account

During the year under review USD 6,042,000, an equivalent of Kshs.645,164,760 was withdrawn from the Project special account for transmission to the Project. However, the Project account was credited with Kshs.636,028,486 resulting to a variance of Kshs.9,136,274. According to Management, Kshs.645,164,760 was transferred by The National Treasury to the Ministry of Water, Sanitation and Irrigation but the Ministry could only transfer to the Project an amount of Kshs.636,028,486 since the budget available for the Project could not accommodate the difference. Although, the Ministry wrote to The National Treasury vide letter dated 27 June, 2020, for the amount to be reversed to the special account, the reversal had not been effected by the time of the audit in December, 2020. Consequently, Kshs.9,136,274 withdrawn from the special account had not been received by the Project as at 30 June, 2020.
882. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects approved receipts budget and actual on comparable basis amount of Kshs.3,823,500,000 and Kshs.3,305,704,604, respectively, resulting to a shortfall in receipts of Kshs.517,795,396 or 14%. Further, the Project’s approved expenditure budget was Kshs.3,823,500,000 while the actual expenditure was Kshs.3,039,748,969, resulting to under-expenditure of Kshs.783,751,031 or 20% of the budget. Consequently, planned activities of the Project may possibly not have been implemented, thus affecting achievement of the intended goals of the Project.

883. Unutilized Funds Transferred to the National Lands Commission

As reported in the previous year report, the Project disbursed Kshs.500,000,000 to the National Lands Commission during the financial year 2018/2019, bringing the total amount disbursed to the Commission to Kshs.650,000,000, for compensation of persons affected by the construction of Mwache Dam. The basis for the disbursement was not clear since the Project had not provided requisition from the Commission. In addition, the National Lands Commission had not provided any expenditure returns for the advances made since June, 2016, while there was no evidence of compensation to any of the intended beneficiaries. A review of current year records revealed that the Commission had not provided evidence that the advanced amount had been utilized to compensate the affected persons.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

884. Interest on Delayed Payments to Contractors

Review of the Project’s records for Lower Nzoia Irrigation Project revealed contractors’ claims of Kshs.41,259,407 on account of interest on delayed payments, for both Lot I and II, as at 30 June, 2020. Further, according to the records, the contractors had not been paid as at November, 2020 and the Project risks incurring additional interest charges which are avoidable.

885. Irregular Engagement of Project Consultant

As reported in the previous year, the Project through the Ministry of Water, Sanitation and irrigation entered into a contract with a consultant on 31 January, 2017, for individual consultancy services. The consultant, who was a Finance Officer at The National Treasury was supposed to apply for unpaid leave following her appointment. Although the officer applied for leave on 6 February, 2017, there was no evidence that the leave was granted. This implies that the officer was on two employment terms and enjoyed government pension benefits within the period she served in the Project, contrary to Section J.13(2)(V) of the Human Resource Policy and Procedure Manual for Public
Service, 2016. There was no evidence that the pension was remitted to the relevant authorities. Further, it was not clear why the officer was engaged and contracted before her official release by The National Treasury.

In December, 2018, ten (10) months after terminating the contract, the officer requested The National Treasury to treat her contract period as a secondment which was forwarded to the Public Service Commission on February, 2019 and approved in March, 2019. The Project paid the officer Kshs.547,980 being consultancy fee for the period, December, 2017 to March, 2019. Although the payments were made net of the officer’s gross salary, there was no evidence of remittance of pension to the relevant authorities. In addition, it was not clear how the unpaid leave initially requested and not approved, was changed to a secondment. The propriety of the secondment could not be verified.


886. Delayed Compensation of Project Affected Persons

A review of Project documents revealed that the Project Monitoring Unit, transferred to the National Lands Commission Kshs.250,000,000 and Kshs.200,000,000, on 13 December, 2016 and 4 December, 2017 respectively. These funds were meant for compensation of Project affected persons, for Lower Nzoia Irrigation Project. However, by the time of concluding this audit in November, 2020, the compensation process was yet to be completed and the Commission had only utilized Kshs.262,678,184 for the compensation. Consequently, delays in compensation have resulted to delayed possession of Project sites and the contractors have submitted claims of USD 1,438,267 and USD 99,236 for Lot I and Lot II, respectively.

The contractor’s claims are avoidable expenditure which could have been utilized on other project activities. Therefore, public resources were not utilized in an effective way.

887. Delayed Completion of Works for the Improvement of Water Services in West Mainland Area

The Ministry of Water, Sanitation and Irrigation entered into a contract for the Improvement of Water Services in West Mainland Area, at a contract sum of Kshs.404,375,960. The Project was to be completed within eighteen (18) months commencing 19 March, 2018, and the expected completion date was extended to 30 June, 2020. A review of the Project’s documents, physical verification and inquiries from the consultant, during an audit field inspection in November, 2020 revealed that, the Project was 93% complete and the contractor was yet to be issued with a substantial completion certificate. In addition, the contractor was still undertaking works within the defects liability period and it was not clear whether the remaining works will be completed by the end of the defects liability period. The works performed during the defects liability period may not be monitored adequately for defects or corrective action taken appropriately.
Non-Review of Contract Terms Upon Scope Reduction

The Ministry of Water, Sanitation and Irrigation, through the Kenya Water Security and Climate Resilience Project entered into a contract dated 25 May, 2018 for consultancy services for supervision of construction works for the improvement of water services in Mombasa County, at a contract price of Kshs.63,118,680. A review of the contract indicated that the consultant was supposed to carry out supervision and contract management for both West Mainland and North Mainland construction works. A financial restructuring on the Project in March, 2020 resulted in removal of the construction works for North Mainland from the Project’s approved work plan. However, the contract for the supervision work was not reviewed to factor in the reduced scope. As at 30 June, 2020, the consultant had raised six invoices totalling Kshs.42,377,982 representing 67% of the total contract price, yet the supervision was only for the construction works for West mainland. Consequently, the Project may not receive value for money in relation to the supervision contract.

Delayed Completion of Works on Installation and Commissioning of Ground Water Monitoring Wells Project

The Ministry of Water, Sanitation and Irrigation, through Kenya Water Security and Climate Resilience Project, entered into contracts with various contractors for Installation and Commissioning of Ground Water Monitoring Wells Project, on 20 August, 2018. The instructions for commencement of works were issued on 1 October, 2018, for a period of 4 months with an expected completion date of 31 January, 2019. A review of Project records for August, 2020 revealed that the works had not been completed and all the drilled wells had not been installed with data loggers, hence they were not relaying information as expected. In addition, 12 drilled wells did not meet the required specifications. As a result, the Project may have not achieved its intended objectives with the delayed completion of works.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

Project not Subjected to Internal Audit Review

Paragraph 9.2 of the Projects’ financial management manual provides that the Internal Auditor seconded to the Ministry of Water and Sanitation by The National Treasury will conduct annual fiduciary reviews on the Project funds, based on an annual risk assessment of the Project. The annual fiduciary review report by the internal audit would inform the Project Monitoring Unit and the Principal Secretary, Ministry of Water, Sanitation and Irrigation on operational and organizational risks in the Project. Similarly, the internal audit functions in each of the executing agencies should ensure risk-based fiduciary review of Project activities at the Project Implementing Units. However, in the year under review, there was no evidence that the fiduciary review was carried out. In
the circumstance, weaknesses in the internal control and risk management system for the Project may not be addressed in a timely manner.

891. Inconsistent Project Implementation Activity

As previously reported, the Ministry of Water, Sanitation and Irrigation, through Kenya Water Security and Climate Resilience Project, entered into a contract with a local company on 2 February, 2017, for improvement works for water services in Likoni, Mombasa County. This Project, whose contract price was Kshs.542,441,544 formed Phase I of the entire Project. The Project was meant to address the problem of water in Likoni area and to supply water from Tiwi borehole. Included in the contract was a pipeline designed to carry at least 2000m³ of water. However, it was observed that the Tiwi borehole currently produces 1000m³ of water per day, which is far less than the minimum required capacity of the new pipeline. According to Management, the extra capacity of water was to be provided by sinking more boreholes, and this had been agreed upon between the Ministry and the relevant water stakeholders, at the time of design of the pipeline. However, Management has not provided any documentary evidence to this effect.

892. Sustainability of Rehabilitation of Leshau - Karegoini Water Supply Project

The Ministry of Water, Sanitation and Irrigation entered into a contract for rehabilitation of Leshau - Karegoini Water Supply Project in Nyandarua County, at a contract sum of Kshs.96,772,363. A review of the Project documents revealed that the objective of the Project was to have a distribution network to ensure that all tanks are interconnected and main trading centers are connected. However, review of the Project documents, together with audit field inspection carried out in November, 2020 revealed that the consumers were yet to be connected to the distribution network.

Further, it was not clear how the maintenance costs for the pump house, tanks and pipes were to be financed, since the Project was yet to be officially handed over to Nyandarua Water and Sewerage Company, and there was no evidence of commitment by the Company to undertake the maintenance. In addition, it was observed that some collection tanks were leaking and were not rehabilitated under the contract. In the circumstances, it was not possible to confirm the sustainability of the Project.

WATER AND SANITATION DEVELOPMENT PROJECT (IDA CR. NO.6029/6030-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

893. There were no material issues noted during the audit of the financial statements of the Project.
Other Matter

894. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects approved receipts budget and actual on comparable basis amount of Kshs.1,350,000,000 and Kshs.1,066,788,629, respectively, resulting to a shortfall in receipts of Kshs.283,211,371 or 21%. Further, the Project’s approved expenditure budget was Kshs.1,350,000,000 while the actual expenditure was Kshs.966,984,013, resulting to under-expenditure of Kshs.383,015,988 representing 28% of the budget.

In addition, as disclosed in Note 1.7 on the Funding Summary, the Project has utilized a total of Kshs.1,517,058,214 out of the total funding of Kshs.33 billion, which is 4.6 % absorption rate, yet the Project is at 60% of the five (5) year project duration expected to end on 31 October, 2022. Under the circumstances, the planned Project activities may not be implemented within the remaining project period, thus likely to negatively affect the achievement of the intended goals of the Project.

895. Delayed Commencement of Works

The Management, through Mombasa Water and Sewerage Company, the Project implementing agency, entered into three contracts on Improvement for Storm Water Outlets and combined Sewer Overflows in Mombasa Island, Rehabilitation / Extension of Mombasa Water Supply Distribution and Rehabilitation of the Kipevu Waste Water Treatment System, at a total contract sum of Kshs.1,448,915,487. The contracts were signed between 3 September, 2019 and 9 September, 2019. However, by the time of finalizing the audit in November 2020, the contractors were yet to carry out site mobilization, despite having received advance payments totalling Kshs.217,337,324, for the three contracts, between 5 March, 2020 and 17 March, 2020. Consequently, the delay in commencement of work may result to delayed achievement of the Project objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

897. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS
Unqualified Opinion

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

Other Matter

899. Excess Funds Drawn by the Project

Note 1.7 on the funding summary under the Project information indicates that the Donor had made commitments amounting to Kshs.1,320,593,041 equivalent of UA10,390,000. However, actual drawdowns as at 30 June, 2020 amounted to Kshs.1,447,105,994 equivalent to UA11,385,363 indicating that the Project had drawn in excess of the funds committed by Kshs.126,512,953. Similarly, the Government of Kenya counterpart funds commitment was Kshs.186,132,490 equivalent to UA1,450,000. However, Kshs.270,248,301 equivalent to UA2,105,275 of the counter part funds had been drawn indicating that the Project had also drawn in excess of the committed counter part funds by Kshs.84,115,811.

900. Long Over Due and Inaccurate Pending Bills

Annex 9.6 to the financial statements reflects pending bills of Kshs.470,704,246 as at 30 June, 2020 which includes some bills related to the financial year 2016/17. The increase in pending bills by Kshs.133,565,513 from the bills of Kshs.337,138,733 as at 30 June, 2019 is attributed to the interest charged on overdue pending bills and claims for idle machinery of Kshs.151,495,770 levied by the contractor as per clause 3.5, 14.8 & 20.1 of the contract agreement. With the funds disbursed to the Project having surpassed the amount allocated to the Project by Kshs.210,628,764, and with a closing bank balance of Kshs.18,874, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

In addition, the total pending bills of Kshs.337,138,733 as at 30 June, 2019 shown under Note 9.6 differed with the audited balance of Kshs.337,125,361 by Kshs.13,372.
901. Unresolved Prior Year Audit Issues

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Other Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not disclosed all the issues under the progress on follow up of the auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT GOVERNANCE

Conclusion

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

LAKE VICTORIA WATER AND SANITATION PROJECT – NUMBER CONVENTION AFD CKE 1093 02 M – LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

905. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.86,000,000 and Kshs.58,630,470 respectively resulting to an under-funding of Kshs.27,369,530 or 32% of the budget. Similarly, the Project expended Kshs.58,630,470 against an approved budget of Kshs.86,000,000
resulting to an under-expenditure of Kshs.27,369,530 or 32% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

906. Failure to Prepare a Fixed Assets Register

The Management failed to prepare the summary of fixed assets register contrary to the requirements of the Public Sector Accounting Standards Board (PSASB) reporting template released in June, 2020, which requires that a summary of the fixed asset register be provided. The financial statements have not been prepared in accordance with the Accounting Standards as prescribed by the PSASB for the year ended 30 June, 2020.

The Management is therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT GOVERNANCE

Conclusion

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

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA CREDIT NUMBER 5103-KE) - COAST WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

908. There were no material issues noted during the audit of the financial statements of the Project.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

909. Acquisition of Non-Current Assets – Idle Equipment

Note 8.6 to the financial statements for the year ended 30 June, 2020 reflects acquisition of non-current assets – cumulative expenditure to date amounting to Kshs.524,279,535. As previously reported, an amount of Kshs.73,470,703 charged to purchase of office equipment relates to supply, installation and maintenance of a billing system for six Water Service Providers (WSPs) in Mombasa, Kwale, Kilifi, Malindi, Taita Taveta and Tana-River for which a contract was awarded on 26 October, 2016. The contract delivery date was 26 February, 2017 at a contract sum of Kshs.81,374,583.67. However, as at the time of audit in October, 2020, none of the six (6) companies had implemented the systems and the equipment was lying idle.

The Project Management did not provide evidence of needs assessment or requisition by the Water Service Providers (WSPs) for a new billing system prior to contracting another firm in the year 2016 to supply, install and maintain the same. A review of the position at the time of audit in the month of October, 2020, confirmed that the position had not changed.

Consequently, the value for money of expenditure on office equipment valued at Kshs.73,470,703 could not be ascertained.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA CR. NO.5103-KE) – LAKE VICTORIA NORTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

911. Unsupported Expenditure

As disclosed in Note 8.8 to the financial statement, the statement of receipts and payments reflects a balance of Kshs.36,723,050 under operating costs. The balance
includes an amount of Kshs.1,492,500 spent on the identification of handwashing points in response to the Covid-19 pandemic. However, the expenditure was incurred without provision in the approved budget for the financial year contrary to Regulations 43 (b) and 44 (2) of the Public Finance Management (National Government) Regulations, 2015.

Under the circumstances, the accuracy and validity of operating costs of Kshs.36,723,050 as at 30 June, 2020 could not be confirmed.

912. Inaccuracy in Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a bank balance of Kshs.1,671,070 under cash and cash equivalents. Included in the bank reconciliation statement for the month of June, 2020, were unpresented cheques of Kshs.129,768,399. However, a review of the payment vouchers revealed that four (4) payment vouchers totalling Kshs.15,327,098 were issued in July, 2020, and did not therefore qualify to be classified as unpresented cheques as at 30 June, 2020.

In the circumstances, it has not been possible to confirm the accuracy of cash and cash equivalents of Kshs.1,671,070 as at 30 June, 2020.

Other Matter

913. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.466,500,000 and Kshs.411,304,618 respectively, resulting to an under-funding of Kshs.55,195,382 or 12% of the budget. Similarly, the statement reflects final payments budget and actual on comparable basis of Kshs.466,500,000 and Kshs.410,051,266 respectively resulting to an under-expenditure of Kshs.56,448,734 or 12% of the budget. The underfunding and under expenditure affected the planned activities and could have impacted negatively on service delivery to the public.

914. Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under Other Matter and the Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved all the issues or explained the failure to capture the unresolved issues in the progress on follow up of auditor’s recommendations contrary to the provisions of the Public Sector Accounting Standards Board (PSASB) templates and The National Treasury’s Circular. The matters have remained unresolved as at 30 June, 2020.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

915. Loan - Goods, Works and Services

As disclosed in Note 8.6 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.161,212,253 comprising of civil works of Kshs.83,247,933; consultancies of Kshs.4,972,955; supply and delivery of goods for water works in Mumias and Kimilili towns of Kshs.72,073,340 and training services of Kshs.918,025. However, the following unsatisfactory matters were noted.

915.1 Loan Consultancies - Kapcherop II Upstream Water Treatment Works and Distribution Lines

During the year under review, Management made payments of Kshs.1,329,500 to a consultant in respect of consultancy services for undertaking a feasibility study, detailed design and supervision for a gravity water scheme for Kapcherop. The project is recorded to have been substantially complete and the contractor as well as the consultant were discharged of their obligations under the contract, after all defects were said to have been addressed by the end of the defects liability period. An EIA license for the additional water project for Kapcherop was issued by NEMA on 14 May, 2015 and EIA license for Kipkarren dam project was issued on 18 August, 2016.

During audit inspections in November 2020, it was noted that the project had dry lines and the main raw water intake had been run over by uncontrolled drainage which has almost completely covered the intake. Management has continued to indicate that the project was complete and benefiting 15,000 people. However, the project was not operational and the total investment in the project is going to waste including the piping works which had some sections vandalized and uprooted leaving the facilities dilapidated and not benefiting the targeted community.

Consequently, the envisaged benefits had not been realized and public resources may go to waste.

915.2 Loan Goods - Supply and Delivery of Non-Revenue Water Goods for Mumias and Kimilili Towns

Included in payment for goods of Kshs.72,073,340 is an expenditure of Kshs.70,313,340 for the supply and delivery of non-revenue water goods for Mumias and Kimilili towns pilot Project. The contract had been awarded to two contractors at a cost of Kshs.52,640,678 and Kshs.35,958,845. During the year under review, the contractors were paid Kshs.41,546,264 and Kshs.28,767,076.

916. Unused Equipment

Review of the documentation supporting the supply of goods for NRW project for Mumias and Kimilili revealed that the contract was awarded to a contractor at a contract sum of
Kshs.35,958,845 and the contract signed on 06 February, 2019. The contractor was to supply leak detection equipment, pressure data loggers, pressure gauges, UFM equipment, meter testing benches, and software.

A review of available records indicate that the signed contract amount was higher than the approved procurement plan amount of Kshs.13,260,000 by Kshs.22,698,845 which was 71.1% in excess of the approved plan. It was noted that the WaSSIP-AF could not accommodate the new contract sum and therefore, this extra cost of Kshs.22,698,845 was to be funded from other sources without prior approval. All the equipment were subsequently supplied as per the contract in November 2019, but were all lying unused in the stores one year later as at the time of the audit in November, 2020. No reason has been provided for procuring equipment without a budget line. The investment of Kshs.35,958,845 may not have been well analyzed or planned which may lead to wasteful expenditure.

917. Uncoordinated Supply, Delivery and Installation of Equipment

A contract for the supply of pipes, meters, fittings, valves, and accessories was awarded to a local engineering company at a contract sum of Kshs.52,640,678 against a procurement plan budget of Kshs.35,700,000 resulting in a shortfall of Kshs.16,940,678 which was also said to be funded from GoK counterpart funds. Further, it was noted that the contract was varied to include installation of the supplied goods at an additional amount of Kshs.4,500,000. No details have been provided on how this arrangement was arrived at or an explanation provided relating to the abandonment of the initial programme envisaged under the consultancy.

During field verification in November, 2020 on the project sites in Mumias and Kimilili, the contractor did not have any detailed bills of quantities or pilot project site designs to guide in the installation of the procured infrastructure.

i) Poor Technical Implementation of the Non-Revenue Water (NRW) Pilot Project

The main objective of this project was to study the existing water supply system, identify the gaps, investigate the factors causing water losses and in turn, high NRW, carry out water network modeling, formulate district metering areas (DMAs), identify pilot areas in each water scheme, prepare tender documents to execute the pilot DMAs under consultant’s supervision, and frame a NRW strategy which could be used by WSPs to carry out NRW mitigation programme for remaining areas. One of the major outcomes expected from this project is sustainable exploitation of water, capacity building of WSPs to make them capable of operating the water schemes more efficiently and effectively.

The following was however, observed on the Mumias and Kimilili pilot project: -

ii) Nambacha Water Treatment Plant – Mumias

According to the consultancy report, the water abstracted from the river is 2417m³/day and the average total water production at Nambacha WTP is 1862 m³/day, out of which about 788 m³/day is billed. Hence average NRW level as calculated by WSP is 57.68%.
The designed production capacity of water at the WTP is 15,000 m³/day, however the current water production is limited to 2,900 m³/day to meet the current water demand.

iii) Kamtiong Water Treatment Plant- Kimilili

The average total water production at Kamtiong WTP is 3698 m³/day, out of which about 1,057 m³/day is billed. Hence NRW level as calculated by WSP is 71%. The plant has a production capacity of 5000 m³/day which however goes down during the dry season. The street and lantern lights, front/administration lights are not working while six (6) mortars that mix alum and chlorine had stopped working due to an electrical problem. From these statistics, it is clear that the targeted water treatment plants are operating below capacity and their water loss is still very high. The results of the pilot project to reduce NRW cannot therefore be ascertained. Further, it is noted that after about 18 months, the NRW works (pilot project) are not complete as expected, with the initial target date having been 30 June, 2018 having lapsed.

The Project value for money may not be realized from the resources expended.

918. Equiping and Civil Works for Drought Boreholes

The statement of receipts and payments reflects an expenditure of Kshs.212,115,963 against the Additional Financing Grant which was utilized for civil works of Kshs.165,725,176 and consultancies of Kshs.46,390,787 as disclosed under Note 8.7 to the financial statements.

The project spent Kshs.57,749,396 on equipping and associated civil works for drought boreholes in Rift Valley at Kshs.32,841,560; Lake Victoria South area at Kshs.12,736,489 and Lake Victoria North area at Kshs.12,168,347. Included in the payments of Kshs.32,841,560 made for the Rift Valley Water Works Development Agency boreholes, was a payment made to Lake Victoria North Water Works Development Agency for Kshs.3,826,919 being a transfer of funds to UDDT Retention for Baringo. This payment did not have any supporting documents.

Further, included in the amount for Lake Victoria South area of Kshs.12,736,489 was an expenditure of Kshs.2,275,097 made to a firm on 9 April, 2020 in respect to a contract for Kangeso and Nyamila Boreholes in Migori and Homa Bay Counties but among the attachments was a confirmation letter with bank transfer details indicating that the contractor had advanced Kshs.2,300,000 to the supervising consultant for which the variation was being sought in the final account. It was not clear under which circumstances the consultant was being paid by the contractor an amount which was supposed to be taken care of through a contract variation.

919. Rehabilitation/Expansion of Water Supplies

A total of Kshs.74,911,052 was spent on rehabilitation/expansion of water supplies against four projects as listed below:
<table>
<thead>
<tr>
<th>Rehabilitation/Expansion Project</th>
<th>County</th>
<th>Kshs</th>
</tr>
</thead>
<tbody>
<tr>
<td>LVNWSB - Kwanza Water Supply</td>
<td>Trans Nzoia</td>
<td>22,599,496</td>
</tr>
<tr>
<td>RVWSB - Suswa Water Supply</td>
<td>Narok</td>
<td>11,864,644</td>
</tr>
<tr>
<td>RVWSB - Kapenguria Water Supply</td>
<td>West Pokot</td>
<td>9,567,916</td>
</tr>
<tr>
<td>RVWSB – Kapindaram Water Supply</td>
<td>Baringo</td>
<td>30,878,996</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>74,911,052</strong></td>
</tr>
</tbody>
</table>

These projects were said to have been substantially completed and handed over but during field audit verification in November 2020, the projects were not operational and therefore the target beneficiaries were not getting clean and safe drinking water.

**919.1 Kwanza Water Supply**

A contractor was paid Kshs.28,701,969 on 30 June, 2020 being certified works. Included in the certificate was a payment to Lake Victoria North Water Works Development Agency of Kshs.4,231,332 being a transfer of funds to UDDT described as a vehicle under the project. The payment did not have any supporting documents. In addition, the works contract was advertised on 15 January, 2015, and the Contract awarded on 30 March, 2016 at a contract sum of Kshs.95,455,426.08 signed on 26 July, 2016. The project sites were subsequently handed over to the contractor on 23 August, 2016 with twelve (12) months’ construction period and defects liability period of one (1) year. The envisaged works were not complete by the time of audit in November 2020.

Records available indicate that the works were 92% to completion and test running was going on. The project had also been inspected for substantial completion on 17 and 18 January, 2020. However, during audit verification in November 2020, the project water treatment works were not operational due to silting resulting from the failure of the backwash system to clear the filters. This investment is therefore, not benefitting the target communities and the Agency has not received value from the investment.

**919.2 Suswa Water Supply**

The contractor was paid a total of Kshs.11,864,644 during the period under review. During site verification in November 2020, the contractor was not on-site and from the community members, the water supply was only available during the month of April, 2020. According to the progress reports, these works had been done up to 93% completion level and test running of the water supply had been completed but the project was experiencing voltage drop out. This problem has not been resolved to date and as a result, the water supply has stopped. The construction works was advertised on 7 October, 2016 and awarded on 23 November, 2016 to a firm at a contract sum of Kshs.104,850,931. After the signing of the twelve (12) months’ works contract on 23 December, 2016 the works should therefore, have been completed and handed over by December, 2017.

**919.3 Kapenguria Water Supply**

A contract reference No: LVNWSB/WaSSIP-AF/KAPE - MAKUT/2015 for the rehabilitation of Kapenguria - Makutano Water Supply was advertised on 2 October, 2015.
and the works contract awarded on 24 December, 2015 at a contract sum of Kshs.50,986,730 with the intended completion date being 30 March, 2017. From documents availed for audit, as at 31 July, 2019, the contractor had executed works valued at Kshs.44,957,532 and had been paid Kshs.42,062,636 leaving a balance of Kshs.1,561,936. However, Management paid the contractor a total of Kshs.10,441,000 instead of the balance of Kshs.1,561,936. The variance of Kshs.8,879,064 was not explained. Further, the amount disclosed in the financial statement was Kshs.9,567,916 instead of the amount paid of Kshs.10,441,000 resulting to an unexplained difference of Kshs.874,084.

The project works were inspected and recorded to be substantially complete on 2 May, 2019 awaiting the monitoring and correction of defects. Though the works have been recorded to be at completion level of 94% and benefiting 38,400 people, audit verification in November, 2020, revealed that the new silt check dam constructed at Kotoruk River intake had collapsed exposing the intake to uncontrolled silting. The raw water pumping set installed at Kotoruk intake raw water pumping station to pump 37.5 m$^3$/hour had been removed after being destroyed by silt.

In the circumstances noted above, the Agency did not get value for this investment and the target community was not benefitting as envisaged.

919.4 Kapindaram Water Supply

During the year under review, a local contractor was paid Kshs.30,878,996 for the works under reference. However, physical verification in November, 2020 revealed that part of the key works which involved connecting the newly secured intake at the water spring to the distribution infrastructure had not been done. The welding of the main 540m gravity main piping of 200mm diameter HDPE from Kapindaram spring to the existing gravity main piping and anchoring of the existing 5Km gravity main of steel had technically failed and the works abandoned. By the time these works were abandoned, it was estimated to have been constructed up to 90% completion level

Further, although the invitation for bids for works contract for rehabilitation and expansion of the project was advertised on 18 March, 2016 and the letter of award for works contract issued on 6 June, 2016 and the one (1) year construction contract signed on 7 November, 2016, the works which should have been completed by December, 2017 were not complete by the time of physical verification in November 2020.

919.5 Construction of Plinths/Gutters for Plastic Water Tanks

On 06 July, 2012, Management advertised a tender for the Supply and Delivery of 400 (10,000 litres) plastic water tanks. The decision of acceptance of the offer at a total cost of Kshs.26,440,000 was communicated to the bidder on 28 November, 2013. The company accepted and signed an agreement on 18 December, 2013 and the contract was to be executed within twenty-one (21) days on/or before 12 January, 2014. These were the tanks for which the plinths and gutters were to be constructed and installed. During the period ended 30 June, 2020, Management paid Kshs. 33,067,726 to various
contractors for the services of installing the plastic 10,000-litre tanks delivered in the various targeted institutions.

In addition, contractors for the construction of plinths/gutters for these plastic water tanks works had been identified in 2014/15 for Kshs.54,251,124. Given that the project had targeted to supply 400 tanks, the final lot of tanks for Turkana County got the no objection letter from the Bank on 24 April, 2015 and a contract for installation of the balance of seventy-five (75) plastic water tanks in Turkana County was signed on 30 October, 2015. In view of this, it was not clear how these contractors, some who had been given advances, were still on the project given it was expected to have ended by 30 June, 2016. No report has been provided for the delay in the projects.

It was further noted that had the plinths under construction been done to the expected standards, the heights of the poly tanks supplied would have risen from 3.85 meters to 4.2 meters well above the standard height of ordinary buildings making it impossible to harvest the envisaged water. Alternatively, had the contractor supplied the tanks as specified, the height would have been reasonable at 1.970m rising to only 2.37m which is within a reasonable range for guttering and harvesting of the water.

Physical verification in West Pokot County during the month of November, 2020, revealed that 19 schools that received the tanks had the plinths constructed but in another 4 the tanks were delivered but the plinths were not constructed and the gutters therefore not installed. In Turkana County most of the tanks were not supplied and the list had been varied and the number of these tanks and the construction of plinths and the installation of the gutters could not be verified. Physical verification to Nyosia DOK primary school in Kisii County revealed that the tank was not available.

In view of the above, the propriety of expenditure in respect to the construction of these plinths of Kshs.33,067,726 could not be confirmed and value may not have been obtained from the expenditure.

919.6 Procurement of Consulting Services

During the year under review, Management incurred an expenditure of Kshs.46,390,787 on consultancy services, and the following observations were made:

919.7 Design and Supervision for Water Supply Projects

The figure includes payments totalling to Kshs.9,352,595 for design and supervision for water supply projects made to two (2) consultants for consultancy services relating to four (4) water supplies as listed below:

919.8 Kwanza and Kapenguria Water Supply Projects

The actual payment for these consultancies made in favour of the consultant was actually Kshs.7,286,244. Physical verification done in November, 2020 at the Kapenguria water supply, revealed that the new garbions at the silt check dam constructed at Kotoruk River intake had collapsed and this was exposing the intake to uncontrolled silt which had
destroyed the main water pump. This had affected the operations of the composite filtration unit expected to produce 600m$^3$/day which was not operating at capacity. This challenge was associated with poor design leading to the location of the raw water intake in an inappropriate site. As reported in 2018/19, the contractor installed an inappropriate water pump which could not be used to pump the treated water to the high rise tanks on the advice of the consultant rendering the whole project to fail in meeting its objectives. At the Kwanza Water Supply site, the project water treatment works were not operating as required due to silting resulting from the failure of the backwash system to clear the filters. The design was poor in that the outflow was meant to take the water back to Asega Dam in the absence of any lagoons but instead the contractor had not completed the return line and therefore the backwash had no exit. These works were being supervised by the same consultant who was again paid by the Agency.

It was not clear why the consultant had been allowed to undertake these projects and got paid for services whose outcomes are unfavourable to the Project.

In the circumstances, citizens may not have obtained value from the amount paid for this consultancy.

**919.9 Suswa and Kapindaram Water Supply**

The contract for design and supervision of Suswa and Kapindaram Water Supply projects was awarded to a consultant who was paid Kshs.2,240,351 in 2019/2020 for the services. The Suswa project detailed design was approved on 4 November, 2015 while the Kapindaram detailed design for the project was approved on 15 September, 2015 and consultant’s contract awarded and signed on 7 November, 2016.

During audit verification at Suswa in November, 2020, the contractor was not on-site and the project was experiencing a voltage drop which had not been resolved and as a result, the water supply has stopped functioning. Further in November, 2020, an audit verification undertaken at the Kapindarm site observed that the welding of the main gravity piping from the spring to the existing gravity piping of steel had technically failed and the works abandoned. No report has been provided by the consultant on the failure or the way forward. These two projects have not delivered their envisaged water supply to the communities targeted, yet the consultant has been fully compensated for services.

**919.10 Non-Revenue Water (NRW) for Kimilili – Mumias**

According to the Project Management records, payments totalling Kshs.12,463,158 were effected in February, April, May and June, 2020 to a local consulting firm that was contracted to offer technical assistance for study, design, and supervision of the implementation of a program aimed at reducing the non-revenue water (NRW) in two (2) water service providers in Kakamega and Bungoma Counties. The consultancy services contract was signed on 27 September, 2016 and the inception report was presented and approved by the stakeholders on 21 February, 2017. The project was to last 18 months ending in July 2018, but the works were still ongoing by the time of audit in November, 2020.
Information provided indicated that the consultant had developed an NRW operational manual; formed one NRW unit for each water supply system; trained Non-Revenue water teams; conducted NRW Situation baseline assessment; identified and prepared Hydraulic Block maps, and implemented preliminary Pilot District Metering Areas (DMA). Information also indicated that the contractor prepared the tender documents for goods to address non-revenue water. Although a copy of the operational manual and other reports were seen, the intended beneficiaries as well as the WSP staff did not have knowledge of the situation on the ground. No evidence was provided for delivery of training or capacity building services.

In addition, the consultant had not availed the design maps for the pilot DMAs, Bills of Quantities for the infrastructure works expected to be implemented by Kinetics Engineering Ltd or provided support team to ensure the works being implemented met the recommended standards. It was also noted that the project was being implemented in areas other than the original target areas and no report had been prepared by the consultant to show how these variations had been developed or agreed upon. This change of scope will certainly affect the supplied goods for the NRW projects and may lead to assets being wasted or lost. The consultant has therefore abandoned the works and no explanation has been provided for this state of affairs.

In the circumstances, it is not clear how the consultant was paid for services not yet rendered almost two years after the envisaged closure of the consultancy.

919.11 Survey of Asega Dam

On 22 April, 2020 a consultant was paid Kshs.945,680 for the survey works of Asega Dam. The Request for Expression of Interest was advertised on 18 March, 2016 and a consultancy contract was signed on 2 October, 2016. The draft final report on the condition of the dam was submitted to the Bank on 27 August, 2017 for comments and no objection or bank comments were received. The project for this dam embankment failed on 5 September, 2017 and to date, the works are abandoned. No reason was provided for the payment of Kshs.945,680 and therefore, value for money was not obtained.

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

Basis for Conclusion

920. Lack of Updated Assets and Contracts Register

On 21 May, 2020, Management made a payment of Kshs.1,636,579 to a local business consulting firm for the provision of consultancy services relating to the valuation of assets but the consultancy report was also not availed for verification. Further, during the year Management paid for provision of an IT system for assets records and management. However, a report generated from the system indicate that the assets were worth Kshs.18,900,754. The report did not cluster the assets into the various categories or their
sources and current location. Further, the extract did not indicate any major assets owned by the Agency like infrastructure and vehicles. In addition, Management did not avail a contracts’ register which would be used to track the infrastructure projects payments for ease of valuation.

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM (LOAN NO.2000200000501) - ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

922. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,650,000,000 and Kshs.1,300,065,745 respectively resulting in under-funding of Kshs.349,934,255 or 21% of the budget. Further, out of the budgeted amount of Kshs.1,650,000,000, only Kshs.1,056,326,353 was spent resulting in under absorption of Kshs.593,673,647 representing 36% of the estimated expenditure.

The under expenditure of the approved budget indicates that some activities and projects in the annual work-plan were not implemented which is likely to have impacted negatively on service delivery to the public.

923. Pending Bills

According to Note 10.1 to the financial statements, the Project had pending accounts payable totalling Kshs.7,164,294,394 (2019: Kshs.7,066,342,010) as at 30 June, 2020. During the year under review, the Project Management made payments totalling Kshs.1,037,565,746 while accumulating bills totalling Kshs.1,135,518,130. Management has not explained why the bills were not settled during the year in which they occurred. The Project is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

924. Slow Implementation of Projects

During the year under review, ten (10) projects under implementation were behind schedule and one had stalled. Site visits to projects in Kiambu, Machakos and Mombasa counties revealed that the progress in all the ten projects was slow when compared with Project’s duration.

In addition, works at Machakos Water and Sanitation Project had been stopped due to court cases. Similarly, Machakos Sewerage Project was having court cases which affected the progress of works despite some works still ongoing. Further, water tank projects in three schools in Mwala Sub-county in Machakos had been abandoned due to shortage of materials and workers unrest.

In the circumstances, the intended beneficiaries may not receive services from projects that are behind completion schedule. This is an indication of weak project implementation and administration system.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM (AfDB LOAN NO.2000200000501) – TANA WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

926. Understatement of Approved Budget on Transfers from Government Entities

The statement of comparative budget and actual amounts reflects a final budget of Kshs.400,000,000 under other grants and transfers. However, a review of letter Reference No. MWS/FIN/3/62/VOL.XVIII/ (71) dated 25 July, 2019 forwarding disbursements from the Ministry of Water and Sanitation revealed an approved allocation of Kshs.900,000,000 for the Project’s development expenditure. Although the
Management explained that the additional allocation of Kshs.500,000,000 under the Program’s Account was for construction of small and medium dams to supplement AfDB funded projects at Kanjogu and Thambo areas, which was accounted for under GOK grants for development in the main Agency Account, the approved allocation was not itemized and apportioned between the donor funded projects and other Agency’s development programmes. The final budget figure was therefore, understated in the Program’s financial statements.

927. Cash and Cash Equivalents

The statement of financial assets as at 30 June, 2020 reflects bank balances of Kshs.154,311,607. However, the Implementing Agency did not open the Program’s bank account for purposes of receiving and accounting for counterpart funds as required under Article I, Section 1.2(j) of the Subsidiary Loan Agreement. The Implementing Agency operates one development account No.1101998773 into which all development funds are received and accounted for.

A review of the cashbook, bank reconciliation statements and breakdown schedule for the development account No.1101998773 revealed that the account had a closing balance of Kshs.916,970,128 as at 30 June, 2020 out of which an amount of Kshs.154,311,607 was attributed to the Program. However, the completeness and accuracy of the balance of Kshs.154,311,607 could not be ascertained in the absence of a separate bank account for the Program.

The Management has not provided satisfactory explanation for failing to open the Program’s bank account to avoid commingling of funds with those intended for other GOK development projects being implemented by Tana Water Works Development Agency.

Other Matter

928. Pending Bills

Note 11.1 and Note 11.3 to the financial statements reflects pending bills amounting to Kshs.297,942,070 as at 30 June, 2020. However, reasons for non-payment of the pending bills have not been provided. Further, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

929. Budgetary Control and Performance

During the year under review, the Program had an approved total expenditure budget of Kshs.2,100,000,000 against the actual expenditure of Kshs.1,551,587,163 translating to 74% budget implementation. Similarly, out of the budgeted receipts of Kshs.2,100,000,000, the Project received Kshs.1,692,345,820 or 81%. Management has attributed the shortfall in receipts to delay in disbursement of the 4th quarter allocation and unfinalized payment documents submitted to the parent Ministry for onward transmission to The National Treasury. However, evidence of the measures put in place to avoid any future delays was not provided.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

930. Delay in Project Implementation

As previously reported, available information and contract agreements for the works being implemented by both Tana Water Works Development Agency and Northern Water Works Development Agency show that although various contract agreements for the implementation of the Projects were signed in 2018 and early 2019, a status review carried out on 29 October, 2020 on the construction of twelve (12) water and sewerage infrastructure Projects, revealed that the Projects were five (5) to eleven (11) months behind schedule. It was also noted that overall progress was 15% - eighteen months to the end of the five-year contract period.

Although the Management attributed the delay in implementation of the Projects to failure to obtain tax exemption and inadequate counterpart funding, no evidence was been provided on measures being taken to forestall the recurrence of a similar situation.

931. Acquisition of Land - Advance Payments for Land with Encumbrances

The statement of receipts and payments reflects an expenditure of Kshs.69,939,317 under acquisition of non-financial assets which includes advance payments totalling Kshs.14,510,671 for two parcels of land in areas where the Projects are being implemented. Records show that the Management paid an amount of Kshs.5,138,921, on 15 March, 2020 for land parcel - L.R. No. Karingani/Ndagani/11677 and developments thereon, whose total purchase price was Kshs.7,363,595. However, the land had a caution registered on it that had not been cleared.

Further an advance payment of Kshs.9,371,750 was paid on 8 April, 2020 for a piece of land – L.R. No. Marsabit/Mountain/55 and developments thereon being part settlement of the purchase price of Kshs.46,436,750. However, the land was also subject to succession proceedings that had not been concluded. Additional information indicated that Management relied on a report from an advocate indicating appointed administrators of the estate of the deceased instead of a Certificate of Confirmation of Grant (Form P & A 54) as required by Part IV, Section 71(1) of the Law of Succession Act, Cap 160. In the absence of confirmation and determination of the rightful owners of the land, disputes may arise in the future which may lead to loss of public funds.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

932. There were no material issues relating to effectiveness of internal controls, risk management and governance.
Basis for Qualified Opinion

933. Unsupported Transfers from Government Entities

The statement of receipts and payments reflects transfer from government entities receipts of Kshs.132,653,988 which as disclosed under Note 8.3 to the financial statements represents counterpart funding for the Programme from the Government of Kenya received in two tranches. However, the receipts were not supported by way of reference numbers of Authority to Incur Expenditure (AIE) and bank statements indicating credits into the Programme account.

Consequently, the accuracy and completeness of the reported transfer from government entities receipts of Kshs.132,653,988 could not be confirmed.

934. Bank Balances

The statement of financial assets reflects a nil bank balance as at 30 June, 2020. However, cashbooks, bank reconciliation statements and certificate of bank balances in support of the balance were not provided for audit.

Consequently, the accuracy and fair statement of the reported nil bank balance could not be confirmed.

Other Matter

935. Pending Bills

Notes 9.1 to the financial statements reflects pending bills totalling Kshs.614,153,077 as at 30 June, 2020. Management has not provided explanations for non-payment of the bills. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

936. Budgetary Control and Performance

The statement of comparative of budget and actual amounts reflects final receipts and expenditure budgets of Kshs.1,749,653,988 and Kshs.2,793,252,706 respectively resulting into an unbalanced and unfunded budget of Kshs.1,043,598,718 which has not been explained. In addition, the Programme expended Kshs.1,580,239,008 against an approved budget of Kshs.2,793,252,706 resulting to an under-expenditure of
Kshs.1,213,013,697 or 43% of the budget. The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

937. Failure to Maintain Separate Programme Bank Account

Clause 1.2 (j) of the Subsidiary Loan Agreement (SLA) between the Government of Kenya and Central Rift Valley Water Works Development Agency (CRVWWDA) requires the Programme to open a local currency account for the purpose of receiving the counterpart funding from the Government of Kenya. However, as at the time this audit was finalized, the Programme had not opened the account but continued to receive the counterpart funds through the Agency’s operations bank account.

938. Fixed Assets Register

The Programme did not maintain a register of assets. This is contrary to Regulation 143 (1) of Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

Consequently, it could not be confirmed that the Programme assets had been properly safeguarded.

939. Project Implementation Status

A physical verification, carried out during the month of January, 2021, of seven (7) projects under the Programme with a total contract sum of Kshs.6,884,268,048 revealed the following Project’s status:

<table>
<thead>
<tr>
<th>Project</th>
<th>Contract Sum (Kshs.)</th>
<th>Audit Observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Narok Town Sewerage</td>
<td>1,714,225,175</td>
<td>Work done is 98% against payment of 60% of contract sum. Work had exceeded contract period by 2 months</td>
</tr>
<tr>
<td>2. Malaba Water Supply</td>
<td>356,137,724</td>
<td>Work done is 53% against payment of 39% of contract sum. Contract period remaining is 6 months to June 2021.</td>
</tr>
<tr>
<td>3. Oyugis Water Supply</td>
<td>706,234,152</td>
<td>Work done is 27% against payment of 21 % of contract sum.</td>
</tr>
<tr>
<td>Project</td>
<td>Contract Sum (Kshs.)</td>
<td>Audit Observation</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>----------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>4. Kendu Bay Water Supply</td>
<td>673,929,361</td>
<td>Work done is 45% against payment of 22% of contract sum. Contract period remaining was at 35%. Contract period remaining is 6 months to June 2021.</td>
</tr>
<tr>
<td>5. Ugunja-Ukwala Water Supply</td>
<td>1,214,356,130</td>
<td>Work done is 25% against payment of 17% of contract sum. Contract period remaining is 6 months to June 2021.</td>
</tr>
<tr>
<td>6. Kiptogot - Kolongolo Water Supply System</td>
<td>1,200,043,073</td>
<td>Work done is 38% against payment of 40% of contract sum. Contract period remaining is 6 months to June 2021.</td>
</tr>
<tr>
<td>7. Kipkaren Dam Water Supply</td>
<td>1,375,480,157</td>
<td>Work done is 20% against payment of 15% of contract sum. Contract period remaining is 6 months to June 2021.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,884,268,048</strong></td>
<td></td>
</tr>
</tbody>
</table>

There is risk of a significant number of Projects not being completed within the contract period which may result in cost escalations.

**940. Acquisition of Land**

The statement of receipts and payments reflects payments controlled by the entity for acquisition of assets of Kshs.3,502,500 which as disclosed under Note 8.10 to the financial statements related to acquisition of land. Included in this amount was partial compensation for two land parcels measuring 0.16 and 2.4 hectares at a cost of Kshs.425,000 and Kshs.2,975,000 respectively where water supply projects are being implemented at Oyugis and Kendu Bay. However, the ownership of the land was yet to be transferred to the Agency as at the time of completing this audit in January, 2021.

In absence of land ownership documents, the propriety of the payments could not be confirmed.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT SYSTEMS AND GOVERNANCE

Basis for Conclusion

941. Lack of Risk Management Policy

The Programme did not have a Risk Management Policy and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks as stipulated under Regulation 165 (1) of the Public Finance Management (National Government) Regulations, 2015. No formal risk assessment was conducted.

In absence of a formal approved risk management framework, ability to identify threats or risks and definition of strategy to eliminate or minimize the impact of the risks could be compromised.

Additionally, it was noted that the Management lacks a Disaster Recovery Plan and therefore crucial information may not be recovered in the event of a disaster.

SUPPORT TO WATER AND SANITATION SERVICES IN PERI-URBAN AREA PROJECT (LOAN NO.BMZ 2013.6543.6) – ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

943. Pending Bills

Note 10.1 to the financial statements reflects pending bills of Kshs.126,479,016 in respect of construction of Kiserian-Ongata Rongai Water Supply Project – Lot 2. Available information indicated that works valued at Kshs.237,730,345 were certified for payment. However, of the certified amount, only Kshs.111,251,329 was paid out, being a share between the Donor (Kshs.87,478,294) and the Government of Kenya (GOK) (Kshs.23,773,035), leaving a balance of Kshs.126,479,019 which was part of the GOK obligation unsettled. Management attributed non-settlement of the entire amount to a reduction of the Project budget from an original approved budget of Kshs.600,000,000 to Kshs.500,000,000. However, reasons for the reduction were not provided despite there being knowledge of planned and ongoing Project activities.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

WATER SECTOR DEVELOPMENT PROGRAMME OF KISII AND NYAMIRA WATER SUPPLY AND SANITATION PROJECT (GRANT NO. ORIO11/KE/21) YEAR– LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

946. Inaccuracies in the Financial Statements

The statement of receipts and payments reflects cumulative payments totalling Kshs.100,534,656 whereas the funding summary reflected in Note 1.7 to the financial statements reflects payments totalling Kshs.107,738,558. The difference amounting to Kshs.7,203,902 between the two statements has not been explained.

As a result, the accuracy and completeness of the cumulative payments totalling Kshs.100,534,656 reflected in the statement of receipts and payments for the year under review has not been confirmed.

947. Presentation of the Financial Statements

The statement of cash flow is labeled ‘for the period 30 June, 2020’, instead of ‘for the year ended 30 June, 2020’ in line with the operations of the Project reported on and requirements of the International Public Sector Accounting Standards (IPSAS).

Consequently, the presentation of the financial statements does not conform to IPSAS.
Other Matter

948. Budgetary Control and Performance – Under Utilization of Funds

The statement of comparative and actual amounts reflects a final budget amounting to Kshs.22,000,000 under purchase of services and project management costs while actual expenditure amounted to Kshs.5,809,848 resulting in under-expenditure of Kshs.16,190,152 equivalent to 74% of the budget for the year. As a result, a significant portion of outputs targeted under the item were not attained.

No plausible explanation has been provided by Management for the underperformance.

949. Absence of Project Cash Book and Bank Account

During the year under review the Management did not maintain a cashbook and a separate bank account for the Project as required of them by Clause 11 of the Grant Agreement. Instead, receipts and payments in respect to the Project were recorded and accounted for in the main cashbook and bank account of the implementing entity contrary to Section 68(2) of the Public Finance Management Act, 2012 which requires Accounting Officers to maintain proper financial and accounting records.

Consequently, Management is in breach of the law on management of Public Funds.

950. Delay in Implementation of Bunyunyu Dam Water Supply Project

A feasibility study report submitted to Infrastructure Development Facility (ORIO) on 29 October, 2018, indicated that the cost of the proposed Bunyunyu Dam Water Project increased to Euro.90,000,000 equivalent to Kshs.11.9 billion from its original cost estimated at Euro.551,475,000 equivalent to Kshs.66 billion. The increased cost resulted from change in the project’s scope, mainly caused by addition of works in Nyamira County, and the estimated increase in price indices between 2011 to 2019. After the original financier declined to fund the additional costs, identification of a new financier commenced in February, 2019. However, Management has not confirmed whether this was successful. Expenditure records indicated that the Project had as at 30 June, 2020 spent Kshs.86,344,504 on feasibility studies.

The failure of the Project to translate from the development to the implementation stage has put it at risk of failure that could see its objectives not being attained.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

WATER SECTOR DEVELOPMENT PROGRAMME LAKE VICTORIA SOUTH (KERicho, KISii, NYAMiRA AND LITEIN) LOAN NO. BMZ 2010 65 861 AND GRANT NO. BMZ 2010 70 457– LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

952. Discrepancies in Reported Cumulative Receipts

Section 1.7 on the funding summary under project information, reflects amounts received to date amounting to Kshs.2,597,620,124 while the statement of receipts and payments reflects cumulative receipts to date totalling Kshs.2,601,710,706. The difference of Kshs.4,090,582 has not been reconciled or explained by the Management.

953. Failure to Open Bank Account and Maintain a Separate Cash Book

The statement of financial assets reflects a nil balance for cash and cash equivalents. However, a review of the Project’s records indicated that the Project Management used the Implementing Agency’s bank account and cash book to process receipts and payments relating to the Project. This is contrary to Regulation 76 (1) of Public Finance Management (National Government) Regulations, 2015 which provides that, for the purpose of disbursement of Project funds, there shall be opened and maintained a Project account for every Project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary in writing, into which all funds shall be kept and such an account shall be known by the name of the Project for which it is opened and each Project shall maintain only one bank account. Section 6.1 (d) of the financing agreement further states that the recipient of the funds should maintain separate books and reports showing all costs incurred in connection with the expert services and clearly identifying the services financed from the financial contribution.

Under the circumstances, the accuracy of the financial statements could not be ascertained as the Project did not maintain a cash book for the Project. Management was also in breach of the law and the Financing Agreement.
954. Discrepancies Between the Figures in the Statement of Receipts and Payments and the Figures in the Notes

Discrepancies were noted between the figures in the statement of receipts and payments and the figures in the Notes to the financial statements as shown below:

<table>
<thead>
<tr>
<th>Component</th>
<th>Note</th>
<th>Figures in the Statement of Receipts and Payments (Kshs.)</th>
<th>Figures in the Notes (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer from Government Entities</td>
<td>8.3</td>
<td>206,992,628</td>
<td>203,682,190</td>
<td>3,310,438</td>
</tr>
<tr>
<td>Purchase of Services</td>
<td>8.8</td>
<td>267,849,431</td>
<td>267,069,287</td>
<td>780,144</td>
</tr>
<tr>
<td>Other Payments</td>
<td>8.9</td>
<td>5,919,538</td>
<td>4,972,584</td>
<td>946,954</td>
</tr>
</tbody>
</table>

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

Other Matter

955. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.665,000,000 and Kshs.561,888,925 respectively resulting to an under-funding of Kshs.103,111,075 or 15% of the budget. The Project expenditure was limited to the amount realized. The underfunding and under expenditure affected the planned activities and impacted negatively on service delivery to the public.

956. Pending Bills

Note 9.1 to the financial statements reflects pending bills of Kshs.34,001,529 as at 30 June, 2020. Although Management has attributed the pending bills to the outstanding GoK counterpart funds, the Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

957. Stalled Old Kegati Water Treatment Works in Kisii County

Physical verification of Kegati Water Treatment Works in Kisii County revealed that construction of the 12,000m$^3$ per day water treatment facility in Kegati stalled at 70% completion. In addition, a report by the Implementing Agency on water and sanitation development interventions in Kisii and Nyamira Sub-region dated 28 September, 2020,
indicated that construction commenced in September, 2010 aimed at benefiting 18,000 people and was to be completed by June, 2011 at a cost of Kshs.68 million but stalled in November, 2013.

Consequently, it has not been possible to ascertain if the citizens of Kisii County received value for money from the Project.

**958. Ownership and Custody of Project Vehicles**

The summary of fixed asset register under Annex 3 reflects assets with a historical cost of Kshs.170,529,603. However, motor vehicles registration numbers KCP 975M, KCP 064 N, KCR 854 R, KCR 855 R and KCR 859 R were registered in the name of the contractor – a Chinese firm. In addition, vehicle registration number KCP 064N - Toyota Landcruiser Prado was not in use by the Project but had been taken over by the parent Ministry under unclear circumstances.

Consequently, the ownership, movement, custody and safety of the vehicles could not be confirmed.

**959. Ownership Documents for Kimungu Water Project**

The ownership documents for the land on which Kimungu Water Project with a contract price of Kshs.1,189,905,385 is built were not provided for audit verification. Further, the cost of the land was not included in the balance of Kshs.170,529,603 being the historical cost of the assets of the Project as reflected under Annex 3 - summary of fixed assets register.

Consequently, it could not be confirmed that the land and the developments thereon are properly safeguarded.

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

**Conclusion**

**960.** There were no material issues relating to effectiveness of internal controls, risk management and governance.
Basis for Qualified Opinion

961. Unauthorized Expenditure

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,670,169,379 and Kshs.1,571,379,933 respectively resulting in underfunding of Kshs.98,789,446 or 6% of the budget. In addition, the statement reflects a final payments budget of Kshs.98,789,446 or 6% of the budget. In addition, the statement reflects a final payments budget of Kshs.758,859,795 against actual on comparable basis amount of Kshs.2,568,088,669 resulting in an over expenditure of Kshs.1,809,228,874 or 238% of the budget.

Consequently, the validity of the over expenditure could not be confirmed.

Other Matter

962. Pending Accounts Payables

Note 11.1 to the financial statements reflects accounts payables of Kshs.21,989,341. Management has not explained why the bills were not settled during the year they occurred. The Project is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

963. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.1,571,379,933 against final receipts budget of Kshs.1,670,169,379 resulting in a shortfall of Kshs.98,789,446. Further, actual expenditure for the year amounted to Kshs.2,568,088,670 against final expenditure budget of Kshs.758,859,795 resulting to an over expenditure of Kshs.1,809,228,874. Management has not provided explanation regarding the over expenditure.

Consequently, the underfunding and low expenditure may affect the planned activities and impact negatively on service delivery to the public.
Basis for Conclusion

964. Delay in the Completion of Projects

964.1 Northern Collector Tunnel and Water Intake Project

Works at the Northern Water Collector Tunnel and Water Intake Project budgeted to cost US$85,200,000 (equivalent to Kshs.9,031,000,000) commenced on 10 May, 2012. The works entails development of river abstraction and water intake structures and a 11.7 kilometers underground tunnel, and was expected to be completed by 30 December, 2020. As at November, 2020, approximately 75% of the permanent works had been completed, which included 100% excavation of the tunnel and primary support, 44% tunnel secondary lining and 60% surface structures (intakes and outfall structure). However, there was slow progress at the tunnel which had affected the projected delivery timelines.

Consequently, the project was behind schedule and thus, it was not confirmed when the remaining works were likely to be completed, and whether the project objectives will be realized as envisaged.

964.2 Community Water Supplies Project

Implementation of Ichichi, Kiruri and Makomboki Community Water Supplies Projects for Kshs.305,478,208 commenced on 28 August, 2017 with the completion date set for 28 April, 2019 and later revised to 15 September, 2020. Physical verification conducted in November, 2020 revealed that laying of pipes had been completed at Kiruri and Ichichi Water sites. However, construction of a river intake in the forest was still ongoing. In addition, construction of a 10 kilometer access road from the forest edge to the intake site had been partially done.

It was not possible to confirm whether the project will be completed considering the contract period had expired.

Conclusion

965. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

966. Sustainability of the Project

Physical verification of the project during the month of October, 2020 revealed that the project was behind the completion stipulated date of 30 June, 2020 as per the loan agreement. A letter ref: LVS/SWWMLV/KFW/130(18) dated 28 October, 2020 by the Ag. Chief Executive Officer, to the Principal Secretary, Ministry of Water, Sanitation and Irrigation requested the loan disbursement window to be extended to 30 June, 2022 and the due date for the loan to be extended to June, 2032. The response to the request of the letter was not availed for the audit and since the Kenya Government had delayed in its contributions, the sustainability of the project could not be ascertained.

967. Non – Submission of the Previous Years’ Financial Statements

As reported in the previous year’s audit for 2018/2019, the statement of receipts and payments for the year ended 30 June, 2020 reflects cumulative donor amount received to date as Kshs.66,332,758. Included in this balance is an amount of Kshs.35,353,521 which was received in 2015/2016 and 2016/2017. However, Management did not submit for audit review, the financial statements for the year 2015/2016 and 2016/2017 as required.

Consequently, the accuracy of the cumulative to date balance of Kshs.66,332,758 as at 30 June, 2020 cannot be confirmed.

Other Matter

968. Failure to Open Bank Account and Maintain a Cash Book

The statement of financial assets reflects a nil cash and cash equivalent. A review of the project records indicated that the Project Management used the Implementing Agency’s bank account for receipts and payments of the Project funds. This is contrary to Section 6.1 (d) of the financing agreement which requires the recipient of funds to maintain books and reports showing all costs incurred in connection with expert services and clearly identifying the services financed from the financial contribution. Management has attributed this to fact that payments were made by the Implementing Agency as the Project did not receive funding directly.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

969. Changes in Project’s Target Towns

The project main objectives as per the financing agreement Section 1.2, dated 28 September, 2015 were to protect Lake Victoria from urban waste discharges in Migori and Homabay towns as contribution to an Integrated Water Resources Management (IWRM). However, a review of records availed for audit indicated that the town of Migori was removed and Kisii and Kericho towns were incorporated without prior approval from the Donor (KfW) as stated under Annex 2(3) of the financing agreement in regard to supervision of consulting services and amendments to the consulting contract.

Consequently, the Management is in breach of the agreement signed with the donor.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NAIROBI WATER DISTRIBUTION NETWORK PROJECT (CREDIT NO. BMZ 2020.82.527/KV26833) – ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

972. Pending Bills

Notes 10.1 to the financial statements reflects pending bills of Kshs.15,352,126 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills which exposes the Project to the risk of incurring significant interest costs and penalties owing to the continued delay in making payments.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NORTHERN COLLECTOR PHASE 1 AND ADDITIONAL REHABILITATION AND DEVELOPMENT OF THE NETWORK PROJECT - ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

976. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,721,800,000 and Kshs.899,800,000 respectively, resulting in under-funding of Kshs.822,000,000 or 48% of the budget. Similarly, the project spent Kshs.746,200,000 against the budgeted amount of Kshs.1,721,800,000 resulting in under expenditure of Kshs.975,600,000 representing 57% of the estimated expenditure. Management has attributed the underfunding and under expenditure to slow progress of works as a result of challenges in acquiring wayleaves for the construction of raw and treated water pipelines.

This have affected the planned activities and have impacted negatively on service delivery to the public.
Basis for Conclusion

977. Delay in Completion of Projects

977.1 Nairobi Bulk Water Supply Project

On 27 October, 2016, the Project commenced the construction of raw and treated water gravity mains from Thika dam to Kigoro treatment works and Gigiri tanks. The Project was scheduled to be completed on 31 December, 2020. The Scope of works included supply of pipes, fittings, valves, meters and construction of a pipeline in three components at a cost Kshs.6,992,467,243.

However, a visit to the sites revealed that most of the components for the treatment works and pipeline construction were about 90% complete. No physical works had commenced in respect of water pipeline construction at Ngethu – Gigiri treated section, with the contractor having said to be unable to access the site. The project risks incurring additional costs in idle time and cost variations. The delays have also negatively impacted the completed Kigoro treatment plant which remains idle. Management attributed the delays to uncompleted land acquisition process by the National Lands Commission.

977.2 Sanitation Blocks in Nairobi Informal Settlements

Through the Project, the Sanitation Blocks in Nairobi Informal Settlements project commenced on 18 May, 2018 and was scheduled to be completed on 14 December, 2020. The project involved construction of fifteen (15) bio-centers within selected informal settlements in Nairobi at a contract price of Kshs.70,631,818. A review of the project execution and field inspection of sampled sites revealed slow progress of the project with works having only commenced in seven (7) sites out of which three (3) were at substructure level with no ongoing works. The other four (4) sites were at various stages of completion, at roofing and finishing. Further, 29 months or 95% of the contract period had elapsed, with only an estimated 21% of works having been executed. The Project’s activities have therefore, fallen behind schedule as the construction period of 14 December, 2020 nears.

In the circumstances, it has not been possible to confirm whether public resources have been utilized effectively or whether value for money will be been realised.

Conclusion

978. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

980. Pending Bills

Note 9.1 to the financial statements reflects a pending bills amount of Kshs.1,075,378 as at 30 June, 2020 which as disclosed under Annex 2A related to unpaid consultancy fee. The Project is at risk of incurring interest costs and penalties with the continued delay in making payments.

981. Fixed Assets Management

As previously reported and as disclosed under the summary of fixed asset register at Annex 3 to the financial statements, the Project had assets valued at Kshs.10,800,000 as at 30 June, 2020. The assets, which include transport equipment and motor vehicles, were at the time of the audit being utilized by the Nairobi City Water and Sewerage Company. However, a report to show when the Project’s assets were handed over to the Water and Sewerage Company was not availed for audit review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

983. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

985. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.433,000,000 and Kshs.209,801,523 respectively resulting to an under-funding of Kshs.233,198,477 or 53% of the budget. Similarly, the Project performance was limited to the receipts realized and therefore spent an amount of Kshs.211,084,205 or 48% out of the approved budget of Kshs.433,000,000. The underfunding affected the planned activities which in turn may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

986. Irregular Award of Contract by Kisumu Water and Sewerage Company

As disclosed in Note 10.6 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.170,531,079 under other grants, transfers and payments which includes an amount of Kshs.30,566,687 subsidy payment to Kisumu Water and Sewerage Company Limited, a water service provider. A review of utilization of the transfer of subsidies at the water service provider revealed flaws in the procurement process as detailed in ensuing paragraphs.

Kisumu Water and Sewerage Company Limited contracted a construction firm on 25 July, 2017 to undertake construction works of a water supply pipeline and water reservoirs at a cost of Kshs.98,186,004 vide tender No.KWS/01/RBW/2016-2017 for a contract period of one (1) year subsidized by the Project. However, review of the procurement process leading to the award of the contract revealed that the winning bidder had not met requirements set out in the tender documents for award of the contract as follows:

(i) Criteria No.3 required the bidder to demonstrate access to or have available liquid assets, unencumbered real assets, and a line of credit sufficient to meet the construction cash flow requirement estimated at Kshs.50,000,000 net of the bidder's
other commitments. However, the awarded bidder did not attach line of credit from any bank despite having attached financial statements showing net cash outflows of Kshs.31,220,001, Kshs.35,410,342 and Kshs.60,411,484 in 2015, 2014 and 2013 respectively.

(ii) Criteria No.5 required details of the contractors' representative and key personnel. However, during evaluation and verification of bid documents it was revealed that the winning bidder attached Curricula Vitae (CVs) of personnel who were not certified by the representative of the Company as per the requirement, and notably an environmental specialist resume and declaration as the contractor’s representative and key personnel in form PER–1 were missing.

(iii) Criteria No.6 required bidders to demonstrate possession of specified construction equipment. However, scrutiny of bid documents revealed that the winning bidder did not demonstrate possession of construction equipment specified in the tender documents including; a concrete mixer 0.5m3/min, survey equipment, a vibrator and an air compressor with jack hammer (30m3/min at 10 BARS).

In view of the above, it was not possible to confirm whether the winning bidder qualified technically to be awarded the contract, and whether expenditure of Kshs.98,186,004 under the contract was incurred lawfully and in an effective way.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

987. Delays in Project Implementation

The Project commenced on 1 December, 2014 with the expected completion date set at 30 November, 2020. However, as at the time of the audit in October, 2020, the Project had absorbed an amount of Kshs.607,776,950 of the total donor commitment funding of Kshs.1,183,500,000, which accounts for 51%. It was not confirmed how Management intends to implement the rest of the activities within the remaining timeframe.

In view of the above, the objectives of the Project may not be achieved and the intended beneficiaries may take longer to derive benefits from the Project. This raises doubt on the governance structures in place and capacity of Management to implement the Project to achieve the intended purpose.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

988. Fixed Assets Register

988.1 Incomplete Assets Register

As previously reported, the Ministry did not have an updated fixed asset register showing all the assets owned by the Ministry and their value as at 30 June, 2020. Further, a summary of the fixed assets register was not included as an annex to the financial statements as required by the Public Sector Accounting Standards Board (PSASB). In addition, the Ministry did not adhere to the requirement of Treasury Circular No. 5/2020 dated 25 February, 2020 on preparation of assets and liabilities registers.

In the absence of an updated fixed assets register, it was not possible to confirm that assets acquired and owned by the Ministry are fairly stated.

988.2 Loss of Government Vehicle

As previously reported, a Ministry vehicle registration No. GK A152Q (civilian number plate KAY 953F) valued at Kshs.5,460,000 was lost at Mlolongo area in Machakos County under unclear circumstances on 24 August, 2013. The vehicle was at the time of loss being driven by an unauthorized person.

Management has not initiated any measures to recover the loss of Kshs.5,460,000 from the responsible parties.

988.3 Un-Surveyed Land without Ownership Documents

As previously reported, records maintained by the Ministry revealed that the Ministry owns forty-nine (49) parcels of land spread throughout the Country which had not been valued. Further, ownership documents of these parcels of land were not availed for audit review. In addition, physical verification of selected parcels of land revealed ongoing encroachment by informal settlers.

Consequently, it was not possible to confirm whether the Ministry owns the parcels of land.

988.4 Encroachment on Ministry’s Land on Enterprise Road

The Ministry through the Kenya Meteorological Department (KMD) owns land Block/209/24794/81 situated in Industrial Area on Road B off Enterprise Road measuring approximately 21.04 hectares. The land houses a meteorological station with a station building housing, the transmitter and generator rooms, an office for the Officer-in-Charge
and staff quarters. The Ministry awarded a contract for fencing of the land at a contract sum of Kshs.5,662,122. The Ministry further awarded a contract for fencing the portions not covered by the earlier contract and for the part of the land that had not been encroached to a local Company at a contract sum of Kshs.33,763,270 on 29 May, 2020.

Physical verification of the land revealed that the land was partially fenced making it an easy target for private developers to grab or encroach. In addition, a private developer during the year under review erected a concrete fence on a portion of the unfenced land. Scrutiny of the land boundary along Road A revealed that unknown people had encroached, fenced and hived off five parcels of land of unknown acreage from the Department’s land. Moreover, a storey building was illegally under construction on one parcel of land. However, the Ministry does not appear to have raised the issue or obtained an injunction to stop encroachment and construction on the land.

In addition, Information obtained from the Ministry revealed that the government has identified the land for implementation of the Mukuru Renewal Project, which includes a housing project by the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. The Kenya Meteorological Department (KMD) land will be in exchanged with 5 acres of land at Jomo Kenyatta International Airport owned by the Kenya Airport Authority. As at the time of audit, the fencing of the land was still going on and the State Department for Housing and Urban Development had started excavation works. It is, however, not clear, whether the State Department for Housing and Urban Development will reimburse fencing cost incurred by the Ministry.

Under the circumstances, it was not possible to confirm the total acreage of the Department’s land and its value.

988.5 Land Hived off Ngong Meteorological Station

The Kenya Meteorological Department owns a station located near Ngong Town along Kibiku road, Kajiado County measuring 44.32 hectares on parcel registration No. LR /24302. However, twelve (12) acres of the land were hived off to pave way for the recently constructed Standard Gauge Railway (SGR) to Naivasha that traverses through the parcel of land. The Chinese company constructing the SGR has also set a construction site within the said property. Management has not indicated whether the land had been gazetted for compensation.

988.6 Encroachment on Ministry’s Land in Mombasa

As previously reported, a private developer has encroached on two (2) plots in Mombasa, serial No.MN/VI3746 and No. MN/VI/3747, next to the Mombasa International Airport. Further, four (4) parcels of land owned by the Kenya Meteorological Department (KMD) in Bamburi with allotment letters numbers MN/1/2405, MN/1/2407, MN/1/2409 and MN/1/2411 all dated 16 February, 2011 have on-going court cases being prosecuted by the Ethics and Anti-Corruption Commission (EACC) at the High Court of Mombasa. The Ministry’s Legal Department seemed unaware of these court cases since no
communication relating to the court cases was available at the Headquarters. In the circumstances, it was not possible to confirm ownership of the above parcels of land.

988.7 Lack of Ownership Documents for Embu Meteorological Station

The Ministry through Kenya Gazette Notices No.8781 and No.8782 dated 3 November, 2005 gave notice of intention to acquire the following parcels of land; Ngandori/Kirigi 2708, 2709, 2710, 2723, 2728, 2729, 2730 and 2745 for the construction of Embu Meteorological Station, the registered owner of the land being Samuel Mbugua (deceased). Thereafter, the Ministry through the Kenya Meteorological Department contracted a construction company to construct a Model Office in Embu in 2009 at a contract sum of Kshs.11,532,396 which was later revised upwards in 2012 to Kshs.14,548,499. However, the process of succession and formalization of ownership of the said property where the building was constructed had not been completed as at the time of completion of audit.

In the circumstances, the Ministry risks losing the land and the building due to lack of ownership documents.

989. Disclosure of a Contingent Liability in the Financial Statements

As previously reported, Note 28.4 to the financial statements for the year ended 30 June, 2019 indicated that the Ministry had a court petition Ref. ELC No.22 of 2018. The petition is in respect to seven (7) acres medical and hazardous waste land situated in Ruai, Nairobi valued at Kshs.245,000,000 purchased on 26 October, 2016.

The petitioner cited breach of contract by the Ministry after the Ministry cancelled the above land purchase contract on 13 February, 2017, three months after both parties had signed it. In the legal suit, the petitioner claimed for the retention of Kshs.24.5 million which was 10% advance payment by the Ministry (buyer), balance of the purchase price amounting to Kshs.220.5 million, costs of the suit and a further Kshs.15 million compensation for the breach of contract. The Ministry, on the other hand, was claiming for the refund of Kshs.24.5 million advance paid to the petitioner (seller) plus interest and cost of the suit.

Examination of the documents availed for audit review revealed the following: -

(i) The Ministry had advertised for the purchase of the above land in January, 2016 upon which a law firm representing the petitioner and two others was awarded the contract.

(ii) In the month of June, 2016, the Ministry sought for due diligence from the National Land Commission (NLC) and a response on the same was served in October, 2016. The National Land Commission raised several issues among them, the land size being less than seven (7) acres and the parcel being made up of seven (7) separate parcels of land.
(iii) The Ministry disregarded the National Land Commission’s advice and signed the agreement in November, 2016 followed by payment of 10% deposit amounting to Kshs.24.5 million on 24 November, 2016. In February, 2017, the Ministry cancelled the contract and in March of the same year demanded refund of the deposit which was not honored by the seller.

(iv) In October, 2017, the Principal Secretary to the National Treasury raised salient questions on the land among them the cost of contract cancellation, budget allocation and efforts for recovery of the deposit paid to the seller. These were not addressed by the Ministry.

(v) An independent valuation dated 7 February, 2018 conducted by the Office of the Director, Land Valuation at the Ministry of Lands and Physical Planning put the total value of the land at Kshs.166 million (Kshs.23.7 million per acre) resulting to unexplained variance of Kshs.79 million.

Management did not avail the valuation report for the piece of land. Further, Management has not explained why due diligence on the above matter was not done, why advice from the National Land Commission was ignored and whether the officers who negligently signed and subsequently cancelled the contract without taking into consideration expert opinion from the National Land Commission were held accountable.

In the circumstances, the government risks losing over Kshs.39.5 million in terms of the deposit paid of Kshs.24.5 million and compensation costs of Kshs.15 million that the petitioner is claiming together with unknown costs.

**990. Inaccuracies in Accounts Payables – Deposits and Retentions**

Note 24 to the financial statements reflects a balance of Kshs.26,044,355 being deposits and retention monies for the Ministry. However, supporting schedules availed for audit reflected a balance of Kshs.40,117,272 resulting to an unexplained variance of Kshs.14,072,917. Review of the retentions schedule availed for audit revealed that there were long outstanding retention monies amounting to Kshs.15,816,816 which were not disclosed in the prior year’s financial statements. Further, the contracts and support documentations were not availed for audit review.

In the circumstances, it was not possible to confirm the accuracy of the retention money and the deposits balances of Kshs.26,044,355 as at 30 June, 2020.

**Other Matter**

**991. Budgetary Control and Performance**

**991.1 Deficit in Revenue and Late Exchequer Releases**

During the year under review, the Ministry received Exchequer/domestic and foreign borrowing/other receipts amounting to Kshs.11,949,286,214 against an approved budget of Kshs.14,013,157,777 resulting in unexplained deficit budget receipts of Kshs.2,063,871,563. In addition, the National Treasury released Exchequer issues to the
Ministry amounting to Kshs.1,136,969,115.20 for both Development and Recurrent in the month of June, 2020 of which Kshs.68,038,671.90 was not spent but subsequently surrendered to The National Treasury. The fall in revenue and return of unspent monies to The National Treasury resulted in the Ministry not being able to offer the required services during the year under review.

991.2 Expenditure Budget Analysis

During the year under review, the Ministry had low absorption rate of the approved budget in the following items as shown below: -

<table>
<thead>
<tr>
<th>Expenditure Item</th>
<th>Approved Budget (Kshs.)</th>
<th>Actual Expenditure (Kshs.)</th>
<th>Under Expenditure (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Goods and Services</td>
<td>360,216,779</td>
<td>334,553,894</td>
<td>25,662,885</td>
</tr>
<tr>
<td>Transfers to Other Government Units</td>
<td>12,007,390,900</td>
<td>10,381,050,773</td>
<td>1,626,340,127</td>
</tr>
<tr>
<td>Social Security Benefits</td>
<td>16,764,968</td>
<td>10,914,019</td>
<td>5,850,949</td>
</tr>
<tr>
<td>Acquisition of Assets</td>
<td>516,182,290</td>
<td>123,255,209</td>
<td>392,927,081</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,900,554,937</strong></td>
<td><strong>10,849,773,895</strong></td>
<td><strong>2,050,781,042</strong></td>
</tr>
</tbody>
</table>

Consequently, due to the deficit in revenue and late exchequer releases, the Ministry did not achieve its planned objectives for the year under review.

992. Unsupported Acquisition of Assets

As previously reported and as disclosed in Note 18 to the financial statements, the statement of receipts and payments for the period ended 30 June, 2019 reflected a balance of Kshs.632,108,885 under acquisition of assets which included an amount of Kshs.459,373,093 against purchase of specialized plant, equipment and machinery. Included in the latter balance was an expenditure of Kshs.90,536,342 being part payment for an Airborne Lidar Photographic System procured for the Department of Remote Survey and Remote Sensing (DRSRS). Information available indicated that the Airborne Lidar Photographic System was procured at a total cost of Kshs.224,896,833. The procurement of the equipment was initiated in August, 2016 when the Department was domiciled at the Ministry of Mining and concluded in November, 2018 when the Department had been transferred and domiciled at the Ministry of Environment and Forestry. It was not possible to properly verify the expenditure as the original bid document indicating the specifications of the equipment, the contract and systems were not availed for audit verification.

In the circumstances, it was not possible to verify the propriety of the expenditure on purchase of Airborne Lidar Photographic System of Kshs.90,536,342.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

993. RANET-Kenya Community Radio

As previously reported, the Ministry established the RANET radio networks as a flagship project under the Kenya Meteorological Department (KMD) of the Ministry of Environment and Forestry. This was meant to be a source of information on early warning system for communities affected by climate and weather-related phenomena. The radio station aimed at delivering and disseminating climate knowledge to the local community to encourage them to foster climate action. The Climate Resource Centre also serves as a learning institution for students on environmental and climate related studies. The stations are located in Isiolo, Kwale, Narok, Busia, Vihiga and Murang’a Counties and others were being constructed. An audit inspection to various stations revealed the following observations:

994. Isiolo (Garbatulla) Community Radio

The community radio and the meteorological station was inaugurated on 29 October, 2012. However, during the field audit inspection in October, 2019 and as at the time of current year audit, the Garbatulla RANET station had not been operational. Further enquiry revealed that although the studio equipment is intact, the broadcasting services were discontinued effective 1 July, 2019 and the staff who were manning the facility had not been paid salaries.

995. Siaya and Matungu - Mumias Radio Station

The Ministry entered into an agreement with the Ministry of Information, Communication and Technology for construction of the radio station at the former Ministry of Information and Broadcasting site. However, the agreement was not availed for audit verification. As at the time of audit, an amount of Kshs.6.6 million had been paid to the construction company and a certificate of completion had been issued. However, physical inspection confirmed that work was incomplete as construction of a generator room was still in progress.

In addition, in Matungu - Mumias the structural works was complete but equipment to host the RANET station had not been installed.

996. Construction of RANET Building at Nyamache Sub-County, Kisii County

As previously reported, the tender for the proposed construction of RANET building at Nyamache Sub-County was awarded to a general painting and building construction company at a contract sum of Kshs.23,738,320 for a period of twelve (12) months. The building was constructed on a three (3) acre piece of land donated by the County
Government. The land transfer documents to the Department were not availed for audit review. Site inspection done on 4 October, 2019 revealed the following anomalies:

(i) Contrary to Section 139 (2) of the Public Procurement and Asset Disposal Act (PPADA), 2015, the contractor was irregularly awarded a 10% variation amounting to Kshs.2,373,832 without authority from the Accounting Officer.

(ii) The contract term expired in 2018 and was not renewed, but the contractor was still on site without a valid contract agreement. As a result of the expiry of the contract term, works and variation were executed outside the contract period contrary to Section 139(4)(d) of the Public Procurement and Asset Disposal Act, 2015.

(iii) The project correspondences between the contractor and the client were not provided for audit review. It was, therefore, not possible to make follow up on key issues such as performance bond, insurance, Bills of Quantities, contract documents and award documents.

Consequently, the Ministry was in breach of law and value for money has not been realised from the investment made in the construction of the RANET radio stations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

SOUND CHEMICALS MANAGEMENT MAINSTREAMING AND UPOPs REDUCTION IN KENYA PROJECT (GRANT NO. 99820)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

Other Matter

998. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects receipts budget and actual amounts on comparable basis of Kshs.147,000,000 and Kshs.83,392,558
respectively resulting to an under-funding of Kshs.63,607,442 or 43% of the budget. Similarly, the Project spent an amount of Kshs.89,829,100 or 61% of the approved budget of Kshs.147,000,000 resulting to an under absorption of Kshs.57,170,900 or 39% of the approved budget. Management has attributed the slow absorption to delays in procurement of goods and services as well as the effect of COVID 19 pandemic which affected policy finalization and training.

The project was not able to absorb all its budget which is an indication that the planned activities may not have been implemented thereby denying services to the public.

999. Pending Accounts Payables

As disclosed under Note 11.0 - Other important disclosures to the financial statements are pending bills amounting to Kshs.5,263,112 as at 30 June, 2020. Management has not provided reasons for non-payment. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1000. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1001. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SYSTEM FOR LAND BASED EMISSIONS AND ESTIMATION IN KENYA (SLEEK) PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1002. Inaccuracies of Cash and Cash Equivalents

The statement of assets reflects a balance of Kshs.638,197.10 at 30 June, 2020. However, the certificates of bank balances were not availed for audit verification. Further, recognised as pending staff payables under Note 11.1 is an amount of Kshs.711,394 representing various unpresented cheques that were written back in the Cash Book. Out of the Kshs.711,394, the Project Management was able to support Kshs.591,516.
In the circumstances, it was not possible to confirm the accuracy of the balance on cash and cash equivalents of Kshs.638,197 as at 30 June, 2020.

1003. Lack of Trial Balance

The project management did not avail the projects trial balance. It was, therefore, not clear and the Management did not explain how the figures in the financial statements were generated. The financial statements may be unreliable and their accuracy could not be confirmed.

1004. Delay in Payment of Statutory Deductions

The statement of receipts and payments reflects payments of Kshs.2,677,600 in respect of compensation of employees. Scrutiny of the documents presented for audit revealed that cheques for various statutory deductions drawn between the month of July and October 2019 amounting to Kshs.711,394 were not presented to the bank for payment as at the time of the audit. Further, the Project Management failed to deduct the Pay As You Earn (PAYE) deductions for months of November and December 2019. The Project Management netted of the entire pay without deducting and remitting PAYE amounting to Kshs.33,130.

Consequently, it has not been possible to confirm the accuracy of the balance on compensation of employees of Kshs.2,677,600.

Other matter

1005. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.3,655,156 against budgeted receipts of Kshs.18,594,000 resulting in a shortfall of Kshs.14,938,844 or 80% of the total budget. The shortfall was mainly recorded under proceeds from domestic and foreign grants. Further, actual expenditure for the year amounted to Kshs.2,989,995 against the final budgeted expenditure of Kshs.18,594,000 resulting to under absorption of Kshs.15,504,045, for which management attributed to staff reduction and lapse of Project time.

1006. Pending Bills

Note 11.1 to the financial statements indicate that the Project had pending accounts payables totalling Kshs.1,132,994 (2019: Kshs.974,003) as at 30 June, 2020 relating to unremitted statutory deductions and gratuity. During the year under review, the Project Management made payments totalling Kshs.974,003, while accumulating bills totalling Kshs.1,132,994. Management has not explained why the bills were not settled during the year when they occurred. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment.
Failure to settle bills during the year in which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1007. Statement of Performance against Project’s Predetermined Objectives

The Management did not prepare the statement of performance against the Project’s predetermined objectives in the financial statements. This was contrary to the requirements under Section 81(2)(f) of the Public Finance Management Act, 2012 which requires that, at the end of each financial year, the Accounting Officer prepare financial statements for each national government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board. This should include a statement of the national government entity’s performance against predetermined objectives. Lack of the statement of performance raises uncertainties as to whether the project achieved its mandate and objectives.

In the circumstances, it has not been possible to establish the status of the Project and any milestones achieved thereof.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1008. There were no material issues relating to effectiveness of internal controls, risk management and governance.

INSTITUTIONAL STRENGTHENING OF THE OZONE DEPLETING SUBSTANCES PROJECT (UNEP PROJECT ACCOUNT NO. UNEP/KEN/SEV/80/INS/63)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1009. There were no material issues noted during the audit of the financial statements of the Project.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1010. Operating without a Project Bank Account

During the year under review, the Project funds were operated through the development account of the Ministry of Environment and Forestry. This is contrary to Regulation 76(1) of the Public Finance Management Regulations, 2015 which provides that for the purpose of disbursement of Project funds, there shall be opened and maintained a Project account for every project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary in writing, into which all funds shall be kept and such an account shall be known by the name of the Project for which it is opened and each Project shall maintain only one bank account.

In the circumstance, the Project Management was in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1011. There were no material issues relating to effectiveness of internal controls, risk management and governance.

LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT PHASE III (LVEMP III) PROJECT PREPARATORY ADVANCE NO. V1570 – KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1012. Inaccuracies in the Financial Statements

The financial statements availed for audit review contained the following anomalies:

i. The statement of financial assets as at 30 June, 2020 reflects a prior year adjustment of Kshs.6,576,690 which was not supported with documentary evidence.

The statement of receipts and payments does not reflect the deficit under the cumulative to date amount of Kshs.7,388,575.

ii. Other Appendices required as per the approved Public Sector Accounting Standard Board reporting templates such as bank reconciliations, confirmations, and cash count have not been attached to these financial statements. The amounts in the statement of financial assets and other sections of the financial
statements are also not rounded to the nearest shilling contrary to the recommended reporting templates.

Consequently, the accuracy and validity of the financial statements for the year ended 30 June, 2020 could not be confirmed.

1013. **Cash and Cash Equivalents**

The statement of financial assets as at 30 June, 2020 reflects cash and cash equivalents balance of Kshs.603,621 while the bank reconciliation statements submitted for audit review had payments in the cash books not yet recorded in the bank statements totalling Kshs.2,247,458. However, the payments could not be confirmed as at the time of the audit in November, 2020 as the bank statements and cash survey certificate were not availed for audit verification. In the absence of the necessary cash survey documentation, the accuracy of cash in hand balance of Kshs.1,241 as at 30 June, 2020 could not be confirmed.

In the circumstance, the accuracy and completeness of the cash and cash equivalents balance of Kshs.603,621 as at 30 June, 2020 could not be confirmed.

1014. **Unsupported Compensation of Employees**

The statement of receipts and payments reflects an amount of Kshs.6,522,795 compensation of employees. However, the supporting schedules and other documentary evidence were not availed for audit review.

Consequently, the accuracy of compensation of employees’ expenditure of Kshs.6,522,795 for the year ended 30 June, 2020 could not be confirmed.

1015. **Unsupported Purchase of Goods and Services**

The statement of receipts and payments reflects a balance of Kshs.22,828,508 under purchase of goods and services. However, the documentary evidence availed for audit review reflected payments totalling Kshs.15,419,614 resulting to an unsupported variance of Kshs.7,408,894.

Consequently, the validity and accuracy of the purchase of goods and services figure of Kshs.22,828,508 for the year ended 30 June, 2020 could not be confirmed.

1016. **Pending Bills**

Note 10.1 and Note 10.2 to the financial statements reflects pending bills totalling Kshs.24,867,363 as at 30 June, 2020 comprising of Kshs.10,335,363 and Kshs.14,532,000 due to suppliers of goods and services and staff respectively. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments. Further, failure to settle bills during the year to which they
relate distorts the financial statements and adversely affects the budgetary provisions for
the subsequent year as they form a first charge.

Further, Annex 2B on analysis of pending staff bills reflects a nil balance while Note 10.2
to the financial statements reflects pending staff payables of Kshs.14,532,000. In addition,
the supporting schedules for staff payables had an amount of Kshs.16,660,000 leading
to an unexplained variance of Kshs.2,128,000.

Under the circumstances, the accuracy of the pending bills balance of Kshs.24,867,363
as at 30 June, 2020 could not be confirmed.

1017. Sustainability of Phase III of the Project

As reflected in the statement of receipts and payments, the project received
Kshs.13,000,000 being the GOK counterpart funding. The International Development
Agency (IDA) vide its letter dated 2 October, 2019 addressed to The National Treasury
and the Ministry of Environment and Forestry had communicated its decision to stop the
Project activities and funding as it reviews its regional integration strategy in Sub-Saharan
Africa.

Under the circumstances, the ability of the Project to continue to sustain services is in
doubt.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Basis for Conclusion

1018. Non-Remittance of Statutory Deductions

Records maintained by the Project indicates that statutory deductions totalling
Kshs.6,576,305 had not been remitted to the relevant statutory authorities some dating
back over two years as shown below:

<table>
<thead>
<tr>
<th>Details</th>
<th>Amount (Kshs.)</th>
<th>Outstanding Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE</td>
<td>6,414,522</td>
<td>30 June 2017</td>
</tr>
<tr>
<td>NHIF</td>
<td>8,500</td>
<td>15 January 2019</td>
</tr>
<tr>
<td>VAT</td>
<td>153,283</td>
<td>20 April 2018</td>
</tr>
<tr>
<td></td>
<td>6,576,305</td>
<td></td>
</tr>
</tbody>
</table>

Non-remittance of statutory deductions within the due dates attracts penalties and
interest.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1019. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL ACTION PLAN ON ARTISANAL SMALL – SCALE GOLD MINING NO. AFR/NAP ASGM PROJECT/C/10-2016

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1020. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1021. Compliance with the International Public Sector Accounting Standards

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.21,000,000 and Kshs.1,500,000 respectively resulting to an under-funding of Kshs.19,500,000 or 93% of the budget. Similarly, the statement reflects final payments budget and actual on comparable basis of Kshs.19,000,000 and Kshs.11,243,234 respectively resulting to an under-funding of Kshs.7,756,766 or 41% of the budget. The Project expenditure was based on the previous year’s saving as only Kshs.1,500,000 was realised. Management has not also given any explanations for the material deviations between the budget and actual amounts contrary to the Public Sector Accounting Standards Board and as required by The National Treasury’s Circular Ref: PSASB/1/12 Vol.1(44) of 25 June 2019.

The Management is therefore in breach of the Law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1022. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1023. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1024. Budgetary Control and Performance

The statement of comparative of budget and actuals amounts reflects a final budget of receipts of Kshs.22,000,000 on transfer from Government entities against actual receipts of Kshs.15,882,182 resulting in a shortfall of Kshs.6,177,818 or 28%. The statement reflects final expenditure budget of Kshs.68,000,000 against actual expenditure of Kshs.37,007,672 on purchase of goods and services resulting into under expenditure of Kshs.30,992,328 or 46%. Further, the Programme incurred an expenditure amount of Kshs.3,278,745 and Kshs.4,504,568 on acquisition of non-financial assets and transfer to other Government entities respectively which had no budget line. No explanation was availed for incurring the expenditure without a budget.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1025. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1026. There were no material issues relating to effectiveness of internal controls, risk management and governance.
OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF ENVIRONMENT AND FORESTRY

GREEN ZONES DEVELOPMENT SUPPORT PROJECT PHASE II - KENYA FOREST SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1027. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1028. Pending Bills

Note 11 to the financial statements reflects pending bills totaling to Kshs.24,581,663 as at 30 June, 2020. Management has not provided an explanation for non-payment of the pending bills. The Project is at risk of incurring additional interest costs and penalties with the continued delay in making payments of the pending bills.

1029. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflect a final receipts budget of Kshs.284,000,000 against actual receipts of Kshs.333,699,693 resulting into an unexplained excess receipt of Kshs.49,699,693 or 17%. The statement further reflects final budgeted expenditure of Kshs.584,000,000 against actual expenditure of Kshs.321,882,578 resulting into an under expenditure of Kshs.262,117,422 or 45% of the budgeted amount. No explanation has been provided for the excess receipts and the under expenditure.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1030. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1031. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA WATER TOWER PROJECT - KENYA FOREST SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1032. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1033. Material Uncertainty Relating to Sustainability of Services

As previously reported, the Project was suspended in January, 2018 by the Donor, European Union, citing violation of the rights of the people living in forests by Kenya Forest Service while implementing the Project in one of the Kenya Water Towers. As the Project was being implemented in Cheregany, an incident in relation to violation of human rights of Sengwer community who inhabited the Embobut Forest and who claimed the land to be their ancestral land occurred.

Further, the United Nation Committee on the Elimination of Racial Discrimination, expressed concern about reports on evictions in Embobut Forest. The Committee called on Kenya to acknowledge the rights of the Sengwer, Endorois, Ogiek and all other indigenous peoples.

In addition, continued habitation of the communities in the affected forest may adversely affect the ecosystem and projected value for money may not be realized by the earmarked communities. As at the time of audit, the suspension had not been lifted.

It was concluded that Kenya ought to carry out effective consultations between relevant parties and communities likely to be affected by the Project with a view to obtaining prior and informed consent from the indigenous communities before implementing future projects. A material uncertainty exists with regard to sustainability of services as no funding has been forthcoming and the implementation of the Project to its conclusion is doubtful.
My opinion is however not modified in respect of these matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1034. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1035. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NORTHERN KENYA CONSERVATION PROJECT CREDIT NO. CKE 1036 01 H– KENYA WILDLIFE SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1036. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1037. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.317,488,000 and Kshs.32,806,957 respectively resulting to an under-funding of Kshs.284,681,043 or 90% of the budget. Similarly, the Project expended Kshs.56,935,101 against an approved budget of Kshs.317,488,000 resulting to an under-expenditure of Kshs.260,552,899 or 82% of the budget. Management has attributed the under-funding and under expenditure to failure by the Donor and the Government of Kenya to release funds and the Covid-19 Pandemic which adversely affected the Tourism Sector.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1038. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1039. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KFS - CAPACITY DEVELOPMENT PROJECT FOR SUSTAINABLE FOREST MANAGEMENT IN THE REPUBLIC OF KENYA, 2020 - KENYA FOREST SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1040. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1041. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflect final budget on proceeds from foreign grant (Contribution in Kind) of Kshs.320,000,000 against actual receipts of Kshs.225,007,785 or 70% resulting into an under collection of Kshs.94,992,215 or 30%. The receipts under collection of Kshs.94,992,215 may have negatively affected the planned activities for the year. Further, the statement of comparative budget and actual amounts reflects a final budget of Kshs.32,000,000 on purchase of goods and services against the actual expenditure of Kshs.34,329,606 resulting into over expenditure of Kshs.2,329,606 which Management explained was a result of bills committed in 2018/2019 financial year but paid in the current year.
REPORT ON LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1042. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1043. There were no material issues relating to effectiveness of internal controls, risk management and governance.

INTERNATIONAL PARTNERSHIP PROGRAMME – FOREST 2020 PROJECT - KENYA FOREST SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1044. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1045. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1046. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1047. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1048. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.194,200,000 and Kshs.111,000,000 respectively, resulting to an underfunding of Kshs.83,200,000 or 43% of the budget. Similarly, the performance was limited to the receipts and Kshs.75,698,272 was spent which represented an under expenditure of 32% of the receipts.

Based on the approved estimates, the under funding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1049. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1050. There were no material issues relating to effectiveness of internal controls, risk management and governance.
INTEGRATED PROGRAMME TO BUILD RESILIENCE TO CLIMATE CHANGE AND ADAPTIVE CAPACITY OF VULNERABLE COMMUNITIES IN KENYA ENDED 30 - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1051. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1052. Low Absorption Rate

A review of the Financing Agreement revealed that the initial closing date for the project was 1 April, 2019 but this was extended to 30 June, 2020 at no cost. Further, paragraph 1.7 of the non-financial information indicates that the Project had drawn Kshs.901,442,454 out of the total Donor commitment of Kshs.1,012,714,450 leaving an amount of Kshs.111,272,110.

Further, the statement of receipts and payments indicates that the Project had spent Kshs.496,590,667 as at 30 June, 2020 representing an absorption rate of 49% which includes Kshs.61,499,181 being unspent balance of advances to executing entities. The Management has not explained how it will absorb the remaining 51% funding within the remaining period although the Programme was given a further extension up to 31 December, 2021.

My opinion is however not modified in respect of this matter.

Other of matter

1053. Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised based on various stalled and delayed completion of projects, among others. Management has indicated that there were no during the previous issues to respond to contrary to the previous report which had several issues which remain unresolved as the Public Accounts Committee has not deliberated on these matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1054. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1055. There were no material issues relating to effectiveness of internal controls, risk management and governance.

GCF PROJECT PREPARATION FACILITY: “DEVOLVED CLIMATE CHANGE GOVERNANCE TO STRENGTHEN RESILIENCE OF COMMUNITIES’ IN TARGET COUNTIES” - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1056. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1057. Budget Under Absorption

The statement of comparative budget and actual amounts reflects final budget of Kshs.34,999,147 against actual expenditure of Kshs.733,609 resulting into under absorption of Kshs.34,265,538 representing 98%.

This is an indication that the planned activities were not achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1058. Project Bank Account

The Project Management did not open a separate bank account as required by Section 74(1) where the Public Finance Management Regulations, 2015 states that for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept. The Act further states that, such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account. The management did not get authority to
open the project account but deposited the project funds in an existing project account for Adaptation Fund A/c No.1218639164 contrary to the requirements of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1059. There were no material issues relating to effectiveness of internal controls, risk management and governance.

GCF READINESS AND PREPARATORY SUPPORT: “NEMA CAPACITY STRENGTHENING PROGRAMME TOWARDS ACCESSING CLIMATE FINANCE FROM GREEN CLIMATE FUND” - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1060. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1061. Comingling of Projects Funds

Management did not open a separate Programme bank account but instead the Project funds are deposited in the Project Integrated Programme to Build Resilience to Climate Change and Adaptive Capacity of Vulnerable Communities in Kenya’s bank account No.1218639164. It has not therefore, been possible to isolate transactions between the two projects considering that the money is fungible. This was contrary to Section 76(1) of the Public Finance Management (National Government) Regulations, 2015 which states that for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at the Central Bank of Kenya into which all funds shall be kept unless it is exempted by the Cabinet Secretary, in writing. The regulation further states that, such an account shall be in the name of the project for which it is opened and each project shall maintain only one bank account.

Consequently, Management is in breach of the regulation.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1062. There were no material issues relating to effectiveness of internal controls, risk management and governance.
MINISTRY OF LANDS AND PHYSICAL PLANNING – VOTE 1112

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1063. Accounts Receivable - Outstanding Imprest and Clearance Accounts

1063.1 Outstanding Imprest

The statement of assets and liabilities reflects accounts receivables-outstanding imprest and clearance accounts balance of Kshs.21,140,855 which as disclosed under Note 8 to the financial statements includes imprests totalling to Kshs.260,522 out of which an amount of Kshs.98,800 was due but had not been surrendered as at the time of the audit in November, 2020. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to the duty station. Regulation 93 (6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest charged at the prevailing Central Bank Rate.

Consequently the validity and recoverability of the imprest balance of Kshs.260,522 as at 30 June, 2020 could not be confirmed.

1063.2 Unsurrendered District Suspense Balance

Accounts receivable balance of Kshs.21,140,855 as disclosed under Note 8 to the financial statements also includes outstanding district suspense balance of Kshs.20,708,108 made up of an opening balance of Kshs.5,547,807, issues during the year of Kshs.140,506,402 and expenditure during the year of Kshs.125,346,101. The opening balance of Kshs.5,547,807 was not surrendered to The National Treasury but was instead carried forward to the current financial year contrary to Treasury guidelines on closure of financial year and Section 84 of the Public Finance Management (National Government) Regulations, 2015 which states that, “not later than 31st January of each year, each Accounting Officer shall surrender to the National Exchequer Account unexpended voted money or excess Appropriations-in-Aid, as confirmed by Auditor-General in the audit report”.

Further, supporting documents for the expenditure of Kshs.125,346,101 and the closing balance of Kshs.20,708,108 were not availed for audit review.

Consequently, the accuracy and validity of district suspense balance of Kshs.20,708,108 as at 30 June, 2020 could not be confirmed.
1064. Undisclosed Legal Bills

Included in use of goods and services expenditure of Kshs.1,433,581,393 for the year ended 30 June, 2020 is other operating expenses of Kshs.540,975,313 which includes Kshs.100,000,000 paid to State Law Office in respect of prior year legal pending cases that were however, not disclosed as pending bills in prior year financial statements.

Further, and as reported in the previous year, the Ministry had legal pending bills amounting to Kshs.772,211,214 for cases determined against the Ministry. However, the bills have not been disclosed in these financial statements and there was no evidence that the same were settled during the year under review.

In addition, no budget provision has been made to settle the bills contrary to Section 44(2)(a) of the Public Procurement and Asset Disposal Act, 2015 which requires the Accounting Officer to ensure that procurement of goods, works and services of the public entity are within approved budget of that entity.

1065. Undisclosed Bank Balance

As previously reported, the Kenya Institute of Survey and Mapping operates a revenue collection account at the National Bank of Kenya. During the year under review, fees and charges amounting to Kshs.8,500,000 were collected through the account and transferred to the Ministry as Appropriations in Aid as disclosed at Note 2 to the financial statements. As at 30 June, 2020, the account had a balance of Kshs.4,898,121 which was not disclosed or included in the Ministry’s bank balance as at 30 June, 2020.

In the circumstances, the accuracy and completeness of bank balance of Kshs.240,987,144 as at 30 June, 2020 could not be confirmed.

Other Matter

1066. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.7,196,303,930 and Kshs.6,307,807,318 respectively resulting to an under-funding of Kshs.888,496,612 or 12% of the budget. Similarly, the Ministry expended Kshs.6,290,849,403 against an approved budget of Kshs.7.196,303,930 resulting to an under-expenditure of Kshs.905,454,527 or 13% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

1067. Pending Bills

As disclosed under Annex 3 to the financial statements, the Ministry had pending accounts payable totalling Kshs.83,104,377 as at 30 June, 2020. Management has not explained why the bills were not settled during the year when they occurred. Failure to settle bills during the year to which they relate distorts the financial statements and
adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1068. Transfers to Other Government Entities

Note 5 to the financial statements reflects that an amount of Kshs.1,012,370,000 was transferred to the National Intelligence Service during the year for development of Land Information Management System (LIMS). However, confirmation from the beneficiary institution as at 30 June, 2020 was not attached as an appendix to the financial statements contrary to the Public Sector Accounting Standards Board’s requirement contained in the revised reporting template dated 30 June, 2018 that requires duly signed confirmations to be obtained from the beneficiary institutions. No explanation has been provided for the omission. Further, the terms of reference and progress reports in respect to the LIMS project on behalf of the Ministry of Lands and Physical Planning were not availed for audit review. In addition, and as previously reported, the Ministry had adopted LIMS and had already digitized 14 land registries at a total cost of Kshs.700,004,000 up to 2017/2018 financial year.

Consequently the propriety of the money transferred and whether the Ministry of Lands and Physical Planning obtained value for money in the transfer of Kshs.1,012,370,000 for the year ending 30 June, 2020 could not be confirmed.

1069. Digitization of Land Registries

As previously reported, contracts to digitize Machakos, Kajiado, Nakuru and Kisumu land registries were awarded to three local companies on 30 May, 2015 at a combined contract sum of Kshs.154,280,000. However, lack of appropriate scanners and internet has significantly affected the sustainability of the digitization project in the four registries despite incurring significant expenditure. Consequently, it has not been possible to ascertain if there was value for money on the expenditure of Kshs.154,280,000 on the digitization process.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1070. Conclusion

There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

1071. Unsupported Balance Carried Forward

The statement of receipts and disbursements reflects a bank balance carried forward of Kshs.2,669,255 as at 30 June, 2020. However, the certificate of bank balance was not provided for audit verification.

In the circumstances, the accuracy and validity of balance carried forward of Kshs.2,669,255 could not be confirmed.

1072. Sale of Goods and Services

1072.1 Unsupported and Misclassified Revenue-District Land Registries

The statement of receipts and disbursements reflects revenue receipts of Kshs.1,102,688,837 from sale of goods and services which, as disclosed in Note 4 to the revenue statements, includes other land revenue of Kshs.900,771,689. The latter balance includes revenue collections from district land registries amounting to Kshs.378,593,564 whose supporting documents were not availed for audit review. However, out of the revenue collection of Kshs.378,593,564, Kshs.258,672,101 was collected from identified registries while the balance of Kshs.119,921,463 was from unidentified land registries.

Further, the revenue collections from district land registries amounting to Kshs.378,593,564 were aggregated and classified as other land revenue instead of being classified into specific revenue streams such as land registration, valuation and stamp duty. In addition, the Ministry’s Finance Procedures Manual requires district land registries to submit consolidated monthly revenue returns to the Head Office. However, eight (8) land registries namely; Isiolo, Nakuru, Mbeere, Siaya, Nyando, Gatundu, Garissa and Litein, did not make returns during the year. No explanation has been provided for the non-compliance.

1072.2 Unreconciled Balances

Annual revenue collections reflected in the records maintained at the district land registries differed with the annual revenue collections reflected in the revenue statements as follows:
<table>
<thead>
<tr>
<th>Registry</th>
<th>Balance as per Revenue Statements (Kshs.)</th>
<th>Balance as per the Registry (Kshs.)</th>
<th>Difference (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bungoma</td>
<td>4,310,035</td>
<td>7,357,240</td>
<td>(3,047,205)</td>
</tr>
<tr>
<td>Kakamega</td>
<td>9,608,270</td>
<td>10,960,315</td>
<td>(1,352,045)</td>
</tr>
<tr>
<td>Kisumu</td>
<td>7,854,320</td>
<td>9,500,575</td>
<td>(1,646,255)</td>
</tr>
<tr>
<td>Kisii</td>
<td>1,660,500</td>
<td>8,994,870</td>
<td>(7,334,370)</td>
</tr>
<tr>
<td>Narok</td>
<td>800,120</td>
<td>3,468,776</td>
<td>(2,668,656)</td>
</tr>
<tr>
<td>Kajiado</td>
<td>9,450,039</td>
<td>13,113,610</td>
<td>(3,663,571)</td>
</tr>
<tr>
<td>Machakos</td>
<td>19,125,380</td>
<td>21,369,380</td>
<td>(2,244,000)</td>
</tr>
<tr>
<td>Mombasa</td>
<td>877,800</td>
<td>3,520,610</td>
<td>2,642,810</td>
</tr>
<tr>
<td>Kilifi</td>
<td>3,067,959</td>
<td>2,991,300</td>
<td>76,659</td>
</tr>
<tr>
<td>Kwale</td>
<td>2,775,260</td>
<td>3,856,680</td>
<td>(1,081,420)</td>
</tr>
</tbody>
</table>

### 1072.3 Un-Surrendered Survey Fee

Regulation 64(1)(a) of the Public Finance Management (National Government) Regulations, 2015 provides that an Accounting Officer and a Receiver of Revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for all national government revenue and other public moneys relating to their Ministries, Departments or Agencies. However, survey fees amounting to Kshs.7,261,896 collected in the financial year 2019/2020 by the Department of Survey at Machakos Land Registry was remitted to the County Government of Machakos instead of the Ministry. The revenue has not been included in the reported revenue for the year.

In the circumstances, the accuracy of the revenue balances for the various revenue streams reflected under Note 4 to the revenue statements could not be confirmed.

### Other Matter

#### 1073. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

#### 1074. Budgetary Control and Performance

Note 3 to the revenue statements reflects budgeted and actual property income of Kshs.30,654,685 and Kshs.18,666,848 respectively resulting into a shortfall of Kshs.11,987,837 or 39%. Although Management has explained that the under-collection was occasioned by closure of the land registries due to the Covid-19 pandemic, the under-collection affected the planned activities and may have impacted negatively on service delivery to the public.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1075. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1076. There were no material issues relating to effectiveness of internal controls, risk management and governance.

LAND SETTLEMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1077. Unsupported Balances

The statement of changes in net assets reflects an opening balance as at 1 July, 2019 of Kshs.13,266,170,244 which includes net transfers to or from accumulated surplus totalling to Kshs.11,665,052,516. However, and as previously reported, the Management did not provide details on where the balances were transferred to or from. Supporting schedules for the balances transferred were also not provided for audit verification.

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

1078. Trade Receivables

As disclosed in Note 9 to the financial statements, the statement of financial position reflects a balance of Kshs.12,296,090,253 under trade receivables. The following observations were noted;

1078.1 Accuracy of the Opening Balances

As reported in the previous year, the trade receivables balance excludes opening balances of various items as summarized below.
Although Management wrote to The National Treasury requesting for authority to write-off the balances, the approval has not been granted.

### 1078.2 Imprest

The trade receivables balance also includes outstanding imprest of Kshs.3,709,130 wrongly classified under trade receivables instead of receivables from non-exchange transactions. Further, the imprest balance of Kshs.3,709,130 was due but had not been surrendered as at the time of audit in November, 2020. This is contrary to Section 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to the duty station. Regulation 93 (6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate. Although Management has written to the relevant institutions for recoveries to be effected from the officer’s dues and remitted to the Fund, progress made has not been disclosed.

### 1078.3 Long Outstanding Land and Development Loans

The trade receivables balance further includes amounts of Kshs.6,946,330,739 and Kshs.70,555,451 in respect of land loans receivables and development loans receivables respectively. However, a review of the supporting schedules indicated that these loans were issued to settlers from the year 1962 but remained outstanding as at 30 June, 2020. No explanation has been provided for the long outstanding balances on land and development loans.
1078.4 Long Outstanding Interest Receivable

The trade receivables balance in addition, includes interest receivable of Kshs.5,275,494,933 which has accumulated over the years on loans issued to settlers since 1962 and whose recoverability remains doubtful as at 30 June, 2020.

In the circumstances, and in absence of provisions against the long outstanding debts, the accuracy and recoverability of the reported trade receivables balance of Kshs.12,296,090,253 could not be confirmed.

1079. Inaccuracy of Trade and Other Payables from Exchange Transactions

As disclosed in Note 12 to the financial statements, the statement of financial position reflects a nil balance under trade and other payables from exchange transactions. However, and as previously reported, the balance excludes unsupported balances as detailed below;

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refundable Deposits from customers</td>
<td>93,343,385</td>
</tr>
<tr>
<td>Provisions</td>
<td>11,676</td>
</tr>
<tr>
<td>Agency Accounts (credits)</td>
<td>125,425</td>
</tr>
<tr>
<td>Other Creditors</td>
<td>3,150,139</td>
</tr>
<tr>
<td>Accrued Interest on Loan</td>
<td>301,500</td>
</tr>
<tr>
<td>Reserve for Bad Debts</td>
<td>6,602,797</td>
</tr>
<tr>
<td>Suspense Credit Items</td>
<td>(122,806,862)</td>
</tr>
<tr>
<td>Fund Drawn from Treasury</td>
<td>5,153,814</td>
</tr>
</tbody>
</table>

Management has not explained the circumstances which led to a debit balance in payables, an indication that the creditors were over paid.

In the circumstances, the accuracy, completeness and validity of the trade and other payables from exchange transactions nil balance as at 30 June, 2020 could not be confirmed.

1080. Non-Resettlement of Internally Displaced Persons

As per a sales agreement dated 3 October, 2012, the Fund purchased a parcel of land in Kisima Njoro LR No. 9216 at a cost of Kshs.396,984,000 for resettlement of Internally Displaced Persons (IDPs). However, during a physical verification of the farm in the month of September, 2019, it was noted that the land had not been surveyed or subdivided and therefore, the beneficiaries had not been resettled seven (7) years after the purchase of the land. The matter remained un-resolved as at the time this audit report was finalized.
Consequently, the objective for which the land was acquired had not been achieved as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1081. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1082. Proceeds from Foreign Borrowing

The statement of receipts and payments reflects receipts of Kshs.11,273,229,015 being proceeds from foreign borrowings which, as disclosed in Note 2 to the financial statements, includes an amount of Kshs.4,393,499,464 relating to direct payments made by a Chinese Bank to the Contractor for undertaking the implementation of Konza Data Centre and Smart City Facilities Project. However, the financing agreement for the contract was signed on 19 April, 2019 which was almost two (2) years after the contract award date of 22 June, 2017. Further, annexes to the contract containing the terms and conditions of the contract including timelines, deliverables and payment schedules in support of the payments were not provided.

Consequently, the validity and accuracy of Kshs.4,393,499,464 included in the reported proceeds from foreign borrowings totaling Kshs.11,273,229,015 for the year ended 30 June, 2020 could not be ascertained.

1083. Acquisition of Assets - Unsupported Expenditure

The statement of receipts and payments reflects payments of Kshs.3,630,792,323 in respect of acquisition of assets which, as disclosed in Note 8 to the financial statements, comprises of amounts of Kshs.951,062,760 and Kshs.2,679,729,564 in respect of non-financial assets and financial assets respectively. Included in the non-financial assets balance is an amount of Kshs.761,748,808 in respect of purchase of specialized plant equipment and machinery which in turn includes Kshs.220,000,000 issued as Authority to Incur Expenditure (AIE) to the Director, Information Communication Technology. The AIE was paid on 5 December, 2020 for the overhaul of Ruaraka Data Centre following a fire outbreak. However, the following issues were noted;

i. The AIE was based on the requisition of the Director, Information Communication Technology dated 27 November, 2019 which was more than one year earlier than the date of its payment on 5 December, 2020;

ii. There was no detailed report on the fire outbreak indicating the date of its occurrence, the cause of the fire, the extent of damage and professional estimates for the cost of repairs. Further, the Government Data Centre is managed and maintained by the Information and Communications’ Technology Authority (ICTA) under a maintenance contract with a service provider since 28 September, 2015. However, the request for cash for the overhaul originated from the Director, Information Communication Technology of the State Department as opposed to
ICTA who is charged with the responsibility of managing and maintenance of the Data Centre;

iii. Returns to account for the AIE of Kshs.220,000,000 issued in respect of the overhaul of the data Centre were not availed for audit review. Further, the amount had not been factored in the State Department’s budget for the year 2019/2020 and evidence of authorized reallocation during the year was not made available for audit verification.

Under the circumstances, the propriety, accuracy and validity of the expenditure of Kshs.220,000,000 included under purchase of specialized plant, equipment and machinery could not be confirmed.

1084. Mis-Postings Under Use of Goods and Services

The statement of receipts and payments reflects an expenditure of Kshs.574,733,671 in respect of use of goods and services which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.362,177,115 in respect of other operating expenses. Examination of sample payments for other operating expenses revealed mis-postings of expenses totalling Kshs.10,468,003 as detailed below:

<table>
<thead>
<tr>
<th>Account charged as per the Financial Statements</th>
<th>Correct Account</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other operating expenses</td>
<td>Hospitality supplies and services</td>
<td>811,032</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>Foreign travel and subsistence</td>
<td>1,113,695</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>Hospitality supplies and services</td>
<td>8,543,276</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10,463,003</td>
</tr>
</tbody>
</table>

Necessary adjustments were not effected to correct the mis-postings and as such the accuracy of the affected balances and the regularity of the mis-posted expenditure could not be ascertained.

Other Matter

1085. Pending Bills

Note 17.1 to the financial statements reflects pending bills of Kshs.670,893,139 as at 30 June, 2020 which includes a balance of Kshs.11,473,560 incurred in the 2017/2018 financial year. Although the amount of Kshs.11,473,560 had been budgeted for payment over the last two years, no satisfactory explanation was provided for failure to settle the bill. The State Department is exposed to the risk of litigation, interest and penalties with the continued delay in settling the bills.

1086. Unresolved Prior Year Issues

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.
1087. Budgetary Control and Performance

The summary statement of appropriation- recurrent and development combined reflected actual receipts of Kshs.17,007,093,895 against a budget of Kshs.21,526,864,180 resulting into a receipts shortfall of Kshs.4,518,960,285 or 21% of the budgeted receipts. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.21,526,864,180 and Kshs.16,991,880,511 respectively resulting to an under-expenditure of Kshs.4,534,983,669 or 21% of the budget. The shortfall in budgeted receipts and under-expenditure implies that the overall goals and objectives of the State Department were not achieved as planned impacting negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1088. Acquisition of Assets

1088.1 Deliveries Made after Lapse of Statutory Period

The statement of receipts and payments reflects an amount of Kshs.3,630,792,323 in respect of acquisition of assets which, as disclosed in Note 8 of the financial statements, included an amount is Kshs.133,016,528 relating to purchase of office furniture and general equipment. However, examination of sampled payments under the account revealed that while local purchase orders were issued to various suppliers, the deliveries were made after 30 days contrary to Regulation 53(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that a local purchase order shall be valid for a period of thirty (30) days from the date of issue.

The details of the deliveries are as below:

<table>
<thead>
<tr>
<th>LPO No.</th>
<th>Item Supplied</th>
<th>LPO Date</th>
<th>Date of Delivery</th>
<th>Lead Time (Days)</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>584</td>
<td>Supply of Desktop Computer Type 2 for Culture and Heritage</td>
<td>09/01/2019</td>
<td>03/05/2019</td>
<td>114</td>
<td>2,580,000</td>
</tr>
<tr>
<td>1072</td>
<td>Supply of printers for SRC</td>
<td>27/05/2019</td>
<td>25/10/2019</td>
<td>151</td>
<td>1,875,000</td>
</tr>
<tr>
<td>563</td>
<td>Supply of laptop Computer Type 2 for Public Service</td>
<td>04/01/2019</td>
<td>21/03/2019</td>
<td>76</td>
<td>1,259,000</td>
</tr>
<tr>
<td>973</td>
<td>Supply of laptop Computer Type 2 for Tourism</td>
<td>24/04/2019</td>
<td>14/06/2019</td>
<td>51</td>
<td>3,777,000</td>
</tr>
<tr>
<td>1971</td>
<td>Supply of Desktop Computer Type 1 State Department for Interior</td>
<td>20/03/2020</td>
<td>17/6/2020</td>
<td>89</td>
<td>10,780,000</td>
</tr>
<tr>
<td>LPO No.</td>
<td>Item Supplied</td>
<td>LPO Date</td>
<td>Date of Delivery</td>
<td>Lead Time (Days)</td>
<td>Amount (Kshs.)</td>
</tr>
<tr>
<td>---------</td>
<td>--------------------------------------------------------------------------------</td>
<td>----------</td>
<td>------------------</td>
<td>------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>987</td>
<td>Supply of laptop Computer Type 2 for the State Department for Information Communication and Technology</td>
<td>30/04/2019</td>
<td>27/06/2019</td>
<td>58</td>
<td>2,518,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>22,789,000</strong></td>
</tr>
</tbody>
</table>

Evidence of extension of the validity of the local purchase orders was not provided and the State Department was therefore in breach of the Law.

**1088.2 Domestic Public Non-Financial Enterprise**

The acquisition of assets amount of Kshs.3,630,792,323 includes an amount of Kshs.2,679,729,564 in respect of financial assets described as Domestic Public Non-Financial Enterprise. However, the nature of assets and the breakdown of the amount was not provided for audit verification. In addition, available information indicated that the expenditure was in respect of the National Fibre Optic Backbone Infrastructure (NOFBI) whose first phase was initiated in 2010 and completed in 2012. Subsequent extensions in scope and geographical coverage were automatically granted to the contractor without undertaking any procurement process in line with the Public Procurement and Asset Disposal Act, 2015. Some of the extensions were yet to be completed and commissioned as at 30 June, 2020.

Further, the technical report for supplies of the project to confirm adherence to the specifications was not provided and the operational acceptance certificate was signed by the Project Manager and an Administrator whose technical capacity could not be confirmed.

**1088.3 National Optic Fibre Backbone Infrastructure (NOFBI) and County Connectivity Project (CCP) Structure**

As previously reported, the State Department undertook two projects namely National Optic Fibre Backbone Infrastructure (NOFBI) and County Connectivity Project (CCP). However, the projects did not have a defined structure that assigns responsibility for delivery by the contractors. In addition, although the contract was between the State Department and the contractor, the payment for works done was initiated by Information Communication and Technology Authority (ICTA) and the payments made by The National Treasury. No documented inspection and acceptance reports were provided in support of the payments amounting to Kshs.10,258,054,196 in respect of NOFBI and Kshs.1,337,832,556 in respect to CPP over the last four (4) years. Further, no evidence has been provided for audit verification to show that User Acceptance Tests (UAT) have been undertaken on the project. In addition, appointment letters for Project Managers and members of the Inspection and Acceptance Committees for both Projects were not provided for audit verification.
In addition, the documents to show how the two Contractors were identified, procured and awarded the contracts were not availed for audit verification and hence the validity of the payments as a charge to public funds is not confirmed. Further, the contracts availed for audit examination did not include the annexures containing the terms and conditions of the contract including timelines, deliverables and payment schedules. It was therefore not possible to verify the compliance to the contractual obligation, and the propriety and validity of the payments made on account of these contracts so far.

In view of the foregoing, value for money for the cumulative expenditure of Kshs.11,595,886,752 on the two projects as at 30 June, 2020 could not be confirmed.

1089. National Optic Fibre Infrastructure (NOFBI) – Loan Repayment

As previously reported, the NOFBI project is implemented by the State Department in conjunction with Information and Communications Technology Authority (ICTA) and is funded by the Export Import Bank of China for RMB.1,110,000,000 made up of two loans. The first loan of RMB 460,000,000 was signed on 08 October, 2012 and the second loan amounting to RMB 650,000,000 was signed on 19 May, 2016. Although ICTA has started funding the repayment of the loan through the opening and operation of an escrow account that is being funded through periodic disbursements by The National Treasury through the State Department for Information Communication and Technology and Innovation, the loans have not been recorded in the Authority’s financial statements or accounting records.

Under the circumstances, the legality, propriety and justification of the loans totalling RMB.1,110,000,000 (Kshs.16,500,000,000) and repayments by ICTA amounting to Kshs.727,929,220 could not be ascertained.

1090. Non-Billing of the National Optic Fibre Backbone Infrastructure (NOFBI)

As previously reported, the NOFBI project network has been operational since 2014 and has been used by most of the data service providers in the Country. However, although the financing agreement indicated that the Government would sell out excess capacity commercially to the public and bill them to finance the loan repayments, there has been no billing done over the last five (5) years it has been in operation. Further, the Service Provision Framework Agreement between the NOFBI Project Managers and the Internet Service Providers has not been implemented. The Government has therefore, been funding the operations of commercial entities without recovering the cost which amounts to lack of prudent use of public resources.

In addition, no records have been provided detailing the users that have been connected to NOFBI for the last five (5) years, their utilization levels, and the amount payable by each.

1091. Unfair and Improper Sourcing of Suppliers

Following the consolidation of procurement of ICT equipment and related services for the entire Government, the State Department identified fifty-four (54) products and fifty-four
(54) suppliers were awarded framework contracts to supply each of the identified products to the entire national government for a period of two (2) years each corresponding to the products identified. However, the framework contracting was done contrary to Section 114(1)(c) of the Public Procurement and Asset Disposal Act, 2015, as only one supplier was selected for each category instead of the mandatory minimum of seven (7). This eliminated competition necessary to ensure prices for commodities procured are comparable to the market value. This also eliminated equity, value for money and fairness in the procurement of ICT related products.

An analysis of the acquisition of assets revealed that total Purchase Orders issued by the State Department for the financial year ended 30 June, 2020 in respect of purchase of ICT equipment and related services amounted to Kshs.847,011,026 relating to procurement done on behalf of other Government Ministries, Departments and Agencies. Further analysis indicates that 77% of the supplies were awarded to seven (7) suppliers for a duration of two years.

Consequently, fairness, equity, transparency, competitiveness and cost effectiveness in the procurement of public assets as required under Article 227 of the Constitution could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1092. There were no material issues relating to effectiveness of internal controls, risk management and governance

DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR INFORMATION COMMUNICATION AUTHORITY

EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (IDA CREDIT NO.5638-KE) - INFORMATION AND COMMUNICATION TECHNOLOGY AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1093. There were no material issues noted during the audit of the financial statements of the Project.
Emphasis of matter

1094. Special Account Reconciliation

As disclosed under Note 10.3 to the financial statements, the statement of receipts and payments reflects proceeds from domestic and foreign grants of Kshs.123,676,921. However, this excludes amounts withdrawn but unclaimed of USD 30,573.03 equivalent to Kshs.3,196,275 as at 30 June, 2020 reflected in the Project special account statement. The amount represents cumulative funds transfers to the Project bank account, but whose expenditure returns had not been submitted to The National Treasury by the close of the financial year.

1095. Slow Project Funds Absorption

The Project commenced in November, 2015 with an estimated completion date of December, 2021. However, as reflected under the funding summary, out of the total commitment of Kshs.2,979,795,000 by IDA and the Government of Kenya, only Kshs.325,831,189 or 11% had been released to the Project as at 30 June, 2020. The Project is unlikely to fully achieve the intended objectives for the stakeholders.

My opinion is however not modified based on the effects of the matters described above.

Other Matter

1096. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.150,000,000 and Kshs.123,480,921 respectively resulting to an under-funding of Kshs.26,323,079 or 18% of the budget. Similarly, the Project expended Kshs.131,421,321 against an approved budget of Kshs.150,000,000 resulting to an under-expenditure of Kshs.18,578,679 or 12% of the budget.

The underfunding and underperformance affected the planned activities and may impact negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1097. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1098. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1099. Bank Balances

As disclosed in Note 10 A to the financial statements, the statement of financial assets and liabilities reflects bank balances of Kshs.304,133,182 as at 30 June, 2020. However, the bank reconciliation statements in support of the cash book balances were at variance with the certificate of bank balances as at 30 June, 2020 as analyzed below:

<table>
<thead>
<tr>
<th>Bank Account</th>
<th>Certificate of Balance (Kshs.)</th>
<th>Bank Balance as per Reconciliation (Kshs.)</th>
<th>Difference (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Account</td>
<td>0</td>
<td>232,275</td>
<td>(232,275)</td>
</tr>
<tr>
<td>Deposit Account</td>
<td>268,696,622</td>
<td>280,749,093</td>
<td>(12,052,471)</td>
</tr>
<tr>
<td>Totals</td>
<td>268,696,622</td>
<td>280,981,367</td>
<td>(12,284,745)</td>
</tr>
</tbody>
</table>

Details of the reconciling items and supporting documents were not availed for audit review.

In the circumstances, the accuracy, and fair statement of the reported bank balances of Kshs.304,133,182 as at 30 June, 2020 could not be ascertained.

1100. Accounts Receivables

As disclosed in Note 11 to the financial statements, the statement of financial assets and liabilities reflects a balance of Kshs.11,463,526 under accounts receivables – outstanding imprest and clearance accounts balances. Included in the balances are long outstanding imprests and District Suspense of Kshs.815,671 and Kshs.10,554,650 respectively. The long outstanding imprests of Kshs.815,671 ought to have been surrendered or recovered on or before 30 June, 2020 in accordance with Regulation 93 of the Public Finance Management (National Government) Regulations, 2015. Further, the movements in District Suspense account balance from Kshs.81,937,063 as at 30 June, 2019 to the closing balance of Kshs.10,554,650 has not been supported.

In the circumstances, the accuracy and fair statement of accounts receivables – outstanding imprest and clearance accounts balances of Kshs.11,463,526 as at 30 June, 2020 could not be ascertained.
1101. Accounts Payables - Deposits

As disclosed in Note 12 to the financial statements, the statement of financial assets and liabilities reflects a balance of Kshs.280,749,093 under accounts payables-deposits. As previously reported, included in the balance are long outstanding deposits received from various government institutions amounting to Kshs.38,659,849 which had been outstanding for periods exceeding one year. No explanation was given on why the deposits continue to be held by the State Department and the purpose for which they were expected to be utilized. Further, analysis provided in support of the deposits did not include the date of contract while the supporting documents were inadequate to authenticate the accuracy and validity of each of the disclosed balances.

In addition, included in the accounts payables-deposits balance are receipts in respect of services rendered by the Government Advertising Agency and disposal of motor vehicle amounting to Kshs.15,528,920 and Kshs.266,000 respectively that represent Appropriation in Aid and should not have been recorded as deposits.

Under the circumstances, the accuracy and fair statement of accounts payables- deposits balances of Kshs.280,749,093 as at 30 June, 2020 could not be ascertained.

1102. Differences between the Financial Statements and IFMIS Generated Trial Balance

There were differences noted between the amounts reflected in the financial statements and the IFMIS generated Trial Balance as detailed below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Financial Statement (Kshs.)</th>
<th>IFMIS Trial Balance (Kshs.)</th>
<th>Difference (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imprests</td>
<td>815,671</td>
<td>1,018,528</td>
<td>(202,857)</td>
</tr>
<tr>
<td>Cash in Hand</td>
<td>254,951</td>
<td>4,795,046,444</td>
<td>(4,794,791,493)</td>
</tr>
<tr>
<td>District Suspense</td>
<td>10,554,650</td>
<td>4,440,516</td>
<td>6,114,134</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>-</td>
<td>329,670</td>
<td>(329,670)</td>
</tr>
<tr>
<td>Salary Advance</td>
<td>93,205</td>
<td>(366,022)</td>
<td>459,227</td>
</tr>
<tr>
<td>Development Bank Account</td>
<td>232,275</td>
<td>(981,816,580)</td>
<td>982,048,855</td>
</tr>
<tr>
<td>Recurrent Bank Account</td>
<td>23,151,815</td>
<td>(4,229,352,620)</td>
<td>4,206,200,805</td>
</tr>
<tr>
<td>General Deposits Account</td>
<td>280,749,093</td>
<td>(273,023,646)</td>
<td>553,772,739</td>
</tr>
</tbody>
</table>

The variances between the two sets of records have not been explained nor reconciled.

Consequently, the accuracy and completeness of the financial statements as prepared and presented could not be confirmed.
1103. Unsupported Prior Year Adjustments

As disclosed in Note 14 to the financial statements, the statement of financial assets and liabilities reflects a balance of Kshs.82,693,143 under prior year adjustments. However, an adjustment of Kshs.78,814,143 is included in respect of district suspense which was not in agreement with the movement in the account balance of Kshs.72,751,756 during the period. This resulted in an unexplained variance of Kshs.6,062,387. Furthermore, there were no documents in support of the movements in the district suspense adjustments.

Consequently, it was therefore not possible to confirm the validity of prior year adjustments of Kshs.82,693,143 for the year ended 30 June, 2020.

1104. Excessive Payments

The statement of receipts and payments reflects payments amounting to Kshs.1,136,277,796 on use of goods and services. Included in the payments are payments to one of the media houses of Kshs.14,163,600 for which the Pending Bills Committee Report of March/April 2020 had recommended the payment less of Kshs.2,360,600 for offering fewer spots. However, the invoice was paid in full leading to an overpayment of Kshs.2,360,600. Another media house was paid Kshs.614,225 while the supporting invoice was for an amount of Kshs.356,120, resulting to an overpayment of Kshs.258,105.

Even though the Management had written to the media house requesting for refund or credit notes in respect to the overpaid amounts totaling Kshs.2,618,705, no response had been received as at 2 December, 2020.

Consequently, the propriety of the expenditure of Kshs.2,618,705 in respect to use of goods and services for the year ended 30 June, 2020 could not be confirmed.

1105. Pending Bills

Note 16.1 to the financial statements reflects pending bills amounting to Kshs.1,905,090,673 as at 30 June, 2020. Included in the pending bills is an amount of Kshs.294,810,644 in respect of contested claims which according to an audit report on pending bills dated 24 April, 2020 carried out by a Committee appointed by the Principal Secretary for Broadcasting and Telecommunications, were found to be ineligible for payment. It was noted that the ineligible claims amounting to Kshs.26,063,999 relate to the year 2019/2020 while Kshs.268,746,645.32 relates to prior years. The bills were found to be ineligible for payment either due to having been paid earlier, or the obligation for payment being with Semi-Autonomous Government Agencies (SAGAS) or the claims not being adequately supported by requisite documents.

A review of the Pending Bills Committee Report indicated that verification carried out on the Integrated Financial Management Information System (IFMIS) by the State Department within the year under review revealed that the bills amounting to
Kshs.123,462,988 that had already been paid but were still being classified as contested pending bills. No proper explanations were given for this anomaly.

In view of the foregoing, the accuracy, validity, fair statement of the reported pending bills balances of Kshs.1,905,090,676 as at 30 June, 2020 could not be ascertained.

**Other Matter**

**1106. Budgetary Control and Performance**

The summary statement of appropriation; recurrent and development combined reflects total receipts budget and actual on comparable basis of Kshs.5,370,193,203 and Kshs.4,683,912,197 resulting in underfunding of Kshs.686,281,006 or 13%. The underfunding may impact negatively on the implementation of the planned activities for the year, thereby, affecting delivery of goods and services to the citizens.

**1107. Unconfirmed Arrears of Appropriations-in-Aid (AIA) Owed by State Agencies**

The statement of receipts and payments reflects an amount of Kshs.1,841,317,712 as proceeds from sale of assets as at 30 June, 2020. The amount, however, excludes Appropriations-in-Aid amounting to Kshs.483,152,144 owed to the Government Advertising Agency by various State Agencies for advertising services. Of the amount, Kshs.118,796,092 relates to services rendered during the year while the remainder of Kshs.364,356,052 relates to prior years. This outstanding amount is expected to supplement the Publicity and Advertising budget for the State Department.

Although the Government Advertising Agency had sent out demand letters for payment of amounts owed, the State Agencies have not been responsive and this has partly contributed to an increase in pending bills as the Appropriations-in-Aid (AIA) had been factored in the budget. It was also noted that even though a schedule of outstanding AIA receipts from State Agencies was provided for audit examination, the amount could not be verified against specific individual accounts as primary records from which the schedule was extracted were not availed for audit verification.

Under the circumstances, the accuracy and validity of the outstanding AIA balance of Kshs.483,152,144 as at 30 June, 2020 could not be confirmed.

**1108. Unresolved Prior Year Issues**

The following prior year audit issues remained unresolved as at 30 June, 2020:

**1108.1 Payment of Rent Without Valid Lease Agreement**

As previously reported, the statement of receipts and payments for the year ended 30 June, 2019 reflected use of goods and services figure of Kshs.3,024,349,426 which included payments totaling Kshs.64,866,176 in respect of rentals of produced assets as disclosed in Note 6 to the financial statement. This amount included Kshs.30,750,000
paid for rent under Headquarters Administrative services. Further examination of these rent payments revealed that there was no lease agreement between Teleposta Pension Scheme who are the landlords, and the State Department for Broadcasting even though there existed a lease agreement signed between Teleposta Pension Scheme and Ministry of Information, Communication and Technology for office space occupied at the Teleposta Towers.

In the circumstances, it was not possible to determine the basis of the rent paid of Kshs.30,750,000 and whether the same was consistent with the market rates and thus a proper charge to public funds.

1108.2 Uchumi House Office Space

As previously reported, included in the balance of Kshs.64,866,176 under rent of produced assets is an amount of Kshs.7,785,275 paid for lease of Uchumi House occupied by the Department of Information Services. However, the Lease Agreement between the State Department for Broadcasting and the Management Agents of Uchumi House has not been availed for audit verification. Although Management explained that delay in execution of the lease agreement was as a result of variances between the rental charges offered by the landlord and the rate recommended by the State Department for Housing, Urban Development and Public Works, the impasse had not been resolved as at the time the audit report was finalized.

In the circumstances it has not been possible to confirm the validity and propriety of rent payment totaling Kshs.7,785,275 for occupation of Uchumi House.

REPORT ON LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1109. Failure to Conduct Media Monitoring on Distribution of MyGov Publication

The statement of receipts and payments reflects payments of Kshs.1,137,108,537 in respect of use of goods and services for the year ended 30 June, 2020. Included in this figure are payments amounting to Kshs.892,418,840 for printing, advertising, information supplies and services. As disclosed under Note 6 to the financial statements, Kshs.864,192,498 relates to payments made to four (4) media houses for publication of MyGov newspaper as detailed below:

<table>
<thead>
<tr>
<th>Media House</th>
<th>Amount (Kshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Nation</td>
<td>318,753,000</td>
</tr>
<tr>
<td>The Standard</td>
<td>193,444,520</td>
</tr>
<tr>
<td>The People Daily</td>
<td>189,240,600</td>
</tr>
<tr>
<td>The Star</td>
<td>162,754,378</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>864,192,498</strong></td>
</tr>
</tbody>
</table>
It was noted, however, that the Government Advertising Agency has never carried out a media monitoring exercise to determine the number of copies published and distributed by each media house, which would have formed a basis for any contractual negotiations on amounts payable for placing of Government and associated advertising in the print media.

In the circumstances the propriety and value for money on the Kshs.864,192,498 paid to the media houses could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1110. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1111. Compensation of Employees

The statement of receipts and payments reflects an expenditure of Kshs.187,772,897 under compensation of employees which includes an amount of Kshs.5,301,802 that was wrongly coded and paid outside payroll using payment vouchers.

Consequently, the accuracy and validity of the reported compensation of employees expenditure of Kshs.187,772,897 could not be ascertained.

1112. Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other government entities amounting to Kshs.10,497,352,129 which, as disclosed in Note 6 to the financial statements, includes Kshs.538,980,000 transferred to Sports Kenya. However, a disbursement of Kshs.14,209,312 was erroneously charged under grants and transfer to other Government entities instead of use of goods and services. In addition, disbursements of Kshs.3,152,500 and Kshs.8,000,000 to the Kenya National Sports Council and Gor-Mahia Football Club respectively were not supported by confirmations from recipients.

In the circumstances, the accuracy of the grants and transfers to other government entities of Kshs.10,497,352,129 as at 30 June, 2020 could not be confirmed.

1113. Accounts Receivable- District Suspense

The statement of assets and liabilities reflects an accounts receivables balance of Kshs.2,037,215 which, as disclosed in Note 9 to the financial statements, includes an amount of Kshs.102,541 relating to district suspense. However, as previously reported, the movement of the balance from Kshs.20,756,326 reported in 2017/18 financial year to Kshs.102,541 in financial year 2018/19 was not supported.

Under the circumstances, the accuracy, validity and completeness of the accounts receivables balance of Kshs.2,037,215 as at 30 June, 2020 could not be confirmed.

1114. Undisclosed Pending Bills

As reported in the year ended 30 June, 2019, the State Department had pending bills totaling Kshs.134,092,005 which were carried forward to the 2019/2020 financial year. During the year under review, bills totaling Kshs.52,268,940 were paid leaving an unpaid balance of Kshs.81,823,065. However, the unpaid balance of Kshs.81,823,065 is not disclosed and Note 14 to the financial statements reflects nil pending bills for the financial year 2019/2020.
Under the circumstance, the accuracy and completeness of the financial statements presented for audit could not be ascertained.

Other Matter

1115. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects actual receipts of Kshs.10,861,266,853 against a budget of Kshs.14,962,327,660 resulting into a receipts shortfall of Kshs.4,101,060,807 or 27% of the budgeted receipts. Similarly, the statement reflects an actual expenditure of Kshs.10,862,003,476 against budgeted amount of Kshs.14,962,327,660 resulting to an under-expenditure of Kshs.4,110,324,184 or 27%, an indication that the goals and objectives of the State Department may not have been achieved as planned.

1116. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1117. Payment of Special Duty Allowance

The State Department paid a sum of Kshs.682,192 being arrears of special duty allowance in financial year 2018/2019. However, some of the officers had been called upon to perform duties of posts that were more than two (2) grades higher than their substantive grades while others were paid the allowance for more than six (6) months contrary to the provisions of Section C.15 (3) and (4) of Public Service Commission – Human Resource Policy and Procedures Manual for the Public Service, 2016.

1118. Failure to Maintain an Assets Register

The summary of fixed assets register presented at Annex 1 to the financial statements reflects a cumulative historical cost of Kshs.1,832,985,791. However, the State Department did not maintain an assets register contrary to Regulation 143 of Public Finance Management (National Government) Regulations, 2015. Further, although the State Department does not own any buildings or structures, the annex reflected an amount of Kshs.1,814,044,124 relating to buildings and structures. In addition, the State Department had ten (10) vehicles which were not registered in its name, thereby casting doubts on their ownership.

In the circumstances, the State Department was in breach of law and it could not be confirmed that the assets of the State Department had been properly safeguarded.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1119. There were no material issues relating to effectiveness of internal controls, risk management and governance.

Basis for Qualified Opinion

1120. Revenue from Non-Exchange Transactions

Note 7 to the financial statements reflects Kshs.9,768,345,499 against revenue from non-exchange transactions which includes Kshs.17,500,000 relating to public contributions and donations. The donations were in respect of Covid-19 sports stimulus program. However, no document has been received in support of donations.

In absence of the supporting documents, receipts of Kshs.17,500,000 could not be ascertained.

1121. Grants and Subsidies

1121.1 Expenses Incurred by the Fund on behalf of Federations

Examination of records reveals that grants and subsidies amounting to Kshs.111,653,220 were approved for disbursement to be used in accommodation and team allowances. However, they were incurred by the Fund management on behalf of Sports Federations during the year under review. No reasons were given for the change in policy.

1121.2 Irregular Disbursements to Federations

Examination of Note 14 of the financial statements reflects Kshs.3,375,043,331 for promotion and development of sports which includes Kshs.529,932,000 disbursed to Kenya Open Golf Limited (KOGL) and the Kenya Open Ladies Golf Union (KOLGU). However, the two (2) organizations were not registered by the Commissioner of Sports as required under Section 14(3) of the Legislative Supplement No.64 of 25 October, 2018.

Further, sample test on disbursements to Kenya Open Golf Limited reveals anomalies as follows:

i) The cash balance of Kshs.108,364,874 as at 30 June, 2020 differs from Kshs.70,607,265 reflected on the status report presented for audit review resulting in a difference of Kshs.37,757,609 which has not been reconciled or explained.

ii) The audit further revealed that Kenya Open Golf Limited (KOGL) paid Kshs.167,930,432 to various contractors without valid and formal contracts
between the organization and its contractors contrary to Section 135 (1) of the Public Procurement and Asset Disposal Act, 2015.

1122. Refunds to the FKF President

Examination of payment records reveals that the President of FKF was advanced Kshs.11,000,000 between 25 April, 2019 and 29 November, 2019 without requisite documents or authorization.

In this circumstances, it is not possible to confirm the validity of Kshs.11,000,000 paid to the President.

1123. Allowances and Bonuses

Examination of sampled payment documents totalling Kshs.57,006,844 paid in respect of allowances and bonuses to Harambee Stars players and technical bench who travelled for AFCON Camps in various countries were not supported by approved rates.

Further, bank statements and cashbooks were not availed for audit review to confirm amounts transferred to the bank for payments.

1124. Trade and Other Payables

1124.1 Staff Pension Contributions

Note 18 to the financial statements reflects Kshs.52,121,341 against trade payables which includes unremitted employee pensions amounting to Kshs.7,207,329. However, the Fund did not provide evidence of the existence of unremitted employee pensions considering that no contract had been signed with the Administrator as at 30 June, 2020.

Although, Section 23 of Revised Retirement Benefits Act Regulations, 2017 provides that the funds should earn interest for members, no such evidence was availed for audit review.

1124.2 Payments to Kenya School of Government

Although, Note 18 on trade payables includes Kshs.5,846,400 payable to the Kenya School of Government, there was no document made available to confirm that such a contract existed between the parties as required by Section 135(1) of the Public Procurement and Asset Disposal Act, 2015.

1125. Unresolved Prior year Issues

The following issues raised during the audit of the financial statements of 2018/2019 had not been addressed as at the time of this audit.
1125.1 Unsupported Disbursements

Note 9 to the financial statement of 2018/2019 reflected Kshs.1,362,694,433 being disbursements to various sporting federations and other sports organizations to support sports and arts developments at Kshs.1,352,548,048 and Kshs.10,146,385 respectively. Although the funds were disbursed for specific events, no expenditure returns and receipt confirmations were availed for audit verification.

In the circumstances, it was not possible to confirm whether the Fund got value for Kshs.1,362,694,433 disbursed to sports federations and whether the amount was actually received by the stated beneficiaries.

1125.2 Disbursements to Kenya Open Golf Ltd

The statement of financial performance reflects Kshs.1,362,694,433 as grants and subsidies comprising of disbursements to sports federations for sports and arts developments out of which Kshs.250,140,000 was disbursed to Kenya Open Golf Ltd. It was however noted that Kenya Open Golf Ltd is a limited Company and had not been registered with the Commissioner of Sports as required in order to qualify for funding. The disbursement of Kshs.250,140,000 was therefore irregular and not a proper charge to public funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1126. Contracts on Medical Cover

Note 15 to the financial statements reflects Kshs.57,996,735 against general expenses which includes staff medical expenses totalling Kshs.18,217,809. However, examination of records reveals that Kshs.16,237,809 was paid to Resolution Insurance to cover the staff of the Fund based on expired contract which did not comply with Section 68(1) of the Public Finance Management Act, 2012.

Examination of records further revealed that the expired contract signed by the National Sports Fund on 21 November, 2018 for contractual period of one (1) year was purportedly extended despite the fact that the Head of Procurement through a memo Ref: No.SDSD9/60 VOL.II dated 25 October, 2019 advised that the contract should be advertised a fresh. However, the Fund opted to pay Kshs.16,237,809 to the service provider using an illegal extension of contract.

In addition, examination of payment voucher reveals that the voucher did not have signatures of the preparer, approver and even the acting CEO as required, therefore, casting doubts on the validity and legality of the total payment of Kshs.16,237,809 paid to the service provider.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1127. Irregular Disbursements to Sports Organization

Note 14 to the financial statements reflects Kshs.11,068,734,782 against grants and subsidies which includes Kshs.3,375,043,331 disbursed to various sports organizations for sports promotion and development. However, no reasons was given by the Fund management for giving some sports organization huge disbursement before they accounted for previous years’ disbursements totalling Kshs.364,891,993 contrary to Section 15 (3) of the Public Finance Management Act, 2012.

1128. Football Kenya Federation

Examination of records maintained at Football Kenya Federation (FKF) revealed that the organization had four (4) sources of revenue which included but not limited to grants from sports fund, gate collections, FIFA, other sources including sponsorship and donations. However, the Federation uses only one account for all receipts and resources received from the fund by FKF does not have designated or dedicated bank account and cashbook and therefore the basis upon which monthly reconciliation between cashbook balance and bank balance can be done could not be established.

1129. Lack of Capacity to Monitor Disbursed Funds

As previously reported, according to the Sports Act, 2018, the Fund is responsible for monitoring the use of funds disbursed to sporting organizations. The Fund disbursed a total of Kshs.1,362,694,433 to various federations and sports organizations. However, it was noted that the Fund did not carry out any monitoring and evaluation activities in the year 2018/2019. The Management explained that the Fund lacked adequate staff to carry out its mandate of monitoring the disbursements as the staff from the defunct National Sports Fund had not transitioned to the new fund as required by the Sports Act.

In the circumstances, and in absence of the ability by the Fund to monitor the use of the funds amounting to Kshs.1,362,694,433, it was not possible to confirm whether or not the funds were utilized for the intended purposes.
SPORTS, ARTS AND SOCIAL DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1130. Unsupported Revenue from Non-Exchange Transactions

As disclosed under Note 7 to the financial statements, the statement of financial performance reflects Kshs.17,500,000 in respect of public contributions and donations. The donations were in respect of Covid-19 Sports Stimulus Program. However, supporting documents for the donations were not provided.

In the circumstances the accuracy and validity of the receipts of Kshs.17,500,000 could not be ascertained.

1131. Irregular Disbursements of Grants and Subsidies to Federations

As disclosed under Note 14 to the financial statements, the statement of financial performance reflects an amount of Kshs.11,068,734,782 which constitutes a balance of Kshs.3,375,043,331 spent on promotion and development of sports. The balance of Kshs.3,375,043,331 includes Kshs.529,932,000 disbursed to Kenya Open Golf Limited (KOGL) and the Kenya Open Ladies Golf Union (KOLGU). However, the two (2) organizations were not registered as required under Regulation 13(a)(i) of Public Finance Management (Sports, Arts and Social Development Fund) Regulations, 2018.

In the circumstances, the Management is in breach of the law and the propriety in the use of public resources cannot be confirmed.

1132. Unsupported Trade and Other Payables

As disclosed under Note 18 to the financial statements, the statement of financial position reflects a balance of Kshs.52,121,341 in respect of trade and other payables from non-exchange transactions. The balance includes an amount of Kshs.5,846,400 owed to the Kenya School of Government. However, balance has not be disclosed as debtors in the financial statements of the Kenya School of Government and no supporting documents were provided for audit verification.

In the circumstances, the accuracy and validity of the Kshs.5,846,400 cannot be ascertained.

Other Matter

1133. Unresolved Prior Year Issues

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements. However, Management has not resolved the issues nor
disclosed all the prior year matter as provided by the Public Sector Accounting Standards Board templates and The National Treasury’s Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

1134. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.13,451,000,000 and Kshs.9,768,345,499 respectively resulting to an under-funding of Kshs.3,682,654,501 or 38% of the budget. Similarly, the Fund expended Kshs.11,289,057,556 against an approved budget of Kshs.13,451,000,000 resulting to an under-expenditure of Kshs.2,161,942,444 or 19% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1135. Unauthorised Contracts on Medical Cover

As disclosed at Note 15 to the financial statements, the statement of financial performance reflects Kshs.57,996,735 against general expenses which includes staff medical expenses totalling Kshs.18,217,809. However, examination of records revealed that Kshs.16,237,809 was paid to an insurance company for medical cover which had expired but had been extended by one (1) year by the defunct National Sports Fund vide a contract signed on 21 November, 2018. The Head of Procurement through a memo Ref: No.SDSD9/60 VOL.II dated 25 October, 2019 had however, advised that the contract should be advertised afresh.

In addition, the payment vouchers were not signed by the preparer and was not approved and authorized by the Accounting Officer - the acting Chief Executive Officer contrary to Regulation 104 (1) of Public Finance Management Regulations, 2015 which requires payment vouchers be supported by the appropriate authority and documentation.

In the circumstances, the validity and legality of the total payments of Kshs.16,237,809 could not be confirmed.

1136. Irregular Disbursements to Sports Organization

As disclosed under Note 14 to the financial statements, the statement of financial performance reflects Kshs.11,068,734,782 against grants and subsidies which includes Kshs.3,375,043,331 disbursed to various sports organizations for sports promotion and development. However, no reason was given by the Fund Management for giving some sports organizations huge disbursements before they accounted for previous years’ disbursements totalling to Kshs.364,891,993. This was contrary to Regulation 23 (2) (d) of Public Finance Management Regulations, 2015 which requires Accounting Officers to
enforce compliance with any prescribed conditions if the respective government entity gives financial assistance to any other entity or person.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1137. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE DEPARTMENT FOR CULTURE AND HERITAGE – VOTE 1134

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1138. Unsupported Transfers to Other Government Units

Examination of the payment vouchers reveals that the State Department transferred Kshs.48,220,000 to four (4) State Agencies as stimulus funds to cushion musicians and artists against adverse effects of the Covid-19 pandemic as per the Presidential Directive as analyzed below:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Pv No.</th>
<th>Date</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Film Commission</td>
<td>004</td>
<td>10/06/2020</td>
<td>8,500,000</td>
</tr>
<tr>
<td>Kenya Cultural Centre</td>
<td>006</td>
<td>10/06/2020</td>
<td>18,120,000</td>
</tr>
<tr>
<td>National Museums of Kenya</td>
<td>005</td>
<td>10/06/2020</td>
<td>11,600,000</td>
</tr>
<tr>
<td>National Museums of Kenya</td>
<td>018</td>
<td>17/6/2020</td>
<td>10,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>48,220,000</strong></td>
</tr>
</tbody>
</table>

However, no returns had been obtained from the beneficiaries as at the time of the audit in November, 2020. Therefore, it was not possible to ascertain whether these funds were received and utilized for the intended purposes.

1139. Unsupported Accounts Payables

As disclosed in Note 12 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.36,460,829 under accounts payables which includes an amount of Kshs.4,544,668 in respect of retention money whose miscellaneous receipts were not availed and therefore, their ownership could not be confirmed.

1140. Unsupported Pending Bills

Note 18.1 to the financial statements reflects pending bills amounting to Kshs.56,506,211 that were not settled in the year under review but were carried forward to 2020/2021 financial year. The pending bills include an amount of Kshs.25,104,887 that had no supporting documents. Further, included in the pending bills is Kshs.14,596,148 payable to the Standard Group Limited for the advertisement of the Smithsonian Kenya Mambo Poa Event and hosting of a radio talk show dating back to 2014. Examination of the payment details revealed that the initial contract sum of Kshs.24,288,480 was not supported by a contract agreement and the amount payable of Kshs.14,596,148 recorded in payables is overstated by Kshs.864,025 as a result of erroneously capturing outstanding pending bill as Kshs.14,596,148 instead of Kshs.13,732,123. In addition, the payment voucher for Kshs.14,596,148 had not been authorized and there was no order advertising space to confirm that the service was properly procured.
In the circumstances, the accuracy and authenticity of total pending bills of Kshs.56,506,211 could not be confirmed.

1141. Use of Goods and Services

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an expenditure balance of Kshs.224,795,180 under use of goods and services which includes an amount of Kshs.36,677,852 in respect of rentals of produced assets. However, the latter balance on rentals of produced assets excludes rent for the current year amounting to Kshs.37,185,480 whose draft lease agreement had been disputed on the recommendation by the State Department for Housing and Urban Development, as the rent disclosed in the draft lease agreement was above the recommended rates for government to government entities.

Other Matter

1142. Prior Year Unresolved Issues

1142.1 Variance between IFMIS Generated Trial Balances and Financial Statements on Reported Cash and Cash Equivalents

As previously reported, comparison between IFMIS generated cash balances and financial statements cash balances revealed unexplained variance as indicated below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Codes</th>
<th>IFMIS Trial Balance (Kshs.)</th>
<th>Financial Statements (Kshs.)</th>
<th>Difference (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Balances</td>
<td>6530000</td>
<td>Recurrent 1,358,280,986</td>
<td>309,889</td>
<td>1,357,971,097</td>
</tr>
<tr>
<td></td>
<td>6540000</td>
<td>Development 127,827,672</td>
<td>77,700</td>
<td>127,749,972</td>
</tr>
<tr>
<td></td>
<td>6550000</td>
<td>Deposits 43,828,373</td>
<td>26,426,654</td>
<td>17,401,719</td>
</tr>
<tr>
<td>Cash Balances</td>
<td>6580000</td>
<td>Cash in Hand 2,925,797,122</td>
<td>304,437</td>
<td>2,925,492,685</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>4,455,734,153</td>
<td>27,118,680</td>
<td>4,428,615,473</td>
</tr>
</tbody>
</table>

Management did not provide any explanation or reconciliation of these variances as at 30 June, 2020.

1142.2 Construction of Civil Works

As previously reported, and as disclosed in Note 9 to the financial statements, included in the acquisition of assets figure of Kshs.70,874,612 as at 30 June, 2019 is an amount of Kshs.40,000,000 being Development Grant transferred to the National Museums of Kenya for rehabilitation and upgrade of Tom Mboya Mausoleum in Rusinga Island, Homabay County. The National Museums of Kenya awarded the tender for construction to a local firm on 25 April, 2019 at a contract sum of Kshs.45,457,740 thereby exceeding the budget by Kshs.5,457,740, without prior approval by the State Department for Culture and Heritage who were the initiators of the project.
Consequently, the regularity of acquisition of assets figure of Kshs.70,874,612 as at 30 June, 2019 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

1143. Acquisition of Assets

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects an expenditure balance of Kshs.29,000,466 which includes an amount of Kshs.4,199,000 paid to a company on 28 June, 2020 for purchase of a motor vehicle. The payment was made in advance without a bond/guarantee as required by Sections 146 and 147 of the Public Procurement and Asset Disposal Act, 2015. As at the time of audit in December, 2020, the vehicle had not been delivered to the State Department. No explanation was given as to why the vehicle had not been delivered.

In the circumstances, it was not possible to confirm the probity of Kshs.4,199,00 paid and if this was a proper charge to public funds.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1144. Incomplete Fixed Asset Register

Annex 2 to the financial statements reflects a balance of Kshs.253,274,467 being total historical cost of the assets owned by the State Department. An audit review of records supporting the assets revealed that, the asset register did not disclose serial numbers of the assets. Further, logbooks for fifteen (15) out of thirty-five (35) motor vehicles owned by the State Department were not availed for audit review. In addition, twelve (12) motor vehicles have been grounded at different locations for long and the State Department did not demonstrate any efforts to dispose the grounded vehicles to avoid further value loss. In the circumstances, it has not been possible to ascertain the accuracy and security of the assets worth Kshs.253,274,467.
MINISTRY OF ENERGY – VOTE 1152

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1145. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1146. Land Without Title Deeds

As reported in previous years and as disclosed in Annex I – Summary of Fixed Assets Register, the State Department does not have title deeds for eight (8) occupied parcels of land, measuring a total of 21.42 hectares and with book value of approximately Kshs.180,700,000 as detailed out below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Land Parcel</th>
<th>Size (Hectares)</th>
<th>Location (County)</th>
<th>Approximate Value (Kshs.)</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Kericho Energy Centre</td>
<td>0.8</td>
<td>Kericho</td>
<td>15,000,000</td>
<td>Developed and fenced</td>
</tr>
<tr>
<td>2.</td>
<td>Kisii Energy Centre</td>
<td>1</td>
<td>Kisii</td>
<td>12,000,000</td>
<td>Developed and fenced</td>
</tr>
<tr>
<td>3.</td>
<td>Migori Energy Centre</td>
<td>0.4</td>
<td>Migori</td>
<td>2,200,000</td>
<td>Developed and fenced</td>
</tr>
<tr>
<td>4.</td>
<td>Bukura Energy Centre</td>
<td>2</td>
<td>Kakamega</td>
<td>3,500,000</td>
<td>Developed and fenced</td>
</tr>
<tr>
<td>5.</td>
<td>Uasin Gishu Energy Centre</td>
<td>0.8</td>
<td>Uasin Gishu</td>
<td>12,000,000</td>
<td>Developed and fenced</td>
</tr>
<tr>
<td>6.</td>
<td>Kitui Energy Centre</td>
<td>10.4</td>
<td>Kitui</td>
<td>53,000,000</td>
<td>Developed and fenced</td>
</tr>
<tr>
<td>7.</td>
<td>Wambugu Energy Centre</td>
<td>4</td>
<td>Nyeri</td>
<td>80,000,000</td>
<td>Developed and fenced</td>
</tr>
<tr>
<td>8.</td>
<td>Mitunguu Energy Centre</td>
<td>2.02</td>
<td>Meru</td>
<td>3,000,000</td>
<td>Developed and fenced</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>21.42</strong></td>
<td></td>
<td><strong>180,700,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

Available information indicates that the process of acquiring title deeds for some of the land parcels has been underway for a significantly long period of time. Management has explained that The National Treasury in liaison with the Ministry of Energy is in the process of acquiring the title deeds. However, by the time of concluding the audit, the title deeds were yet to be issued.

In the absence of ownership documents, it has not been possible to confirm the rightful ownership of these parcels.
Other Matter

1147. Budgetary Performance and Control

As reflected in the Summary Statement of Appropriation - Recurrent and Development Combined, the Ministry had a total budgeted revenue of Kshs.61,906,101,596 but received Kshs.49,453,256,516 resulting to under collection of Kshs.12,452,845,081 or 20%. Further, the Ministry projected to spend a total of Kshs.61,906,101,596 on various budget lines but actually spent Kshs.49,625,713,980 resulting to an overall budget under absorption of Kshs.12,280,387,615 or 20%. The under absorption of the budget may have resulted in slow implementation of the planned activities of the Ministry impacting negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1148. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1149. Lack of Risk Management Policy Framework

According to Regulation 165(1) of the Public Finance Management Regulations, 2015, a National Government entity should develop risk management strategies which should include fraud prevention mechanisms, a disaster recovery plan and a system of risk management and internal control that builds robust operations. However, as previously reported, an audit review of the policies in place at the Ministry revealed that a Risk Management Policy Framework to assist the Ministry in forecasting, evaluation of risk and identification of procedures for avoiding or minimizing the impact of the risk had not been developed. This is despite the 2018-2022 Strategic Plan being developed and launched during the year.

In absence of a formal approved risk management framework, ability to identify risks and definition of strategy to eliminate or minimize the impact of the risks could be compromised.

1150. Incomplete Fixed Assets Register

According to the summary of fixed assets register at Annex 1, the Ministry had fixed assets with a total historical cost of Kshs.268,664,633,879 as at 30 June, 2020. However, as previously reported, the register of assets maintained and availed for audit verification did not contain comprehensive details of the assets such as cost, disposals, depreciation,
location of the asset, tagging and the officer responsible for each asset, among other
details, as required under Regulation 143 (2) of Public Finance Management Regulations,
comprehensive register of assets, it was not possible to confirm the completeness and
proper safeguard of the reported assets.

DONOR FUNDED PROJECTS

KENYA ELECTRICITY MODERNIZATION PROJECT (IDA CR.
NO. 5587 KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1151. There were no material issues noted during the audit of the financial statements
of the Project.

Other Matter

1152. Budgetary Performance and Control

The statement of comparative budget and actual amounts reflects budgeted receipts of
Kshs.121,000,000 and actual receipts of Kshs.29,807,657 resulting to under receipt of
Kshs.91,192,343 or 75%. Similarly, the Project budgeted Kshs.90,000,000 under
purchase of goods and services but incurred Kshs.24,854,314 or utilization of only 28%.
Management has attributed the underutilization to the deferment of trainings due to Covid-
19 pandemic.

Consequently, the under absorption of the budget may have resulted in non-
implementation of the Project’s planned activities, thus slowing down achievement of the
intended goals and objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Conclusion

1153. There were no material issues relating to lawfulness and effectiveness in use of
public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1154. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA OFF-GRID SOLAR ACCESS PROJECT FOR UNDERSERVED COUNTIES (IDA CR. NO. 6135-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1155. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1156. Budgetary Performance and Control

The statement of comparative budget and actual amounts reflects receipts budget and actual amounts on comparable basis of Kshs.2,200,000,000 and Kshs.2,327,448,361 respectively resulting to a surplus of Kshs.127,448,361 or 6% of the budget. Similarly, the Project spent an amount of Kshs.2,386,198,802 against the approved budget of Kshs.2,200,000,000 resulting to an over absorption of Kshs.186,198,802 or 8% over the approved budget. Management has attributed the absorption to the reduction of the budget through the supplementary budget when the project had already expended the amounts in procurement of goods and services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1157. Unauthorised Expenditure

The statement of comparison between the budget and actual amounts reflects a final budget of Kshs.2,200,000,000 against actual expenditure of Kshs.2,386,198,802 resulting to an overall absorption of Kshs.186,198,802 or 108%. Similarly, the statement reflects a final budget of Kshs.1,200,000,000 under other grants and transfers and payments against actual expenditure of Kshs.2,223,466,000 resulting to over expenditure of Kshs.1,023,466,000 or 185% of the budget for the year under review. This is contrary
to the Appropriation Act, 2018, the Supplementary Appropriation Act, 2018 and Section 43(b) of Public Finance Management Regulations, 2015 which provides that the Accounting Officer shall ensure that public funds entrusted to their care are applied for purposes for which they were intended as appropriated by the National Assembly.

Consequently, the Management is therefore in breach of the Law

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1158. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR ENERGY

BOGORIA SILALI GEOTHERMAL PROJECT (LOAN NO.2013.66.103) - GEOTHERMAL DEVELOPMENT COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1159. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1160. Pending Bills

According to Note 11.1 and 11.2 to the financial statements, the Project had pending accounts payables totalling Kshs.137,389,000 (2019: Kshs.693,993,000) as at 30 June, 2020. Management has not explained why the bills were not settled during the year they occurred. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment.

Failure to settle bills during the year they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1161. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1162. Commingling of Funds

The Management received Exchequer funds for two (2) ongoing Projects, Bogoria-Silali and Menengai. However, it was noted that Management did not maintain separate bank accounts for the two Projects but commingled the funds in one bank account. This may lead to difficulties in reconciling funds received and accurate reporting.

MULTINATIONAL - KENYA SECTION OF INTERCONNECTION PROJECT OF ELECTRIC GRIDS OF NILE EQUATORIAL LAKES COUNTRIES (ADF LOAN NO. 2100150022643) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1163. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1164. Expiry of Loan Agreement

As reported in the previous year, the Loan Agreement between the Republic of Kenya and the African Development Bank expired on 31 December, 2017. However, the Project has stalled at 61% level of completion after the Company terminated the services of the main contractor for non-performance in April, 2016. Further, no funds have been received from the Bank since 2016. Analysis of the Project’s cash and pending bills records as at 30 June, 2020 revealed a funding shortfall of Kshs.798,907,767. There was no evidence that the Loan Agreement had been renewed or other sources of funds, had been
identified. It has not therefore, been possible to confirm whether or when the Project will be completed.

1165. Outstanding Arbitration on Terminated Contract

As reported in the previous year, an arbitration case was filed in April, 2016 between the contractor and Company, in relation to termination of a contract for works which had not been finalized. On 30 July, 2020, the tribunal, which was the arbitrator on the matter, issued their award in favour of the contractor. However, Management is of the opinion that the decision made by the arbitrator is against public policy and intends to present an appeal to have the award set aside. As at 30 June, 2020 Management had incurred legal fees totalling Kshs.220,444,652, on the matter.

It has not therefore been possible to confirm when the matter will be resolved, and how the cost in terms of legal fees that the Company will incur will be reflected in the financial statements.

My opinion is not qualified with respect to effects of these matters.

Other Matter

1166. Pending Bills – Goods and Services

As reported in the previous year, the Project Management contracted works and services amounting to Kshs.4,196,353,894, as disclosed in Annex 2A. The amounts certified as payable amounted to Kshs.3,453,000,803 out of which Kshs.3,006,460,944 was paid leaving a pending bill of Kshs.446,539,858. The unpaid bill is likely to result in penalties or litigation and related legal expenses, which are wasteful expenditure.

1167. Long Outstanding Wayleave Compensation

As reported in the previous year, the expected compensation to landowners for wayleaves acquired since inception of the Project, amounted to Kshs.1,722,348,174, as disclosed in Annex 2B. The amounts certified as payable amounted to Kshs.1,716,108,611, out of which Kshs.1,363,740,702 was paid leaving an unpaid balance of Kshs.352,367,909. The Management has attributed failure to pay the amount to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners coupled with various court injunctions on disputed cases.

1168. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.567,000,000 and Kshs.577,227,841 respectively resulting to an over funding of Kshs.10,227,841 or 2% of the budget. Similarly, the statement reflects final payments budget and actual on comparable basis of Kshs.567,000,000 and Kshs.270,411,184 respectively resulting to an under expenditure of Kshs.296,588,816 or 52% of the budget.
The under expenditure affected the planned activities and may have impacted negatively on service delivery for the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1169. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1170. Automation of the Financial Reporting Process

Review of the financial reporting process revealed significant manual interventions. Although the sub-ledgers are extracted from the SAP system through the reporting module, the processing of the trial balance and financial statements is done manually on excel worksheet.

Consequently, the manual interventions may result in errors in the financial statements.

MULTINATIONAL KENYA-TANZANIA POWER INTERCONNECTION PROJECT (KENYAN COMPONENT) (ADF LOAN NO.2100150032846) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1171. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1172. Pending Bills – Goods and Services

As reported in previous years, the total value of works and services contracted under the Project amounted to Kshs.3,303,669,940, as disclosed in Annex 2A to the financial statements. The amounts certified as payable total Kshs.2,004,043,756 out of which
payments totalling Kshs.1,819,352,830 were made over the years resulting in outstanding bills totalling Kshs.184,690,926 as at 30 June, 2020.

Delay in settling the pending bills may result in wasteful expenditure on penalties and litigation costs.

1173. Long Outstanding Wayleave Compensation

As previously reported, the total compensation payments owed to landowners for wayleaves acquired since inception of the Project on 5 December, 2012, amounted to Kshs.740,936,855, as disclosed in Annex 2B to the financial statements. The amount certified as payable totalled Kshs.664,939,500 and payments made were Kshs.435,996,950 leaving a balance of Kshs.228,942,550 unpaid as at 20 June, 2020.

Management has attributed the failure to pay the balance to lack of budgetary allocations by The National Treasury, lengthy negotiations on land valuation, absentee landlords and legal disputes on ownership of some of the lands.

Since the implementation of the Project is behind schedule, any further delay in resolving these issues is likely to delay its completion.

1174. Budgetary Control and Performance

During the year under review, the Project was budgeted to receive loans from external partners totalling Kshs1,000,000,000 but received Kshs.731,199,572 only, resulting to a revenue shortfall of Kshs.2,68,800,428 or 27% of the budget. Further, the Project was budgeted to spend Kshs.1,540,000,000 but spent Kshs.1,114,303,419 resulting in under absorption of Kshs.425,696,581 or 28% of the budget. Further analysis indicated that Kshs.417,546,970 of the expenditure totalling Kshs.425,696,581 was incurred in acquisition of non-financial assets where Kshs.1,425,388,956 was budgeted but only Kshs.1,007,841,986 was spent.

The shortfall in revenue and the under-expenditure indicates that some of the Project's activities for the year were not implemented. This may delay its completion, and the attainment of its objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1175. Delay in Implementation of Lot K1 Component of the Project

Examination of records on progress of work on the Isinya-Namanga transmission line under Lot K1 indicated that the works were 49% complete as at 30 June, 2020. They were, therefore, much behind schedule as their expected completion date was in April, 2020.
Failure to complete the works in due time has hindered the Project from realizing its objectives and amplified the risk of an increase in its costs due to economic and other factors.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1176. Unexplained Mix of Financial Reporting Systems

Audit review of the Project’s financial reporting system indicated that Management uses both electronic and manual systems to prepare financial reports. Whereas the sub-ledger accounts are derived from the electronic system, the trial balance and financial statements are processed manually on spreadsheets. No plausible explanation has been provided by Management as to why the trial balance is not processed electronically as well.

The use of both manual and electronic accounting systems has increased the risk of errors and omissions in the financial statements.

LAST MILE CONNECTIVITY PROJECT 1 (LOAN NO.2100150032195) – KENYA POWER AND LIGHTING COMPANY PLC

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1177. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1178. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1179. There were no material issues relating to effectiveness of internal controls, risk management and governance.

LAST MILE CONNECTIVITY PROJECT II (LOAN NO.2000200000152) – KENYA POWER AND LIGHTING COMPANY PLC

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1180. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1181. Pending Bills

Note 11.1 to the financial statements reflects pending bills of Kshs.959,730,000 as at 30 June, 2020. Management has not provided explanations for non-payment of the bills. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1182. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1183. There were no material issues relating to effectiveness of internal controls, risk management and governance.

EASTERN ELECTRICITY HIGHWAY PROJECT (IDA CREDIT NO. 5148-KE; AFD LOAN NO: CKE 1030 01B AND ADF LOAN NO: 2100150027845) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1184. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1185. Pending Bills

According to Note 11.1 and 11.2 to the financial statements, the Project had pending accounts payables totalling Kshs.2,640,343,389 (2019: Kshs.8,869,107,397) as at 30 June, 2020. During the year under review, the Project Management made payments totalling Kshs.10,805,039,832 while accumulating bills totalling Kshs.4,576,275,824. Management has not explained why the bills were not settled during the year they occurred. The Project is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1186. Long Outstanding Wayleave Compensation

The expected compensation to landowners for wayleaves acquired since inception of the Project amounts to Kshs.2,365,517,091 out of which Kshs.2,387,141,878 was certified payable. The Project Management has so far paid Kshs.2,320,939,248 leaving an unpaid balance of Kshs.66,202,630. The Management has attributed failure to pay the amount to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions on disputed cases.
1187. Undrawn Balances

As reported previously, the Project had an approved budget of USD 441,000,000, UA 75,000,000, EUR 77,500,000 and counterpart funding by Government of Kenya of Kshs.8,585,000,000, all equivalent to Kshs.75,803,028,400. The Project was envisaged to be completed by 30 September, 2020. However, as at 30 June, 2020, there was an undrawn balance of Kshs.35,658,914,156 or approximately 47% of the Project funding with total pending bills of Kshs.2,640,343,389. It is likely that the funding might not be fully absorbed, by the time of expiry of the funding period.

The Management attributes the slow absorption of funds to the anticipated costs derived from the Project appraisal document and the savings realized after the tendering process and awards to various contractors, while wayleave financing is based on actual valuations which is currently lower than the estimates.

Consequently, the significant unutilized funding balance may result in funds being locked in the current Project, whereas these funds could have been utilized on other Projects which could have delivered services to the Kenyan citizens.

1188. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.11,142,839,573 against final receipts budget of Kshs.11,810,750,000 resulting in a shortfall of Kshs.667,910,427. Further, actual expenditure for the year amounted to Kshs.11,115,045,519 against final expenditure budget of Kshs.11,810,750,000 resulting to under absorption of Kshs.695,706481. Management has not provided explanation regarding the under absorption.

Consequently, the underfunding and low expenditure may affect the planned activities and impact negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1189. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1190. Automation of the Financial Reporting Process

Review of the financial reporting process for the Project revealed significant manual interventions. Although the sub-ledgers are extracted from the SAP system through the
Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel worksheets.

Consequently, the manual interventions may result to errors in the Project financial statements

RURAL ELECTRIFICATION IN FIVE REGIONS PROJECT (CR.NO.11/597KE, 1407PKE) - RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1191. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1192. Low Absorption of Project Funds

Note 1.7 on funding summary indicates that the Donor had made commitments amounting to Kshs.5,856,180,000 (USD 57,000,000). The actual amount received during the Project’s period totalled to Kshs.1,091,661,248 (USD 10,625,474) leaving a balance of Kshs.4,764,518,751 (USD 46,374,525) undrawn. However, with the Project closing date of 31 December, 2020, the credit may lapse without being fully utilized and the Project’s planned deliverables earmarked for completion using the funding may not be realized.

My opinion in respect of this matter is not modified.

Other Matter

1193. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,668,000,000 and Kshs.252,497,718 respectively resulting to an under-funding of Kshs.1,414,502,282 or 85% of the budget. The Project expenditure was limited to the amount realized. Although Management has attributed the low performance to technicalities in opening of letters of credit, the underfunding and the under expenditure affected the planned activities impacting negatively on service delivery to the public.
1194. Pending Bills

Note 10.1 to the financial statements reflects pending bills totalling Kshs.5,733,369 as at 30 June, 2020. Although Management has attributed the failure to clear the bills to invoices submitted in the wrong currency, the Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1195. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1196. There were no material issues relating to effectiveness of internal controls, risk management and governance.

RURAL ELECTRIFICATION IN FIVE REGIONS PROJECT (CR.NO.11/597KE, 1407PKE) - RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1197. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1198. Low Absorption of Project Funds

Note 1.7 on funding summary indicates that the Donor had made commitments amounting to Kshs.5,856,180,000 (USD 57,000,000). The actual amount received during the Project’s period totalled to Kshs.1,091,661,248 (USD 10,625,474) leaving a balance of Kshs.4,764,518,751 (USD 46,374,525) undrawn. However, with the Project closing
date of 31 December, 2020, the credit may lapse without being fully utilized and the Project’s planned deliverables earmarked for completion using the funding may not be realized.

My opinion in respect of this matter is not modified.

**Other Matter**

**1199. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,668,000,000 and Kshs.252,497,718 respectively resulting to an under-funding of Kshs.1,414,502,282 or 85% of the budget. The Project expenditure was limited to the amount realized. Although Management has attributed the low performance to technicalities in opening of letters of credit, the underfunding and the under expenditure affected the planned activities impacting negatively on service delivery to the public.

**1200. Pending Bills**

Note 10.1 to the financial statements reflects pending bills totalling Kshs.5,733,369 as at 30 June, 2020. Although Management has attributed the failure to clear the bills to invoices submitted in the wrong currency, the Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

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

**Conclusion**

**1201.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

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

**Conclusion**

**1202.** There were no material issues relating to effectiveness of internal controls, risk management and governance.
OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT (JICA LOAN NO. KE-P28) – KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1203. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1204. Pending Bills – Goods and Services

As disclosed in Annex 2A in the financial statements, the Project Management contracted works and services amounting to Kshs.12,086,419,352. The amounts certified as payable amounted to Kshs.7,399,029,428 out of which Kshs.7,309,463,940 was paid leaving pending bills of Kshs.89,565,488. The unpaid bills are likely to result in penalties or litigation and related legal expenses, which are wasteful expenditure.

1205. Long Outstanding Wayleave Compensation

As disclosed in Annex 2B, the expected compensation to landowners amounted to Kshs.4,248,570,720, for wayleaves acquired since inception of the Project in February, 2016. The amounts certified as payable amounted to Kshs.2,733,219,860 of which Kshs.2,350,977,439 was paid leaving an unpaid balance of Kshs.382,242,421.

Management attributed failure to pay the amount to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions.

1206. Budgetary Control and Performance

The Project budgeted to receive a total of Kshs.2,232,000,000 as transfers from Government entities and loans from external development partners, but received a total of Kshs.2,037,637,514, resulting to a budget shortfall of Kshs.194,362,486 or 9%. Similarly, the Project budgeted to spend a total of Kshs.1,861,527,974 on purchase of goods and services and acquisition of non-financial of assets, but spent Kshs.214,277,661, resulting to an under absorption of Kshs.370,472,027 or 17%.

The reported under funding and under absorption of the Project’s budget may have resulted in delayed implementation of planned Project’s activities and achievement of the objectives.
Conclusion

1207. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1208. Automation of the Financial Reporting Process

Review of the financial reporting process for the Project revealed significant manual intervention. Whereas the sub-ledgers are extracted from SAP system through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel.

Consequently, the manual intervention may result in errors in the Project financial statements.

220KV AND 132KV TRANSMISSION LINES AND SUBSTATIONS (EXIM BANK OF INDIA FUNDED) PROJECTS - KENYA ELECTRICITY TRANSMISSION COMPANY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1209. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1210. Liquidation of Contractor

As reported in the prior year, the contractor for Lot 1A 220KV Turkwel-Ortum-Kitale substations was contracted on 16 April, 2013 with a contract sum of USD19,972,680 later revised to USD18,100,120. As at the date of the audit, the contractor had achieved an overall completion status of 78%. The contractor was put into liquidation in July, 2018 by the courts in India resulting in challenges in completing the Project due of lack of finances.
According to Management, another contractor is in the process of being identified as a replacement to take over the remaining works.

Consequently, the Project may not be completed on time and may also experience cost overruns.

My opinion is not qualified with respect to this matter.

**Other Matter**

**1211. Pending Bills – Goods and Services**

According to Note 11.1 and 11.2 to the financial statements, the Project had pending accounts payables totalling Kshs.270,044,247 (2019: Kshs.263,844,328) as at 30 June, 2020. During the year under review, the Project Management made payments totalling Kshs.168,907,461 while accumulating bills totalling Kshs.175,107,380. Management has not explained why the bills were not settled during the year they occurred. The Project is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

**1212. Long Unpaid Wayleave Compensation**

The expected compensation to landowners for wayleaves acquired since inception of the Project amounts to Kshs.958,943,467 out of which Kshs.929,756,255 was certified payable. The Project Management has so far paid Kshs.746,848,361 leaving an unpaid balance of Kshs.182,907,894. The Management has attributed failure to pay the amount due to lack of budgetary allocation from The National Treasury and lengthy land negotiations between land owners, Kenya Electricity Transmission Company and the County Government of Kajiado.

**1213. Delayed Project Implementation**

The Lot 1A - 220KV Substations at Turkwel, Ortum & Kitale and Lot 3A - 132/33KV Machakos-Konza-Kajiado-Namanga Transmission Lines - reported 78% and 60% completion rate respectively, by 30 June, 2020. Lot 1A of the Project is currently suspended and significant work remains undone. Works are yet to commence at the main strategic substation in Turkwel, which may lead to underutilization of the Project. Lot 3A was expected to be complete by 30 December, 2019, hence the Project is behind schedule and may delay delivery of services to the intended beneficiaries.

Consequently, the Project may also experience cost overruns and possible withdrawal of funding by the project financier.
1214. **Budgetary Control and Performance**

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.456,956,904 against budgeted receipts of Kshs.781,000,000 resulting in a shortfall of Kshs.324,043,096 or 41% of the final receipt budget. Further, actual expenditure for the year amounted to Kshs.338,502,600 against the actual receipts of Kshs.781,000,000 resulting to under absorption of Kshs.442,497,400 or 57% of the final receipt budget. Management attributed this to late disbursement of the 4th Quarter which was disbursed in July, 2020 and reduced proceeds from borrowing due to termination of contractual works.

Consequently, the underfunding and low expenditure may affect the planned activities and impact negatively on service delivery to the public.

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

**Conclusion**

1215. There were no material issues relating to lawfulness and effectiveness in use of public resources.

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

**Basis for Conclusion**

1216. **Automation of the Financial Reporting Process**

Review of the financial reporting process for the Project revealed significant manual interventions. Although the sub-ledgers are extracted from SAP system through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel worksheets.

Consequently, the manual interventions may result to errors in the Project financial statements.
KENYA ELECTRICITY MODERNISATION PROJECT (IDA CREDIT 5587-KE) – RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1217. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1218. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budgeted and actuals on comparable basis amounting to Kshs.350,000,000 and Nil respectively, resulting in under-funding of Kshs.350,000,000 or 100% of the budget. As a result, the Project’s activities in the year under review were limited as only Kshs.10,468,020 or 3% of the approved budget was spent. The funding shortfall constrained implementation of the Project’s work plans and the quest to attain its objectives and purpose.

Management has explained that the under-expenditure resulted from delay in finalization of contracts on which the budgeted funds were to be spent.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1219. Long Delay in Execution of the Project

As previously reported, the Project commenced on 29 June, 2015 and was set for completion on 30 December, 2021.

However, as at 30 June, 2020, the activities executed were valued at Kshs.78,234,961 or 8% of the total funds totaling US$ 10million (Kshs.1,013,000,000) committed to the Project in the Financing Agreement. Management has indicated that a new implementation plan has been drawn to execute the pending works by 30 December, 2021.

In view of the long delay suffered previously, the Project’s outputs are unlikely to be realized and its purpose achieved unless its execution timelines and operational systems are reset.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1220. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NAIROBI RING TRANSMISSION LINE PROJECT (AFD CREDIT NO. CKE6012.01, AFD CREDIT NO. CKE1068 01, AFD CREDIT NO. CKE1030.01.B, EIB CREDIT NO.25.367/KE AND GOK) – KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1221. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1222. Pending Bills

According to Note 11.1 and 11.2 to the financial statements, the Project had pending accounts payables totalling Kshs.644,130,340 (2019: Kshs.249,150,226) as at 30 June, 2020. During the year under review, the Project Management made payments totalling Kshs.264,795,402 while accumulating bills totalling Kshs.652,752,780. Management has not explained why the bills were not settled during the year in which they occurred. The Project is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1223. Long Outstanding Wayleave Compensation

As reported in the previous year, the expected compensation to landowners for wayleaves acquired since inception of the Project in October, 2012, amounted to Kshs.2,561,863,170, as disclosed in Annex 2B. The amounts certified as payable amounted to Kshs.2,561,863,170, out of which Kshs.2,399,561,269 was paid leaving an unpaid balance of Kshs.162,301,901. The Management has attributed failure to pay the
amount due to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions on disputed cases.

1224. Delay in Project Deliverables

Review of the Project deliverables revealed that the Project was behind schedule, with respect to the completion of the Malaa Sub-Station. Construction works at the Sub-Station were 64% complete by the end of the year under review. This was despite having the completion date revised twice to May, 2020 and June, 2021.

Consequently, delays in completion of the Project may result in escalation of projected costs or expiry and withdrawal of funding by project financiers.

1225. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.316,000,000 and Kshs.319,636,085. This has resulted to an over utilization of Kshs.3,636,085 or 1% of the budget. Further, actual expenditure for the year amounted to Kshs.385,262,392 against the final expenditure budget of Kshs.316,000,000 unapproved leading to over expenditure of Kshs.69,262,392.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1226. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1227. Automation of the Financial Reporting Process

Review of the financial reporting process for the Project revealed significant manual interventions. Although the sub-ledgers are extracted from the SAP system through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel worksheets.

Consequently, the manual interventions may result to errors in the Project financial statements.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1228. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1229. Pending Bills – Goods and Services

According to Note 11.1 and 11.2 to the financial statements, the Project had pending accounts payables totalling Kshs.727,729,026 (2019: Kshs.596,443,793) as at 30 June, 2020. During the year under review, the Project Management made payments totalling Kshs.74,802,466 while accumulating bills totalling Kshs.206,087,699. Management has not explained why the bills were not settled during the year in which they occurred. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1230. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.548,643,715 against budgeted receipts of Kshs.462,000,000 resulting in an excess of Kshs.86,643,715. Further, actual expenditure for the year amounted to Kshs.150,604,931 against the actual receipts of Kshs.462,000,000 resulting to under absorption of Kshs.311,395,069, for which Management attributed to slow implementation of work plans between February and June, 2020.

1231. Long Outstanding Wayleave Compensation

As reported in the previous year, the expected compensation to landowners for wayleaves acquired since inception of the Project on 16 April, 2013, amounted to Kshs.2,292,467,699, as disclosed in Annex 2B. The amounts certified as payable amounted to Kshs.1,979,064,986, out of which Kshs.1,680,742,722 was paid leaving an unpaid balance of Kshs.298,322,264. The Management has attributed failure to pay the amount due to lack of budgetary allocation from The National Treasury and lengthy land
valuation negotiations due to absentee land owners and various court injunctions on disputed cases.

1232. **Delay in Project Implementation**

Review of completion status of the Project revealed completion status of the various Lots, as detailed below:

<table>
<thead>
<tr>
<th>Line</th>
<th>Foundations</th>
<th>Erections</th>
<th>Stringing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olkaria – Narok</td>
<td>86.0%</td>
<td>54.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Lessos – Kabarnet</td>
<td>96.0%</td>
<td>73.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Nanyuki – Rumuruti</td>
<td>99.6%</td>
<td>99.1%</td>
<td>66%</td>
</tr>
<tr>
<td>Sultan Hamud – Wote – Kitui – Mwingi</td>
<td>72.6%</td>
<td>70.7%</td>
<td>56.5%</td>
</tr>
</tbody>
</table>

This Project, whose expected completion date was 30 June, 2019, was re-scheduled to April, 2020, following the engagement of another contractor for the remaining works on the Project, which were significant. Further, it was observed that the Project funding from the African Development Bank (AfDB) was terminated, when the main contractor was declared insolvent in his home country.

Consequently, this Project may not be completed within schedule, resulting in delayed provision of expected services to the stakeholders.

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

**Conclusion**

1233. There were no material issues relating to lawfulness and effectiveness in use of public resources.

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

**Basis for Conclusion**

1234. **Automation of the Financial Reporting Process**

Review of the financial reporting process for the Project revealed significant manual interventions. Although the sub-ledgers are extracted from the SAP system through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel worksheets.

Consequently, the manual intervention may result to errors in the Project financial statements.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1235. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1236. Pending Bills

Note 11.1 and Note 11.2 to the financial statements reflects pending bills totalling Kshs.418,685,000 comprised of Kshs.389,648,000 due to suppliers of goods and services and Kshs.29,037,000 due to staff. The Project is likely to incur significant interest costs and penalties with continued delay in making the payments. Further, failure to settle bills during the year to which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1237. Unauthorized Expenditure

The statement of comparative budget and actual amounts reflects total budgeted receipts of Kshs.2,470,731,000 against actual receipts on comparable basis of Kshs.1,686,100,000 resulting in a budgetary deficit of Kshs.784,630,000 or 32%. Management attributed the receipts deficit to contractual issues and delayed payments from the Kenya Electricity Generating Company (KENGEN). However, measures in place to avoid recurrence of the deficits have not been explained. Similarly, the statement reflects total expenditure of Kshs.2,757,651,000 against an approved budget of Kshs.2,470,731,000 resulting into an over expenditure of Kshs.286,920,000 or 12%. The over expenditure mainly occurred under acquisition of non-financial assets.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1238. Failure to Open and Operate a Project Bank Account

Regulation 76 (1) of the Public Finance Management (National Government) Regulations, 2015 provides that, for the purpose of disbursement of Project funds, a Project account for every project should be opened and maintained at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary in writing, into which all funds should be kept and such an account shall be in the name of the Project for which it is opened. Each Project should maintain only one bank account. However, the Project funds were commingled
with funds for the Company’s general operations. Management had indicated in the prior year that the process of separating the Project’s and the general Company’s bank accounts was underway. However, the separation of the accounts is still pending.

1239. Overdrawn Bank Account

The statement of financial assets reflects a balance of Kshs.562,497,000 under borrowings which as disclosed in Note 10.12C relates to a credit balance held in the Cooperative Bank of Kenya account No. 01136160857600. This is contrary to Regulation 82(7) of the Public Finance Management Regulations, 2015 which provides that no official government bank account shall be overdrawn, nor shall any advance or loan be obtained from a bank account for official purposes beyond the limit authorized by The National Treasury in line with Section 28(4) of the Act.

In the circumstance, the Project Management was in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1240. There were no material issues relating to effectiveness of internal controls, risk management and governance.

RURAL ELECTRIFICATION SCHEME - KENYA POWER AND LIGHTING COMPANY PLC

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1241. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1242. Material Uncertainty Relating to Going Concern

I draw attention to Note 2(a) to the financial statements which indicates that the Scheme incurred a deficit of Kshs.5,988,000,000 during the year ended 30 June, 2020 (Deficit 2019: Kshs.5,097,312,000) and had current liabilities of Kshs.25,643,137,000 which exceeded its current assets of Kshs.10,911,999,000 by Kshs.14,731,138,000 as at 30 June, 2020 (2019: Kshs.7,391,617,000). Further, the Scheme owes the Kenya Power and Lighting Company Plc an amount of Kshs.16,600,000,000 (2019:
Kshs.11,400,000,000), on account of management fees, which in the current circumstances may not be discharged.

Further, the Scheme has reported negative working capital in the financial statements of the current year, and those of the last five (5) consecutive years. As disclosed in the current and past financial statements, the Scheme is funded by the Government of Kenya which secures financing through budgetary allocation and other International Development Partners. However, unless the trend is reversed, the Scheme will continue to experience liquidity challenges.

These conditions indicate that a material uncertainty exists, which may cast significant doubt on the Scheme’s ability to continue as a going concern.

My opinion is not qualified in respect of this matter.

REPORT ON LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1243. Long Outstanding Trade and Other Payables

As disclosed in Note 12 to the financial statements, the statements of financial position reflects trade and other payables amounting to Kshs.8,830,880,000. Included in this balance is Kshs.12,453,210 which relates to long outstanding payables. Management indicates that the long outstanding accounts will be reviewed to determine the genuine ones, which will subsequently be paid. However, it is not clear why Management has not settled the accounts, some of which have been outstanding for over three (3) years.

1244. Lack of Update on the Costing Formula

Costs incurred by KPLC in managing the entire electrical grid, including customers connected under the Rural Electrification Scheme (RES), are allocated to the Scheme through the Mercados formula. However, this formula which was adopted by the Company on 19 August, 2010, has not been revised to factor in developments in the industry between the year 2010 and 2020. For example, the Mercados formula does not explicitly cover the recharging of foreign currency differences and finance costs of KPLC to the Scheme. In addition, wheeling charges, which were introduced in 2013, payable by KPLC to Kenya Electricity Transmission Company (KETRACO), are also not explicitly covered by the formula. Management indicates that additional costs will be factored in the formula in the next tariff review. However, until the next review of tariffs, the risk of not capturing the total costs of the Scheme continues.

In the circumstances, I am unable to confirm whether Management has an efficient formula for recognizing costs for utilization of public resources.
1245. Non-Renewal of Operating Agreement

The Scheme was established through a signed agreement between the KPLC and the Government of Kenya, in 1973. However, there is no evidence of revision of this Agreement, which has been in place for the last forty-seven (47) years. This agreement does not incorporate the current strategy of the Scheme, including connectivity targets and future operations, notwithstanding the significant number of customers under the Scheme. In the absence of an updated agreement which provides guidance on formulation of a long term strategy for the Scheme, the Scheme’s operations continue to be limited to the extent that they may not reflect the changing needs of the customers.

In the circumstances, I am unable to confirm whether the agreement results to efficient use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1246. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA DEVELOPMENT OF SOLAR POWER PLANT IN GARISSA PROJECT (GCL NO.2015(10) – RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1247. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1248. Long Outstanding Retention Fee

Note 10.1 in the financial statements reflects an amount of Kshs.697,577,979 relating to a contractor’s pending bill which mainly constitutes retention fees. The amounts have been outstanding for a long period of time. A supplementary agreement between the contractor and REREC states that, five percent of the contract price except technical services should be released within thirty days after presentation of retention money guarantee valid up to the date of issue of the last defects liability certificate plus sixty days
thereafter. A retention money guarantee was duly executed by the contractor on 9 January, 2019 and was expiring in November, 2020.

However, at the time of audit the retention money remained unpaid to the contractor. This may result to a legal suit against the Corporation for breach of the contractual terms. The Management has not explained how it intends to pay the contractor.

My opinion is however not modified in respect of the effects on the above matter.

Other Matter

1249. Budgetary Control and Performance

According to the statements of comparative budget and actual amounts, the Project’s final budget for the year, was Kshs.722,000,000. However, no amount was disbursed to the Project resulting no activities on the project during the year. Management has attributed the underfunding to failure to make payments for invoices that had been processed but had not been honoured.

Under the circumstances the closure of the project which is already commissioned may take longer beyond the project completion date which is almost due in August 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1250. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1251. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PETROLEUM DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1252. There were no material issues noted during the audit of the financial statements of the Project.
Other Matter

1253. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,026,000,000 and Kshs.2,039,157,360 respectively, resulting to an over collection by Kshs.13,157,360. However, Management spent Kshs.1,789,676,907 resulting to an under-absorption of Kshs.249,480,453 or 12.3% of the budget. The underfunding affected the planned activities and could have impacted negatively on service delivery for the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1254. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1255. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA ENERGY-SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1256. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1257. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted expenditure of Kshs.100,000,000 against actual expenditure amounting to Kshs.36,336,600 resulting to under absorption of Kshs.63,663,400 or 64% of the
budgeted amount. The under absorption of the budget affected the implementation of the Fund’s planned activities and may have impacted negatively on service delivery to the Public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1258. Low Production of Energy Crops for Bio-Fuels

As provided under Section 4 of the Government Financial Management (Kenya Energy-Sector Environment and Social Responsibility Programme Fund) Regulations, 2007, the Fund’s 10-year Action Plan of 2019-2029, the 2019/20 financial year Work Plan and 2019/20 Procurement Plan of the Fund, one of the main objectives of the Fund is production of energy crops for bio-fuels. However, and as previously reported, our review revealed no evidence of any activities towards achievement of this objective.

Further, although the Ministry had identified Croton and Jatropha crops for production of bio-diesel, no significant investment in their cultivation and subsequent processing had been made.

Under the circumstances, it has not been possible to confirm that the Fund is progressing towards achievement of its intended objectives and it may be necessary to review its viability.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1259. There were no material issues relating to effectiveness of internal controls, risk management and governance.
**STATE DEPARTMENT FOR LIVESTOCK – VOTE 1162**

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

1260. **Unexplained Variances Between the Trial Balance and Balances in the Financial Statements**

The trial balance for the year ended 30 June, 2020 reflects total debit balances of Kshs.6,035,111,243 and total credit balances of Kshs.6,036,874,626 resulting into an unexplained difference of Kshs.1,763,383. In addition, all the balances reflected in the statement of financial position are at variance with the IFMIS trial balance as at 30 June, 2020.

In the circumstances, the accuracy and completeness of the financial statements as at 30 June, 2020 could not be confirmed.

1261. **Unsupported Expenditure**

The statement of receipts and payments reflects expenditure totalling Kshs.1,781,297,790 and Kshs.1,764,537,732 under use of goods and services and acquisition of assets respectively. However, an amount of Kshs.24,233,794 included under use of goods and services expenditure and indicated to have been incurred at the Counties was not supported by disbursements and expenditure return schedules. Similarly, no supporting documents were provided for expenditure amounting to Kshs.502,053,967 included under acquisition of assets.

Consequently, the validity and accuracy of the reported expenditure on use of goods and services and acquisition of assets could not be ascertained.

1262. **Land Without Ownership Documents**

The Kabete Veterinary Farm occupies Land parcels L.R. No. 189R and L.R No.2952 which, according to records held by the Directorate of Veterinary Services, the original land size was approximately 1634 acres (L.R No. 189R) and 1278 Acres (L.R No.2952).

The records further indicate that 206 parcels and 113 parcels of land were irregularly excised from L.R No.2952 and L. R No. 189R respectively. The title deeds for these parcels of land were, however, not provided for audit review.

Similarly, as reported in the previous years, the Government, through Gazette Notice No. 890 dated 5 March, 1957, allocated 1,400 acres of land in Ngong, Kajiado County, to the Department of Veterinary Services for construction of a Veterinary Training School, establishment of a veterinary farm and installation of related facilities. However, information and documents available indicates that the land measures 1,500 acres.
Further, information and records at the Ministry of Agriculture, Livestock, Fisheries and Irrigation and Ministry of Land and Physical Planning indicates that some Government agencies and private organizations have irregularly taken possession of 509 acres of the land. The State Department has to-date not obtained title of ownership of the land from the Ministry of Land and Physical Planning.

In addition, information available indicates that the State Department for Livestock owns 124,000 hectares of land comprising Isiolo Mobile Pastoral Training Field Station in Isiolo County as at 30 June, 2019. However, ownership documents were not availed for audit review.

Although Management explained that they had written to the National Land Commission to investigate with a view to repossessing irregularly allocated land and to provide title deeds, ownership documents had not been provided as at the time this audit report was finalized.

1263. Unsupported Accounts Receivables

The statement of assets and liabilities reflects an amount of Kshs.18,956,526 under accounts receivables – outstanding imprest and clearance accounts, which as disclosed under Note 11 to the financial statements, includes project account amount of Kshs.3,683,534 and district suspense of Kshs.11,241,872. However, supporting documentary evidence for the two accounts receivables balances was not provided for audit.

Consequently, the validity, accuracy and full recoverability of the reported accounts receivables balance of Kshs.18,956,526 could not be confirmed.

1264. Incomplete Ledger Details - Payee and Description

Although, the statement of receipts and payments reflects expenditure totalling Kshs.6,012,276,156 for the year ended 30 June, 2020, the account analysis or ledger report generated from IFMIS and provided to support each individual expenditure item lacked details of payees and in some cases, there was no proper payment description against the payments made. In addition, a review of the development appropriation account revealed that the State Department charged expenditure in respect of the Big 4 Agenda under an account code 1003, which was defined for Mainstreaming Sustainable Land Management (SLM) in Agro-pastoral Land Project, a project which had ended.

Other Matter

1265. Pending Bills

As disclosed in Note 18.1 and Annex 1 to the financial statements, the State Department had pending bills totalling Kshs.230,043,677 as at 30 June, 2020. Failure to settle bills during the year in which they relate to distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.
In addition, the pending bills balance of Kshs.230,043,677 included an amount of Kshs.13,800,000 relating to construction of buildings for which supporting documents were not availed for audit review.

1266. Unresolved Prior Year Audit Matters

As disclosed under progress on follow up of prior years auditor’s recommendation section, audit matters reported in the previous financial years remained unresolved as at 30 June, 2020.

1267. Contingent Liabilities

As disclosed at Annex 5 and as previously reported, the State Department for Livestock has had two protracted legal suits which has led to significant outstanding bills and contingent liabilities compounded by huge interests and penalties. The two cases are summarized as follows:

1267.1 Halal Meat Products Limited

Halal Meat Products Limited Vs Ministry of Agriculture, Livestock, Fisheries and Irrigation: State Department for Livestock- High Court Civil Case No.1655/1986 whose court determination amounted to Kshs.5.242 billion and out of court negotiations final amount of Kshs.4 billion after a cap on interests. However, contract documents for Halal Meat Product Limited were not provided for audit review.

1267.2 Associated Architects

Associated Architects Vs Ministry of Agriculture, Livestock, Fisheries and Irrigation: State Department for Livestock – High Court Civil Case No. 488/2013 whose accrued interest balance is Kshs.25 million. The contract agreement provided for audit review dated 4 February, 2009 indicates that M/S Associated Architects was awarded a contract through direct procurement for consultancy services on construction of Mifugo House for the Ministry of Livestock Development at a contract sum of Kshs.84,505,999.99. However, it is not clear, and no satisfactory explanation was provided on why the consultant should be paid the contract sum, yet no construction was undertaken.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1268. Assets and Projects Management

The State Department, though holding valuable assets across the country does not have an Assets Management Unit. It was noted that some of the properties were poorly maintained. The ceiling board of the dining hall at the Beekeeping Institute was worn out and part of it had fallen off. No reason was given for the failure to have the ceiling repaired.
Some projects, although well past their contractually agreed completion time remained unfinished; these include construction of a proposed biosafety Level 3 laboratory at Kabete Veterinary Farm at a contract sum of Kshs.69,012,866, and construction and completion of a kitchen and dining block at AHITI Nyahururu at a cost of Kshs.39,638,476.

In addition, a tender was awarded to a Company for construction of classrooms and laboratories amounting to Ksh.52,123,198 at AHITI Nyahururu. The Company was required to have a valid National Construction Authority (NCA) certification and a bank certificate. It was observed that the NCA certificate attached was invalid and no bank statement was provided.

A fence costing Kshs.8,962,021 at the Leather Institute, was vandalized in 2017 and no action had been taken to bring the culprits to book. Furthermore, some equipment meant for Leather Institute, and which had been procured at a cost of Kshs.50,398,459 remained idle.

In the circumstances, it could not be confirmed that the State Department had complied with Regulation 139(1) (a) of Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer of a National Government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse.

1269. Bulk Milk Coolers Completion Status

In the previous financial year, the State Department procured 350 bulk milk coolers, each with a capacity of 3000 litres at a total cost of Kshs.2,343,250,000. As at 30 June, 2019, 190 coolers had been delivered and 120 of them had been installed. As at 30 June, 2020, no status report was provided to indicate where or whether the remaining 70 coolers had been installed.

A field visit to fourteen (14) bulk milk coolers cooperatives in Kisumu, Nakuru, Narok, Kitui, Embu and Nyeri Counties revealed that the coolers were either not functional or being underutilized. In some cases, the coolers had been vandalized and had missing parts as there was no security, others had not been fully installed, while others were simply idle.

It was not clear whether key stakeholders including the County Governments, the Kenya Dairy Board, Cooperatives, among others had been fully involved and sensitized in the conception of the Project.

In addition, in absence of a status report, it is not possible to confirm whether the remaining 160 bulk milk coolers with a value of Kshs.1,071,200,000 were ever delivered and installed.

1270. Irregular Management and Control of Imprests

A review of the manual imprests register revealed that some officers in the State Department had consistently been issued with multiple imprests amounting to
Kshs.40,961,270 during the year, contrary to Regulation 93 (4) (b) of the Public Finance Management (National Government) Regulations, 2015. The Regulation requires that before issuing temporary imprest to an officer, the Accounting Officer should ensure that the applicant has no outstanding imprests.

1271. Inaccuracy of the Summary of Fixed Assets Register and Lack of a Fixed Assets Register

Disclosed at Annex 2 to the financial statements is a summary of fixed assets register reflecting a cumulative historical cost of Kshs.3,865,628,882 as at 30 June, 2020. However, a computation of acquisition of assets by the State Department for Livestock from the financial year 2015/2016 to 2019/2020 indicated that the total cumulative value for all the classes of assets should be Kshs.5,049,890,732 and thus, resulting in an unexplained difference of Kshs.1,184,261,850.

Further, the value of Kabete Veterinary Farm L.R No.189R (1634 acres) and L.R No.2952 (1278 acres) has not been included in the fixed assets balance of Kshs.3,865,628,882 disclosed under Annex 2 to the financial statements - summary of fixed assets register. The balance also excludes undetermined parcels of land and buildings spread all over the country whose details in regard to size, location, value and ownership could not be determined,

In addition, during the year under review, the State Department for Livestock did not avail for audit review a fixed assets register indicating necessary information such as type of asset, date of acquisition, supplier, cost, location, custodian, code and condition of the assets it owns as required under Regulation 143 of Public Finance Management (National Government) Regulations, 2015. The Regulations provides that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws. In addition, the State Department did not produce logbooks or any other document to prove ownership of some of the vehicles and equipment and no assets count and verification was done as at 30 June, 2020.

Consequently, the State Department was in breach of law and it could not be confirmed that its assets had been properly safeguarded.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1272. Lack of an Enterprise-Wide Risk Management (ERM) Policy and Process

During the year under review, the State Department for Livestock did not have a well-documented Enterprise Wide-Risk Management Policy and process in place to effectively guide the State Department’s risk management processes at large.
1273. Non-Functional Audit Committee

Although the State Department for Livestock constituted an Audit Committee, the committee did not convene or hold regular meetings during the year. No minutes of the Audit Committee were provided for audit review to confirm that the internal audit unit's annual work plan and reports were tabled and discussed by the Audit Committee.

DONOR FUNDED PROJECTS

SMALLHOLDER DAIRY COMMERCIALIZATION PROGRAMME (IFAD LOAN NO. 678-KE AND GRANT NO. 815-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1274. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1275. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.373,375,111 against the approved budget of Kshs.419,973,100 resulting in a revenue shortfall of Kshs.46,597,989 or 11% of the Budget.

The Management has attributed the revenue shortfall to delays in exchequer and loan disbursements. This has negatively impacted on the achievement of programme activities as it resulted in underfunding of the annual budget by Kshs.37,103,260 representing 8.8% of the approved budget.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1276. Unsurrendered Bank Balance

As disclosed under Note 8.13A to the financial statements, the statement of financial assets and liabilities reflects bank balances of Kshs.809,406;(2018-Kshs.10,325,800). The balance relates to loan and grant amounts that had not been expended at the date
of the Project closure but were yet to be transferred into the consolidated fund in accordance with Section 74(6)(d) of the Public Finance Management (National Government) Regulations, 2015.

To this extent, the Programme is in breach of the law.

1277. Pending Bills

Annex 2 - Analysis of pending bills to the financial statements discloses a balance of Kshs.16,807,828 that was unpaid as at the programme closure date of 31 March, 2020. This is contrary to Section 3.07 of the Financing Agreement that requires the Programme parties to complete the Project activities on or before its completion date. Consequently, the pending bills balance of Kshs.16,807,828 will not be paid from the programme funding.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1278. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REGIONAL PASTORAL LIVELIHOODS RESILIENCE PROJECT (IDA CREDIT NO. KE 53880-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1279. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1280. Unpaid Insurance Claim

During the year under review Management incurred insurance costs of Kshs.18,549,675 paid to an insurance firm as premium for the insurance cover of the Project vehicles. Review of motor vehicle records maintained at West Pokot County offices revealed that on 25 March, 2019, two (2) vehicles, GKB 038R and GKB 412R got burnt by fire suspected to have originated from one of the food kiosks adjacent to the offices. The vehicles were insured and a claim for compensation lodged was certified payable on
30 July, 2019. However, the claims have not been settled as at the time of audit inspection in November, 2020.

No reason has been given for the failure by the insurance company to settle the claim.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1281. Unsupported Expenditure

The statement of receipts and payment reflects purchase of goods and services of Kshs.923,507,376 as disclosed under Note 8.6 to the financial statements. The amount includes Kshs.7,978,250 under communication, supplies and services paid to a firm contracted to carry out works for local area network installation at ground upper floor and sixth floor in Kilimo House. However, Management did not provide documentary evidence why the installation was done at Kilimo House whereas the Project is located at Hill Plaza. Further, an earlier request by the Ministry to the Project for local area network was not authorized by ICT Ministry contrary to Circular Ref. No. OP/CAB.39/1A of March 1, 2018 which directed that all ICT equipment be centralized under the Ministry of ICT to ensure economies of scale in procurement and optimization of the use of shared services strategy.

The Management is therefore in breach of the Law

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1282. There were no material issues relating to effectiveness of internal controls, risk management and governance.

VETERINARY SERVICES DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1283. Inventories

As disclosed in Note 13 to the financial statements, the statement of financial performance reflects an opening balance for inventories of Kshs.4,287,785 and a
negative closing balance of inventories of Kshs.9,844,000. The balances have not been supported or analyzed. Further, no explanation was provided for the inclusion of the inventory balances in the statement of financial performance.

Under the circumstances, the accuracy of the statement of financial performance could not be confirmed.

1284. **Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.26,215,457 which, as disclosed in Note 16 to the financial statements, is net of depreciation expenses of Kshs.5,423,996. However, the depreciation expenses were not supported with relevant schedules or ledgers for the various classes of assets. Further, a comprehensive and updated fixed assets register indicating the nature of the asset, date of acquisition, cost, depreciation rate, disposals, serial numbers, location and custodianship was not provided for audit verification.

Consequently, the completeness and accuracy of the property, plant and equipment balance of Kshs.26,215,457 as at 30 June, 2020 could not be confirmed.

**Other Matter**

1285. **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects actual receipts of Kshs.90,838,187 against a budget of Kshs.70,000,000 resulting into a receipts over-collection of Kshs.20,838,187 or 30% of the budgeted receipts. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.70,000,000 and Kshs.52,240,243 respectively resulting to an under-expenditure of Kshs.17,759,757 or 25% of the budget. Although Management explained that the under-expenditure was caused by restriction of movement of staff due to the outbreak of Covid 19, the under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

1286. **Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.
Conclusion

1287. Field Inspections at Border Points - Malaba, Busia, Lunga Lunga and Taita Taveta

As previously reported, field inspections at border points revealed several shortcomings and operational challenges as outlined below:

i) Limited Systems Access

The veterinary officers stationed at the border post to inspect animals, animal feeds, animal products and feed mills exported or imported into the country indicated that they had no right of access to the Kenya Electronic Single Window System at the border posts, which affected effective execution of their duties.

The inspection of documents through the system was being processed at the Headquarters rather than at the border posts and was mostly focused on documentation. As a result, some imports or exports may have passed through the borders without the necessary validations, inspections or verifications.

ii) Power Outages and Lack of Back-Ups and Internet Access

The border point offices did not have back up power equipment leading to disruption of operations during power outages as the staff were unable to access internet and emails from Headquarters to facilitate verification and confirmation of the correctness, approval status and authenticity of import documents.

iii) Lack of Inspection Tools, Equipment and Structures

The stations lacked the requisite tools and equipment such as test kits, screening kits and sampling equipment among others to inspect animals, animal feeds, animal products and feed mills to ensure that the same are free from harmful elements like aflatoxin and other foreign matters. The Kenyan side border posts at Malaba and Busia did not have cargo scanners compared to their counterparts in the Ugandan side and therefore they had no capacity to screen cargo effectively and accurately.

iv) No Cattle Docking Structures for Inspections

The Lunga Lunga Station did not have all the essential and key facilities like the animals holding ground and offloading ramp as the existing structure had been condemned. There was no alternative designated holding grounds for the cattle to enable inspections. It was also noted that most of the livestock from Tanzania easily cross the porous Kenyan border without inspection.
v) Insufficient Staff

Malaba and Busia stations were manned by two officers who were not gazetted as inspectors, one on the Kenyan side and the other on the Ugandan side. In Taita Taveta and Lunga Lunga border post stations there was one qualified officer and an assistant who was not gazetted as an inspector. Further, all these officers had not taken their mandatory annual leave for two years due to under capacity. The officers were not compensated for the extra hours worked, in contravention of Section 28 (1)(a) of the Employment Act, 2007 which provides that an employee shall be entitled, after every twelve consecutive months of service with his employer to not less than twenty-one working days of leave with full pay.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

Basis for Conclusion

1288. Lack of Elaborate Enterprise Wide Risk Management (ERM)

Regulation 165 (1) of the Public Finance Management (National Government) Regulations, 2015 provides that the Accounting Officer shall ensure that a national government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal controls that builds robust business operations. However, as previously reported, the Fund did not have a well-documented enterprise wide risk management strategy and policies in place to effectively guide the enterprises risk management processes at large.

1289. Internal Audit Function

As previously reported, the Fund did not have an Internal Audit Function or an Audit Committee to review and appraise its existing internal controls, with a view to enhancing the Fund’s operational efficiency, governance and compliance as provided under Section 73 (4) and (5) of Public Finance Management Act, 2012.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1290. Unreconciled Proceeds from Foreign Borrowings

The statement of receipts and payments reflects proceeds from foreign borrowings amounting to Kshs.1,966,994,306 for the year ended 30 June, 2020. The amount relates to direct payments that were made to five Donor Funded Projects. However, variances were noted between the reported amounts and the amounts reflected in the financial statements of three (3) Donor Funded Projects as follows:

<table>
<thead>
<tr>
<th>Project</th>
<th>Reported Amount (Kshs.)</th>
<th>Amount in Projects Financial Statements (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drought Resilience and Sustainable Livelihood Programme</td>
<td>813,352,904</td>
<td>812,853,404</td>
<td>499,500</td>
</tr>
<tr>
<td>Small Scale Irrigation and Value Addition Project</td>
<td>277,816,515</td>
<td>316,418,882</td>
<td>38,602,367</td>
</tr>
<tr>
<td>Kenya Climate Smart Agriculture Project</td>
<td>359,468,748</td>
<td>299,468,748</td>
<td>60,000,000</td>
</tr>
</tbody>
</table>

The variances have not been reconciled or explained.

1291. Un-explained Expenditure on Compensation of Employees

The statement of receipts and payments reflects compensation of employees expenditure of Kshs.976,741,355 which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.309,946,181 in respect to personal allowances paid as part of salary. However, the balance differed with the amount of Kshs.308,799,181 in respect to personal allowances paid as part of salary reflected in the ledger resulting into an unexplained variance of Kshs.1,147,000.

Further, included in the expenditure are allowances totalling Kshs.13,770,000 paid under Small Scale Irrigation and Value Addition Project and Drought Resilience and Sustainable Livelihood Programme. However, the State Department’s ledger reflected an amount of Kshs.25,961,500, resulting into an unexplained variance of Kshs.12,191,500. In addition, a list of the beneficiaries of the allowances was not provided.

Consequently, the accuracy and validity of the expenditure of Kshs.323,716,181 incurred under compensation of employees could not be confirmed.
1292. Use of Goods and Services

1292.1 Avoidable Expenditure on Rentals of Produced Assets

The statement of receipts and payments reflects an expenditure of Kshs.5,777,352,014 under use of goods and services which, as disclosed in Note 6 to the financial statements, includes Kshs.370,217,814 relating to rentals of produced assets. The amount of Kshs.370,217,814 includes an expenditure of Kshs.66,836,615 comprising of Kshs.39,763,210 for storage and handling charges and Kshs.27,073,405 for customs duty, incurred on a donation of chemicals and equipment from the Government of the People's Republic of China towards control of desert locusts in Kenya. However, the expenditure was not budgeted for and was avoidable since it was occasioned by delays in collection of the donations from the Port.

1292.2 Unsupported and Misclassified Insurance Costs

Included in the use of goods and services expenditure of Kshs.5,777,352,014 are insurance costs of Kshs.268,558,927. However, the supporting ledger reflected an amount of Kshs.266,273,084, resulting in an unexplained variance of Kshs.2,285,843. In addition, the insurance costs include a journal entry of Kshs.76,000,000 that was not supported and payments amounting to Kshs.190,273,084 relating to surrender of imprest and not insurance costs.

Consequently, the validity and accuracy of insurance costs of Kshs.268,558,927 could not be confirmed.

1293. Unreconciled Transfers to Other Government Entities

The statement of receipts and payments reflects an expenditure of Kshs.12,497,651,915 on transfers to other government units during the year which, as disclosed in Note 8 to the financial statements, includes grants amounting to Kshs.901,335,407 that were transferred to Agricultural Sector Development Support Programme. However, the financial statements of the Programme reflected receipts of Kshs.1,185,599,523 from the State Department resulting into a variance of Kshs.284,264,116 that has not been supported or explained.

Consequently, the completeness and accuracy of the amount disbursed to Agricultural Sector Development Support Project II could not be confirmed.

1294. Cash and Cash Equivalents

1294.1 Unsupported Payments from Deposits Bank Account

The statement of assets and liabilities reflects bank balances of Kshs.11,718,462,676 which, as disclosed at Note 12A to the financial statements, includes a balance of Kshs.159,904,675 held in the deposits bank account. However, audit examination of the deposits cash book revealed that payments made from the deposits bank account during the year under review included an amount of Kshs.11,482,524 being salary deductions that
were remitted to various Savings and Credit Cooperatives Societies (SACCOS) and Kshs.4,050,750 paid to staff in the form of imprests. However, no expenditure returns or status reports to support the payments were availed for audit review.

In the circumstances, the validity of the payments totalling Kshs.15,533,274 made from the deposits bank account cannot be confirmed.

1294.2 Unexplained Variances in Bank Balances

The bank balance of Kshs.11,718,462,676 also includes bank balances of Donor Funded Projects. However, the bank balances under Kenya Cereal Enhancement Programme totalling Kshs.3,981,968 differ with the bank balances reported in the Programme’s financial statements of Kshs.4,121,022 by Kshs.139,054. Further, the balance of Kshs.7,555 that was reported under Multinational Rural Livelihood Adaptation to Climate (RLAC) was not supported.

Consequently, the accuracy and completeness of the bank balance of Kshs.11,718,462,676 could not be confirmed.

1295. Unsupported Accounts Payables

The statement of assets and liabilities reflects a balance of Kshs.10,002,601,888 under accounts payables which, as disclosed in Note 14 to the financial statements, includes an amount of Kshs.159,904,675 in respect of general deposits which differs with the ledger balance of Kshs.207,287,235 by Kshs.47,382,560. In addition, the general deposits balance includes Kshs.2,058,916, Kshs.11,690,410 and Kshs.23,622,281 under International Food Fund, Regional Integration Implementation Programme and retentions respectively, that have not been supported by any verifiable records or documents. Further, the changes in the deposits and retentions analyzed in Note 17 to the financial statements includes deposits and retentions held during the year amounting to Kshs.32,827,927 that were not supported.

Consequently, the completeness and accuracy of the general deposits balance of Kshs.159,904,675 could not be ascertained.

Other Matter

1296. Pending Bills

As disclosed in Note 19.1 to the financial statements, the State Department had pending bills amounting to Kshs.14,506,431,671 as at 30 June, 2020. The bills include Kshs.488,492,219 relating to the 2019/2020 financial year and historical pending bills totalling Kshs.14,017,939,452 relating to fertilizer subsidy programme, maize subsidy programme and other prior years’ balances of Kshs.1,393,029,106, Kshs.12,546,124,344 and Kshs.78,786,002, respectively. Failure to settle the pending bills in the year to which they relate adversely affects the following years’ provisions to which they have to be
charged. Further, the pending bills for the fertilizer and maize subsidy programmes have exposed the State Department to litigations by the suppliers of goods and services.

1297. Unresolved Prior Year Audit Matters

Various prior year’s audit issues, as disclosed under the progress on follow up of auditor’s recommendations section of the financial statements, remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year’s audit issues.

1298. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.37,155,370,874 and Kshs.24,280,379,269 respectively resulting to an under-funding of Kshs.12,874,991,605 or 35% of the budget. Similarly, actual expenditure amounted to Kshs.22,863,798,554 against the approved budget of Kshs.37,155,370,874 resulting to an under-expenditure of Kshs.14,191,545,456 or 38% which occurred mainly under acquisition of assets. The shortfall in budgeted receipts and under-expenditure implies that the overall goals and objectives of the State Department were not achieved as planned, impacting negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1299. Irregular Procurement of Helicopters

The State Department hired helicopters for provision of locust air surveillance services in Isiolo, Marsabit, Nakuru, Eldoret and Kerio Valley regions from two local companies at a total cost of Kshs.103,602,600. However, there was no tender evaluation report to support evaluation and recommendations for tender award. A review of the tender documents revealed that one the tenderers was not licensed to operate an aircraft but used the registration certificate of another firm while the other tenderer did not have a valid operator certificate authorizing it to undertake commercial air transport operations. This is contrary to the Civil Aviation (Licensing of Air Services) Regulations, 2018 which prohibits provision of air services by any person that is not licensed by the Kenya Civil Aviation Authority. The Regulations further provides that a license is not transferrable or assignable and also requires prior approval by the Kenya Civil Aviation Authority for any air carrier to use an aircraft from another carrier.

Although the State Department has explained that when issuing the tender document, they did not put it as a mandatory requirement that the bidder must provide a certificate of registration from KCAA, this contravenes Section 94 (3)(c) of the Public Procurement and Disposal Act, 2015 which requires the prequalification document to include instructions on
the preparation of applications to pre-qualify, including any standard forms to be submitted and the documentary evidence and information required from candidates.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1300. Lack of Audit Committee

The appointment of all the Audit Committee Members lapsed on 10 April, 2020 and the State Department has been operating without audit committee in place contrary to Section 73(5) of the Public Finance Management Act, 2012 which requires every national government public entity to establish an Audit Committee whose composition and functions shall be as prescribed by the Regulations. In addition, the outgoing Audit Committee did not hold any meetings during the 2019/2020 financial year contrary to Regulation 179(1) of the Public Finance Management (National Government) Regulations, 2015 which requires the Audit Committee to meet at least once in every three months.

1301. Lack of Risk Management Policy and Disaster Recovery Plan

The State Department did not have a Risk Management Policy and a Disaster Recovery Plan contrary to Regulation 165 of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that a national government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations. This compounds exposure of the State Department’s operations to risks which could impact negatively on achievement of strategic objectives as well as service delivery and accountability of public resources.
Basis for Disclaimer of Opinion

1302. Accuracy of the Arrears of Revenue

The statement of arrears in revenue as at 30 June, 2020 reflects an amount of Kshs.475,147,096. This amount relates to revenues realized from sale of subsidized fertilizer by the National Cereals and Produce Board on behalf of the State Department for Crops Development through an agency agreement signed between the Ministry of Agriculture, Livestock and Fisheries, and the Board. However, the amount of Kshs.475,147,096 reported by the State Department differs with an amount of Kshs.752,363,484 reported as collected in the revenue statements of the National Cereals and Produce Board resulting into an unreconciled difference of Kshs.277,216,388. Further, no evidence has been provided to show how the amount of Kshs.475,147,096 was arrived at.

Under the circumstances, the completeness and accuracy of the reported arrears of revenue amount of Kshs.475,147,096 could not be confirmed.

1303. Failure to Remit Revenue Collected

The statement of comparison of budget and actual amounts reflects a nil budget against receipts of Kshs.475,147,096 for the year 2019/2020. However, as disclosed in Note (a) under the statement, the revenue was not realized because the National Cereals and Produce Board did not surrender the receipts collected to the State Department. However, no proper reason has been given for failure by the National Cereals and Produce Board to surrender the amount collected.

Further, no evidence has been provided to show that the State Department for Crop Development informed the Cabinet Secretary in charge of Finance that it was experiencing difficulties in collecting revenues due to the National Government as required under Regulation 64(2) of the Public Finance Management (National Government) Regulations, 2015.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1304. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1305. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

DONOR FUNDED PROJECTS

KENYA CEREAL ENHANCEMENT PROGRAMME - CLIMATE RESILIENT AGRICULTURAL LIVELIHOOD WINDOW (EU GRANT NO.200000623 EU, GRANT NO.2000001522, IFAD NO. LOAN 2000001121, AND ASAP GRANT NO.2000001122)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1306. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1307. Unutilized Grants to Partner Institutions

During the year under review, and as disclosed in Note 8.12 to the financial statements, the Programme transferred Kshs.828,436,337 to its implementing partners which raised the cumulative remittances as at 30 June, 2020, to Kshs.2,347,418,594 against expenditures totaling Kshs.2,120,881,756. The unused cumulative transfers at the end of the year totaled Kshs.226,536,837.

The balance included Kshs.19,201,752 and Kshs.13,759,895 remitted in 2018/19 to the Centre for Training and Integrated Research in Arid and Semi-Arid Development (CETRAD) and the Kenya Meteorological Department (KMD). Similarly, a sum of Kshs.72,000,000 was transferred to the National Drought Management Authority (NDMA) but only Kshs.10,111,224 was utilized. No plausible explanations have been provided by
the institutions for the failure to utilize all the Programme funds. In view of unsatisfactory absorption rate, the Programme’s objectives may not be attained.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1308. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME (ADF LOAN NO. 2100150028345)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1309. Unaccounted for Opening Cash and Cash Equivalents

As disclosed in Note 9.13A to the financial statements, the statement of financial assets reflects a balance of Kshs.24,519,014 under cash and cash equivalents. However, as previously reported, the opening balance of cash-in-hand of Kshs.21,477,511 had not been fully supported in the previous year. As a result, it is still not possible to confirm the completeness and accuracy of the reported cash and cash equivalents balance of Kshs.24,519,014.

1310. Unreconciled Compensation of Employees Expenses

The statement of receipts and payments reflects a balance of Kshs.7,245,000 under compensation of employees. However, the amount differs with the figure of Kshs.15,085,000 reflected in the Integrated Financial Management Information System (IFMIS) ledger extract for the same expenditure, resulting into an unexplained variance of Kshs.7,840,000.

Consequently, the completeness and accuracy of the compensation of employees’ expenditure totalling Kshs.7,245,000 reflected in the statement of receipts and payments could not be confirmed.

1311. Non-Maintenance of Retention Register and Deposit of Retention Monies

The statement of receipts and payments reflects Kshs.812,853,404 under acquisition of non-financial assets. However, the Project did not maintain a retention register. Examination of payment vouchers indicated that retentions for each certificate were deducted but no funds were set aside to pay contractors upon expiry of the defects liability
period. In the circumstances, it is not possible to confirm how the Project will settle retention amounts when they fall due. Further, lack of retention register distorts the trail of total retention monies deducted and payable to the contractors upon expiry of the defect liability period.

1312. Incomplete Imprest Register

The statement of financial asset reflects a balance of Kshs.1,374,000 under accounts receivables - imprests and advances. The Management failed to maintain a complete imprest register detailing; payee, imprest warrant number, date of issue, due date and date of surrender, contrary to provisions of Regulations 52(1)(j) and 92(4)(c) of the Public Finance Management (National Government) Regulations, 2015.

Further, a scrutiny of imprest records revealed that sixteen (16) issued imprests totalling Kshs.12,956,300 were missing from the imprest register but the same had been captured in the entity’s IFMIS data. No explanation was provided for these discrepancies. The accuracy of the reported balance for accounts receivables – imprest and advances could therefore not be confirmed.

Other Matter

1313. Pending Bills

Notes 10.1 and 10.2 to the financial statements reflects pending bills totalling Kshs.119,295,000 which comprised Kshs.111,455,000 due to suppliers of goods and services and Kshs.7,840,000 due to staff. Management has not provided explanations for non-payment of the bills. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1314. Stalled and Delayed Completion of Projects

1314.1 Construction of Songa Irrigation Scheme in Marsabit County

The Management awarded Contract No. MOALF/DRSLP/T017/2016-2017 for the construction of Songa Irrigation Scheme in Marsabit County to a company at a contract sum of Kshs.84,158,901 (exclusive of VAT). The Project commenced on 11 July, 2017 for a contract period of 12 months envisaged to end on 11 July, 2018. However, the Project status report reflected 40.3% progress of works against a 30 month period as at the time the contract lapsed. The contractor had been paid a total of Kshs.23,581,842 which is 26% of the contract sum.
The Management made an advance payment of Kshs.8,415,890 to the contractor as per payment voucher No.00152 out of which Kshs.1,895,744 had been recovered. Additionally, unconditional bank guarantee amounting to Kshs.8,415,890 held by the entity expired on 14 August, 2018 without further extension. According to the report of the technical team dated 18 March, 2020 (Ref: MOA/ENG/PG/35/1 VOL II/52), the contractor owes the employer Kshs.4,624,402 and the Management does not appear to have made any attempt at recovering this amount considering that the contract period had lapsed and unconditional bank guarantee had expired.

In the circumstances, there is a possibility that the employer may not recover Kshs.4,624,402 from the contractor and stakeholders may not benefit from the irrigation project as earlier envisaged.

1314.2 Construction of Kaptyoni-Kiboi Footbridge Dam in Baringo County

The Project engaged services of a company through Tender No. MOALF/DRSLP/T044/2017-2018 for the construction of Kaptyoni-Kiboi footbridge dam in Baringo County at a contract sum of Kshs.324,563,155 (exclusive of VAT). The Project commenced on 27 June, 2019 for a period of twelve months. However, information available indicates that the contractor was issued with two notices of contract termination, the latest one on 22 April, 2020 (Ref: MOALF/DRSLP/T044/2017-2018/ (51)), due to slow progress of work, despite having been paid an advance of Kshs.32,456,315.

The contractor filed an affidavit to restrain the Management from terminating his contract which was over ruled by the court on 25 June, 2020 (HCCC No. E046 of 2020). The contract has since been terminated and recommended for re-advertisement as per professional opinion No. MOALF&C/SDCD&AR/HQS/16/20-21.

The Management had made an advance payment of Kshs.32,456,315 to the contractor against a performance guarantee which expired on 18 December, 2019 and was not renewed by the contractor in accordance with clause 4.14.1 and 4.15.1 of the General Conditions (GC) of the contract. According to the joint measurement report dated 27 August, 2020, the works done was valued at Kshs.4,337,664 against a contract sum of Kshs.324,563,155 translating to an equivalent of 1.3% completion level. The contractor therefore, owes the Management Kshs.28,118,651.

In the circumstances, the Project may not recover Kshs.28,118,651 owed by the contractor due to non-performance. The slow progress of works also hampers service delivery to the intended beneficiaries of the Kiboi footbridge dam.

1314.3 Nakwapua Commercial Pasture and Demonstration Plot in Turkana County

The Project was awarded to a construction company through Tender No.MOLF/DRSLP/T015/2016-2017 for a contract sum of Kshs.10,227,044 (exclusive of VAT). The contract commenced on 6 June, 2018 for a period of four months. However, the contractor made several requests for extension of the contract period which were
approved and the final completion date extended to 30 November, 2019 after which the contract was to be nullified.

As per Memo Ref No. MOALF/DRSLP/T015/2017-2018/ (17), the execution of works by the contractor has been slow and the contractor abandoned the site towards the end of 2019, besides failing to renew the expired performance bond. As at 30 June, 2020, the contract had been running for 23 months against a physical completion rate of about 42%.

In the circumstances, the slow progress of works delays service delivery to the intended beneficiaries and failure to hold a valid performance bond by the contractor contravenes clause 4.15 of the General Conditions of the contract.

1314.4 Konoo Irrigation Scheme in Turkana County

The Project Management awarded a contract Tender No. MOALF/DRSLP/T011/2017-2018 to a construction company at a contract sum of Kshs.221,507,805 (exclusive of VAT). The Project commenced on 8 June, 2018 for a contract period of 12 months.

On 31 May, 2019, the Contractor applied for extension of time for six months, which was granted on 24 June, 2019 for a period of six (6) months upto 19 December, 2019. On 30 November, 2019, the contractor requested for an additional 6 months extension which was rejected and the contract was recommended for termination as per letter Ref No. MOALF/DRSLP/T011/6/2017-2018/ (101). The measured works was established to be Kshs.59,235,804 or about 27% of the contract sum while the contractor had already been paid a total of Kshs.55,427,734 (about 25% of the contract sum) as at 30 June, 2020 against a timeline of 25 months.

1314.5 Lack of Authority to Incur Expenditure

The statement of Project Management and responsibilities states that the Principal Secretary and the Program Coordinator for the Programme are responsible for ensuring that the financial statements give a true and fair view of the state of affairs as at the year end and of the transactions during the year. It was, however, observed that the State Department, upon receipt of the Exchequer Release of GOK counterpart funding, was not transferring these funds to the Programme`s designated bank account.

Further, the statement of comparative budget and actual amounts reflects a final budget of Kshs.1,081,080,916, which includes transfers from government entities amounting to Kshs.60,034,000 which was not transferred to the Programme`s bank account as required but was in the control of the State Department. In the annual approved estimates of the State Department for 2019/2020, the amount was presented as Capital Grants to Government Agencies and other Levels of Government, whereas it was supposed to be a transfer to the Programme. No explanations were provided for these anomalies.
1315. Goods Procured not Put to Use

The statement of receipts and payments reflects an amount of Kshs.812,853,404 under acquisition of non-financial assets which, includes an expenditure of Kshs.498,032,100 incurred on purchase of fungicides and insecticides. During the financial year under review, the Programme procured chemicals to combat the locust invasion at a total cost of Kshs.609,486,100 from thirteen companies through the restricted tendering process. An amount of Kshs.498,031,100 was paid to the suppliers leaving a balance of Kshs.111,455,000 as pending bills.

Audit inspections of the stores at Kabete on 28 and 29 October, 2020 revealed that the products were still held in the stores several months after delivery. No explanation was provided for non-utilization of the chemicals despite being emergency procurements.

In the circumstances, the substantial expenditure of Kshs.609,486,100 on purchase of chemicals to fight the locust invasion across the country cannot be ascertained as a proper charge to public funds, the products may expire before use and stakeholders may not derive value for money from the procurement process.

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

Basis for Conclusion

1316. Segregation of Duties on Cash Management

During the financial year under review, it was noted that the duties of handling cash, maintaining cashbook, preparation and checking reconciliations were being handled by one person instead of segregating among other officers. No explanation was provided for failure to segregate duties. In the circumstances, key processes and internal controls of the Programme may be prone to risk of abuse, fraud or errors.

1317. Lack of Internal Audit Function

The Internal Audit Unit of the State Department for Crop Development and Agricultural Research is expected to carry out internal control assessments on the Programme’s activities. However, there is no evidence that such assessments were carried out. As a result, the Programme’s internal control environment is weak and the situation has hampered efficient and effective execution of the Programme activities. These include:

i. Non-alignment of operations to the strategy and objectives of the Programme Control Unit’s,

ii. Non-efficiency and non-effectiveness of operational processes,

iii. Lack of standardization and accountability around the Programme’s controls which consequently exposes it to an increased potential for budget overruns, waste and
misuse of resources, and obscures the transparency required to assess the root cause of issues.

1318. Inactive Audit Committee

The Programme`s Audit Committee was constituted by the implementing State Department. However, the Committee did not convene or hold regular meetings during the year as required under Section 73(5) of the Public Finance Management Act, 2012. No internal audit report was tabled or discussed by the Audit Committee.

SMALL-SCALE IRRIGATION AND VALUE ADDITION PROJECT (ADF LOAN NO.2000130014530 AND GRANT NO.5570155000751)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1319. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1320. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.514,964,039 and Kshs.454,216,166 respectively resulting to an under-funding of Kshs.60,747,873 or 12% of the budget. Similarly, the Project expended Kshs.458,241,556 against an approved budget of Kshs.514,964,039 resulting to an under-expenditure of Kshs.56,722,483 or 11% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

1321. Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised based on various stalled and delays in completion of projects, among others. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Public Account Committee has not deliberated on these matters.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1322. Failure to Disclose Special Accounts Movement Schedule

Included under Note 8.13 to the financial statements is a special accounts movement schedule which reflects nil opening balances, deposits and withdrawals during the year under review and nil ending balance as at 30 June, 2020. The special accounts movement schedule is at variance with the special accounts statements prepared by The National Treasury which indicates that an amount of Kshs.69,635,554.08 was withdrawn from the special account and transferred to the Project Account for the same project.

In addition, the Project’s Management has not attached special accounts reconciliation statements prepared by The National Treasury as annexure to the financial statements contrary to the guidelines issued by the Public Sector Accounting Standards Board (PSASB).

The Management is therefore in breach of the Law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1323. Vote Control Procedure – Lack of Authority to Incur Expenditure

As reported in the previous year, the statement of project management and responsibilities states that the Principal Secretary and the Program Coordinator for the project shall ensure that the opinion of the program’s financial statements give a true and fair view of the state of its transactions during the year. However, it was observed that the State Department, upon receipt of the Exchequer release of GOK counter funding, was not transferring the funds received for the project to the designated bank account.

According to the IFMIS report, during the year under review, the State Department of Crop and Agricultural Research had an approved budget of Kshs.34,302,200, however no funds were transferred to the project bank account. Further, all the GOK counter funding was being paid through IFMIS and not the designated projects bank accounts.

According to the presentation of the annual approved estimates, the Project`s funds were presented as Capital Grants to Government Agencies and other levels of Government while they were supposed to be a transfer to the project account. No explanations were provided for non-adherence to the budget and budgetary control measures.
1324. **Incomplete Imprests Register**

The statement of financial asset reflects nil balance for accounts receivables - imprests and advances. However, it was observed that the Management failed to maintain a complete imprests register showing; imprest warrant number, payee, date of issue of imprest, due date and actual date surrendered, contrary to provisions of Regulation 52(1) (j) and 92(4) (c) of the Public Finance Management (National Government) Regulations, 2015.

In addition, examination of the imprest register revealed that imprests had been issued to project officers without being recorded after imprest warrants approvals. The dates and warrant numbers were also not recorded in a chronological order in the imprests register. Further, imprests amounting to Kshs.41,947,130 captured in the cashbook were not recorded in the imprests register.

1325. **None Maintenance of Retention Monies Register**

The statement of receipts and payments reflects an expenditure of Kshs.316,418,882 under acquisition of non-financial assets. However, as reported also in previous years, the project does not maintain a retention register. Examination of payment vouchers revealed deductions of retention for each certificate but no funds were set aside to pay the contractors upon the completion of the defects liability period.

In the circumstances, it was not possible to confirm how the project will pay the retention money when the defects liability period is over. Further, lack of retention register distorts the trail of total retention monies deducted and payable upon the completion of the defects liability period.

1326. **Internal Audit Function, Audit Committee and Overall Governance**

1326.1 **Lack of Internal Audit Review**

The Programme is implemented by the State Department for Crop Development and Agricultural Research. Therefore, the Internal Audit Unit of the State Department is expected to carry out internal control assessments of the Programme’s activities. However, there is no evidence that such assessments have been carried out as yet. As a result, the Programme’s internal control environment may be weak and the situation may have hampered the efficient and effective execution of the Programme activities.

1326.2 **Inactive Audit Committee**

The Audit Committee constituted by the parent State Department did not convene or hold regular meetings during the year as required under section 155(5) of the Public Finance Management Act, 2012. No documentary evidence was provided to show that internal audit reports were tabled or discussed by the Audit Committee.

Consequently, failure by the Audit Committee to perform its duties and convene regular meetings may lead to Internal Audit Function becoming ineffective and, the quality of
internal audit reports and its independence may be compromised for lack of an effective Audit Committee.

RICE - BASED MARKET - ORIENTED AGRICULTURAL PROMOTION PROJECT

REPORT ON THE FINANCIAL STATEMENTS

1327. Unqualified Opinion

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

Emphasis of Matter

1328. Project Closure

During the year under review the Project remained inactive and the only transactions were related to bank charges. The Project ceased operations in the year 2016/2017 but it had not been wound up as required in the financing agreement. The bank account was, however, closed after year end, on 3 October, 2020 and the remaining balance in the account of Kshs.344 was surrendered to the State Department for Crop Development and Agricultural Research.

Further, in the previous financial year, it had been reported that an amount of Kshs.130,980,000 relating to direct payments made by JICA on behalf of the Project remained unsupported. The Principal Secretary consequently wrote to JICA on this matter, and in response, JICA indicated that the Project’s expenditures were audited as part of the Public Expenditure in Japan but certified copies of the said expenditures remained a challenge due to the voluminous physical records. In addition, on 8 November, 2020, in a letter referenced TC-19-(SOV), JICA confirmed an amount of Kshs.164,631,389 as having been direct payments. It is not clear at what point the expenditure increased by Kshs.33,651,389.

My opinion is however not modified based on the effects of the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1329. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1330. There were no material issues relating to effectiveness of internal controls, risk management and governance.

CAPACITY DEVELOPMENT PROJECT FOR ENHANCEMENT OF RICE PRODUCTION IN IRRIGATION SCHEMES IN KENYA- (PROJECT GRANT/CREDIT NO: 1161001009)

Unqualified Opinion

1331. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1332. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.79,737,100 and Kshs.26,065,803 respectively resulting to an under-funding of Kshs.53,671,297 or 67% of the budget. Similarly, the Project expended Kshs.25,797,003 against an approved budget of Kshs.79,737,100 resulting to an under-expenditure of Kshs.53,940,097 or 68% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1333. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1334. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1335. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1336. Pending Bills

Note 8.1 to the financial statements reflects pending bills of Kshs.25,573,348 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1337. GOK Counterpart Funds Contribution

Schedule 2, Section IV Part A (2) of the Financing Agreement specifies the categories of eligible expenditure that may be funded out of the proceeds of the Financing Agreement. It also prescribes the allocation of financing to each project category and the ratio of expenditure to be financed for eligible expenditure in each category. The GOK portion has been set as 9% of the cost of each year’s activities.

However, examination of records revealed that the Government did not deposit in the Project’s bank account the required counterpart funds during the year under review. The Government’s expected counterpart funds contribution translates to a cumulative total of Kshs.587,947,823 being Kshs.7,397,509.77 for 2017/2018, Kshs.99,974,175 for 2018/2019 and Kshs.480,576,139 for 2019/2020 financial years, respectively representing 9% of the total expenditure for the respective financial years.

1338. Failure by Homa Bay County to Contribute to the Project

Schedule 2, Section I Part C (1) of the Financing Agreement requires the Project to enter into a participation agreement with each eligible County Government, detailing mutual responsibilities for the implementation of the program and other terms and conditions as
may be approved by the Association. Further, Section V (6) of the Agreement states that the participating County Governments shall provide the remaining 10% funding for specified elements of the Project.

However, audit of records in respect to transfers from other Government entities during the year under review revealed that Homa Bay County has not remitted the agreed annual sum amounting to Kshs.6,500,000. In the absence of the expected funding, the Project’s objectives in the county are unlikely to be realized.

REPORT ON EFFECTIVENESS INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1339. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA CLIMATE SMART AGRICULTURE PROJECT (IDA CREDIT NO.5945 – KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1340. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1341. Transfers to Government Entities – Kenya Agricultural and Livestock Research Organization (KALRO)

The statement of receipts and payments reflects transfers to Government entities – Kenya Agricultural and Livestock Research Organization (KALRO) totalling Kshs.696,566,833, as further disclosed in Note 10.6 to the financial statements. The balance includes Kshs.152,713,627 disclosed as an advance to KALRO in the previous year’s financial statements, but received and recorded by KALRO in the financial year under review. It also includes transfers totalling Kshs.323,870,014 received and recorded by KALRO in the year under review, and Kshs.219,983,192 received after 30 June, 2020.
1342. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts totalling Kshs.6,206,511,034 against a budget of Kshs.8,221,965,274 resulting in underfunding of Kshs.2,015,454,511 or 25% of the budget. However, the Project spent Kshs.6,077,090,850 against the approved budget amounting to Kshs.8,221,965,274, resulting in an under-expenditure of Kshs.2,144,874,424 or 26% of the budget. Management has attributed the under-utilization of funds and under-expenditure to delay in approval of the Supplementary Budget and late disbursement of funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1343. Loss of Discount and Supply of Faulty Computers

Expenditure records indicate that Kshs.304,132,042 was spent during the year under review on purchase of office furniture and general equipment through a tender awarded to a firm at Kshs.76,040,997.19. The records indicate the firm had offered a discount of Kshs.3,802,050 being 5% of its bid price.

However, on supplying the items, the firm was paid the total contract sum of Kshs.76,040,997.19 without deduction of the discount relied upon in evaluation and award of the tender.

Disregard of the discount offer by Management resulted in loss of public funds totaling Kshs.3,802,050.

Upon supply, the laptops were found to have a faulty start-up system caused by manufacturing defects. Available information indicated that the manufacturer has since agreed to replace the laptops with new ones of higher specification. However, at the time of the audit, this had not been fulfilled.

No plausible explanation has been provided by Management on actions taken to ensure the laptops are replaced by the vendor.

1344. Irregular Procurement of Helicopter Services

The expenditure records further indicate that Kshs.754,734,049 was spent on contingency emergency response on behalf of the State Department for Crop Development. Out of this sum, Kshs.149,680,800 was for hire of helicopter services from two firms appointed through direct procurement method.

However, records for the tendering process were not availed for audit and there was no disclosure of the negotiations, if any, conducted with the winning bidders as required by legal provisions on the direct procurement method.
In addition, no information was provided on how the Evaluation Committee was appointed. Further, the contracts, signed between the Accounting Officer, State Department for Crop Development and the two firms were not availed for audit. As a result, the existence of the contracts could not be confirmed.

Further, no records on requisitions for the use of the helicopters or manifests were availed to indicate the persons ferried and flight routes taken.

Although Management has explained that the World Bank authorized the use of the funds under component 5 – Contingency Emergency Response of the Project, the procurement was done by the State Department for Crop Development.

In view of these anomalies, it is not possible to confirm that value for money was attained on the expenditure totalling Kshs.149,680,800 incurred on hire of the helicopter services from the two firms.

1345. Procurement of Pesticides using Request for Quotations (RFQ) Method

Expenditure records indicate that Kshs.400,000,000 was incurred by the Project on behalf of the State Department for Crops Development to buy pesticides for use in combating locust invasions reported in various Counties in December 2019. The procurement of the pesticides was done in March 2020 and payment to the supplier made on 30 June, 2020.

However, the following anomalies were noted in respect to the procurement:

The firm is not listed in the register for suppliers of the Project or the State Department contrary to Section 105 of the Public Procurement and Asset Disposal Act, 2015.

(i) The estimated value of the goods was more than the prescribed maximum value for requests for quotations as prescribed in procurement regulations which sets a threshold of Kshs.1,000,000;

(ii) The State Department used Request for Quotations method to procure large quantities of pesticides contrary to Section 6.7 of the World Bank Procurement Guidelines and the Public Procurement and Asset Disposal Act, 2015, which only allows use of Request for Quotations for procuring limited quantities of readily available off-the-shelf goods and commodities.

Further, there was no evidence on record to confirm that, as required in Section 106(5)(b) of the Public Procurement and Asset Disposal Act, 2015, the supplier confirmed in writing the receipt of the purchase order issued by the Department.

1346. Fraud in Procurement of Project Land in Nyandarua County

In the audit report for 2018/2019, reference was made to failure by Management to avail the title deed for five acres of land procured for construction of a water pan at Leshau
Pondo Sub-County in Nyandarua County. An audit inspection carried out in November, 2020 confirmed that the Project was defrauded after it procured the land at Kshs.2,273,320 in June, 2019 from a fictitious land owner. Management has explained that the Nyandarua County Executive remitted Kshs.3 million to the Project on 24 June, 2019 to compensate for the loss. However, the remittance was for counterpart funds due from the County for the year ended 30 June, 2019 and would, therefore, not count as a refund.

Management has indicated that the matter has been reported to investigative authorities.

1347. Irregular Use of Special Purpose Account Funds by County Officers

1347.1 Procurement of Toners at Nyeri County

Expenditure records further indicate that Kshs.208,000 was spent by the Project in Nyeri County on purchase of ink tonners. However, the payments were made from Nyeri County special purpose account number 1000364793 maintained at the Central Bank of Kenya. The County Project Management had not approved the payment.

Management explained that the County Project Coordinator had since demanded for a refund from the Chief Officer, Agriculture which, however, had not been made at the time of the audit.

1347.2 Failure to Open the County Operations Account – Laikipia County

Audit review of Project records in Laikipia County revealed that contrary to Paragraph 42 of the Project Financial Manual, which requires each County to open a County Project bank account, no Project operations account was in use in Laikipia County. As a result, all the Project’s transactions were made through a special purpose account.

Failure to operate a separate account has hindered accountability for the Project’s funds.

1347.3 Irregular Procurement of Furniture- Laikipia County

Examination of the payment vouchers and procurement records held at the Laikipia County Project Coordination Unit (CPCU) revealed that the Project procured furniture from a firm at a cost of Kshs.1,523,600. However, the requisition and evaluation report were dated 21 June, 2019 and 19 August, 2019 respectively, while the LPO was dated 18 June, 2019. The records suggested that due process was not followed in the procurement as requisition for items came after the LPO.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1348. There were no material issues relating to effectiveness of internal controls, risk management and governance.

ENABLE YOUTH KENYA PROGRAM – (ADF LOAN NO. 2100150038895)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1349. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1350. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.55,000,000 and Kshs.8,301,820 respectively resulting to an under-funding of Kshs.46,698,180 or 85% of the budget. Similarly, the Project expended Kshs.20,526,750 against an approved budget of Kshs.55,000,000 resulting to an under-expenditure of Kshs.34,473,250 or 63% of the budget. The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

In addition, the Program’s budget implementation report was not presented for audit review and therefore it is not possible to confirm the extent to which budgeted activities were implemented.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1351. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1352. There were no material issues relating to effectiveness of internal controls, risk management and governance.

AGRICULTURAL SECTOR DEVELOPMENT SUPPORT PROGRAMME II (SIDA GRANT NO. 51110109)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1353. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1354. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,676,551,150 and Kshs.1,673,483,117 respectively resulting to an under-funding of Kshs.3,068,033 or 2% of the budget. Similarly, the programme expended Kshs.901,386,553 against the approved budget of Kshs.1,676,551,150 resulting to an under expenditure of Kshs.775,164,597 or 46% of the budget.

The under-absorption affected the planned activities and could have impacted negatively on service delivery for the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1355. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1356. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR CROP DEVELOPMENT

CENTRE OF EXCELLENCE IN SUSTAINABLE AGRICULTURAL AND AGRIBUSINESS MANAGEMENT CREDIT NO.5798-KE - EGERTON UNIVERSITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1357. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1358. Pending Bills

Note 9.1 to the financial statements reflects pending bills balances of Kshs.16,735,684 as at 30 June, 2020. Management has attributed the delays in settling the bills to the effects of Covid-19 due to the temporal closure of offices at the onset of the pandemic. However, the project is at risk of incurring significant interest costs and penalties with the continued delays.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1359. There were no material issues relating to lawfulness and effectiveness in use of public resources.
Conclusion

1360. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STRATEGIC FOOD RESERVE TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1361. Unsupported Sales of Maize

The statement of financial performance reflects an amount of Kshs.7,498,573,576 from sale of maize, which was made to various maize millers, National Government institutions and County Governments by the National Cereals and Produce Board. However, there was no verifiable documentary evidence in support of the identification and approval of the quantity of maize allocated to various millers and institutions including the minutes for approval by the Board.

Consequently, the completeness and accuracy of the proceeds from sale of maize amount of Kshs.7,498,573,576 could not be confirmed.

1362. Overstatement of the Fumigation and Storage Charges

The statement of financial performance reflects expenses totalling Kshs.80,132,222 under fumigation and storage charges which were computed at the rate of Kshs.4.80 per bag based on an average of the opening stock and closing stock. However, the average stock figure of 220,268 bags at the end of the year that was used in computation of the fumigation and storage charges was based on a wrong figure of opening stock of 267,039 bags instead of 178,094 bags. The difference of 88,945 bags between the two figures resulted in overstatement of the closing stock of bags, the average stock of bags and consequently the storage charges by Kshs.2,530,556. The cost of storage and fumigation charges was therefore overstated by Kshs.2,530,556.

1363. Handling Costs on Sales and 10% Commission on Sales

As disclosed in Note 11 to the financial statements, the statement of financial performance reflects an expenditure of Kshs.782,851,081.33 on handling costs on sales and commissions. The amount is normally a commission of 10% of the sales figure.
However, no documentary evidence was provided on sales of maize or the handling charges. The validity of the expenditure therefore cannot be confirmed.

1364. Board Expenses

1364.1 Irregular Payment of Allowances and Benefits to the Former Chairman

The statement of financial performance reflects an expenditure of Kshs.8,463,240 under board expenses which includes an amount of Kshs.844,500 paid to the former Chairman of the Board after expiry of his term. The appointment of the Chairman lapsed on 20 October, 2019 but he continued to receive sitting allowances and honoraria from the Fund irregularly.

1364.2 Unsupported Board Expenses

The board expenses of Kshs.8,463,240 also includes an amount of Kshs.1,622,500 that was not supported by the Board attendance register or minutes of all the Board meetings that were held during the year under review. In addition, an expenditure of Kshs.547,000 was not supported by payment vouchers.

Consequently, the validity and accuracy of the reported Board expenses of Kshs.8,463,240 could not be ascertained.

1365. Gunny Bags Expenditure

The statement of financial performances reflects an amount of Kshs.175,000,000 under gunny bags' expenditure. The National Cereals and Produce Board (NCPB) utilized the funds to procure 800,000 jute bags and 1,175,000 polypropylene bags at a cost of Kshs.133,272,815 and Kshs.38,862,500 respectively, while an expenditure of Kshs.15,508,910 was incurred on re-bagging 1,264,912 bags to conventional stores. However, the cumulative cost of Kshs.187,644,225 varies with the reported figure of Kshs.175,000,000 by Kshs.12,644,225. No reconciliation was carried out by the two entities for the variance of Kshs.12,644,255 which is omitted from the records of the Fund.

Consequently, the expenditure of Kshs.175,000,000 on gunny bags may not be fairly stated.

1366. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.14,500,000 for property, plant and equipment. The amount of Kshs.14,500,000 is in respect of a motor vehicle purchased in May, 2019 and assigned to the Fund Chairman. However, the Chairman did not surrender the motor vehicle back to the Fund when his term expired. Although the Fund had written to the Chairman requesting him to surrender the vehicle, the vehicle was not presented for audit inspection and its existence and status could therefore not be confirmed.
1367. Inventories

The statement of financial position reflects a balance of Kshs.734,802,500 in respect of inventories as at 30 June, 2020. Records provided by the Fund reflected an opening stock balance of Kshs.10,866,433,930 for maize. This was arrived at using both 90kg and 50kgs units of measurement meaning that there was no standard unit of measurement for maize that was used for purposes of valuing stocks. However, the stock analysis provided by the National Cereals and Produce Board reflected maize stock opening balance of Kshs.12,647,036,900 which was arrived at using standard measurement unit of 90kg bag. Although Management explained that the Fund computed its opening stock using purchase price while the Board valued its stock using the standard price, the difference of Kshs.1,780,602,970 in the value of the opening stock reflected by the two entities was not reconciled.

Further, the inventories include powdered milk worth Kshs.700,000,000 as disclosed under Note 14 to the financial statements. According to the Memorandum of Understanding signed in 2016 between the Fund and the New Kenya Co-operative Creameries (KCC) and minutes of meetings of the oversight board, the Fund resolved to transfer Kshs.700,000,000 to New KCC for purchase of surplus milk from farmers for the establishment of a strategic reserve of milk powder. However, although New KCC acknowledged receipt of the funds and recognized the liability as disclosed in its financial statements, it was not holding any stocks of milk powder on behalf of the Fund as at 30 June, 2020.

Under the circumstances, the accuracy and validity of the stock balances could not be confirmed.

1368. Receivables from Exchange Transactions

The statement of financial position reflects a balance of Kshs.8,018,869,437 under receivables from exchange transactions. As disclosed under Note 15 to the financial statements, the amount includes proceeds from sale of imported and local maize on behalf of the Fund by National Cereals and Produce Board (NCPB). However, records on sale of maize during the year were not provided. The validity of the amount of Kshs.1,153,648,823 owing from proceeds from sale of maize could, therefore, not be confirmed.

In addition, the balance of Kshs.8,018,869,437 includes an amount of Kshs.6,865,220,613 relating to receivables from the State Department for Special Programmes which has been outstanding for a long time and whose recoverability was, therefore, doubtful.

Consequently, the accuracy and recoverability of the reported receivables from exchange transactions balance of Kshs.8,018,869,437 could not be confirmed.

1369. Trade and Other Payables from Exchange Transactions

The statement of financial position reflects a balance of Kshs.12,380,355,021 under trade and other payables from exchange transactions and importers of maize creditors. As disclosed in Note 17 to the financial statements, the balance includes
Kshs.10,490,379,467 brought forward from the previous financial year which was not supported by any verifiable records. The breakdown of the figure of Kshs.10,490,379,467 was not provided and differed with the previous year’s audited financial statements balance of Kshs.12,942,778,768 by Kshs.2,452,399,301. Further, the reported balance is net of a prior year adjustment of Kshs.155,709,403 whose nature was not explained or supported.

Consequently, the accuracy of the trade and other payables from exchange transactions balance of Kshs.12,380,355,021 could not be confirmed.

1370. Presentation of the Financial Statements

The financial statements were not prepared in accordance with the requirements of the Public Sector Accounting Standards Board (PSASB). Details about the Management Team are omitted from the financial statements. Further, the summary of significant accounting policies does not include the policy and rate of depreciation used on the Fund’s property, plant and equipment and no depreciation charge was made for the motor vehicle procured during the year. In addition, Management did not prepare a fixed assets movement schedule as prescribed by the Public Sector Accounting Standards Board in the reporting template.

Further, the action taken by the Management on the prior year audit issues has not been disclosed under the progress on follow up of auditor’s recommendation section of the financial statements as required by the Public Sector Accounting Standards Board as the section is omitted from the financial statements.

1371. Inaccuracy of the Financial Statements

1371.1 Comparative Year Balances

The comparative year balances reflected in the financial statements differed with the balances reflected in the audited financial statements as shown below:

<table>
<thead>
<tr>
<th>Financial Statements Component</th>
<th>2018/2019 Audited Balance (Kshs.)</th>
<th>Comparative Figure Reported (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipt from Exchequer</td>
<td>0</td>
<td>6,150,818,866</td>
<td>(6,150,818,866)</td>
</tr>
<tr>
<td>Inventory</td>
<td>11,159,473,495</td>
<td>11,566,433,930</td>
<td>(406,960,435)</td>
</tr>
<tr>
<td>Trade and Other payables</td>
<td>8,770,157,208</td>
<td>6,317,757,907</td>
<td>2,452,399,301</td>
</tr>
<tr>
<td>Capital Reserves</td>
<td>52,737,981,617</td>
<td>36,593,162,751</td>
<td>16,144,818,866</td>
</tr>
<tr>
<td>Accumulated Deficit</td>
<td>42,140,933,166</td>
<td>23,311,754,564</td>
<td>18,829,178,602</td>
</tr>
<tr>
<td>Total Net Assets</td>
<td>10,422,048,451</td>
<td>13,281,408,187</td>
<td>(2,859,359,736)</td>
</tr>
</tbody>
</table>

No disclosure was provided for the restatement of the prior year balances.
1371.2 Statement of Financial Position

The capital reserve balance reported in the statement of financial position reduced from Kshs.36,593,162,751 as at 30 June, 2019 to Kshs.25,927,987,529 as at 30 June, 2020. The variance of Kshs.10,665,175,222 between the two figures was not supported and the amount of Kshs.25,927,987,529 was not included in the statement of changes in net assets.

Further, the accumulated deficit balance of Kshs.19,697,473,400 was also inaccurate since it was derived using the wrong opening balances.

Due to the foregoing, the figure of total net assets and liabilities of Kshs.6,230,514,128 is inaccurate.

1371.3 Discrepancies between Financial Statements and Trial balance

The trial balance for the year ended 30 June, 2020 reflects a total amount of Kshs.56,472,091,348 for both debit and credit balances, which includes an unsupported amount of Kshs.224,072,230 described as adjustment for previous errors. The amount was, however, contra to the general expenses balance of Kshs.34,572,230 and gunny bags expenditure of Kshs.175,000,000,00 reflected in the statement of financial performance and the property plant and equipment balance of Kshs.14,500,000 reflected in the statement of financial position but which were omitted from the trial balance.

In addition, the accumulated funding account of Kshs.36,593,162,751 and accumulated loss of Kshs.30,362,648,623 as at 30 June, 2020 reflected in the trial balance differed with the amounts of Kshs.25,927,987,529 under capital reserves and Kshs.19,697,473,401 accumulated deficit respectively reflected in the statement of financial position.

Consequently, the accuracy of the books of accounts and the financial statements of the Fund could not be confirmed.

1372. Expired Agency Agreement

As previously reported, the Government of Kenya entered into a contract with the National Cereals and Produce Board (NCPB) on behalf of the Strategic Grain Reserve Fund for procurement of maize, storage and management of stocks on 19 October, 2016 for a duration of two (2) years which has since lapsed. However, during the year under review, the National Cereals and Produce Board is indicated to have sold maize worth Kshs.7,498,573,576 while relying on an unenforceable agreement.

1373. Uncertainty about Sustainability of Services

In a letter Ref No CAB/GEN.3/1/1/VOL.XVI (51) dated 19 March, 2020 on the National Cereals and Produce Board and the Strategic Food Reserve Trust Fund reforms, the Cabinet Secretary for The National Treasury and Planning was directed by the Head of Public Service to wind up the Strategic Food Reserve Trust Fund in accordance with

This decision was contested in Court and the Court directed that the winding up process be suspended. However, the term of the Chairman lapsed on 20 October, 2019 while the Fund Manager was recalled by the Ministry of Devolution and ASALs leaving the Fund with no Secretariat. Further, all the cash held at the Fund’s bank account has since been transferred to the Central Bank and the Fund is no longer being funded by The National Treasury.

Consequently, the ability of the Fund to sustain services to the Public is doubtful and subject of the ongoing appeal in the High Court.

1374. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget total income of Kshs.10,787,189,712 and total actual income on comparable basis of Kshs.944,492,499 thus resulting into a shortfall of Kshs.9,842,697,213 or 91%. The statement reflects a budgeted expenditure figure of Kshs.944,492,499 which, is equivalent to the balance of actual expenditure on a comparable basis but differed with the amount of Kshs.10,043,549,374 reflected in the revised budget estimates by Kshs.9,099,056,875.

Consequently, it was not possible to verify the accuracy of the figures reflected in the statement of comparison of budget and actual amounts. In addition, the income deficit and under-expenditure affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1375. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1376. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.
Basis for Qualified Opinion

1377. Long Term Receivables from Exchange Transactions - Loans and Advances

The statement of financial position reflects long term receivables from exchange transactions—loans and advances totalling Kshs.217,264,000. The following observations were made regarding the balance:

1377.1 High Rate of Provisioning on Loans and Advances

As disclosed under Note 16(iv) to the financial statements, the gross loans and advances reflected in the financial statements amounted to Kshs.16,503,648,000 with a total provision of Kshs.15,574,004,000 which translate to 94% of the loans and advances to farmers. Management has not given the basis for the huge provision for the loans.

Consequently, the validity, accuracy and full recoverability of the long-term receivables from exchange transactions - loans and advances totalling to Kshs.217,264,000 could not be confirmed.

1377.2 Non-Performing Loans

Note 16(iv) to the financial statements reflects gross loans and advances amounting to Kshs.16,503,648,000. However, site visits to sampled regional offices and review of documents and records revealed a gross portfolio of Kshs.19,191,900,314 resulting into an unreconciled difference of Kshs.2,688,252,314. In addition, 96% of loans disbursed to the clients were overdue and non-performing as tabulated below:

<table>
<thead>
<tr>
<th></th>
<th>Amount Advanced (Kshs.)</th>
<th>Total Outstanding (Kshs.)</th>
<th>Total Overdue (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nakuru</td>
<td>64,865,878</td>
<td>48,720,933</td>
<td>47,215,768</td>
</tr>
<tr>
<td>Kisumu</td>
<td>16,825,539,534</td>
<td>18,901,620,139</td>
<td>18,197,684,206</td>
</tr>
<tr>
<td>Kericho</td>
<td>489,226,981</td>
<td>108,360,681</td>
<td>94,500,746</td>
</tr>
<tr>
<td>Eldoret</td>
<td>246,410,379</td>
<td>133,198,562</td>
<td>97,360,358</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17,626,042,772</strong></td>
<td><strong>19,191,900,315</strong></td>
<td><strong>18,436,761,077</strong></td>
</tr>
</tbody>
</table>

Further, no concrete efforts appear to have been made towards the recovery of the long outstanding balances and no documented criteria of appraising the borrowers and monitoring loan utilizations was provided.
Consequently, the validity, accuracy and completeness of the long-term receivables from exchange transactions - loans and advances totalling to Kshs.217,264,000 could not be confirmed.

1377.3 Unsecured Loans to Intermediaries/Expired Loan Agency Agreements

A review of loans data disbursed through intermediaries indicated that the Fund held a total of Kshs.18,875,168,260 in arrears. These loans were issued to farmers by intermediaries on behalf of the Fund. The loan agency agreements were signed between the Fund and the intermediaries without any other security or collateral attached to the Fund. However, it was observed that the agreements held by the Fund were not valid as the timespan had lapsed. In addition, there was no existing collateral to cushion the Fund against default and thus there was risk of losing the outstanding amounts secured by the lapsed agency and tripartite agreements.

Consequently, the recoverability of the current and long-term receivables from exchange transactions - loans and advances totalling to Kshs.712,379,000 and Kshs.217,264,000 respectively could not be confirmed.

1377.4 Unreconciled Inter-Fund Transaction

As disclosed under Notes 16(iii) and 16(iv) to the financial statements, the statement of financial position’s total loan balance of Kshs.929,643,000 which comprises both current and non-current balances includes a gross balance of Kshs.1,153,280,952 relating to receivables from Agricultural Finance Corporation comprising of Kshs.1,101,581,612 and Kshs.51,699,340 for sugar and coffee loans respectively. However, confirmation of records from AFC reflects that the entity owes the Fund Kshs.9,515,756 resulting to an un-reconciled balance of Kshs.1,143,765,196.

Consequently, the validity, accuracy and completeness of the current and long-term receivables from exchange transactions-loans and advances totalling to Kshs.712,379,000 and Kshs.217,264,000 respectively could not be confirmed.

1378. Unrecovered Fund Transferred to the Ministry of Agriculture, Livestock and Fisheries

As disclosed under Note 17 to the financial statements, the statement of financial position reflects receivables from non-exchange transactions of Kshs.46,055,000 which includes Kshs.40,000,000 transferred to the parent Ministry during the financial year 2016/2017. According to memos Ref: MOA/SDA/SC/40A dated 18 January, 2017 and Ref: MOALF/CORP/11/23/2 of 9 May, 2017, the Ministry was to reimburse these funds once the National Treasury released its budgeted funds for the year. However, the Ministry failed to reimburse the disbursements to the Fund.

In the circumstances, the accuracy and full recoverability of receivables from non-exchange transactions of Kshs.46,055,000 could not be confirmed.
1379. Loan Repayments - Payment Received in Advance

As disclosed under Note 21 to the financial statements, the statement of financial position reflects trade and other payables from exchange transactions (creditors and accruals) totalling to Kshs.24,391,000. The amount includes payments received in advance of Kshs.10,643,000 which constitutes an amount of Kshs.5,527,735, being unidentified loan repayments, which were received by the fund but could not be linked to specific borrower/farmer accounts. The supporting schedules indicated that the amount was a cumulative figure from the year 2011 to 2020.

Further, the amount of Kshs.10,643,000 includes overpayment on loans and advances amounting to Kshs.5,115,510, which could not be traced to individual farmers. No satisfactory explanation was provided on why the amounts had not been reconciled to their respective debtors.

Consequently, the completeness and accuracy of the trade and other payables from exchange transactions (creditors and accruals) totalling to Kshs.24,391,000 could not be confirmed.

1380. Unconfirmed Expenditure on Maintenance of an ERP

As disclosed under Note 12 to the financial statements, the statement of financial performance reflects expenditure of Kshs.10,685,000 under repairs and maintenance. The amount includes Kshs.4,535,734 described as office and communication equipment but which related to payment for an annual software renewal and support fee paid to a vendor.

However, the entity had not upgraded its Enterprise Resource Planning (ERP) to the latest available version and was using a previous version of the ERP which was less suited for the Fund’s current needs and is prone to internet vulnerabilities. This is in spite of contractual obligations of Kshs.2,000,000 annual mandatory payments to the service provider for Business Ready Enhancement Plan subscriptions as outlined in the contract. The corresponding receipts from the vendor for the payment of the annual subscriptions were not provided for audit.

Under the circumstances, the accuracy and validity and value for money on the expenditure of Kshs.4,535,734 could not be confirmed.

1381. Irregular Appointment of Board Members

As disclosed under Note 10 to the financial statements, the statement of financial performance reflects remuneration to trustees amounting to Kshs.17,738,000 which includes an amount of Kshs.4,280,000 paid to six members of the Board of Trustees and Ministry representatives whose letters of appointment were not provided for audit review.

Consequently, the appointment of the four Board Members and the validity of the expenditure amounting to Kshs.4,280,000 could not be confirmed.
Other Matter

1382. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.598,622,000 and Kshs.481,165,000 respectively resulting to an under-funding of Kshs.117,457,000 or 20% of the budget. Similarly, the Fund expended Kshs.562,846,000 against an approved budget of Kshs.584,704,000 resulting to an under-expenditure of Kshs.21,858,000 or 20% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

1383. Unresolved Prior Year issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Public Accounts Committee has not deliberated on the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1384. Un-Approved Remuneration Structure

As disclosed under Note 9 to the financial statements, the statement of financial performance reflects employees' costs amounting to Kshs.96,085,000 which includes salaries and wages, housing benefits and allowances, pensions contributions and medical aids. However, the salary structure and scale on payment of employees’ salaries and allowances used by the Fund was not approved by the Salaries and Remuneration Commission contrary to Article 230(4) (b) of the Constitution which provides that the powers and functions of the Salaries and Remuneration Commission shall be to advise the National and County Governments on the remuneration and benefits of all other public officers.

Consequently, the Management is in breach of the law.

1385. Non-Compliance with the National Cohesion and Integration Commission Act, 2008

As reflected under Note 9 to the financial statements, the statement of financial performance reflects employee costs amounting to Kshs.96,085,000. The amount comprises of salaries and wages, housing benefits and allowances, pensions
contributions and medical aids. However, out of the fifty-six (56) regular employees of the Fund, twenty (20) representing 36% of the total employees were from one ethnic community contrary to the provision of Section 7(2) of the National Cohesion and Integration Commission Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Management is in breach of the law

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1386. Laxity in Implementation of Off-site Back-up

Site visit to the offsite back-up on 22 March, 2021 revealed the following:

(i) The offsite back-up server was placed in an open area wherein the stipulated requirements for physical access and environmental conditions for server installations including manufacturers design temperature and humidity conditions cannot be implemented,

(ii) Security Parameters governing access to the server were not defined and did not meet the minimum standards implemented at the head office,

(iii) The server was placed in an open area with no controlled access,

(iv) The building in which the server is located does not belong to the entity,

(v) Access to the server is not monitored and physical access logs were not maintained.

In the circumstances, the entity risks loss of valuable sensitive data and the offsite servers are prone to theft and unwarranted destruction.

1387. IT Internal Control and IT Governance Weaknesses

During the year, the Fund had the following IT internal control weaknesses: -

(i) The Fund had not established an IT Strategic Committee, an IT Steering Committee and has not undertaken any trainings of ICT Staff during the audit period.

(ii) Further, no fire extinguishers have been installed in the Eldoret and Nakuru Branches; the entity was relying on extinguishers installed by the building owners to which they have no control of maintenance.
(iii) The Fund has a local area network (LAN) installed in their regional offices. However, a visit to the sampled regions revealed that some of the offices were not using the LAN for internet connectivity since officers were not aware about the functionality. In case of downtime with WIFI, officers had to wait for resumption of WIFI so as to be able to access and use the system.

(iv) The audit observed 5 computers (Coded 000474, 000005, 000022 and 000024) with no UPS Back-ups. All desktop computers at the Nakuru and Eldoret Branches have no power backups installed.

(v) Management did not undertake proper training and sensitization on ICT functionality. Lack of continuous training in ICT hinders the ability of the entity to benefit from ICT solutions in achieving its mandate.

Consequently, IT governance and IT internal controls were not adequate or effective.

1388. Functionality of the Board of Trustee

As previously reported, the Crops Act, No.13 of 2013, which created the Fund did not spell out clearly the mandate of the Fund’s Board of Trustees as well as its powers and responsibilities. The Fund is not established as a body corporate having perpetual succession and a common seal and may not, in its corporate name, sue and be sued, which hinders its operations. Consequently, the Fund’s Board of Trustees ability to work independently and effectively in the absence of clear laws on its mandate, powers and responsibilities is doubtful.

AGRICULTURAL INFORMATION RESOURCE CENTRE REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1389. Employee Costs

The statement of financial performance reflects an expenditure of Kshs.2,882,898 for employee costs which, as disclosed at Note 5 to the financial statements, comprised of Kshs.1,899,998 and Kshs.982,900 incurred on casual workers' wages and daily subsistence allowances respectively. However, the Fund did not maintain a master roll to record attendance and wage details for the casual employees. Further, the daily subsistence allowance payments included an amount of Kshs.550,000 that was not supported with schedules or any other verifiable documents.
Consequently, it was not possible to confirm the accuracy and validity of the expenditure of Kshs.2,882,898 on employee costs.

1390. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.1,364,819 under property, plant and equipment which differs with the net book value balance of Kshs.5,539,640 reflected under Note 13 to the financial statements by Kshs.4,174,821. Further, it is not possible to ascertain how the balance of Kshs.5,539,640 was arrived at as depreciation, additions and disposal for the financial year 2019/20 are not reflected in Note 13 to the financial statements. In addition, the statement of financial performance reflects an expenditure of Kshs.1,539,640 for depreciation and amortization but the same is omitted from the fixed assets movement schedule in Note 13 to the financial statements.

Under the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.1,364,819 could not be confirmed.

1391. Undisclosed Imprests

Information available indicated that the Fund had outstanding imprests amounting to Kshs.811,840 which remained unsurrendered as at 30 June, 2020. However, the outstanding imprests were not included in the receivables from exchange transactions balance of Kshs.7,053,619 disclosed in the statement of financial position. Further, the outstanding imprests balance of Kshs.811,840 included Kshs.436,640 owed by former employees who had retired or passed on casting doubt on their recoverability.

Consequently, the completeness and accuracy of receivables from exchange transactions balance of Kshs.7,053,619 could not be ascertained.

1392. Unexplained Differences Between the Financial Statements and the Trial Balance

The statement of financial performance reflects a depreciation charge of Kshs.1,539,640 while the trial balance provided for audit did not reflect the depreciation charge for the year. Further, the reserves and accumulated surplus balances totalling Kshs.8,193,313 reflected in the trial balance differed with the statement of changes in net assets and statement of financial performance balances of Kshs.3,047,795 and Kshs.8,295,785, respectively. In addition, included in the trial balance is an amount of Kshs.3,087,980 for opening stock as at 1 July, 2019 which differs with the statement of financial position’s closing stock balance of Kshs.2,095,540 as at 30 June, 2019 by Kshs.992,440.

The statement of financial performance also reflects an amount of Kshs.3,879,566 in respect of purchase of goods while the ledger/trial balance reflects an amount of Kshs.4,376,456. The difference of Kshs.496,890 between the two sets of records has not been explained or reconciled.
1393. Inaccuracy of Statement of Financial Position

The statement of financial position reflects an amount of Kshs.1,598,650 for inventories which differs with the stock-take valuation report figure of Kshs.1,232,000 by Kshs.366,650. The variance of Kshs.366,650 has not been reconciled. Further, the statement of financial position reflects a balance of Kshs.1,904,667 under current liabilities but there was no Note disclosing the amount and the balance was also not supported by a schedule or any other verifiable records.

Consequently, the accuracy, completeness and validity of the balances reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

1394. The Statement of Changes in Net Assets

The statement of changes in net assets reflects capital reserves and accumulated surplus balances of Kshs.2,761,802 and Kshs.285,993 respectively. However, the closing balances as at 30 June, 2018 were omitted from the opening balances as at 1 July, 2018. Further, the changes in reserves and accumulated surplus for the 2018/2019 financial year were omitted from the statement of changes in net assets.

Consequently, the completeness and accuracy of the balances of Kshs.2,761,802 and Kshs.285,993 reflected in the statement of changes in net assets under reserves and accumulated surplus respectively as at 30 June, 2020 could not be ascertained.

1395. Statement of Cash Flows

The statement of cashflows reflects a net cash flow from operating activities amount of Kshs.1,825,633 which differs with the amount of Kshs.9,753,618 in Note 14 to the financial statements by Kshs.7,927,985. The variance has not been reconciled. Further, the statement reflects net cash flows used in investing activities amounting to Kshs.1,668,388 which is computed based on incorrect comparative balances.

Consequently, the accuracy of the balances reflected in the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

1396. Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects final budgeted total income of Kshs.41,400,000 and total budgeted expenditure of Kshs.30,604,000. The IFMIS reports for the State Department for Crop Development indicated that the approved budget estimates for the Fund was Kshs.36,828,494 while the vote book reflected a total budget utilization of Kshs.31,473,095. The variances between the financial statements and the records at the parent Ministry were not explained.

In addition, the statement of comparison of budget and actual amounts reflects actual total income on comparable basis of Kshs.27,672,728 and total expenditure of Kshs.22,548,410 which differed with the figures reflected in the statement of financial
performance of Kshs.12,412,107 under total revenue and Kshs.12,126,114 under total expenses by Kshs.15,260,621 and Kshs.10,422,296 respectively.

Under the circumstances, the accuracy of the statement of comparison of budget and actual amounts could not be confirmed.

1397. Comparative Year Figures

The comparative year balances differed with the 2018/2019 audited financial statements for all the components of the financial statements. However, no schedules were provided for audit to support the restated balances and there were no disclosures included in the financial statements to explain the restatement of the prior year balances.

Other Matter

1398. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1399. Engagement of Casual Employees

The Fund engaged five (5) employees on temporary basis on a three months’ renewable contract commencing on 1 October, 2019 and they served the entity for a continuous period of more than one year. However, the terms of employment were not converted, contrary to Section 37 of the Employment Act, 2007 which provides for conversion of the casual employment to regular employment terms for employees who have worked in an entity continuously for more than two months.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1400. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1401. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1402. Non-Disclosure of Pending Bills

Note 16.1 to the financial statements reflects nil pending bills as at 30 June, 2020. However, a review of records revealed that the State Department had unpaid invoices amounting to Kshs.63,086,659 but the bills have not been disclosed in the financial statements for the year ended 30 June, 2020.

1403. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.4,775,480,754 and Kshs.4,043,010,382 respectively resulting to an under-funding of Kshs.732,470,372 or 15% of the budget. Similarly, actual expenditure amounted to Kshs.4,016,165,538 against the approved budget of Kshs.4,775,480,754 resulting to an under-expenditure of Kshs.759,315,216 or 16% which occurred mainly under transfers to other government units. The shortfall in budgeted receipts and under-expenditure implies that the overall goals and objectives of the State Department were not achieved as planned, impacting negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1404. Lack of Monthly Progress Reports on On-going Construction Contracts

The statement of receipts and payments reflects an expenditure of Kshs.4,016,165,538 for the year ended 30 June, 2020, out of which payments amounting to Kshs.1,850,676,485 related to contracts awarded to various firms for provision of goods and services to the State Department. However, evidence of preparation and submission to the Accounting Officer of monthly progress reports of all procurement contracts of the procuring entity as required under Section 152 of the Public Procurement and Asset Disposal Act, 2015 was not provided.
1405. Proposed Constructions of Laboratory Works and Re-Construction of Perimeter Fence and Extension of Monitoring Control Surveillance Centre at Fish Quality Control Laboratory, Mombasa

The State Department entered into two contracts for the above constructions on 4 June, 2019. One firm was awarded a tender for construction of laboratory works and re-construction of perimeter fence at a contract sum of Kshs.13,068,100 while the other firm was awarded a contract for construction of the proposed extension of monitoring control surveillance centre at a contract sum of Kshs.42,750,432 for a period of twelve weeks. Audit verifications carried out on 12 November, 2020 revealed that the first contract for the proposed laboratory works and reconstruction of perimeter wall had been completed but the second one was still on-going.

In the circumstances, the second contractor was in breach of the contract agreement signed with the State Department and no action had been taken to fully enforce the contract.

1406. Proposed Construction Works at Gazi Fish Landing Site, Kwale County - Tender Contract No. MOALF&I/SDF&BE/017/2018-2019

The State Department entered into a contract for the proposed construction works of fish landing site at Gazi, Kwale county on 30 May, 2019 for a contract period of 25 weeks and a contract sum of Kshs.39,618,320. The Bills of Quantities specified preparation and application of one coat touch up premier, one undercoat and two finishing coats of approved premium quality marine paint on metal surfaces by the contracted firm.

An audit inspection on 13 November, 2020 revealed that the building had been roofed, steel doors installed, and a fresh coat of paint applied. However, the steel doors of the main entrance had started to rust, an indication that the paint used was of low-quality contrary to Element No. 9 (A) of the Bills of Quantities for the proposed construction works.

Further, adjacent to the construction site was another building serving the same purpose and which had been commissioned on 13 October, 2020 by the County Government of Kwale. This site had been deserted with minimal activities going on. Although the State Department has clarified that the Department was constructing a seaweed store, drying rack and sheds at the site, this was contrary to the contract signed for construction of a fish landing site comprising a jetty, cold storage store, ablution block, mechanical and electrical works.

1407. Proposed Construction of Canteen, Ablution Block and Sentry at Shimoni, Kwale County Tender Contract No. MOALF&I/SDF&BE/023/2018-2019

The State Department signed a contract with a firm on 4 June, 2019 for construction of a canteen, ablation block and sentry at Shimoni, Kwale County at a contract sum of Kshs.41,515,445 for a contract period of 25 weeks.
An audit inspection conducted on 13 November, 2020 revealed that the construction of the ablution block had been done up to roofing level, wall plastering, installation of two door frames for main entry to washrooms done; while the sentry was up to roofing and plastering level. Further, the canteen which was designed to be a one storey building had walling done up to the upper floor lintel area. However, there was no contractor on site and the site appeared to have been abandoned, an indication that the project had stalled. Information available indicated that the project might not continue as the area was earmarked for construction of a major port, an indication that proper feasibility study had not been done before commissioning the project. In addition, the contractor had been paid a total of Kshs.9,673,795 or about 23.3% of the contract sum before the project stalled.

In the circumstances, stakeholders may not get value for money from the project and the expenditure incurred as earlier envisioned.

1408. Proposed Renovations and Rehabilitation Works at the Kibuyuni Fish Landing Site, Kwale County Tender Contract No. MOALF&I/SDF&BE/018/2018-2019

The State Department signed a contract with a firm on 30 May, 2019 for renovations and rehabilitation works at Kibuyuni Fish Landing Site, Kwale County at a contract sum of Kshs.48,924,444 for a period of 24 Months. An audit inspection conducted on 13 November, 2019 revealed construction works of a new building at the project site contrary to the signed contract for renovations and rehabilitation works for the existing building.

Further, despite violation of the contract agreement, construction of the new building had stalled at lintel level and the contractor appears to have abandoned the site after being paid Kshs.9,363,424. No explanation was given why the works were not ongoing or the viability of this project. In the circumstances, the stakeholders may not get value for the resources already spent.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1409. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REVENUE STATEMENTS OF THE STATE DEPARTMENT FOR FISHERIES, AQUACULTURE AND THE BLUE ECONOMY

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

1410. Unreconciled Revenue Variances

The statement of receipts and disbursements reflects an amount of Kshs.86,835,722 under other receipts. However, the balance differs with the amount of Kshs.117,045,464 reflected in records maintained by the State Department for Fisheries, Aquaculture and the Blue Economy for licenses issued and paid for in the financial year 2019/2020. No explanation or reconciliation has been provided for the difference of Kshs.30,209,742 between the two sets of records.

As a result, the completeness and accuracy of the revenue statements for the year ended 30 June, 2020 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

Basis for Conclusion

1411. Failure to Submit Monthly Revenue Reports

Contrary to Section 76 (3) of the Public Finance Management Act, 2012, which requires a receiver of revenue for the National Government to provide monthly statements to The National Treasury and the Commission on Revenue Allocation, the State Department did not submit monthly statements as required.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1412. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECTS

KENYA MARINE FISHERIES AND SOCIO-ECONOMIC DEVELOPMENT PROJECT (IDA CREDIT NO. V1310-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1413. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1414. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.65,276,755 against a final budget of Kshs.110,000,000 resulting in underfunding of Kshs.44,723,245 or 41% of the budget. Similarly, Management spent Kshs.53,686,421 against the approved budget of Kshs.110,000,000 for the year then ended, resulting in an under expenditure of Kshs.56,313,579 or 51% of the budget. The Management has attributed the under expenditure and under-utilization of funds to Covid-19 restrictions.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1415. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1416. There were no material issues relating to effectiveness of internal controls, risk management and governance.
AQUACULTURE BUSINESS DEVELOPMENT PROGRAMME (IFAD LOAN NO.2000002052)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1417. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1418. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.318,921,886 against final receipts budget of Kshs.582,010,073, resulting in underfunding of Kshs.263,088,187 or 45% of the budget. Further, Management spent Kshs.329,718,993 against the final payments budget of Kshs.582,010,073 resulting in an under expenditure of Kshs.252,291,080 or 43% of the budget. The Management has attributed the under expenditure to delay in procurement of consultancy services and Covid-19 restrictions.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

1419. Pending Bills

As disclosed under Note 9.1 to the financial statements and analyzed in Appendix 2A to the financial statements, the Programme had pending bills totalling Kshs.44,563,997 for supply of services as at 30 June, 2020. It has not been explained why the pending bills were not cleared by the end of the year yet the Programme had a cash and cash equivalents balance of Kshs.79,886,346 as at 30 June, 2020.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1420. Non-Compliance with the Public Procurement and Asset Disposal Act, 2015

The statement of receipts and payments reflects acquisition of non-financial assets of Kshs.41,873,958. Included in the balance is Kshs.7,437,471 incurred on procuring and installing an accounting software. The approved budget for the procurement of the
software was Kshs.5,763,000. However, Management used restricted tendering and awarded the tender to the firm that quoted Kshs.7,437,471.60 instead of the lowest evaluated bidder of Kshs.4,240,960 as per tender opening committee.

Management did not avail supporting documents for use of restricted tending, why the bid price was more than the budget and evidence showing that the unsuccessful bidders was notified. This is contrary to Section 87(3) of the Public Procurement and Asset Disposal Act, 2015.

Consequently, Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1421. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1422. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1423. Unresolved Prior Year Matters

The audit report for the year ended 30 June, 2019 highlighted several unsatisfactory matters. Contrary to the reporting format prescribed by the Public Sector Accounting Standards Board, Management has not provided disclosure on progress made in resolving these issues. As a result, the matters are considered as unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1424. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1425. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECT

MWEA IRRIGATION DEVELOPMENT PROJECT (LOAN NO. KE-P27)—NATIONAL IRRIGATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

Other Matter

1426. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,688,298,238 and Kshs.1,840,180,846 respectively, resulting to an under-funding of Kshs.848,117,392 or 32% of the budget. Similarly, the statement reflects expenditure budget and actual on comparable basis of Kshs.2,688,298,237 and Kshs.2,003,720,918 respectively, resulting to an under expenditure of Kshs.684,577,319 or 25% of the budget.

The underfunding and under expenditure affected the Project’s planned activities, and the intended objectives of the Project may not have been achieved.

1427. Pending Bills

According to Note 9 to the financial statements, the Project had pending accounts payables totalling to Kshs.393,538,446 which constitutes Kshs.248,429,361 in respect of pending bills and Kshs.152,563,135 being retention monies for which the defect liability period has not lapsed. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment of the pending bills amounting to Kshs.248,429,361.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1428. Delayed Payments to Contractors

Review of the Project’s records revealed significant delays in the approval and processing of payments to the contractor, contrary to the fifty-six (56) days maximum period provided
for under the general conditions of the contract. This resulted to claims amounting to Kshs.18,090,196 related to financing charges, and Kshs.11,767,294 related to breach of contracts on civil works for the Project, all totaling Kshs.29,857,490. The delayed payments, resulted to termination of the contract for civil works on irrigation and drainage facilities, by the contractor on 22 January, 2020. The contract, which had been awarded to the contractor on 26 August, 2016 at a contract sum of Kshs.3,534,724,981, was at 43% completion status at the time of termination. According to the Project Management, the remaining works were retendered and awarded to two (2) contractors. However, at the time of this audit in February, 2021, the works had not commenced. The penalties and financing charges paid were a wastage of public resources which could have been avoided

Consequently, there was lack of value for money in the expenditure and ineffective use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1429. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1430. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1431. Pending Bills

Note 13.1 to the financial statements reflects pending bills amounting to Kshs.1,615,300 that were not settled in the year under review but were carried forward to 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1432. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1433. Non-Functional Audit Committee

The State Department for Agricultural Research constituted an Audit Committee during the year under review. However, the Audit Committee did not convene any meeting during the year, contrary to Regulation 179 of the Public Finance Management (National Government) Regulations, 2015 which requires an Audit Committee to meet at least once in every three (3) months.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1434. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1435. Project Completion Status

According to the financing agreement dated 23 July, 2014, (Schedule II - Conditions of the Grant Agreement) the Project ought to have been concluded by 30 June, 2017. The grant period was, however, extended through a letter from AGRA dated 19 February, 2018, for a period of six months effective from January to June, 2018, after which the unspent fund balance was to be refunded to AGRA. Further, the Project has ceased operations and has not been active for over two years while the handing over of the Project and its assets to the parent Ministry of Agriculture, Livestock, Fisheries – State Department for Agricultural Research has not been done.

In addition, the unspent amount of Kshs.7,315,322 has not been surrendered to AGRA contrary to Clause 7 of the Financing Agreement which states that, “any unused grant funds not spent or committed for purposes of the Project must be promptly returned to the donor at the end of the grant period”.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1436. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1437. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SUPPORTING AGRICULTURAL INPUT AND OUTPUT MARKETING POLICY AND REGULATORY REFORMS TO IMPROVE THE ENABLING BUSINESS ENVIRONMENT FOR AGRICULTURE IN KENYA PROJECT (AGRA GRANT NO. 2018 KE 005)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1438. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1439. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.63,000,000 and Kshs.31,262,158 respectively, resulting to an under-funding of Kshs.31,804,972 or 50% of the budget. Similarly, the Project expended Kshs.8,189,489 against an approved budget of Kshs.63,000,000 resulting to an under-expenditure of Kshs.54,810,511 or 87% of the budget. The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1440. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1441. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1442. Bank Balances

As disclosed in Note 9A to the financial statements, the statement of financial position reflects a bank balance of Kshs.58,902,878 as at 30 June, 2020. Included in the bank balance is an amount of Kshs.4,292,758 under deposits account which differs with the deposits account cash book balance of Kshs.4,340,606 resulting to unreconciled difference of Kshs.47,848.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the bank balances of Kshs.58,902,878 as at 30 June, 2020.

1443. Unsupported Accounts Payables

The statement of financial position reflects a balance of Kshs.54,941,174 under accounts payables, which as disclosed in Note 11 to the financial statements, includes an amount of Kshs.4,292,758 for deposits whose supporting documents were not provided for audit verification. Further, no evidence has been provided to support the movement from the balance of Kshs.7,758,732 reported in the previous year to Kshs.4,292,758 as at 30 June, 2019.

The accounts payables balance also includes an amount of Kshs.50,648,416 described as liquidation which further includes an amount of Kshs.8,994,650 described as EFT Collections and Co-operative Bank of Kenya Limited payments. Supporting documents for the latter balance of Kshs.8,994,650 were not availed for audit review.

Consequently, the accuracy and completeness of the accounts payables balance of Kshs.54,941,174 as at 30 June, 2020 could not be confirmed.

1444. Un-Supported Prior Year Adjustments

The statement of financial position reflects a balance of Kshs.11,965,084 under prior year adjustment which includes an amount of Kshs.11,757,520 described as deposit account. Management has not provided analysis and supporting documents for the latter balance.

Other Matter

1445. Unaccounted Transfers to Other Government Units

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.4,436,200,000 under transfers to other government entities
which includes amounts of Kshs.235,905,479 and Kshs.2,764,094,521 transferred to Kenya Planters Co-operative Union Limited (under Liquidation) and the New Kenya Planters Co-operative Union Limited (NKPCU) respectively. However, the Corporations did not submit for audit the financial statements for the year 2019/2020 accounting for the grants and transfers totalling Kshs.3,000,000,000 from the State Department.

1446. Budgetary Control and Performance - Late Exchequer Releases

The statement of receipts and payments indicates that the State Department for Co-operatives received a total of Kshs.4,817,602,719 in form of Exchequer releases during the year under review. However, two (2) Exchequers issues totaling Kshs.35,597,445 were released from The National Treasury on 25 June, 2020 and 30 June, 2020. Late release of Exchequer issues could have affected the Department’s budget performance and execution for the year ended 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1447. Irregular Procurement of Goods and Services

The statement of receipts and payments for the year ended 30 June, 2020 reflects an expenditure of Kshs.171,965,608 under use of goods and services. However, the State Department did not advertise for the pre-qualification of suppliers for goods and services totaling Kshs.41,154,499 as required by Section 93 of the Public Procurement and Asset Disposal Act, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1448. Failure to Constitute an Internal Audit Committee

The Management of the State Department did not provide for audit verification the minutes of meetings for the Audit Committee for the financial year ended 30 June, 2020 to confirm that the Department had an independent Audit Committee as required under Section 73(5) of the Public Finance Management Act, 2012. In the absence of a functioning Audit Committee, monitoring and review of the effectiveness of internal controls for the State Department could not be adequately undertaken.

In addition, the Management did not provide for audit verification evidence of audits carried out by the internal audit as per the approved 2019/2020 audit plan including internal audit reports for the year ended 30 June, 2020.
1449. Lack of ICT Strategic Committee

During the year under audit, it was observed that there was no Information Technology Strategic Committee in place for the financial year ended 30 June, 2020. Although Management wrote to the Ministry of Information, Communication and Technology on 5 August, 2019 requesting for Senior ICT officers, no evidence was provided during the audit of the action taken by the Ministry of Information, Communication and Technology or evidence of any follow up from the Department for Co-operatives on the same. Failure to establish an Information Technology Strategic Committee could result in information technology governance being overlooked as part of the State Department's governance.

CO-OPERATIVE SOCIETIES LIQUIDATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1450. Failure to Submit Financial Statements

The Management of the Fund did not prepare and submit for audit the financial statements and did not maintain the books of accounts for the Fund for nine (9) years ended 30 June, 2004 to 30 June, 2012. This was contrary to the requirements of Section 19(3) of Co-operative Societies Act which requires that the Fund shall be audited annually by the Auditor-General.

In the circumstances, the accuracy of the opening balances could not be confirmed.

1451. Unresolved Prior Year Audit Matters

The following prior year audit matters remained unresolved as at 30 June, 2020:

1451.1 Late Submission of Financial Statements

The financial statements of the Fund for the financial years ended 30 June, 2013 to 30 June, 2019, were submitted for audit on 24 February, 2020 contrary to the provisions of Section 68 (2)(k) of the Public Finance Management Act, 2012 which requires an Accounting Officer to prepare annual financial statements for each financial year within three months after the end of the financial year.

1451.2 Unsupported Balances

As reported in the previous year, supporting documents including cash books, ledgers, trial balances and bank confirmation certificates in support of the cash and cash
equivalents and liquidation fund capital balances reflected in the statement of financial position as at 30 June, 2013 to 30 June, 2018 were not provided for audit.

Consequently, the accuracy of the reported balances could not be confirmed.

1451.3 Incomplete Set of Financial Statements

Paragraph 21 (d) of International Public Sector Accounting Standards No. 1 provides that a complete set of financial statements includes a cash flow statement. However, the financial statements for the year ended 30 June, 2013 to 30 June, 2018 submitted for audit did not include the cash flow statement.

In the circumstances, the sets of financial statements presented for audit for the six (6) years were incomplete.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1452. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1453. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

MANAGEMENT AND SUPERVISION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1454. Inaccuracies in the Financial Statements

The statement of financial position reflects a balance of Kshs.728,671 under property plant and equipment. However, the balance was not supported with schedules and register for audit verification purposes. Further, the statement reflects a balance of
Kshs.1,732,278 in respect of cash and cash equivalents which differs with cash book balance of Kshs.4,292,758 resulting to unreconciled difference of Kshs.2,560,480 which has not been explained.

In addition, the statement reflects an amount of Kshs.6,214,248 as the deficit drawn from operations for the year, which differs by Kshs.45,041 with the balance of Kshs.6,169,207 reflected on the statement of financial performance. No explanation has been given for the unreconciled difference.

In view of the foregoing, it has not been possible to confirm the accuracy, presentation and completeness of the financial statements.

1455. Unresolved Prior Year Matters

As was reported in the previous years’ audit report, the following matters were noted:

1455.1 Failure to Submit Financial Statements from 2004 to 2012

The Management of the Fund did not prepare and submit for audit the financial statements or maintain the books of accounts for the Management and Supervision Fund for nine (9) years ended 30 June, 2004 to 30 June, 2012. This was contrary to the requirements of Section 19(3) of Co-operative Societies Rules in 2004 (revised 2012) which requires the Fund to be audited annually by the Auditor-General.

In the circumstances, the accuracy of the opening balances for the year ended 30 June, 2019 and earlier years could not be confirmed.

1455.2 Late Submission of Financial Statements

The financial statements for the years ended 30 June, 2013 upto 30 June 2019 were submitted for audit on 20 February, 2020 contrary to Section 68(2)(k) of the Public Finance Management Act, 2012 which requires Accounting Officers to prepare annual financial statements for each financial year within three months after the end of the financial year. Management was in breach of the law.

Late submission of financial statements affects the audit programme.

1455.3 Unsupported Balances

1455.3.1 Statement of Financial Performance

The statement of financial performance for the year ended 30 June, 2019 reflects an amount of Kshs.14,035,091 in respect of general expenses. However, no supporting documentation has been provided to support the above balance.
1455.3.2 Statement of Financial Position

The statement of financial position as at 30 June, 2019 reflects a balance of Kshs.7,758,732 under cash and cash equivalents and Kshs.10,219,347 as management and supervision fees - debtors. However, no supporting documentation has been provided for the balances.

In absence of relevant information, documents and records for audit verification, it was not possible to confirm the accuracy and completeness of the balances reflected in the financial statements.

1455.4 Inaccuracies of the Financial Statements

The statement of changes in net assets reflects a balance of Kshs.18,760,263 as net fund balance as at 30 June, 2019 which differs with the balance of Kshs.18,894,544 reflected in the statement of financial position resulting to an unexplained difference of Kshs.134,281. Further, the deficit for the period of Kshs.2,765,651 is reflected as Kshs.2,815,604 resulting to a difference of Kshs.49,953 which has not been explained.

In view of the foregoing, it has not been possible to confirm the accuracy, presentation and completeness of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1456. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1457. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1458. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

1459. Pending Bills

As disclosed under Annex I to the financial statements, the State Department had pending bills amounting to Kshs.20,933,998 as at 30 June, 2020 that were not settled in the year under review but were carried forward to the 2020/2021 financial year. Management has not explained why the bills were not settled during the year they occurred. Failure to settle bills in the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year, as they form a first charge.

1460. Unresolved Prior Year Matters

Various prior year's audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year's audit issues. Further, some unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1461. Lack of Expenditure Returns for Disbursements to Foreign Missions

As disclosed in Note 11 to the financial statements, the statement of assets and liabilities reflects an accounts receivables balance of Kshs.20,380,584 in respect to disbursements by the State Department to foreign missions whose, expenditure returns were not provided for audit review. Although the Management had previously explained that the responsibility of providing the expenditure returns for the expenditure in foreign missions lies with the Principal Secretary, Ministry of Foreign Affairs, no evidence was provided for verification showing the actions being taken by the Department to ensure that returns are made available as and when required.
In view of the above, the regularity of the unaccounted for AIEs held by foreign missions could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1462. There were no material issues relating to effectiveness of internal controls, risk management and governance.
Basis for Qualified Opinion

1463. Unsupported Acquisition of Assets

As reflected in the statement of receipts and payments, the Department made payments totalling Kshs.130,498,443 under acquisition of assets. However, five payment vouchers for payments totalling Kshs.6,808,960 were not provided for audit review.

Consequently, it has not been possible to confirm the accuracy and validity of Kshs.6,808,960 included in the reported expenditure on acquisition of assets.

1464. Unsupported Payments for Foreign and Domestic Travels

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.383,694,728 which, as disclosed in Note 4 to the financial statements, includes Kshs.29,034,947 and Kshs.9,325,497 relating to domestic and foreign travel and subsistence respectively. The State Department paid an amount of Kshs.3,200,025 to three (3) tour and travel firms for local and foreign travels. However, supporting documents including copies of air tickets and boarding passes, copies of motor vehicle work tickets and imprest surrender vouchers were not provided for audit review.

Consequently, the accuracy and validity of the expenditure of Kshs.3,200,025 could not be confirmed.

1465. Unsupported and Wrong Classification of Foreign and Domestic Travel Costs

Included in the transfers to other Government units balance of Kshs.8,115,915,254 is Kshs.3,907,211 paid to a tour and travel firm on 13 December, 2019 vide payment voucher No.285 for invoices dated between 2016 and 2018. Most of the payments related to foreign travel by the former Cabinet Minister and his assistants. However, there was no evidence that the firm was subjected to competitive bidding and approval for budget re-allocation was not provided. Further, clearance by the Head of Public Service and the surrender of imprests issued to the officers for the travel were not availed for audit review.

In the circumstances, it has not been possible to confirm the accuracy, validity, value for money and correct classification of the Kshs.3,907,211 paid to the tour and travel firm.
Other Matter

1466. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of prior years’ audit recommendations section of the financial statements, matters raised in the previous financial years, remained unresolved as at 30 June, 2020.

1467. Pending Bills

Notes 16.1 and 16.2 to the financial statements reflects pending bills amounting to Kshs.120,814,328 comprised of Kshs.25,083,850 for the State Department, Kshs.79,982,755 for Kenya Industrial Training Institute (KITI) and Kshs.15,747,723 due to other entities respectively, that were not settled in the year under review but were carried forward to the 2020/2021 financial year. Failure to settle bills in the year to which they relate will adversely affect the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.

1468. Budgetary Performance and Control

As reflected in the summary statement of appropriation - recurrent and development combined, the State Department had a budgeted revenue of Kshs.11,178,346,155 but received Kshs.9,201,586,113 resulting to under-collection of Kshs.1,976,760,042 or 18%. Similarly, the State Department’s actual expenditure for the year amounted to Kshs.9,069,906,541 against budgeted expenditure of Kshs.11,178,346,155 resulting in an overall under absorption of Kshs.2,108,439,614 or 19% of the budgeted amount. Management attributed the under expenditure to delayed Exchequer releases. The under-funding affected the planned activities and may have impacted negatively on service delivery to the public.

1469. Delay in Exchequer Releases

The Department received Exchequer releases amounting to Kshs.445,748,433 from The National Treasury in the month of June and July 2020 as summarized below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Funds Received in the Bank Account</th>
<th>Vote</th>
<th>Amount (Kshs.)</th>
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<td>Recurrent</td>
<td>220,785,654</td>
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<tr>
<td>30 June, 2020</td>
<td>Recurrent</td>
<td>17,031,708</td>
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<td>2 July, 2020</td>
<td>Recurrent</td>
<td>31,948,162</td>
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<tr>
<td>3 June, 2020</td>
<td>Development</td>
<td>20,234,381</td>
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<td>12 June, 2020</td>
<td>Development</td>
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<td>15 June, 2020</td>
<td>Development</td>
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<tr>
<td>30 June, 2020</td>
<td>Development</td>
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<td><strong>Total</strong></td>
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</tbody>
</table>
The delay may have negatively affected timely implementation of the programmes of the State Department and provision of services to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1470. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1471. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CREDIT NO.5526-KE AND GRANT NO. TFOA 3418)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1472. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1473. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year under review reflect final budget and actual payments on comparable basis of Kshs.944,093,900 and Kshs.992,162,797 respectively, resulting in an over-expenditure of Kshs.48,068,897 or 5%. Management attributed the over expenditure to a budget reduction from an original approved budget of Kshs.1,794,102,900.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1474. Breach of Contract Terms

As previously reported, the State Department for Petroleum contracted a consultancy firm in consortium with three (3) other firms to conduct an independent audit of petroleum costs in Tullow Oil Kenya BV production sharing contracts. During the year under review, Kshs.32,972,945 was paid to the firm being a final installment for the services.

According to clause 3.0 of the contract, payments to the consultant were to be made upon submission of reports reviewed by a Cost Recovery Audit Technical Committee drawn from The National Treasury, the Central Bank of Kenya, Kenya Revenue Authority, Office of the Auditor-General, Commission on Revenue Allocation, State Department for Petroleum, and the National Oil Corporation of Kenya. However, a seven (7) member committee formed to review and approve all deliverables as well as ensure quality delivery by the consultant was constituted entirely from the State Department of Petroleum.

Consequently, the Management was in breach of the contract terms.

1475. Delays in Remitting Taxes

Note 10.1 to the financial statements reflects pending bills of Kshs.430,115,775 as at 30 June, 2020. The amount includes withholding tax and Value Added Tax (VAT) recoveries from suppliers and consultants totalling Kshs.127,982,507. However, the deducted amounts, some of which date back to October, 2018, was yet to be remitted to the Kenya Revenue Authority (KRA) contrary to the Income Tax Act, Cap. 470. In the circumstances, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1476. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1477. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1478. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.230,000,000 and Kshs.227,492,638 respectively resulting in a shortfall of Kshs.2,507,362. Further, out of the budgeted amount of Kshs.230,000,000, only Kshs.96,412,036 was spent resulting to an under expenditure of Kshs.133,587,964 representing 58% of the estimated expenditure. The under expenditure of the approved budget indicates that some Project activities in the annual work-plan were not implemented which is likely to have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1479. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1480. There were no material issues relating to effectiveness of internal controls, risk management and governance.
OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR INDUSTRIALIZATION

KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT (IDA CREDIT NO.5812-KE) - MICRO AND SMALL ENTERPRISE AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1481. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1482. Budgetary Control and Performance

1482.1 Budget Absorption

The statement of comparative budget and actual amounts reflects receipts budget of Kshs.644,340,209 against actual receipts of Kshs.442,346,058 resulting to an underfunding of Kshs.201,994,151 representing 31% of the budget. Similarly, the Project spent an amount of Kshs.460,610,959 against the approved budget of Kshs.644,340,209 resulting to an under expenditure of Kshs.183,729,250 or 31% of the budget. The project was not able to realise the budgeted receipts which affected the implementation of the planned activities and impacted negatively on service delivery to the public.

1482.2 Project Funding

As indicated in Note 1.7 to the financial statements on funding summary, the Donor had committed to fund the project to the extent of Kshs.2,587,750,694 (USD 25,197,183). As at 30 June, 2020, the Project had received Kshs.858,165,755 (USD8,120,306.06) resulting to a variance of Kshs.1,729,584,93 (USD 17,076,876.94).

Considering that the Project was to be implemented within a duration of five (5) years from 1 September, 2016 to 31 December, 2021, it is doubtful that the Project will be able to absorb all the funding within the remaining Project period. The Project may, therefore, not achieve the set objectives.

1483. Management of Imprest

As disclosed in Note 9.7 B to the financial statements, the statement of financial assets reflects a balance of Kshs.5,800,020 under imprests and advances which includes an
amount of Kshs.1,873,590, being imprest for prior years that has remained outstanding for long. Some of the officers with these long outstanding imprests have since terminated services with the Project and resumed work at the Parent Ministry without surrendering the imprest. Failure to surrender imprests and advances is contrary to Regulation 92 (5-6) of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account for or surrender the imprest within 7 working days after returning to duty station, failure to which the Accounting Officer is required to recover the full amount through salary deductions with interest set at the prevailing Central Bank Rate.

No effort has been made towards recovery of the long outstanding imprests.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1484. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1485. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1486. Variances Between the Financial Statements and the IFMIS Trial Balance

A comparison between the financial statements and the supporting IFMIS trial balance revealed variances as shown below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Trial Balance (Kshs.)</th>
<th>Financial Statements (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit A/c</td>
<td>43,920,831</td>
<td>43,780,813</td>
<td>140,018</td>
</tr>
<tr>
<td>Recurrent A/c</td>
<td>12,535,643</td>
<td>11,047,297</td>
<td>1,488,346</td>
</tr>
<tr>
<td>Development A/c</td>
<td>1,195,869</td>
<td>2,668,085</td>
<td>(1,472,216)</td>
</tr>
<tr>
<td>Government Imprest</td>
<td>10,005,963</td>
<td>10,257,963</td>
<td>(252,000)</td>
</tr>
<tr>
<td>District Suspense</td>
<td>15,051,817</td>
<td>20,119,817</td>
<td>(5,068,000)</td>
</tr>
<tr>
<td>Deposit</td>
<td>44,160,670</td>
<td>43,780,813</td>
<td>379,857</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>8,700,524</td>
<td>-</td>
<td>8,700,524</td>
</tr>
<tr>
<td>Withholding Tax</td>
<td>892,625</td>
<td>-</td>
<td>892,625</td>
</tr>
<tr>
<td>Cash Clearing A/C</td>
<td>1,422,443,888</td>
<td>-</td>
<td>1,422,443,888</td>
</tr>
<tr>
<td>Provisions</td>
<td>83,186,014</td>
<td>-</td>
<td>83,186,014</td>
</tr>
</tbody>
</table>

In the circumstances, the accuracy and completeness of the State Department’s financial statements could not be confirmed.

Other Matter

1487. Pending Bills

Note 16.1 to the financial statements reflects pending bills amounting to Kshs.119,224,702 as at 30 June, 2020. A review of the position as at the time of audit in December, 2020 revealed that an amount of Kshs.57,396,858 had been paid leaving an outstanding balance of Kshs.61,827,845. Failure to settle bills during the year to which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1488. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.4,087,665,972 and
Kshs.3,054,926,057 respectively resulting to an under-funding of Kshs.1,032,739,915 or 25% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.4,087,665,972 and Kshs.3,022,627,611 respectively resulting to an under-expenditure of Kshs.1,065,038,361 or 26% of the budget. The under-funding and the resultant under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

1489. Unresolved Prior Year Matter

1489.1 Construction of the National Employment Promotion Centre Kabete

As was previously reported, the construction of the proposed National Employment Promotion Centre at Kabete was awarded to a local company on 15 May, 2015 for a contract period of seventy-eight (78) weeks at a contract sum of Kshs.442,723,947. However, the Project has only marginally progressed even after payment of Kshs.167,098,228 or 38% of contract sum. A physical inspection during the month of January, 2021 revealed that, although the contractor was on site, there was minimal activity going on and the structure depicted an abandoned site. The contract period of 78 weeks had long expired.

Consequently, it was not possible to determine when and if the project will be completed. Delayed completion continues to deny the public value for the money already paid.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1490. Lack of Comprehensive Fixed Assets Register

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects an expenditure amount of Kshs.126,285,543 in respect of acquisition of assets during the year under review. However, a summary of fixed assets register, showing the asset classes, historical cost, additions, disposals during the year, transfer in/out during the year and total historical cost as at 30 June, 2020 was not provided in an annex to the financial statements as required by the Public Sector Accounting Standards Board.

In the circumstances, it was not possible to confirm the valuation, location, ownership, existence and the security of all the assets held by the State Department.

1491. Management of Temporary Imprests

The statement of assets and liabilities reflects accounts receivable - outstanding imprests of Kshs.35,569,567 which, as disclosed in Note 11 to the financial statements, includes Kshs.10,257,963 in respect of outstanding Government imprests which ought to have been surrendered by 30 June, 2020. Further, the State Department had issued
multiple imprests amounting to Kshs.2,595,134 contrary to Regulation 93(4)(b) of the Public Finance Management (National Government) Regulations, (2015) which requires an Accounting Officer to ensure that an imprest applicant has no other outstanding imprests.

In the circumstance, the State Department was in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1492. Lack of IT Policy, Risk Management Policy and Data Recovery Strategy

A review of internal controls at the State Department revealed lack of a documented data recovery strategy, risk management policy and an information technology policy.

Consequently, the Department may be under threat of loss of strategic data and information regarding its operations arising from possible cyber-attacks, poor response to fire outbreaks and unsafe storage of information technology resources.

1493. Lack of Staff Succession Plan

A review of the staff establishment of the State Department revealed that the Department had an ageing staff population. Out of the total staffing of five hundred and eighty-six (586), three hundred and eighty-nine (389), representing 66% were 45 years and above. The State Department did not provide any succession policy guideline on how to replace the ageing staff.

DONOR FUNDED PROJECT

KENYA YOUTH EMPLOYMENT OPPORTUNITY PROJECT
(CR. NO.5812-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1494. There were no material issues noted during the audit of the financial statements of the Project.
Other Matter

1495. Budgetary Control and Performance

1495.1 Budget Under-Funding and Under-Absorption

The statement of comparative budget and actual amounts reflects budgeted revenue of Kshs.200,000,000 against actual receipts of Kshs.75,220,111 resulting in under-funding of Kshs.124,779,889 which the Management attributes to delays in approval for informal sector skills and occupations survey by the World Bank. Similarly, the statement reflects a budgeted expenditure of Kshs.200,000,000 against an actual expenditure of Kshs.92,982,988 resulting to an under expenditure of Kshs.107,017,012, an indication that the goals and objectives of the Project were not achieved as planned.

1495.2 Low Absorption Rate

Examination of the Project’s Financing Agreement revealed that the project’s total approved commitment is Kshs.1.35 billion and it has a commencement and completion date of 20 May, 2016 and 31 December, 2021 respectively. Further, the funding summary in respect of the Project revealed that only an amount of Kshs.352,168,557 or 26% had been absorbed by the project as at 30 June, 2020 leaving an unspent balance of Kshs.997,831,432 while the project was left with barely one year to the completion date. With this low absorption rate, the Project’s objectives may not be realized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1496. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1497. There were no material issues relating to effectiveness of internal controls, risk management and governance.
OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR LABOUR

KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT CREDIT NO. 5812 KE — NATIONAL INDUSTRIAL TRAINING AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1498. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1499. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,376,746,062 and Kshs.957,125,834 respectively resulting to an under-funding of Kshs.419,620,228 or 17% of the budgeted receipts. Similarly, the Project expended Kshs.1,140,669,670 against an approved budget of Kshs.1,376,746,062 resulting to an under-expenditure of Kshs.236,076,392 or 17% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1500. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1501. Proper Custody of Assets - Untagged Fixed Assets

Annex 3 to the financial statements reflects a total asset value of Kshs.111,803,778. Included in this figure are assets worth Kshs.9,113,180 that had not been tagged or serialized for ease of identification. Further, no evidence was availed to prove that the assets were verified quarterly as required by the project implementation manual.

OCCUPATIONAL SAFETY AND HEALTH FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1502. Unsupported Financial Statements Amendments

The financial statements presented for audit on 30 September, 2020 were revised and resubmitted on 14 January, 2021. However, the changes on some accounts balances between the first set and the revised set of the financial statements were not supported by adjustment journals as shown below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Financial Statements presented on 30 September, 2020 (Kshs.)</th>
<th>Revised Financial Statements presented on 14 January, 2021 (Kshs.)</th>
<th>Unsupported Changes (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>License and Permit</td>
<td>93,115,870</td>
<td>75,324,277</td>
<td>17,791,593</td>
</tr>
<tr>
<td>Use of Goods and Services</td>
<td>586,069</td>
<td>42,833,551</td>
<td>42,247,482</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>29,015</td>
<td>0</td>
<td>29,015</td>
</tr>
<tr>
<td>Boards and Conferences</td>
<td>1,714,460</td>
<td>3,495,980</td>
<td>1,781,520</td>
</tr>
<tr>
<td>General Expenses</td>
<td>46,724,907</td>
<td>0</td>
<td>46,724,907</td>
</tr>
<tr>
<td>Receivables from Non-exchange Transactions</td>
<td>574,178</td>
<td>889,600</td>
<td>315,422</td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>20,200,442</td>
<td>20,581,655</td>
<td>381,213</td>
</tr>
<tr>
<td>Trade Other Payables from Exchange Transaction</td>
<td>150,000</td>
<td>531,213</td>
<td>381,213</td>
</tr>
</tbody>
</table>
Consequently, the accuracy of the various accounts balances reflected in the financial statements could not be confirmed.

1503. Long Outstanding Reconciling Items

The statement of financial position reflected cash and cash equivalents balance of Kshs.58,924,946 as at 30 June, 2020. A review of the supporting bank reconciliation statements for the year ended 30 June, 2020 indicated that there were debits in the bank statement totalling Kshs.4,185,150 which were not reflected as payments in the cash book, some dating back to the financial year 2017/2018. Further, it is not clear how the amounts were debited in the bank statement and not in the cash book as payments are initiated by the Management before being cleared by the bank. In addition, the bank reconciliation statement reflects receipts in bank statement not in cash book totalling Kshs.19,638,512. Although the Management has explained that these represents revenue banked at the Regions whose returns were not submitted to the Headquarters, it was not clear why the returns had not been submitted.

In the circumstances, the completeness and accuracy of the cash and cash equivalents balance of Kshs.58,924,946 as at 30 June, 2020 could not be confirmed.

1504. Unconfirmed Motor Vehicles

The statement of financial position reflects a balance of Kshs.20,581,655 under property, plant and equipment which includes an amount of Kshs.10,250,000 being value for two (2) motor vehicles that were not availed for physical inspection. The vehicles, GKB 968R and GKB 938S were transferred to the State Department for Labour without formal documentation or agreement while the logbooks were still being held by the Fund.

In view of the foregoing, the security and carrying values of two vehicles of Kshs.10,250,000 could not be ascertained.

1505. Unreconciled Revenue from Registration of Workplaces (Licenses and Permits)

As disclosed in Note 1 to the financial statements, the statement of financial performance indicates that the Fund received revenue totalling Kshs.75,324,277 from licenses and permits. However, the Fund’s register for registered workplaces availed for audit indicated that there were 11,695 workplaces that were expected to pay license fee at the rate of 5,000 per registered workplace. The Fund was therefore expected to receive revenue from license fees amounting to Kshs.58,475,000 from the 11,695 registered workplaces.

<table>
<thead>
<tr>
<th>Item</th>
<th>Financial Statements presented on 30 September, 2020 (Kshs.)</th>
<th>Revised Financial Statements presented on 14 January, 2021 (Kshs.)</th>
<th>Unsupported Changes (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Fund</td>
<td>30,407,392</td>
<td>45,989,488</td>
<td>15,582,096</td>
</tr>
<tr>
<td>Surplus for the Year</td>
<td>42,142,174</td>
<td>27,075,500</td>
<td>15,066,674</td>
</tr>
</tbody>
</table>
The resultant difference of Kshs.16,849,277 between the revenue receipts of Kshs.75,324,277 and the expected revenue of Kshs.58,475,000 has not been explained. Further, the manual register provided was susceptible to manipulation.

In the circumstances, the accuracy and completeness of revenue from non-exchange transactions of Kshs.75,324,277 could not be confirmed.

1506. Irregular Transfer of Appropriations-In-Aid

The statement of financial performance reflects a balance of Kshs.42,833,551 under use of goods and services. Included in the balance, and as disclosed in Note 3 to the financial statements, is an amount of Kshs.1,375,000 described as transfer of Appropriations-In-Aid to the State Department of Labour. However, the basis and purposes of the transfer was not explained as the Fund is a semi-autonomous entity and there is no provision for such remittances in Occupational Safety and Health Act, 2007.

In the circumstances, the regularity of the transfer of Appropriation-In-Aid amounting to Kshs.1,375,000 could not be ascertained.

1507. Unrecovered Repairs and Maintenance Expenditure

The statement of financial performance reflects a balance of Kshs.573,525 under repairs and maintenance. Included in the balance is an expenditure amount of Kshs.189,999 incurred by the Fund on behalf of the State Department of Labour for repairing the State Department’s vehicle number GKB 694M. This amount was to be refunded back to the Fund. However, as at the time of audit in December, 2020, no refund had been received and no disclosure had been made in the financial statements.

In the circumstances, the accuracy and completeness of repairs and maintenance balance as at 30 June, 2020 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1508. Long Outstanding Imprest

The statement of financial position reflects a balance of Kshs.889,600 under receivables from non-exchange transactions which includes an amount is Kshs.153,200 being imprest held by three (3) officers that has been outstanding since the year 2017. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Regulation 93(6) further provides that in the event of the imprest holder failing to account for or to surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with interest at the prevailing Central Bank Rate.
The Fund Management was, therefore, in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1509. There were no material issues relating to effectiveness of internal controls, risk management and governance.
1510.1 Transfer to State Department for Interior and Citizen Services

The statement of receipts and payments reflects an expenditure of Kshs.37,184,662,431 under transfers to other government units which includes an amount of Kshs.9,340,270,000 transferred to the State Department for Interior and Citizen Services to assist households of members living with severe disability to cushion them against adverse economic effects of COVID-19. However, the amount was deposited in Account Number 333567300 at Kenya Commercial Bank, Moi Avenue in the name of MPESA Holding Co. Limited and no explanation was provided as to why the deposit was made to MPESA Holding Company Limited instead of the State Department for Interior and Citizen Services recurrent account.

It could therefore not be confirmed that the full disbursement was received by the intended recipients.

1510.2 Beneficiaries Sharing Similar Bank Account Numbers

Review of the Payroll data extracted from the system revealed that one thousand three hundred and twenty-three (1323) beneficiaries shared two hundred and fifty-seven (257) account numbers through which Kshs.8,296,000 was paid in six (6) payment phases during the year under review. No plausible explanation was given as to why beneficiaries are sharing bank accounts.

In the circumstance, the authenticity of the amount of Kshs.8,296,000 paid into these accounts could not be ascertained.

1510.3 Beneficiaries Registered in More than One Program

A comparison of Payrolls for Older Persons and Orphans and Vulnerable Children revealed that twelve thousand one hundred and eighty-eight (12,188) beneficiaries were registered in two (2) separate social protection programs (Older People, and Orphans and Vulnerable Children) and they were paid Kshs.266,228,000 from both programs.

Although Clause 3.1.2.8(v) of the Consolidated Cash Transfer Program (CCTP) Operations Manual has categorized circumstances under which beneficiaries can be registered in more than one (1) program, the State Department of Social Protection has not provided any document to justify beneficiaries registered in more than one (1) program.
In the circumstances, it has not been possible to confirm that the twelve thousand one hundred and eighty-eight (12,188) beneficiaries are legally registered and/or eligible in the two (2) programs (Older People, and Orphans and Vulnerable Children) and therefore, the payment of Kshs.266,228,000 could not be confirmed as a proper charge on public funds.

1511. Land Parcels without Title Deed

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.61,168,491 under acquisition of assets which includes amounts of Kshs.26,162,000 and Kshs.14,499,500 for construction of buildings and refurbishment of buildings respectively. Further, as disclosed in Annex 4 to the financial statements, the State Department had buildings and structures with a cumulative historical cost of Kshs.326,573,851. However, a review of records and documents relating to land, revealed that the State Department occupied parcels of land and buildings structures spread across the Country, but did not have ownership documents for the land parcels. Evidence of the efforts made by the Department to acquire ownership documents were not provided and the land parcels had not been safeguarded from encroachment.

In absence of ownership documents, validity of the expenditure on construction and refurbishment of buildings amounting to Kshs.26,162,000 and Kshs.14,499,500 respectively could not be ascertained.

Other Matter

1512. Delay in Exchequer Releases

Examination of records on Exchequer releases revealed that the State Department received Exchequer releases for the month of June 2020 from The National Treasury as detailed below:

<table>
<thead>
<tr>
<th>Date Received</th>
<th>Vote</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June, 2020</td>
<td>Development</td>
<td>34,173,675</td>
</tr>
<tr>
<td>23 June, 2020</td>
<td>Development</td>
<td>537,864,804</td>
</tr>
<tr>
<td>15 June, 2020</td>
<td>Development</td>
<td>41,660,672</td>
</tr>
<tr>
<td>25 June, 2020</td>
<td>Recurrent</td>
<td>121,624,317</td>
</tr>
<tr>
<td>23 June, 2020</td>
<td>Recurrent</td>
<td>4,431,288,851</td>
</tr>
<tr>
<td>15 June, 2020</td>
<td>Recurrent</td>
<td>100,315,040</td>
</tr>
<tr>
<td>04 June, 2020</td>
<td>Recurrent</td>
<td>2,513,587,991</td>
</tr>
<tr>
<td>30 June, 2020</td>
<td>Recurrent</td>
<td>5,640,270,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>13,420,785,350</strong></td>
</tr>
</tbody>
</table>

The delay in Exchequer releases may have negatively affected timely implementation of the programmes of the State Department and provision of services to the public.
1513. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1514. Non-Provision of Reports by Service Providers

Clause 3.11.1 of the contract signed between the service providers and the State Department stipulates the reporting requirements for each cycle of payments made to beneficiaries. The requirement has also been emphasized under Clause 6 on Service Level Agreement. However, the following reports were not availed for audit review:

- The dormant accounts report
- A report on balance returned to principal by claw back
- Report showing total amount of money received from the Ministry or Department
- Report showing monthly withdrawals by beneficiaries
- Report on non-collected amounts by beneficiaries
- Report on deceased beneficiaries

Under the circumstances, the propriety of the disbursements to the intermediaries could not be confirmed.

1515. Grounded Motor Vehicles

A review of motor vehicles register revealed that twenty-eight (28) motor vehicles and twenty (20) motorcycles with undetermined values were packed at various yards for several years with no indication of the plans to repair or dispose them. In the circumstances, it could not be confirmed that the Accounting Officer had instituted preventative mechanisms to eliminate theft, security threats, losses, wastage and misuse of assets as required under Regulation 139(1)(a) of Public Finance Management (National Government) Regulations, 2015.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1516. Unreliable and Inefficient Call Centre Number 1533

The establishment of a call center was a key component since inception of the cash transfer initiative to facilitate reliable and efficient service provision. However, the call center toll free line 1533 has not been in operation as envisaged by the Management. Further, it was observed that the call center was inadequately staffed and therefore had no capacity to serve the general population. Further, the toll-free line operated from 8.00 am to 5.00 pm from Monday through Friday and the calls made were one way with the system unable to provide a feedback mechanism on the toll-free line. In addition, a non-Safaricom subscribed caller could not reach the line and when the Consolidated Cash Transfer Programme Management Information System (CCTPMIS) was experiencing network challenges, no proper feedback could be given to callers since beneficiary status was inaccessible.

DONOR FUNDED PROJECTS

NATIONAL SAFETY NET PROGRAMME - IDA CREDIT NO.5287

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1517. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1518. Budgetary Control and Performance.

The financial statements indicate that the Programme’s actual revenue during the year under review amounted to Kshs.42,222,228,747 and the budget Kshs.42,175,916,416 resulting to excess receipts amounting to Kshs.46,312,331.

The Programme’s expenditure budget amounted to Kshs.42,169,625,416 and actual expenditure Kshs.41,922,581,651 resulting to under-expenditure of Kshs.247,043,765. The under-expenditure mainly occurred in the Hunger Safety Net Programme at Kshs.846,579,884 and the Social Protection Secretariat at Kshs.11,478,616 equivalent to 16% and 11% of the respective budgets. On the other hand, Cash Transfers for
Persons with Severe Disabilities recorded over-expenditure of Kshs.206,109,447 or 17% of the budget.

However, contrary to the reporting requirements set by the Public Sector Accounting Standards Board (PSASB), Management has not explained, in the Notes to the financial statements, the reasons for the material revenue and expenditure variances.

As a result of the aggregate under-expenditure amounting to Kshs.247,043,765, some activities planned for the year were not implemented, which in turn hindered the Programme from attaining its objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1519. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1520. Inadequate Accounting for Imprests

Review of the Project’s accounting systems indicated that the imprests register maintained by the Programme, did not indicate dates imprests are surrendered and as a result, audit and control of the imprests was not effective.

Further examination of imprest records indicated that on many occasions, imprests were issued to one staff member on behalf of one or more teams engaged in a common activity. This was contrary to regulations on imprests which require each officer to apply and be issued with imprests separately to ensure accountable and effective use of public funds.

KENYA SOCIAL AND ECONOMIC INCLUSION PROJECT IDA CR NO. 6348-KE AND GR NO. TF0A 9527

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1521. There were no material issues noted during the audit of the financial statements of the Project.
Emphasis of Matter

1522. Foreign Exchange Difference

The statement of receipts and payments reflects loans from external development partners (World Bank) of Kshs.343,722,900 disclosed under Note 1 to the financial statements. This figure differed with an amount of Kshs.346,962,300 reflected in the special account which has been explained as an exchange rate difference of Kshs.3,239,400 arising from the application of different exchange rates applicable at different periods.

My opinion is not modified on the matter described above.

Other Matter

1523. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.343,722,900 against budgeted amount of Kshs.906,000,000 resulting to underfunding of Kshs.562,277,100 representing 62% of the budget. Similarly, the statement reflects actual payments of Kshs.18,291,087 against budgeted amount of Kshs.906,000,000 resulting to under expenditure of Kshs.887,708,913 representing a 96% under-absorption. Management has attributed the underfunding and under absorption to slow pace on implementation arising from delayed approval of the work plans and the effects of COVID 19 pandemic mitigation measures.

This is an indication that goals and objectives of the Project may not have been achieved as disbursement link indicators were not realized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1524. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1525. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE DEPARTMENT FOR MINING - VOTE 1192

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1526. Misallocation of Expenditure

1526.1 Acquisition of Assets

The statement of receipts and payments reflects an expenditure of Kshs.268,073,537 under acquisition of assets, being assets acquired during the year under review. However, the supporting schedules provided for audit indicated that an amount of Kshs.121,905,803 reported under acquisition of assets related to purchase of toners, subsistence allowances, consultancy services, conference services, purchase of air tickets, hire of chartered plane, and other unrelated expenses. This is contrary to Section 43(1)(b) of the Public Finance Management Act, 2012 which prohibits reallocation of funds appropriated for capital expenditure and Regulation, 43 (b) of the Public Finance Management (National Government) Regulations, 2015 which provides that an Accounting Officer shall ensure that public funds entrusted to their care are properly safeguarded and are only applied for purposes for which they were intended and appropriated by Parliament.

1526.2 Use of Goods and Services

The statement of receipts and payments reflects an expenditure of Kshs.242,763,608 under use of goods and services. However, a review of the expenditure ledgers revealed that an amount Kshs.63,016,713 relating to domestic travel and subsistence allowances, office and general expenses, honoraria and hospitality was charged to unrelated expenditure categories of specialized materials and other services, other operating expenses, routine maintenance of motor vehicles, routine maintenance of other assets and printing, advertisement and information supplies and services. This is contrary to Section 43(2)(c) of the Public Finance Management Act, 2012 which provides that the total sum of all reallocations made to or from a program or sub-vote should not exceed ten percent (10%) of the total expenditure approved for that program or sub-vote for that financial year.

1527. Difference Between Financial Statements and Fixed Assets Register

The statement of receipts and payments and Annex 8 - summary of fixed assets register reflects an expenditure of Kshs.268,073,537 for acquisition of assets. However, the fixed assets register provided for audit, reflected fixed assets additions of Kshs.3,934,349 during the year resulting into an unexplained variance of Kshs.264,139,188. In addition, the summary of fixed assets register reflected assets with a cumulative historical cost of Kshs.515,127,542 while the fixed assets register reflected assets with a cumulative value
of Kshs.302,307,775 resulting into a difference of Kshs.212,819,767. The difference between the two sets of records was not explained or reconciled.

In the circumstance, the accuracy of the acquisition of assets expenditure of Kshs.268,073,537 could not be confirmed. It could also not be confirmed that the assets of the State Department had been properly safeguarded.

1528. Inaccuracies of Cash and Cash Equivalents Balance

The statement of assets and liabilities reflects cash and cash equivalents of Kshs.3,998,642. As shown in Note 9A to the financial statements, the balance comprised of bank balances of Kshs.1,951,608, Kshs.15,221 and Kshs.2,031,813 held in the recurrent, development and deposits bank accounts respectively. However, the cash and cash equivalents balance of Kshs.3,998,642 differed with the total cash books balance of Kshs.2,158,899 for the three bank accounts as certified by the Board of Survey on 30 June, 2020, resulting into a variance of Kshs.1,839,743 which was not reconciled. Further, the cash in hand balance of Kshs.94,133 held in the recurrent cashbook on 30 June, 2020 was not included in the cash and cash equivalents balance thus understating the reported cash and cash equivalents.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,998,642 could not be confirmed.

1529. Unsupported Pending Bills

As disclosed in Note 17.1 to the financial statements, the State Department for Mining had pending bills totalling Kshs.54,589,919. However, pending bills amounting to Kshs.2,621,082 were not supported and as a result, their authenticity could not be ascertained. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1530. Award of Tender to a Contractor with Contradicting Registration Dates

The statement of receipts and payments reflects an expenditure of Kshs.268,073,537 under acquisition of assets, which as disclosed in Note 8 to the financial statements, includes an amount of Kshs.134,785,468 incurred on construction of buildings. Included in the latter balance is an amount of Kshs.6,525,000 paid to a consultancy firm as part payment for undertaking a feasibility study on establishment of a granite processing plant in Vihiga County at a consultancy fee of Kshs.26,100,000. The same firm was contracted to undertake a feasibility study on establishment of a soapstone value addition center in Kisii County for Kshs.13,771,520 in April, 2019.

The certificate of incorporation - CPR/2013/213800 submitted by the firm during tendering for the services indicated that the Company was incorporated on 5 November, 2013. However, an independent confirmation of the registration status of the Company with the
Registrar of Companies (CR12) indicated that the Company was registered on 28 August, 2018. No explanation was provided for the anomaly.

In the circumstances, the authenticity of the registration documents of the firm and the validity of the contractual agreements entered into with the State Department, as well as the payments made could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1531. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REVENUE STATEMENTS OF THE STATE DEPARTMENT FOR MINING

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

1532. Unreported Cement Levy Arrears

The statement of arrears of revenue as at 30 June, 2020 reflects cement levy arrears totalling Kshs.1,721,112,708 owed by various companies. Included in the balance, is Kshs.280,329,449 owed by East Africa Portland Cement Company (EAPCC) accrued in the period 2014/2015 to 2017/2018. Further, the Company did not file self-declaration assessments and was therefore, not assessed for cement levy in 2018/2019 and 2019/2020 financial years. Management did not provide any explanation on why levies chargeable to the Company were not assessed and reported in the financial statements.

In the circumstances, the recoverability of the long outstanding arrears of revenue and the accuracy of arrears of cement revenue due since 2017/2018 financial year could not be ascertained.

1533. Long Outstanding Arrears

Included in the arrears of revenue of Kshs.1,721,112,708 is Kshs.375,862,635 due from Savanna Cement Company as cement minerals levy as at 30 June, 2020. Although a payment plan agreement was signed in August, 2017 between the State Department and the Company requiring settlement of the arrears in twenty-four (24) monthly instalments starting from September, 2017, the Company had reneged on the plan stating that it did not hold a mineral license from the State Department and therefore was not liable to pay the levy. The Company had also moved to the High Court challenging Legal Notice
which required payment of cement minerals levy by all cement producing companies in Kenya.

As a result, the recoverability of the long outstanding arrears of revenue and cement levy arrears accruing from the Company since 2017/2018 financial year could not be confirmed.

1534. Non-Settlement of Cement Levy Arrears

Included in the arrears of revenue of Kshs.1,721,112,708 is an amount of Kshs.255,530,933 owed by ARM Cement Plc, having accrued during the financial years 2014/2015 to 2016/2017. During the year under review, ARM Cement Plc was acquired by the National Cement Company Limited as a going concern for a purchase price of US$.50 Million (Kshs.5.2billion) and a distribution was made to all creditors in April, 2020 as per the administrator records. However, the outstanding cement levy arrears of Kshs.255,530,933 at the time of acquisition was not settled from net proceeds realized from the sale. Management did not explain why outstanding levies were not settled after the sale of the ARM assets and no evidence was provided to show how the buyer, the National Cement Company, intends to settle the outstanding cement levies.

In the circumstances, recoverability of the outstanding arrears of Kshs.255,530,933 is in doubt.

1535. Long Outstanding Dues

The statement of arrears of revenue as at 30 June, 2020 reflects royalty arrears totaling Kshs.622,204,807 owed by Magadi Soda Company, which has accrued since the financial year 2015/2016. Although the Company undertook to settle the arrears with the State Department, no significant progress was made in the year.

Consequently, the recoverability of the arrears of revenue of Kshs.622,204,807 could not be confirmed.

1536. Long Outstanding Dues

The statement of arrears of revenue shows arrears of revenue of Kshs.30,464,301 due from Carbacid (CO2) Limited. The arrears relate to the financial years 2017/2018 and 2018/2019. However, a review of correspondences revealed that the Company Management had expressed their reservations regarding payment of the royalties before a consensus on payment rates was reached. In addition, the Company did not file a self-declaration assessment and was, therefore, not assessed for royalties due in the year under review. Recoverability of the arrears of revenue could not, therefore, be confirmed.

1537. Unremitted Mining Royalties

The statement of arrears in revenue for the year under review includes outstanding mining royalties totaling Kshs.43,938,695. The royalty arrears comprise of Kshs.28,893,568,
Kshs.14,995,851 and Kshs.49,274 accruing from Kilimapesa Gold Pty Limited, Africa Diatomite Industries Limited, and Consol Limited respectively. Management did not provide evidence of any tangible steps being undertaken to recover the arrears of revenue. In addition, a review of records maintained by the State Department revealed that, declared and assessed sales records in respect of Kilimapesa Gold Pty Limited were not up to date and thus the royalty arrears could not be accurately estimated.

In the circumstances the accuracy and recoverability of the royalty arrears could not be confirmed.

**1538. Outstanding Dues**

During the year under review, Rai Cement Company remitted cement levies totaling Kshs.44,701,140. At the same time the Company had outstanding arrears of Kshs.25,776,900 whose recoverability and regularity could not be confirmed.

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

**Basis for Conclusion**

**1539. Dealing in Minerals Without Valid Licenses**

A review of the mining cadastral records maintained by the State Department for Mining revealed that East Africa Portland Cement Company (EAPCC) and Rai Cement Company had not been issued with mining rights licenses. However, the companies continued to undertake mining activities and deal in minerals without valid licenses or permits contrary to Section 159 of the Mining Act, 2016.

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

**Conclusion**

**1540.** There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE DEPARTMENT FOR PETROLEUM - VOTE 1193

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1541. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

1542. Pending Bills

As disclosed in Note 21 to the financial statements, the State Department for Petroleum had pending bills totalling Kshs.438,179,896 as at 30 June, 2020, that were not settled during the 2019/2020 financial year but were instead carried forward to 2020/2021. Failure to settle bills during the year to which they relate to adversely affects the provisions of the subsequent year to which they have to be charged. Additionally, the reported pending bills amount differs with the detailed schedule figure of Kshs.436,253,689 provided by the State Department resulting to a variance of Kshs.1,926,207 which has not been explained.

1543. Budgetary Control and Performance

The statement of appropriation-recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.3,275,722,164 and Kshs.2,608,843,791 respectively, resulting in underfunding of Kshs.666,878,373 or 20%. Similarly, the State Department incurred a total expenditure of Kshs.2,573,214,429 against an approved budget of Kshs.3,275,713,164 resulting in an under-expenditure of Kshs.702,502,735 or 21% of the budget. However, included in the total expenditure of Kshs.2,573,214,429 is an amount of Kshs.973,418,817 under use of goods and services component which was incurred against a budget of Kshs.941,157,664 resulting in an over-expenditure of Kshs.32,261,151.65 or about 3% of the budgeted amount.

1544. Delay of Exchequer Releases

Review of records maintained by the State Department in relation to Exchequer releases revealed that the State Department received Kshs.90,794,153 Exchequer releases from The National Treasury in the month of June, 2020, as detailed below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Vote</th>
<th>Amount Received (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 June, 2020</td>
<td>Recurrent</td>
<td>1,035,021</td>
</tr>
<tr>
<td>24 June, 2020</td>
<td>Recurrent</td>
<td>11,794,868</td>
</tr>
<tr>
<td>28 May, 2020</td>
<td>Development</td>
<td>52,621,360</td>
</tr>
<tr>
<td>Date Funds Released by The National Treasury</td>
<td>Vote</td>
<td>Amount Received (Kshs.)</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>11 June, 2020</td>
<td>Development</td>
<td>21,038,100</td>
</tr>
<tr>
<td>15 June, 2020</td>
<td>Development</td>
<td>4,484,804</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>90,794,153</strong></td>
</tr>
</tbody>
</table>

The above delay in release of Exchequer may have negatively affected timely implementation of the programmes of the State Department and provision of services to the public.

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

**Conclusion**

1545. There were no material issues relating to lawfulness and effectiveness in use of public resources.

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

**Basis for Conclusion**

1546. **Lack of an Audit Committee**

Section 174(1) of the Public Finance Management (National Government) Regulations, 2015, requires every National Government entity to establish an Audit Committee. However, during the year under review, the State Department did not have an Audit Committee in place. Consequently, the oversight functions expected to be fulfilled by the Committee were not realized.

1547. **Weak Controls over Fuel Expenditure**

Note 7 to the financial statements reflects expenditure of Kshs.7,483,725 on fuel and lubricants under the Use of Goods and Services expenditure component. The expenditure largely comprised prepayment for petroleum products supported by proforma invoices from the National Oil Corporation Limited (NOC). However, a review of records maintained on usage of the petroleum products revealed lack of a proper stocks management system. For instance, a record of fuel drawn, quantities remaining and levels of stocks requiring replenishment were not being maintained by the State Department. In addition, no consumption statements were being obtained from NOC, indicating consumption and remaining balances before next payments could be made, and no regular reconciliation of stocks were being done.
The Management indicated that there was a fuel card system in place that was being used by the State Department and that the National Oil Corporation was required to submit monthly reports on quantities drawn against the prepayment made.

In the absence of these documents, it was not possible to ascertain whether the fuel paid for was drawn and utilized for the intended purposes.

PETROLEUM DEVELOPMENT LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1548. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

1549. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,622,000,000 in the year under review. However, from the receipts realized, the Fund utilized Kshs.996,797,983 resulting into an under-absorption of Kshs.625,202,017 or 39%. The under absorption affected the planned activities and could have negatively impacted on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1550. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1551. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1552. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

1553. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year under review reflects final receipts budget and actual on comparable basis of Kshs.222,000,000 and Kshs.193,970,871 respectively resulting to an under-funding of Kshs.28,029,129 or 13% of the budget. Similarly, the Fund expended Kshs.149,774,746 against an approved budget of Kshs.222,000,000 resulting into an under-absorption of Kshs.72,225,254 or 33% of the budget. The under absorption affected the planned activities and could have impacted negatively on service delivery for the public.

1554. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1555. Delay in Collecting Receivables and Unimplemented Integrated System

Note 8 to the financial statements reflects accounts receivables – fines, penalties and levies amounting to Kshs.1,963,072,617 of which receivables amounting to Kshs.1,668,333,715 were brought forward from the prior years. Although the State Department had issued demand notices to the defaulting companies, no other avenues had been exploited in collecting the long outstanding amounts. This is contrary to Regulation 64 (1) (a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which provides that an Accounting Officer and a Receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for all national government revenue and other public moneys relating to their Ministries, Departments or Agencies and that adequate measures, including legal action where appropriate, are taken to ensure payment. Failure to collect the levies has denied the Government revenue for financing public services.
In addition, a Petroleum Integrated Planning System (PIPS) meant to improve the management of petroleum exploration and production activities is yet to be implemented.

1556. Outstanding Imprests

The statement of financial position reflects accounts receivables - outstanding imprest and clearance accounts totaling Kshs.69,092,975. As disclosed in Note 9 to the financial statements, the amount includes Kshs.3,536,323 relating to outstanding imprests as at 30 June, 2020 which was due and ought to have been surrendered on or before April, 2020. However, the amount was still outstanding as at 30 June, 2020 and the recovery process had not commenced contrary to Regulation 93(5) and (6) of the Public Finance Management (National Government) Regulations, 2015 which requires a holder of a temporary imprest to account or surrender the imprest within seven (7) working days after returning to duty station, failure to which the Accounting Officer should take immediate action to recover the full amount from the salary of the defaulting officer with interest at the prevailing Central Bank Rate.

In the circumstances, the recoverability of the long outstanding imprest of Kshs.3,536,323 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1557. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECT

KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CREDIT NO.5526-KE AND GRANT NO. TFOA 3418)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1558. There were no material issues noted during the audit of the financial statements of the Project.
Other Matter

1559. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year under review reflect final budget and actual payments on comparable basis of Kshs.944,093,900 and Kshs.992,162,797 respectively, resulting in an over-expenditure of Kshs.48,068,897 or 5%. Management attributed the over expenditure to a budget reduction from an original approved budget of Kshs.1,794,102,900.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1560. Breach of Contract Terms

As previously reported, the State Department for Petroleum contracted a consultancy firm in consortium with three (3) other firms to conduct an independent audit of petroleum costs in Tullow Oil Kenya BV production sharing contracts. During the year under review, Kshs.32,972,945 was paid to the firm being a final installment for the services.

According to clause 3.0 of the contract, payments to the consultant were to be made upon submission of reports reviewed by a Cost Recovery Audit Technical Committee drawn from The National Treasury, the Central Bank of Kenya, Kenya Revenue Authority, Office of the Auditor-General, Commission on Revenue Allocation, State Department for Petroleum, and the National Oil Corporation of Kenya. However, a seven (7) member committee formed to review and approve all deliverables as well as ensure quality delivery by the consultant was constituted entirely from the State Department of Petroleum.

Consequently, the Management was in breach of the contract terms.

1561. Delays in Remitting Taxes

Note 10.1 to the financial statements reflects pending bills of Kshs.430,115,775 as at 30 June, 2020. The amount includes withholding tax and Value Added Tax (VAT) recoveries from suppliers and consultants totalling Kshs.127,982,507. However, the deducted amounts, some of which date back to October, 2018, was yet to be remitted to the Kenya Revenue Authority (KRA) contrary to the Income Tax Act, Cap. 470. In the circumstances, the Management was in breach of the law.
Conclusion

1562. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE DEPARTMENT FOR TOURISM - VOTE 1202

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1563. Presentation of Financial Statements - Follow Up Issues

Note 17 to the financial statements on progress on follow up of prior years' auditor's recommendations has not been updated to include the status of audit issues raised in financial years 2017/2018 and 2018/2019. The reporting and disclosure requirements prescribed by the Public Sector Accounting Standards Board have therefore not been met.

1564. Cash and Cash Equivalents

1564.1 Unreconciled Cash and Cash Equivalents Balance

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.157,621,413. However, the balance differs with the amount of Kshs.656,487,652 reflected in the supporting Trial Balance occasioning a difference of Kshs.498,866,239 which was not reconciled.

1564.2 Deposits Account

The bank reconciliation statement for deposits accounts reflects payments in bank statement not in cash book of Kshs.5,125,837 as at 30 June, 2020. However, the supporting schedule and the dates when the reconciling items were subsequently cleared were not provided for audit review. Further, the deposits account balance of Kshs.157,517,473 reflected in the financial statements differ with the deposits cash book balance of Kshs.151,877,286 resulting to an unexplained balance of Kshs.5,640,187.

Under the circumstances, the accuracy of cash and cash equivalents balance of Kshs.157,621,413 as at 30 June, 2020 could not be ascertained.

1565. Pending Bills

1565.1 Unsupported Pending Bills

As disclosed under Annex 1 to the financial statements, the State Department had pending bills totalling Kshs.193,492,683 as at 30 June, 2020. Management has not explained why the bills were not settled during the year when they occurred. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.
1565.2 Wasteful Expenditure and Non-Disclosure of Pending Bills

As previously reported, the Ministry of Tourism in 2015/2016 made a payment of Kshs.150 million to a local law firm in respect of a pending bill from the former Ministry of Trade, Industrialization and Tourism. The payment was in respect of an initial bill of Kshs.12 million payable to a media firm but which was in contention as the firm continued to render the services after the contract period for advertising services by the firm had expired in June, 2004. The Attorney-General vide letter Ref. A.G/CIR/3016/04 in 2006 observed that the Ministry was obligated to settle the claim since the Ministry agreed to participate in the disputed third phase of the Programme. As at 17 June, 2010 the bill had accumulated to Kshs.52,606,872 being outstanding amount plus 3% interest since 2004.

In August 2011, the Attorney General advised the then Ministry of Trade, Industrialization and Tourism to pay the contractual amount but negotiate the interest payable even though there was no formal contract for Phase II but this advice was not adhered to.

The firm went to court for non-payment and by the judgement dated 24 July, 2012 ruled in their favour, the firm was awarded Kshs.110,061,691, being the initial Kshs.12 million plus 26% interest since April, 2004. Part payment of Kshs.65 million was made in July, 2013 as interest continued to accumulate. As at December 2016, the outstanding bill had accumulated to Kshs.210 million.

It was noted that there was lack of diligence on the side of the then Ministry officials in allowing the company to continue offering the services without a valid contract and also negligence in not adhering to the professional advice by the Attorney-General to pay the outstanding amount and negotiate the interest payable in 2011. Had this advice been followed, this could have saved the Government the accumulated interest of Kshs.198 million.

In the 2017/2018 financial year, a further payment of Kshs.70 million was made. By the end of 2017/2018 financial year, the Ministry had paid a total of Kshs.285 million against Kshs.210 million accumulated balance as at December, 2016. Thereafter the Ministry received an estimation statement from the Attorney-General instructing the Ministry to pay a further amount of Kshs.62 million arising from the accrued interest which had further increased to Kshs.74 million as at 30 June, 2020. The amount has not been disclosed as a pending bill in the financial statements.

Consequently, there is a risk of further loss of public funds through accumulated interest and penalties with continued delay in payment.

Other Matter

1566. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.8,849,239,810 and Kshs.6,420,260,067 respectively, resulting to an under-funding of Kshs.2,428,979,743 or 27% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.8,849,239,810 and Kshs.6,419,524,424 respectively,
resulting to an under-expenditure of Kshs.2,249,715,386 which occurred mainly under transfers to other government units. The under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

1567. Late Exchequer Releases

The State Department for Tourism received Exchequer releases from The National Treasury totalling Kshs.2,126,754,160 for the year under review. However, Exchequer releases totalling Kshs.294,983,890.45 were received in the month of June as tabulated below:

<table>
<thead>
<tr>
<th>Date Funds Received</th>
<th>Amount Received (Kshs.)</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/06/2020</td>
<td>111,655,520</td>
<td>Recurrent</td>
</tr>
<tr>
<td>25/06/2020</td>
<td>15,806,289</td>
<td>Recurrent</td>
</tr>
<tr>
<td>26/06/2020</td>
<td>96,932,486</td>
<td>Recurrent</td>
</tr>
<tr>
<td>03/07/2020</td>
<td>65,446,096</td>
<td>Recurrent</td>
</tr>
<tr>
<td>30/06/2020</td>
<td>5,143,500</td>
<td>Development</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>294,983,891</strong></td>
<td></td>
</tr>
</tbody>
</table>

The delay in Exchequer release may have resulted in low absorption of the budget thus negatively affecting timely implementation of the programmes of the State Department and provision of services to the public.

1568. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1569. Office Lease Agreements and Partitioning of Tourism Trust Fund Building

On 11 October, 2017, the State Department engaged a contractor to carry out partitioning of offices works at the Tourism Trust Fund Building at a contract sum of Kshs.138,500,657. The letter of notification of award of the contract dated 28 August, 2017 stated that the contract would be signed not later than 30 days from the date of the letter. However, the contract was signed on 11 October, 2017 and no explanation was provided for the delay. Further, the State Department paid the contractor an amount of Kshs.24,000,000 on 14 May, 2020 even though the performance bond of Kshs.6,925,033 had expired on 07 February, 2020.

In addition, although the State Department also occupied offices at NSSF building and Utalii House, the lease agreements were not provided for audit and the terms of occupation could not therefore be confirmed.
Under the circumstances, it was not possible to confirm that the resources of the State Department were used in an effective, efficient, economical and transparent manner as required under Section 68(1) of the Public Finance Management Act, 2012.

1570. **Repair and Rehabilitation of Farm Murera Gate Road**

The contract was awarded for Repair and Rehabilitation of 26 kilometers of road. However, the scope of the works was changed to construction of 11 kilometers under unclear circumstances.

The contract was awarded on 22 March, 2017 and commenced on 21 May, 2017 for a contract period of twelve (12) months with a completion date of 31 May, 2018. Thereafter, the contractor was awarded 146 days extension thereby revising the completion date to 24 October, 2018. However, an audit review of the status in October, 2020 revealed that there was no valid performance security in place and works were still ongoing although no evidence was provided that the employer had approved a second extension of time or started charging liquidated damages in accordance with conditions of contract. Continued delay in completing the project denies the employer intended benefits from use of the road and consequently, until the project is completed, value for money spent cannot be realized.

Further, it was also observed that some certificates were paid beyond the stipulated time such as Certificate No.4 signed on 21 June, 2018 paid on 24 December, 2019 and Certificate No.3 signed on 14 February, 2018 and paid on 24 January, 2019. The delays exposed the State Department to additional costs inform of interest on delayed payments.

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

**Basis for Conclusion**

1571. **Lack of an Audit Committee**

Section 73(5) of the Public Finance Management Act, 2012 provides that every national government entity shall establish an Audit Committee whose composition and functions shall be as prescribed by the Regulations. However, as previously reported, the State Department did not have an Audit Committee. In the absence of a functioning Audit Committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of an Audit Committee did not take place which may have hindered good corporate governance at the State Department.
STATE DEPARTMENT FOR WILDLIFE - VOTE 1203

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1572. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

1573. Transfers to Wildlife Clubs of Kenya (WCK)

Included in transfers to other government agencies of Kshs.7,385,760,884 is an amount of Kshs.49,000,000.00 transferred to the Wildlife Clubs of Kenya during the year under review. However, the Wildlife Clubs of Kenya did not present their financial statements for audit. Further, although the Wildlife Clubs of Kenya is listed among State Corporations, Semi-Autonomous Government Agencies and Public Funds under the State Department, as shown under Annex 3 to the financial statements, information available shows that Wildlife Clubs of Kenya is a Charitable, Non-Governmental Organization founded in 1968. As such, no justification has been given for transfers of public funds to the organization.

1574. Unverifiable Assets

Annex 2 to the financial statements reflects a fixed assets balance of Kshs.24,359,304. However, the balance differs with the amount of Kshs.217,588,640 reflected in the fixed assets register as at 30 June, 2020. In addition, the schedule of fixed assets includes a list of seventeen (17) motor vehicles inherited from the defunct Ministry of Regional Development and Ministry of Environment and Natural Resources. However, the State Department did not have logbooks for twelve (12) of these vehicles, while logbooks for the other five (5) vehicles are in the names of other entities and had not been transferred to the State Department’s name. As a result, it was not possible to verify the value of assets owned by the State Department.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1575. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1576. Failure to Appoint an Audit Committee

Contrary to Regulation 174 (1) of the Public Finance Management (National Government) Regulations, 2015, the State Department operated without an Audit Committee during the year under review. The duties and responsibilities of the Audit Committee were not undertaken and therefore, the entity operated without the required oversight and guidance especially on matters relating to recommendations made by internal audit.

1577. Lack of a Risk Management Policy

Contrary to Regulation 165 (1) of the Public Finance Management (National Government) Regulations, 2015, the State Department did not have a Risk Management Policy. Failure to develop a risk policy means that the State Department did not have a framework for management of risk and hence it was not possible to identify, assess and control risk. As a result, it was not possible to define the entity’s risk appetite and set the risk tolerance levels by identifying boundaries against unacceptable risk exposures.

1578. Lack of an ICT Policy

The State Department had not prepared and implemented an ICT Policy as a commitment to the process of implementing digital technology. An ICT policy would give guidance on how to ensure confidentiality, integrity and availability of the entity’s data.
1579. Basis for Qualified Opinion

1579.1 Accuracy and Completeness of the Financial Statements

Comparison of financial statements balances and the supporting schedules generated from the Integrated Financial Management Information System (IFMIS) revealed variances which were not explained or reconciled as detailed below:

<table>
<thead>
<tr>
<th>Details</th>
<th>Financial Statements (Kshs.)</th>
<th>IFMIS Generated Reports (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Balance</td>
<td>741,374</td>
<td>(1,461,367,510)</td>
<td>1,462,108,884</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>0</td>
<td>2,669,885,976</td>
<td>(2,669,885,976)</td>
</tr>
<tr>
<td>Accounts Receivables</td>
<td>5,400,477</td>
<td>4,011,932</td>
<td>1,388,545</td>
</tr>
<tr>
<td>Accounts Payables</td>
<td>100,000</td>
<td>80,825,266</td>
<td>(80,725,266)</td>
</tr>
<tr>
<td>Fund Balance Brought Forward</td>
<td>1,816,101</td>
<td>1,126,772,833</td>
<td>(1,124,956,732)</td>
</tr>
<tr>
<td>Prior Year Adjustments</td>
<td>(706,459)</td>
<td>0</td>
<td>(706,459)</td>
</tr>
<tr>
<td>Adjustments During the Year</td>
<td>4,190,925</td>
<td>3,937,379,631</td>
<td>(3,933,188,706)</td>
</tr>
<tr>
<td>Net Cash Flow from Operating Activities</td>
<td>156,971,620</td>
<td>3,775,510,536</td>
<td>(3,618,538,916)</td>
</tr>
<tr>
<td>Net Increase in Cash and Cash Equivalents</td>
<td>34,825</td>
<td>(3,932,447,331)</td>
<td>3,932,482,156</td>
</tr>
<tr>
<td>Cash and Cash Equivalents at the Beginning of the Year</td>
<td>706,549</td>
<td>5,140,965,798</td>
<td>(5,140,259,249)</td>
</tr>
<tr>
<td>Cash and Cash Equivalents at the End of the Year</td>
<td>741,374</td>
<td>1,208,518,467</td>
<td>(1,207,777,093)</td>
</tr>
</tbody>
</table>

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2020 could not be confirmed.

1579.2 Unsupported Accounts Receivables Balances

The statement of assets and liabilities reflects a balance of Kshs.5,400,477 under accounts receivables – outstanding imprest which, as disclosed in Note 8 to the financial statements, includes district suspense and clearance accounts balances of Kshs.3,234,101 and Kshs.1,659,216 respectively, for which supporting documents were not provided for audit review.

In the circumstances, the accuracy and full recoverability of the reported accounts receivables balance of Kshs.5,400,477 could not be confirmed.
1579.3 Unsupported Expenditure Balances

1579.3.1 Routine Maintenance – Other Assets

The statement of receipts and payments reflects an expenditure balance of Kshs.626,275,634 under use of goods and services which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.2,810,591 in respect of routine maintenance – other assets, whose ledger reflected unexplained and unsupported adjustments of Kshs.1,614,314 (Debit) and Kshs.241,200 (Credit).

1579.3.2 Supply and Delivery of Sanitary Towels

Included in the expenditure amount of Kshs.626,275,634 under use of goods and services is an amount of Kshs.485,721,875 in respect of office and general supplies and services. The latter balance includes prior year’s pending bills amounting to Kshs.104,262,688 paid out during the year to various suppliers in respect of supply and delivery of sanitary towels. However, the payments were made without proof of requisite supporting documents including procurement requisitions, monitoring reports, minutes of the implementation committee confirming supply and receipt, delivery status reports, signed stores ledgers (S13) confirming the receipts, Kenya Bureau of Standards compliance certificate, inspection and acceptance report and performance bonds.

1579.3.3 Other Unsupported Expenditure

Also included in the expenditure amount of Kshs.626,275,634 under use of goods and services, is unsupported expenditure totalling to Kshs.1,797,649 incurred on printing, advertising and information supplies and services (Kshs.175,088), communication supplies and services (Kshs.339,501), and domestic travel and subsistence (Kshs.1,283,060).

From the foregoing, the accuracy and validity of the reported expenditure of Kshs.626,275,634 for use of goods and services could not be confirmed.

1580. Non-Compliance with Financial Reporting Guidelines

The forward by the Cabinet Secretary contained in the financial statements presented for audit was not signed contrary to guidelines issued by the Public Sector Accounting Standards Board. In addition, issues contained in the prior year’s audit report on lawfulness and effectiveness in use of public resources and on effectiveness of internal controls, risk management and governance are not included under the progress on follow up of prior year’s auditors recommendations section of the financial statements.

1581. Compensation of Employees

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an expenditure balance of Kshs.259,420,630 (2019- Kshs.205,404,606) under compensation of employees which includes an amount of Kshs.3,864,480 (2019 –
Kshs.3,819,832) paid to the Secretary- Gender Affairs whose appointment, as previously reported, was irregular.

Other Matter

1582. Unresolved Prior Year Audit Matters

As disclosed under the Progress on Follow Up of Prior Year’s Auditor’s Recommendations section of the financial statements, various prior year audit matters remained unresolved as at 30 June, 2020. Management has not provided any explanation for the delay in resolving the prior year audit matters.

1583. Pending Bills

Note 15 to the financial statements reflects pending bills amounting to Kshs.2,214,035 that were not settled in the year under review but were carried forward to 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1584. Irregular Procurements

1584.1 Communication Supplies and Services

As disclosed in Note 4 to the financial statement, the statement of receipts and payments reflects an expenditure of Kshs.3,639,381 relating to communication supplies and services. The expenditure includes an amount of Kshs.1,545,572 paid on 8 October, 2019 in respect of procurement of ICT equipment and networking services contrary to ICT Circular No. MICT/A/10/3 VOL.L of 24 January, 2019. The circular directed that all ICT procurements be done through the State Department for ICT. No approvals or exemptions from the Ministry of ICT were availed for audit examination.

Further, the State Department had a budgetary allocation of Kshs.21,609,270 provided for under the Ministry of ICT for purchase of computers, printers and other IT equipment, photocopiers, and ICT networking and communication equipment for the financial year 2019/2020. However, Management did not utilize the allocation and no explanation has been provided for failure to utilize.

Under the circumstances, the State Department was in breach of the Presidential Procurement Directives on ICT equipment and no value was derived from unutilized budgetary allocation of Kshs.21,609,270.
1584.2 Hospitality Supplies and Services

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.30,565,632 under hospitality supplies and services. However, examination of records and documents revealed irregular procurements worth Kshs.12,996,957 by the State Department during the 12th Commonwealth Women Affairs Ministers Meeting (WAMM) held in Nairobi between 16 to 20 September, 2019 as follows:

(a) On the hire of public address system (line array sound equipment and presidential backline) for three (3) days during the event at a cost of Kshs.1,322,400, the criteria and basis for identification of the three (3) firms invited to submit quotations on 16 September, 2019 (the date of the event commencement) could not be established. A fourth firm that was not invited to submit quotations did so under unclear circumstances. Although there was an evaluation undertaken, no professional opinion was given for the approval of the Accounting Officer before issuance of the purchase order on 08 November, 2019 - more than a month after the event had taken place and a day after the invoice date from the service provider. The inconsistencies have not been explained.

(b) The State Department procured event organizer services, supply of exhibition booths and hire of conference equipment at a cost of Kshs.889,256, Kshs.1,954,600 and Kshs.1,318,926 respectively through request for quotations method of procurement. However, the Local Purchase Orders (LPOs) were issued on 23 September, 2019 – seven days after the commencement of the event.

(c) The department procured conference facilities at a cost of Kshs.7,511,775 using the request for quotations method contrary to the provisions of Section 106 of the Public Procurement and Asset Disposal Act, 2015 and the First Schedule of the Public Procurement and Disposal Regulations, 2013 which provides a threshold of Kshs.2,000,000 for use of the method for procurement of services.

In addition, whereas the request for quotations to the service provider was dated 23 August, 2019, with a closing date of 26 August, 2019, the award had already been done vide letter Ref. No. MPSYGA/SDGA/PROC/3/5 of 12 July, 2019 with the acceptance of the award of the contract by the service provider having been received by the Department on 16 July, 2019.

Further, the professional opinion No.01/01/2019/2020 dated 10 July, 2019 indicated that the Commonwealth Secretariat and the Office of the Commonwealth Secretary General had already indicated to the Accounting Officer on 9 November, 2018 of their preferential hotel and residences service provider. Subsequently, the Accounting Officer gave approval for the procurement of that venue on 3 May, 2019 vide a memo Ref: MPSYGA/SDGA/FTA/7/15(A). However, the service provider had already forwarded a quotation of Kshs.13,405,500 on 7 March, 2019 which was 2 months earlier than the date of the memo and for which request for quotations was sent out in September, 2019. No explanation has been given of how the preferred service provider was identified without
subjecting it to competitive procurement process or how two quotations of Kshs.13,405,500 and Kshs.7,027,500 were received for the same event from one service provider.

It was also noted that the payment of Kshs.7,511,755 to the service provider was higher than the quoted cost of Kshs.7,027,500 resulting to an overpayment of Kshs.484,275 that was not explained.

1585. Irregular Expenses - Domestic Travel and Foreign Travel

Included in the expenditure amount of Kshs.626,275,634 under use of goods and services are amounts of Kshs.23,984,535 and Kshs.3,450,722 incurred on domestic travel and subsistence, and foreign travel and subsistence respectively. Examination of supporting documents and records revealed that the State Department staff undertook activities at their own expense in form of daily subsistence allowances amounting to Kshs.2,597,201 while away from their duty stations. The allowances or expenses were then later claimed for reimbursements. However, the State Department did not avail approvals or authority for staff to incur expenses on its behalf to be reimbursed later. In addition, it was not clear why the staff were not facilitated given that the activities were included in the work plan and budgeted for during the year. Further, reimbursements amounting to Kshs.2,284,000 brought forward from the previous financial year were neither budgeted for in the year under review nor disclosed in the previous year’s financial statements as payables.

In the circumstances, the regularity and validity of the payments could not be confirmed.

1586. Fixed Assets Register

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.6,936,795 under acquisition of non-financial assets. However, as previously reported, the State Department did not maintain an updated fixed asset register. A comparison of the total cost of assets acquired in the financial year as reflected in the assets register submitted for audit review and the total acquisition of assets balance reflected in the financial statements revealed unexplained and unreconciled variances as shown below:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Financial Statements (Kshs.)</th>
<th>Assets Register (Kshs.)</th>
<th>Variances (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2018/19</td>
<td>27,691,735</td>
<td>20,245,964</td>
<td>7,445,771</td>
</tr>
<tr>
<td>FY 2019/20</td>
<td>6,936,795</td>
<td>5,828,800</td>
<td>1,017,995</td>
</tr>
</tbody>
</table>

In addition, the assets register reflected assets with a total value of Kshs.8,698,412 of which assets with a historical cost of Kshs.7,589,048 and Kshs.1,109,364 were indicated as issued to various officers and held in the stores respectively. However, the assets could not be identified by Management for physical verification.

Under the circumstances, it could not be confirmed that preventative mechanisms were in place to eliminate theft, security threats, losses, wastage and misuse of assets as
required under Regulation 139 of the Public Finance Management (National Government) Regulations, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1587. Lack of Audit Committee and Public Finance Management Standing Committee

As previously reported, the State Department has not constituted an Audit Committee as required by Regulation 174(1) of the Public Finance Management Regulations, 2015 and Treasury Circular No. NT/IAG/GEN/055(163) of 26 April 2016. In addition, contrary to Regulation 18 (1) of the Public Finance Management (National Government) Regulations, 2015, the State Department had not put in place Public Finance Management Standing Committee. It has not been established how the roles and responsibilities meant for the committees and the other non-operational committees were carried out and there is no evidence of the Department having been exempted from the requirement of the Regulations.

UWEZO FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1588. Accuracy of Financial Statements

The statement of comparison of budget and actual amounts has omitted the budget and actual revenue from exchange transactions, government grants and subsidies as well as transfers from other governments. Further, the statement reflects total actual expenses of Kshs.389,657,343 which differs from the statement of financial performance amount of Kshs.190,922,566 thus resulting in a variance of Kshs.198,734,777 that has not been explained or reconciled.

In addition, the statement of cash flows reflects balances of Kshs.1,114,669 and Kshs.118,282,727 under trade and other payables and non-current receivables respectively. However, no supporting documents by way of detailed ledgers were availed for audit verification.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be ascertained.
1589. Irregular Extraneous Allowance and Gifts and Services in Kind

As disclosed in Note 8 to the financial statements, the statement of financial performance reflects transfers from other governments-gifts and services in kind amounting to Kshs.25,959,080. Included in the amount is Kshs.2,791,246 paid to an officer as salary during the year under review. Further, the statement of financial performance reflects employee costs of Kshs.6,164,160 which, as disclosed in Note 9 to the financial statements, includes extraneous allowances of Kshs.4,095,883. The latter balance includes an amount of Kshs.141,071 paid to the officer as extraneous allowance. Information available indicate that the officer was transferred to the State Department for Early Learning and Basic Education effective from 1 March, 2018. However, there is no evidence of continued service of the officer to the Fund and the requisite approvals to draw the allowance were made available for audit review.

Under the circumstances, the propriety of the transfer from other governments - gifts and services in kind of Kshs.2,791,246 and extraneous allowances totalling Kshs.141,071 could not be confirmed.

1590. Unreconciled Remuneration of Directors

The statement of financial performance reflects Kshs.4,166,679 as remuneration of directors. However, the reported balance excludes Kshs.240,000 paid to Board Members while attending a corporate governance training held between 21 and 23 November, 2019. The amount has been wrongly charged to staff training expenses. In addition, the documents rendered in support of the expenditures by way of payment vouchers amounted to Kshs.4,589,519, comprising of Board allowances and other expenses of Kshs.3,908,229 and Chairman’s honoraria of Kshs.681,290. This differed with the reported expenditure in the financial statements of Kshs.4,166,679 resulting to an understatement of Kshs.422,840.

Consequently, the accuracy and completeness of the reported remuneration of directors of Kshs.4,166,679 could not be confirmed.

1591. Unsupported Constituencies’ Administration Costs

The statement of financial performance reflects constituencies’ administration costs of Kshs.94,064,891 which was unsupported by way of comprehensive expenditure returns from the Constituencies. Instead, the amount has been derived from movements in the unutilized Fund balances (opening and closing) and adjusted by the transfers to the Constituencies during the year.

Under the circumstances, the accuracy and completeness of the reported constituencies’ administration costs of Kshs.94,064,891 could not be confirmed.
1592. Unsupported and Unreconciled Cash and Cash Equivalents

As disclosed in Note 17 to the financial statements, the statement of financial position reflects a balance of Kshs.2,959,082,841 under cash and cash equivalents. Included in the balance is Kshs.2,427,782,222 held at nine commercial banks with each of the 290 Constituencies maintaining three (3) types of bank accounts namely; main, administration and loan accounts. However, supporting documents for 343 bank account balances by way of bank reconciliation statements, certificate of bank balance confirmation, board of survey reports and copies of cash book extracts for the bank accounts were not availed for audit review. The reported bank balance was derived from the bank statement balances as at the end of the year as opposed to the cash book balances. This is a departure from the general accepted accounting principles and practices.

Further, included in the balance are amounts totalling to Kshs.13,372,033 indicated as direct credits in bank accounts for eleven constituencies as detailed below:

<table>
<thead>
<tr>
<th>Constituency</th>
<th>Main Account (Kshs.)</th>
<th>Admin Account (Kshs.)</th>
<th>Loan Account (Kshs.)</th>
<th>Total (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ikolomani</td>
<td></td>
<td>79,600</td>
<td></td>
<td>79,600</td>
</tr>
<tr>
<td>2. Gichugu</td>
<td>1,942,668</td>
<td>500</td>
<td>795,487</td>
<td>2,738,655</td>
</tr>
<tr>
<td>3. Kieni</td>
<td>659,508</td>
<td>370</td>
<td>4,212,707</td>
<td>4,872,585</td>
</tr>
<tr>
<td>4. Mathira</td>
<td>16,000</td>
<td>2,852,975</td>
<td></td>
<td>2,868,975</td>
</tr>
<tr>
<td>5. Thika Town</td>
<td>10,000</td>
<td>-</td>
<td>700,426</td>
<td>710,426</td>
</tr>
<tr>
<td>7. Kisumu Central</td>
<td></td>
<td>5,400</td>
<td></td>
<td>5,400</td>
</tr>
<tr>
<td>8. Kisumu East</td>
<td></td>
<td>8,400</td>
<td></td>
<td>8,400</td>
</tr>
<tr>
<td>9. Dagoretti South</td>
<td>571,341</td>
<td></td>
<td></td>
<td>571,341</td>
</tr>
<tr>
<td>10. Langata</td>
<td>36,800</td>
<td>351,536</td>
<td></td>
<td>388,336</td>
</tr>
<tr>
<td>11. Butere</td>
<td>738,780</td>
<td>6,000</td>
<td></td>
<td>744,780</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,358,632</td>
<td>870</td>
<td>9,012,531</td>
<td>13,372,033</td>
</tr>
</tbody>
</table>

The Fund Management did not explain the source of direct credits nor were the supporting documents provided for audit review. The accounting treatment accorded the direct credits in the financial statements was inappropriate as they were recognized without effecting the corresponding account liability or revenue account.

In addition, the records maintained by the Fund in respect of loan and main bank accounts balances submitted in support of individual constituencies balances amounted to Kshs.1,265,871,833 and Kshs.1,076,261,463 respectively. This varied with the reported balances in the financial statements of Kshs.1,267,738,578 and Kshs.1,076,007,578 resulting to an unexplained and unreconciled variance of Kshs.1,866,745 and Kshs.253,890 respectively.
Under the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.2,959,082,841 could not be confirmed.

1593. Unsupported and Unaccounted for Loan to Groups

The statement of financial position reflects a balance of Kshs.4,111,156,213 being outstanding loans to groups of as at 30 June, 2020. The balance has been derived by adjusting the National Government capital fund grants of Kshs.6,499,650,004 for amount of monies presumably held at CBK Bank, loan repayment and main accounts of Kshs.44,747,632, Kshs.1,267,738,578 and Kshs.1,076,007,578 respectively. However, the presumed bank balances are un-supported. Further, there were no debtors’ ledgers detailing loans issued by the Fund since inception and repayments made over the years on account of loan recoveries. There was no comprehensive loan listings or aging analysis in support of the outstanding loans.

Consequently, the accuracy and completeness of the reported loans to groups balances of Kshs.4,111,156,213 as at 30 June, 2020 could not be confirmed.

1594. Work-In-Progress (WIP) - Stalled Project

As reported previously, the statement of financial position reflects work-in-progress balance of Kshs.19,522,765. The balance represents 40%-part payment in respect of an Enterprise Resource Planning (ERP) software procured and contracted in the year 2015/2016. The supply, installation and commissioning of the application is yet to be made even though the part payment was made over four (4) years back and recognized in the financial statements. Information available indicates that the implementation of the ERP which was contracted at a sum of Kshs.48,806,912 has been called off even though there is a valid contract in force between the Fund and the supplier. In the circumstances, the recoverability and likely utilization of the part payment of Kshs.19,522,765 is doubtful.

Further, the Fund entered into a consultancy contract on 2 November, 2015 for the ERP project implementation management at a sum of Kshs.6,602,821 and paid an amount of Kshs.1,320,564 representing 20% of the contract sum. The payment has however not been recognized in the financial statements as a prepayment or part of capital works in progress even though there has been no work done on the project. The value for money received by the Fund in respect of the software could therefore not be ascertained.

Consequently, the accuracy and fair statement of the reported work-in-progress balances of Kshs.19,522,765 could not be confirmed.

1595. Property, Plant and Equipment (PPE)

As disclosed in Note 20(a) to the financial statements, the statement of financial position reflects a balance of Kshs.8,504,009 under property, plant and equipment. Included in this balance is Kshs.145,333 for computers and related equipment which is net of
reversal adjustments made during the year of Kshs.1,437,000 and Kshs.479,000 on cost and depreciation respectively in relation to computer items removed from the PPE schedule. The Fund procured the items in the financial year 2018/2019 but the payment was declined on recommendations of both the pending bills committee and the Internal Audit function. However, the reversals and their accounting treatment have not been supported. Further, although the Fund has possession and has used the unpaid for items, the liability of the amount payable to the supplier has not been recognized in the financial statements.

Consequently, the accuracy and fair statement of the reported property, plant and equipment balance of Kshs.8,504,009 as at 30 June, 2020 could not be confirmed.

1596. Non-Compliance with the Law

Contrary to the provisions of Section 18(1) of the Public Finance Management (National Government) Regulations, 2015, the Fund did not have a Public Finance Management Standing Committee. It was therefore not possible to establish how the mandate of the Committee was carried out during the year under review.

1597. Irregular Procurements

1597.1 Consumables - Office and General Supplies

Contrary to the provisions of Section 69(2) of the Public Procurement and Asset Disposal Act, 2015 which provides that no procurement approval shall be made to operate retrospectively to any date earlier than the date on which it is made, the following instances of breach of the provisions were noted: -

1597.1.1 Supply and Delivery of Toners

The Fund floated quotations referenced UWZ/RFG/003/2019-2020 to three prequalified firms for the supply and delivery of assorted toners on 13 November, 2019. This was against a requisition of the ICT Unit of 24 October, 2019. The three firms responded and were evaluated with the committee recommending award to all the firms on the basis of their lowest quoted prices on assorted toners of Kshs.582,000 on 16 December, 2019. However, purchase orders numbers 2944635, 2944636 and 2944637 were issued on 16 December, 2019 ahead of the professional opinion approval on 23 December, 2019.

1597.1.2 Supply and Delivery of Publicity Materials

The Fund also floated quotations referenced UWZ/RFQ/013/2019-2020 for the supply and delivery of publicity materials on 20 November, 2019. However, the requisition by the user department of 4 December, 2019 was later than the request for quotation date. Three firms responded and the evaluation committee evaluated and recommended for award to the lowest bidder at a cost of Kshs.329,200 on 16 December, 2019. However,
purchase order number 294462 was issued on 16 December, 2019 ahead of the professional opinion approval of 23 December, 2019.

1597.2 Repairs and Maintenance

Included in the repairs and maintenance expenditure of Kshs.5,792,173 are expenses for which irregularities were notable:

1597.2.1 Motor Vehicle Repairs

The Fund’s motor vehicle was involved in a road accident on 26 December, 2019. On 31 December, 2019, the State Department of Infrastructure issued an accident inspection report indicating the economical estimated cost of undertaking the repairs at Kshs.1,700,000. The Fund then adopted the request for quotation method of procurement to source for a service provider to undertake the repairs. The order and invoice were then raised on 14 April, 2020 and 20 May, 2020 respectively, followed by a payment of Kshs.1,680,000. However, although the three bids were signed and stamped on 27 February, 2020, the acknowledgement of receipt of the quotations by the Fund was dated 21 February, 2020, which was earlier than the date of bidders submission. The inconsistency has not been explained.

Also included in the repairs and maintenance expenditure cost is Kshs.1,156,305 paid to service providers for repairs and servicing of motor vehicles whose supporting procurement documents were not made available for review to confirm if the due procurement process was adhered to.

1597.2.2 Repair of Printers and ICT Equipment

The Fund paid Kshs.210,000 on 19 May, 2020 for maintenance and configuration of Local Area Network (LAN) points, trunking installation, repair and reconfiguration of the shielded twisted pair UPT CAT6 cable and wireless points. This was done against purchase order number 1453121 of 9 March, 2020 and an invoice No.1064 of 25 March, 2020. Further, the Fund paid out Kshs.164,000 for repair of printers and UPS on 30 June, 2020 against order No.1453127 of 14 April, 2020 and invoice No.284/2020 of 15 April, 2020. However, in both circumstances, the winning bidders Tax Compliance Certificates had expired and were therefore ineligible to bid for the works.

1597.2.3 Procurement of Motor Vehicle Tyres

The Fund paid Kshs.1,052,990 for supply of tyres on 16 March, 2020 vide order No.2944624 of 13 January, 2020, delivery note No. 0140 and invoice No.0140 both of 21 February, 2020, Counter Receipt Voucher No.8663971 and acceptance report of 26 February, 2020. However, the prices of the tyres paid for were significantly above the recommended Market Price Index Survey Results of Public Procurement Review Authority (PPRA) for the month of February, 2020 as detailed below:
<table>
<thead>
<tr>
<th>Tyre size</th>
<th>Fund Buying Price (Kshs.)</th>
<th>PPRA Price February 2020 (Kshs.)</th>
<th>Price Overcharge (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>265/65R17</td>
<td>47,250</td>
<td>14,482</td>
<td>32,768</td>
</tr>
<tr>
<td>265/65R18</td>
<td>50,800</td>
<td>15,756</td>
<td>35,044</td>
</tr>
<tr>
<td>245/70R16</td>
<td>38,500</td>
<td>13,739</td>
<td>24,761</td>
</tr>
<tr>
<td>195/65R15</td>
<td>45,000</td>
<td>6,611</td>
<td>38,389</td>
</tr>
</tbody>
</table>

No explanation was rendered for the procurement at prices higher than the prevailing market index. The Fund did not realize value for money from the expenditure of Kshs.1,052,990 on the supply of tyres.

1598. Transportation Service and Supplies

The statement of financial performance reflects an expenditure of Kshs.52,077,333 under use of goods and services which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.21,063,313 in respect of transportation service and supplies. Included in the amount are payments totalling to Kshs.1,882,060 by way of daily subsistence allowances to various officers to carry out activities that form part of their daily routine tasks, duties and responsibilities including preparation of annual financial statements and quarterly reports. No justification was rendered for the decision to undertake routine tasks outside the office.

In the circumstances, it has not been possible to confirm if value for money was realized from the expenditure of Kshs.1,882,060 on daily subsistence allowances on routine tasks.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1599. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1600. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1601. Misclassification of Expenditure

The statement of receipts and payments reflects expenditure balances of Kshs.1,368,561,573 and Kshs.151,453,303 under use of goods and services and acquisition of assets, respectively. However, examination of a sample of payments under use of goods and services and acquisition of assets revealed that expenditure amounting to Kshs.63,194,517 had been charged to inappropriate budget lines distorting the budget execution as detailed below:

<table>
<thead>
<tr>
<th>Budget Line Charged</th>
<th>Accurate Budget Line</th>
<th>Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities Supplies and Services</td>
<td>Hospitality Supplies and Services</td>
<td>3,187,925</td>
</tr>
<tr>
<td>Routine Maintenance – Other Assets</td>
<td>Refurbishment of Buildings</td>
<td>26,510,747</td>
</tr>
<tr>
<td>Refurbishment of Buildings</td>
<td>Office Furniture and General Equipment</td>
<td>12,287,590</td>
</tr>
<tr>
<td>Refurbishment of Buildings</td>
<td>Purchase of Computers and Other Accessories</td>
<td>5,917,175</td>
</tr>
<tr>
<td>Construction of Buildings</td>
<td>Purchase of Office Furniture and Institutional Equipment</td>
<td>6,402,680</td>
</tr>
<tr>
<td>Construction of Buildings</td>
<td>Purchase of Specialized Materials and Services</td>
<td>8,888,400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>63,194,517</strong></td>
</tr>
</tbody>
</table>

The charges to the inappropriate budget lines amounted to unauthorized budgetary reallocation as there were no approvals. Requisite journal adjustments have not been passed to correct the mis-postings.

Under the circumstances, the accuracy and validity of the expenditure totaling Kshs.1,368,561,573 and Kshs.151,453,303 for use of goods and services and acquisition of assets respectively could not be ascertained.

1602. Unsupported Cash Transfers and Payments from Deposit Bank Account

The statement of assets and liabilities reflects bank balances of Kshs.132,024,750 which, as disclosed in Note 9 to the financial statements, comprised of recurrent, development, and deposit bank accounts balances of Kshs.53,121,461, Kshs.7,280,249 and Kshs.71,623,040 respectively. Examination of cashbooks and bank statements for the year under review indicated that Management transferred Kshs.48,718,198 and Kshs.5,955,629 from development and recurrent bank accounts respectively to the deposits bank account. However, the nature and purpose of the transfers was not
provided. Further, the amounts were also included in the reported expenditure on acquisition of assets under refurbishment of buildings even though the identity of the beneficiaries and nature of the works done has not been disclosed.

Consequently, the accuracy and validity of Kshs.54,673,827 held in the deposits bank account as at 30 June, 2020 and included in the reported expenditure for acquisition of assets could not be confirmed.

1603. Use of Goods and Services-Rentals of Produced Assets

The statement of receipts and payments and Note 4 to the financial statements reflects an amount of Kshs.1,368,561,573 in respect of use of goods and services which includes an expenditure of Kshs.264,125,377 relating to rentals of produced assets. Included in the amount is Kshs.27,778,106 relating to provision of office space and service charge in respect of Teleposta Towers. Of this amount, Kshs.22,569,642 relates to the period prior to 31 August, 2019 while the remaining amount of Kshs.5,208,464 relates to six (6) months period from 1 October, 2019 to 1 April, 2020. However, the Lease agreement presented in support of the of payment of Kshs.27,778,106 for the mentioned period does not agree to the terms stipulated in the lease agreement of monthly rental payment of Kshs.904,000 and monthly service charge of Kshs.282,500 payable, that would amount to an annual payment of Kshs.14,238,000. Further, the monthly invoices presented by the landlord dated 1 October, 2019 were significantly different from the lease agreement as they had Kshs.4,168,344 and Kshs.1,040,119 for rent and service charge respectively. In addition, the lease agreement executed by both parties on 5 March, 2020 was later than the invoice issued by the Landlord and paid by the Management amounting to Kshs.27,778,106 purportedly for services rendered for a period earlier than the execution of the lease agreement. This contravenes Section 135(1) of the Public Procurement and Assets Disposal Act, 2015 which states that the existence of a contract shall be confirmed through the signature of a contract document incorporating all agreements between the parties and such contract shall be signed by the accounting officer or an officer authorized in writing by the accounting officer of the procuring entity and the successful tenderer. The invoices and the payment were not supported.

Consequently, the authenticity, occurrence, and rights and obligations of the liability settled by the Management in respect of rental of produced assets amounting to Kshs.27,778, 106 for the year ended 30 June, 2020 could not be confirmed.

Other Matter

1604. Pending Bills

Note 16.1 to the financial statements reflects pending bills amounting to Kshs.313,230,597 that were not settled in the year under review but were carried forward to 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.
1605. Unresolved Prior Year Audit Issues

Various prior year audit issues remained unresolved as at 30 June, 2020. The issues included unsupported cash and cash equivalents balance, unsupported expenditures, unreconciled accounts payables - deposits, among others. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1606. Irregular Procurement of Security Guard Services at Huduma Kenya Secretariat

1606.1 Tender Evaluation

The statement of receipts and payments reflects an expenditure of Kshs.1,368,561,573 in respect of use of goods and services which, as disclosed in Note 4 to the financial statements, includes an expenditure of Kshs.373,092,904 relating to other operating expenses. The latter balance includes an amount of Kshs.67,675,800 paid for provision of security services at various Huduma Centers.

A review of the Tender Evaluation Committee report for the procurement of the services, revealed that twelve (12) firms bid to provide the services. However, three (3) firms that had submitted bids of Kshs.17,000, Kshs.18,000 and Kshs.20,880 per guard per month were not evaluated by the Committee as they were considered not feasible on the basis of business sustainability, administrative support and logistics as was demonstrated by the narrow margins and therefore not recommended for award. The Evaluation Committee introduced an extraneous criteria in arriving at the decision contrary to Section 80(2) of the Public Procurement and Asset Disposal Act, 2015 which provides that the evaluation and comparison shall be done using the procedures and criteria set out in the tender documents.

Although Management is said to have been guided by the previous market survey carried out in the months of May to September, 2017 which had revealed a price range of Kshs.46,980 to Kshs.49,648, the identity of the researcher who prepared the market survey report and the market survey report itself that the Evaluation Committee relied on in arriving at the conclusion were not disclosed or availed for audit verification.

1606.2 Tender Award

The remaining nine (9) firms were found responsive and taken through the full evaluation. The Evaluation Committee computed the average price based on the quoted prices by the nine (9) responsive firms that yielded Kshs.27,940 per guard per month inclusive of Value Added Tax (VAT) but then awarded the contract at Kshs.37,120 per guard per month resulting to an overcharge of Kshs.9,180 or 32.9% above the average price. No explanation or justification was rendered for awarding the contract at a higher price.
Management did not conduct negotiations with the successful firms to ensure that the Huduma Kenya Secretariat received competitive prices and value for money.

1607. Irregular Procurement of Medical Insurance Services

1607.1 Provision of One-Month Insurance Services

The expenditure of Kshs.1,368,561,573 in respect of use of goods and services also includes an amount of Kshs.109,613,708 relating to insurance costs. The latter balance includes an amount of Kshs.6,085,529 paid to an insurance service provider for provision of one-month insurance services for group medical insurance cover for Cabinet Secretaries, Principal Secretaries and other senior civil servants. However, the basis of procurement of the one-month service was not supported. Further, the Management used an expired contract as the basis for payment which is contrary to the provisions of Section135(1) of the Public Procurement and Assets Disposal Act, 2015.

1607.2 Provision of Group Medical Insurance Services

The insurance costs expenditure also includes an amount of Kshs.11,250,000 paid to an insurance service provider being part payment from a total contract sum of Kshs.13,076,953 for provision of group medical insurance services for sixty-nine (69) Huduma Secretariat staff. However, even though the contract stated that the medical cover commenced on 22 January, 2020 and would remain in force for a duration of one (1) year through to 21 January, 2021 and renewable subject to the rights of either party to terminate the agreement on terms of termination contained in the agreement, the two (2) parties signed the contract for the service on 29 January, 2020 thus backdating the contract seven days earlier and without evidence to show that services had been rendered during the seven days prior the execution of the contract. No evidence has been provided for audit verification to show that the insurance services provider rendered services for the duration or that the period of cover was to be extended by the seven days at the expiry of the contract.

1607.3 Performance Security Guarantee

Further, special conditions to the contract reference No.3.6 states that within twenty-eight (28) days of receipt of the notification of contract award, the successful tenderer should furnish the State Department with a performance security guarantee in the form of cash or a bank guarantee approved by the Insurance Regulatory Authority or a letter of credit equivalent to ten percent (10%) of the awarded contract sum of Kshs.13,076,953. However, no evidence was provided to show that the service provider complied with the performance security guarantee in line with the contract terms and Section 142(1) of the Public Procurement and Assets Disposal Act, 2015.

Consequently, it was not possible to confirm whether the State Department adhered to the provisions of Article 227(1) of the Constitution of Kenya, 2010 which requires that when a state organ or any 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. In addition, value for money on the expenditure for the period not covered by a
valid contract as required under Section 142(1) of the Public Procurement and Assets Disposal Act, 2015 could not be confirmed.

1608. Use of Expired and Invalid Contract - Procurement and Payment for Communication Consultancy Services for Huduma Kenya Program

During the Financial Year 2014/2015, the Management of the State Department for Public Service and Youth Affairs signed a twelve (12) months contract with a service provider for provision of communication consultancy services for Huduma Kenya Program. The contract sum was Kshs.47,270,000 payable in four (4) tranches upon submission of an acceptable inception report, submission of the first quarter acceptable report, submission of the second quarter acceptable report and upon approval of the third quarter (final) report.

However, in 2019/20 financial year, the Management paid the same service provider Kshs.11,817,500 for submission of the 11th Quarter report for the months of December 2017, January and February, 2018. It was noted that the payment related to a period not covered in the contract signed in the financial year 2014/2015 and used as a basis of support to the payment. No evidence of contract variation or extension was provided for audit verification. Further, the service provider signed the contract on 12 January, 2015 being the effective date (as per the special conditions to contract No.2.2) while the Accounting Officer signed the same document four (4) months later on 12 May, 2015. The time lapse between the service provider’s and the Accounting Officer’s endorsement was outside the tender validity period in line with Section 135 (3) and (4) of the Public Procurement and Assets Disposal Act, 2015.

In addition, under Clause 6.2(b) of the special conditions to the contract, the contract price was to be paid in four (4) tranches and the payments were to be made upon submission of acceptable reports for each quarter by the consultant. The 11th Quarter report (as an agreed deliverable) for the months of December, 2017, January and February, 2018 though covering a period that was not contracted for, was paid on the strength of a memo by the Director, Communications and Public Relations at Huduma Secretariat indicating that the report demonstrated a true reflection of the work carried out by the service provider. However, there was no evidence to show that the report was taken through any process of evaluation and acceptance by any Committee including the Project Steering Committee to justify its acceptability in line with Section 48(3)(b) and (4)(b) of Public Procurement and Asset Disposal Act, 2015.

Consequently, the legality, validity and authenticity of the contract and payment Kshs.11,817,500 made under the contract during the year under review could not be confirmed.

1609. Non-Compliance with the Government Directive on Procurement and Payment of Advertisement Services

Examination of expenditure records revealed that an amount of Kshs.29,122,621 was paid to two local media houses for advertisement services without approval by the Government Advertising Agency as required under Circular No. OP/CAB.58/4A dated 8
February, 2017. No explanation has been provided for the non-compliance or failure to seek approval from Government Advertising Agency as required.

1610. Procurement from Un-Prequalified Firms

The expenditure of Kshs.1,368,561,573 in respect of use of goods and services further includes an amount of Kshs.101,305,022 relating to office and general supplies and services which includes an amount of Kshs.9,934,500 paid for supply of office stationery and supplies. However, the payments were made to suppliers who were not prequalified in line with Section 106(2)(a) of the Public Procurement and Asset Disposal Act, 2015. No explanation was provided for non-compliance with the procurement law. It was not therefore, possible to confirm how the suppliers were identified and contracted for the services.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1611. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MECHANICAL AND TRANSPORT FUND - NATIONAL YOUTH SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1612. Errors and Inaccuracies in the Financial Statements

1612.1 The Statement of Cash Flows

The statement of cash flows reflects closing cash and cash equivalents balance of Kshs.614,389,563 as at 30 June, 2020. However, the statement has omitted adjusting items including changes in inventories figure of Kshs.143,106,015 and movement in China stocks figure of Kshs.463,557,263. No adjustments have been done to correct the errors.

1612.2 Discrepancies Between Comparative Balances on Inventories

The statement of financial position reflects an inventories balance of Kshs.111,921,222 (2019-Kshs.255,027,237). However, Note 17 reflects a comparative figure of Kshs.44,000,000 which is at variance with the audited balance of Kshs.255,027,237 resulting to a difference of Kshs.211,027,237 which has not been explained or reconciled.
Further, no supporting documents were provided for audit verification showing the nature, name, quantities and valuation of the inventory.

1612.3 Accuracy of Stock Balance - China Stocks

The statement of financial position reflects a balance of Kshs.463,557,263 under current assets in respect to China stocks whose comparative balance of zero is indicated to be under Note 17 to the financial statements. However, Note 17 reflects a balance of Kshs.501,145,452. Further, the previous year’s audited financial statements reported a balance of Kshs.220,067,066 under China stocks. The increase in China stocks balance of Kshs.281,078,386 has not been explained or supported by documents for acquisitions done during the year.

1612.4 Variances Between Financial Statements Figures and the General Ledger

A review of the general ledger balances as at 30 June, 2020 reveals variances between the figures reported in the financial statements and the ledger as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Account Description</th>
<th>Financial Statement Balance (Kshs.)</th>
<th>General Ledger Balance (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Hire of Buses</td>
<td>29,415,855</td>
<td>25,693,314</td>
<td>3,722,541</td>
</tr>
<tr>
<td>2.</td>
<td>Finance Costs</td>
<td>154,012</td>
<td>111,748</td>
<td>42,264</td>
</tr>
<tr>
<td>3.</td>
<td>Stationery</td>
<td>4,110,948.00</td>
<td>4,052,448.00</td>
<td>58,500</td>
</tr>
<tr>
<td>4.</td>
<td>Office Expenses</td>
<td>4,083,120.00</td>
<td>4,094,014</td>
<td>(10,894)</td>
</tr>
<tr>
<td>5.</td>
<td>Ruiru Prison Project</td>
<td>11,325,340.00</td>
<td>13,273,340.00</td>
<td>(1,948,039)</td>
</tr>
</tbody>
</table>

No explanation or reconciliation was provided for variances between the two sets of records which ordinarily should agree.

Consequently, the accuracy of the financial statements as at 30 June, 2020 could not be confirmed.

1613. Long Outstanding Sundry Creditors

As disclosed under Note 21 to the financial statements, the statement of financial position as at 30 June, 2020 reflects a balance of Kshs.8,579,233 relating to sundry creditors. As reported in the prior year’s report, the balance has been outstanding for over six (6) years with no explanation on why the amount has not been settled to date. Further, the balance which had been classified as a non-current liability in the financial year 2016/2017 was re-classified to current liabilities in the financial year 2017/2018 without any justification.

Consequently, the authenticity of the figure for sundry creditors could not be confirmed.

1614. Non-Current Assets

As disclosed under Note 18 to the financial statements, the statement of financial position reflects total non-current assets balance of Kshs.4,543,212,448 which includes an amount of Kshs.2,967,257,436 relating to plant and heavy machinery. However, the
Fund’s Management has not valued the plant and heavy machinery for financial reporting purposes since inception.

Further, as reported in the previous year, assets procured in the financial year 2018/2019 at a cost of Kshs.12,962,212 which included ten (10) motor cycles, twenty-one (21) diesel generators and ten (10) water pumps could not be verified. The distribution list for the items were not provided for audit verification. Logbooks or ownership documents for motorable assets amounting to Kshs.43,821,753 were not availed for audit verification while five (5) out of twenty-seven (27) buses used for commuter services have been grounded due to maintenance challenges.

Consequently, the accuracy of the figure for net non-current assets of Kshs.4,543,212,448 could not be confirmed.

### 1615. Cash and Cash Equivalents

The statement of financial position reflects a figure of Kshs.614,365,802 under cash and cash equivalents as at 30 June, 2020. However, confirmation of balances held at Kenya Commercial Bank showed that the actual closing balance was Kshs.612,442,618 leading to a variance of Kshs.2,193,184 which has not been reconciled.

Further, the Board of Survey report dated 1 July, 2020 indicated a cash book balance of Kshs.774,996,551 which differs with the closing cash book balance of Kshs.614,365,802 by a variance of Kshs.160,630,749 which has not been explained or reconciled.

In addition, as disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.614,365,802. However, the bank reconciliation statement reported an amount of Kshs.4,754,539 relating to receipts in bank not in cashbook which was cleared during the month of June, 2020 with no supporting documentation. No explanation was provided detailing how the amounts were cleared from the subsequent bank reconciliations for audit verification.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.614,365,802 as at 30 June, 2019 could not be confirmed.

### 1616. Service Expenses

As disclosed under Note 5 to the financial statements, the statement of financial performance reflects an amount of Kshs.16,335,340 in relation to service expenses. The amounts of service expenses include Kshs.4,781,000 paid to three hundred and ninety-three (393) cohorts and ninety (99) members of staff in the cleaning and garbage collection exercise. The listing of cohorts revealed discrepancies between the computer-generated attendance lists and the respective payrolls payout schedule for payments amounting to Kshs.2,061,000 while the payroll for last period worked, which was between 22 May, 2020 to 4 June, 2020, was completed and signed by the paying officer on 18 July, 2020, eleven (11) days after the money had been withdrawn from the bank.
Further, documents in support of payment of Kshs.1,342,000 included a list of staff and their entitlements for the period worked but no corresponding list of engaged officers was included to justify the payment and confirm the accuracy of the amounts paid while payments totalling Kshs.522,500 were supported by signed payment schedules where the receivers' signatures were all similar. The payout included an attendance list for one hundred and forty-three (143) cohorts purported to have worked but had not been signed for. There was no evidence to show Authority to Incur Expenditure (AIE) for the payment was granted by the Chief Accountant as required under Section 13(2)(b) National Youth Service Mechanical and Transport Fund Rules, Procedures and Guidelines for the operation of the Fund dated January, 2011.

Under the circumstances, the propriety and validity of service expenditure amounting to Kshs.4,781,000 could not be confirmed.

1617. Irregular Procurement of Motor Vehicles

During the year under review, the Fund procured fourteen (14) motor vehicles valued at Kshs.89,601,586. However, there was no evidence of minutes of a Council meeting either attached to the payment voucher or separately availed for audit review to show that the Council of the National Youth Service approved the procurement of the motor vehicles in line with the National Youth Service Act, 2018.

Further, available information indicates that two (2) invoices No. VNA/4608/220 and VNA/4609 both dated 20 April, 2020 were issued by the vendor, M/s Simba Corporation Ltd demanding an amount of Kshs.8,100,000 for each Mitsubishi Pajero (Automatic) with Japan as the country of origin. However, Management made payment using the quoted price of Kshs.8,242,000 per unit through their Local Purchase Order (LPO) No.3165397 which had earlier been raised on 30 March, 2020. The payment resulted to an overpayment of Kshs.284,000 for the two (2) motor vehicles. No explanation has been provided for the additional cost over and above the invoiced amount.

Consequently, the propriety of the expenditure of Kshs.89,601,586 incurred on the purchase of motor vehicles could not be confirmed.

1618. Unsupported Figures for Receivables from Commercial Clients

As disclosed under Note 16 to the financial statements, the statement of financial position reflects a balance of Kshs.178,809,794 as receivables from external operations. However, no supporting schedules have been provided for audit verification.

Consequently, the accuracy, completeness and existence of the receivables from commercial client’s balance of Kshs.178,809,794 as at 30 June, 2020 could not be confirmed.
1619. Expired Items in Stores

A physical inspection on stores on motor vehicle spare parts carried out during the audit revealed that a total of 157.9 litres of assorted paints with a cost value of Kshs.158,830 had expired as per the labels attached while others did have labels at all. Interviews with Management of the stores revealed that the expiry of the items was mainly attributed to change in technology and low demand. No reason was however provided for failure by the Management to take necessary action to dispose the paints.

Consequently, the Fund did not receive value for money on the expenditure of Kshs.158,830 on expired items.

1620. Non-compliance with the Public Procurement and Asset Disposal Act, 2015

The statement of financial position reflects total current assets figure of Kshs.2,198,429,316 as at 30 June, 2020. The figure includes Kshs.111,921,222 and Kshs.463,557,263 relating to inventories and China stocks respectively. However, no evidence was provided for audit verification to show that the Fund’s Management conducted quarterly and annual inventory and stock taking as required under Section 162(2) of the Public Procurement and Asset Disposal Act, 2015 which states that the Head of Procurement function shall arrange for occasional visits of inspection to the stores, at least quarterly in each calendar year, and conduct quarterly and annual inventory and stock taking in order to ensure compliance with all respective governing laws and submit the report to the Accounting Officer.

In the circumstances, Management is in breach of law.

1621. Supply of Booster Pump for Water Treatment at National Youth Service at Gilgil

The statement of financial position reflects a figure of Kshs.4,543,212,448 under small vehicles, commercial trucks and plant and equipment. The figure includes Kshs.3,138,480 paid to a supplier for supply and delivery of a booster pump for water treatment at National Youth Service College, Gilgil. Review of the procurement revealed the following anomalies;

i) The Management issued quotations, which were dated 10 June, 2020 whereas those invited to quote were under instructions that they submit or place them in the quotation/tender box not later than 9.30 am on 9 June, 2020, notably a day before the quotations were issued.

ii) One of the responsive quotations used to invite bidder No. 3 showed that it was filled and completed for submission on 10 June, 2020 a day after 9 June, 2020 indicated as the date when three (3) quotations were opened by a three (3) member tender opening committee.
iii) Quotation for bidder No.2 and the lowest bidder showed it was completed, signed and stamped on 9 June, 2020, the same day the three (3) quotations are purported to have been opened and a day earlier than the date the quotations were issued to the bidders.

In the circumstances, Management is in breach of law.

1622. Delayed Approval of the Annual Programmes and Cost Estimates

The Annual Programmes and Cost Estimates for the financial year 2019/2020 for the Mechanical and Transport Fund showed that the projected expenditure for the financial year was Kshs.449,079,768 against a projected income estimate of Kshs.415,370,000 resulting to a shortfall of approximately Kshs.33,709,768. Management observed that the shortfall was to be catered for by the balance brought forward from previous years of Kshs.158,000,000. However, the following anomalies were observed;

i) Legal notice No.15 of 30 January, 2011, shows that Government Financial Management Act (National Youth Service Mechanical Transport Fund) Regulations, 2011 Section 6 gives the Minister for Public Service the mandate to approve the annual work programmes and cost estimates of the Fund for the financial year 2019/2020. However, the approval was granted on 13 January, 2020, midway through the financial year thus affecting implementation of planned activities and service delivery.

ii) The approved annual work programmes and cost estimates stated that the difference of expenditure of Kshs.33,709,768 between expenditure and projected income estimates would be catered for from the previous year’s balance brought forward of Kshs.158,000,000 which differs with Kshs.13,307,759 reflected in the Audited Financial Statements for the same period. No adequate explanation has been provided on why the Management approved a deficit budget and for the contradicting information that may have informed the approval of a budget without corresponding funds for execution of intended activities.

1623. Unresolved Prior Year Matters

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matter as provided by the Public Sector Accounting Standards Board templates and The National Treasury’s Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1624. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1625. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1626. Transfers to Other Government Units

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.18,488,426,551 under transfers to other government units. Included in the amount are current grants of Kshs.11,792,826,551 of which Kshs.10,280,251 is reported as transferred to the International Conference for Great Lakes Regions (ICGLR). However, the entity has not been defined in the Executive Order No.1 of 2020 of 14 January, 2020 nor has the transfer been supported by payment vouchers.

Under the circumstances, the propriety and correct classification of transfers of Kshs.10,280,251 to International Conference for Great Lakes Regions (ICGLR) could not be confirmed.

1627. Unauthorized and Unsupported Expenditure

The State Department paid Kshs.660,000 for cleaning services rendered on 12th floor Barclays Plaza. However, no evidence in form of a lease agreement or rental payments was provided to show that the State Department had leased the office space in the building. Further, the State Department made a payment of Kshs.564,250 on behalf of the National Youth Council for cleaning services provided in their premises despite the Council being an independent entity with its own budget. There was no evidence of requests for support from the National Youth Council and approval of reallocation to transfers to other government entities. No satisfactory explanation has been provided for the inconsistencies.

Under the circumstances, the validity and propriety of the expenditure totalling to Kshs.1,224,250 on cleaning services could not be confirmed.

Other matter

1628. Pending Bills

As disclosed under Note 16 to the financial statements, the State Department had pending bills totalling to Kshs.16,921,561 relating to construction of civil works and supply of services as at 30 June, 2020. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.
1629. Unresolved Prior Year Audit Matters

As disclosed under progress on follow up of prior years auditor’s recommendation section, audit matters reported in the previous financial years remained unresolved as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for conclusion

1630. Other Operating Expenses

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.1,222,674,348 under use of goods and services which includes an amount of Kshs.636,706,253 under other operating expenditure. The following matters were noted:

1630.1 Provision of Fumigation Services

Included under the other operating expenditure is an amount of Kshs.459,230 paid to a service provider for provision of fumigation services at 3rd Floor Kencom House and 5th Floor Harambee House. The quotation forms (S.10) and the approved professional opinion indicated that the services were procured through request for quotations method. However, the quotations were opened by a Tender Opening Committee comprising of two (2) members instead of the requisite three (3) members provided for under Section 78(1)(a) of the Public Procurement and Asset Disposal Act, 2015.

1630.2 Cleaning Services

Included in the other operating expenditure are payments for provision of cleaning services totaling to Kshs.2,049,250 for which the following anomalies were noted:

1630.2.1 Use of Expired Contract to Procure Cleaning Services for the State Department’s Headquarters at Kencom House

The expenditure includes Kshs.905,550 paid to a service provider for provision of cleaning services at Kencom House for the months of September, October and November, 2019 at a monthly rate of Kshs.301,850 although the contract period had lapsed.

1630.2.2 Non-Compliance with the Law on Contract Extension

The expenditure includes payments amounting to Kshs.894,250 relating to cleaning services rendered at Bruce House offices after extension of the contract period. However, no evidence was provided for audit verification to show that the contract extension was executed in accordance with the provisions of Section 135(1) of the Public Procurement and Asset Disposal Act, 2015 that requires such contract extensions be subjected to an Evaluation Committee whose recommendations are communicated to the Accounting Officer through a professional opinion for approval.
To this extent, the State department was in breach of the Law.

1630.3 Event Management Expenditure

The other operating expenses expenditure included Kshs.6,619,772 paid for provision of tents, decoration, event management and accessories. However, the procedure for identification of the service provider was not established as evidence for use of open tender procurement method in accordance with Section 91 of the Public Procurement and Asset Disposal Act, 2015 was not provided. Further, the contract for the provision of the services was not availed for audit review. Documentary evidence to confirm receipt of goods and services including the inspection and acceptance report in accordance with Section 48 of the Public Procurement and Assets Disposal Act, 2015 was also not provided.

Consequently, the validity and value for money for provision of tents, decoration, event management and accessories of Kshs.6,619,772 could not be confirmed.

1631. Routine Maintenance - Other Assets

Note 4 to the financial statements discloses routine maintenance - other assets expenditure of Kshs.17,337,731 which includes an amount of Kshs.5,057,732 relating to renovation of the Principal Secretary’s office. The renovation works were procured using restricted tendering method. However, Management did not provide evidence that conditions for use of the method as provided under Section 102 of the Public Procurement and Asset Disposal Act, 2015 had been met.

Consequently, the Department was in breach of law and value for money on the renovation expenditure of Kshs.5,057,732 could not be confirmed.

1632. Procurement of Ground Preparation Services

The statement of receipts and payments reflects an amount of Kshs.274,262,515 under acquisition of assets. As disclosed under Note 7 to the financial statements, an amount of Kshs.26,982,277 was paid out in respect of purchase of office furniture and general equipment out of which an amount of Kshs.1,305,900 was paid to a contractor for preparation of the ground for Agricultural Society of Kenya- Mombasa International Trade Fair in 2019.

However, the following anomalies were noted in relation to the payment:

i) The event took place from 4 September, 2019 to 8 September, 2019 indicating that the services of ground preparation were offered earlier than 4 September, 2019 a period which does not coincide with the date of certification on the Job card which shows that the job was done on 18 June, 2020 which was almost ten (10) months after the event took place. Further, even though the Job card was evidently raised on 18 June 2020, it was certified on 8 September, 2019.

ii) Commitment letter Ref: MPYG/SCM/2/31 dated 27 August, 2019 to the service provider by the Departmental Director of Administration, indicated the quotation as having been favorably considered and undertook to pay an amount of
Kshs.1,731,500 being the total costs for the ground preparation for the event. However, the professional opinion had an approval of Kshs.1,305,900 which was at variance with the commitment letter. No explanation has been provided for the discrepancies.

iii) According to the professional opinion, the submitted quotations were closed and opened on 28 August, 2019 by a committee consisting of three (3) officers. However, no evidence was provided in support of the five (5) days extension after the lapse of the period indicated in the request for quotation.

iv) The date and time of opening of all the four (4) quotations were manually altered with no explanations being rendered for the alterations.

Consequently, the accuracy and authenticity of the expenditure amount of Kshs.1,305,900 on purchase of office furniture and general equipment could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1633. There were no material issues relating to effectiveness of internal controls, risk management and governance.

YOUTH ENTERPRISE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1634. Undisclosed Material Uncertainty

During the year under review, the Fund continued to register dismal performance where the statement of financial performance reflects a deficit of Kshs.42,663,881 (2019 – deficit of Kshs.163,200,489), a situation the has prevailed over the past five years. This has eroded the capital invested in the revolving Fund and impaired the ability of the Fund to sustain its core mandate and services.

This material uncertainty which casts significant doubt on the continued ability of the Fund to discharge its mandate in the foreseeable future has, however, not been disclosed in the financial statements.

1635. Errors on Financial Statements-Unsupported Statement of Cash Flows

As disclosed under Note 16 to the financial statements, the statement of cash flows reflects a closing cash and cash equivalents balance of Kshs.306,863,299. However, the
balance includes an unexplained prior year adjustment of Kshs.84,855 under operating profit before working capital changes.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

1636. Receivables from Non-Exchange Transactions

As disclosed under Note 18 to the financial statements, the statement of financial position reflects a balance of Kshs.1,151,594 relating to receivables from non-exchange transactions out of which an amount of Kshs.951,593 relates to rental deposits for offices that the Fund vacated in 2017 but the recovery is yet to be made. Management did not provide explanation for not recovering the amounts. No provision for bad and doubtful debts that has been provided for in the financial statements.

Consequently, the validity of the reported balance for receivables from non-exchange transactions amounting to Kshs.951,593 as at 30 June, 2020 could not be confirmed.

1637. Tuck Shops Rental Income

As disclosed in Note 7 to the financial statements, the statement of financial performance reflects an amount of Kshs.71,671,267 in respect of interest and fees on loans. Included in the interest and fees amount is Kshs.1,999,500 relating to rental income generated from tuck shops. However, verification of records revealed that, during the year under review, the Fund owned one hundred and fifty-seven (157) tuck shops, all of which were occupied by tenants for the entire twelve (12) months under review as evidenced by lease agreements. Based on the tuck-shops numbers and the monthly rental charge per shop, the expected revenue was Kshs.2,916,000 as compared to the reported revenue of Kshs.1,999,500 leading to an understatement of revenue by Kshs.916,500. The Management did not provide explanation for the difference.

Consequently, the accuracy and completeness of the interest and fees of Kshs.1,999,500 for the year ended 30 June, 2020 could not be confirmed.

1638. Unauthorized Utilization of Revolving Fund

The statement of financial position as at 30 June, 2020 reflects a revolving fund balance of Kshs.4,137,798,856. However, although the amount is supposed to represent the total loans advanced to the youth and any balance held in the bank account, the total current assets balance stood at Kshs.3,055,294,822 as at 30 June, 2020, reflecting a shortfall of Kshs.1,082,504,034 to match the revolving fund balance. This implies the Fund Management has over time utilized Kshs.1,082,504,034 of the revolving fund to finance recurrent expenditure thereby negatively affecting the sustainability of the Fund. No reallocation approvals were availed for audit verification to support utilization of conditional grants on recurrent expenditure.
Under the circumstance, accuracy and existence of the revolving fund balance of Kshs.4,137,798,856 as at 30 June, 2020 could not be confirmed.

1639. Property, Plant and Equipment

As disclosed in Note 20 to the financial statements, the statement of financial position reflects a balance of Kshs.50,733,824 under property, plant and equipment. However, the Management has not revalued these assets for a long time.

Further, Management has reclassified additions relating to the financial year 2018-2019 amount of Kshs.9,338,300 relating to purchase of hardware under property, plant and equipment (computers and accessories) as disclosed under Note 20 to the financial statements. However, corrections on the effect of the wrong classification on depreciation which was charged at the rate of 25% instead of 33.33% hence resulting in understatement by 8.3% cumulatively Kshs.1,550,156 as at 30 June, 2020 has not been made.

Under the circumstance, the accuracy, valuation and existence of property, plant and equipment balance of Kshs.50,733,824 could not be ascertained.

1640. Investment Property

As reported in the previous years, the investment property balance of Kshs.30,189,970 reflected in the statement of financial position as at 30 June, 2020 relates to bus shelters constructed by the Fund in public places on land which does not belong to the Fund. The property does not satisfy the conditions set out under International Public Sector Accounting Standard (IPSAS) 16 and therefore, does not qualify to be accounted for as investment property.

Consequently, the ownership of the investment property balance of Kshs.30,189,970 could not be ascertained.

1641. Trade Debtors

1641.1 Unsupported Trade Debtors Balances

The statement of financial position reflects a balance of Kshs.2,574,949,929 under receivables from exchange transactions. The balance consists of trade debtors balance of Kshs.2,787,240,570 and other exchange debtors of Kshs.2,667,212 less impairment allowance and suspense account of Kshs.135,448,830 and Kshs.79,509,023 respectively, relating to trade debtors for the year 2019/2020. The balance of Kshs.2,574,949,929 as at 30 June, 2020 could not be confirmed as the amount was not supported by detailed listings of debtors. Further, no detailed ageing analysis was provided to support the above debtors balances and impairment figure applied on the revolving fund balance.
1641.2 Other Exchange Debtors

The receivables from exchange transactions balance of Kshs.2,574,949,929 includes staff imprests of Kshs.3,739,667 under exchange debtors, some dating back to August, 2011. The staff imprests further include Kshs.1,994,848 and Kshs.292,800 which were irregularly issued to the former Chief Executive Officer and Board Chairman respectively. The recovery of these advances is doubtful and no provision for impairment has been made in the financial statements.

1641.3 Provision of Impairment Allowances

As disclosed in Note 17 to the financial statements, the receivables from exchange transactions balance of Kshs.2,574,949,929 is net of an impairment allowance of Kshs.135,448,830, and an unidentified and unsupported loan repayment of Kshs.79,509,023. However, the impairment allowance of the outstanding loan balance of Kshs.2,785,818,410 was not backed by any rate or policy.

1641.4 Unsupported Loan Balances

The trade debtors balance of Kshs.2,574,949,929 as at 30 June, 2020 includes an amount of Kshs.180,184,855 owed by Chase Bank Limited, that has not been supported to date by any documentary evidence. The amount originated from payments made by the bank and for which the bank has not produced documents to support the withdrawals.

1641.5 Unsupported Interest on Investment

As disclosed under Note 8 to the financial statements, the statement of financial performance reflects interest on bank balances amounting to Kshs.1,632,801. However, the supporting schedule detailing the list of deposits held and approval for such deposits were not availed for audit verification.

Further, the basis for the computation of the interest paid by the bank to the Fund has not been provided for verification, hence the accuracy and completeness of the reported revenue could not be confirmed.

Under the circumstances, the accuracy of interest on the bank balance amounting to Kshs.1,632,801 for the year ended 30 June, 2020 could not be confirmed.

1642. Long Outstanding Trade Payables

The statement of financial position reflects a balance of Kshs.84,314,687 under trade and other payables from exchange transactions, which includes payables to a contractor of Kshs.5,511,045 outstanding since 30 June, 2014 and Kshs.4,650,750 outstanding since 30 June, 2015 all totalling to Kshs.10,161,795. No satisfactory explanation has been given for failure to settle the accounts payables in the year to which the expenses were incurred or subsequent financial years.

Consequently, the existence and validity of the trade payables amount of Kshs.10,161,795 as at 30 June, 2020 could not be ascertained.
1643. Revaluation of Inventories

Note 19 to the financial statements reflects a balance of Kshs.172,330,000 in respect of inventories as at 30 June, 2020. The balance relates to automatic hatching machines that were procured in the financial year 2012/2013. The inventory continues to be carried in the books of accounts at cost which is non-compliant with IPSAS 12, which requires the reported figure be the lower of cost and net receivable value. The realizable value of the hatching machine has been provided below cost at Kshs.60,000 per unit instead of Kshs.190,000 that is the current carrying value.

Under the circumstances, it is not possible to confirm that the inventories balance of Kshs.172,330,000 as reflected in the financial statements is fairly stated.

Other Matters

1644. Unresolved Prior Year issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Public Accounts Committee report was not been availed for audit review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1645. Non-Compliance with the Public Procurement and Asset Disposal Act, 2015

1645.1 Procurement of Legal Services

During the year under review, the Fund paid an amount of Kshs.6,737,000 for legal services being fifty percent (50%) of the contract sum in respect of filing suit to recover Kshs.180,000,000 paid to a consultant. However, the fund used the request for quotation provider even though the contract sum was above the threshold of Kshs.1,000,000 for using the method, in line with Section 105(1) of the Public Procurement and Assets Disposal Act, 2015. In addition, the award was not supported by a professional opinion from the Head of Procurement and approved by the Accounting Officer as required under Section 84 of the Public Procurement and Asset Disposal Act, 2015.

1645.2 General Expenses

As disclosed under Note 15 to the financial statements, the statement of financial performance reflects a balance of Kshs.84,758,294 under general expenses which constitutes an amount of Kshs.7,374,500 relating to legal fees which includes two payments to legal service providers totalling Kshs.5,179,200. Examination of these payments revealed the following anomalies;
i) The quotation forms for provision of these services were opened by an Adhoc Committee of three (3) members on a date not indicated in the opening minutes. Legality of the constitution of the Tender Opening Committee could not be verified as no appointment letters from the Chief Executive Officer were availed for audit verification to support compliance with Section 78(1) of the Public Procurement and Asset Disposal Act, 2015.

ii) The quotation forms were opened by a three (3) member committee on a date that was not indicated in the opening minutes and whose membership could not be verified as there were no appointment letters.

iii) The approval of the professional opinion was granted on 28 June, 2018, the same day the contract was signed. The service provider issued an invoice and the Management certified the invoices for payment on the same date the contract was signed. The payment was made before the services were rendered.

iv) No documentation was availed for audit verification in support of the Adhoc Tender Evaluation Committee that was purportedly appointed by the Chief Executive Officer to carry out the evaluation.

No explanation has been provided for non-compliance with the law on procurement.

1645.3 Intangible Assets

The statement of financial position reflects a figure of Kshs.21,063,085 relating to intangible assets. The figure includes a net book balance figure of Kshs.10,992,000 in relation to an enterprise resource planning software procured at a contract sum of Kshs.85,619,600 in the financial year 2016/2017. A down payment of Kshs.54,960,000 had been made. However, the following anomalies were observed in relation to the contract:

i) The Enterprise Resource Planning (ERP) software was procured through restricted tendering method without justification as required under Section 102(1) of the Public Procurement and Assets Disposal Act, 2015.

ii) The contract provided for an implementation period of twelve (12) months, however, as at the time of the audit, only one (1) out of the thirty-three (33) modules has been implemented.

iii) Despite the project delaying for over three (3) years, no evidence was provided for audit verification to show that an extension was granted or Management prepared a multi-year procurement plan as required under Section 56(4) of the Public Finance Management (National Government) Regulations, 2015.

iv) The contract was signed without professional opinion from the Head of Procurement Unit to the Accounting Officer as required under Section 84(1) of the Public Procurement and Assets Disposal Act, 2015.
v) No evidence has been provided for audit verification to confirm that the Accounting Officer notified in writing, the unsuccessful bidders as required under Section 87(3) of the Public Procurement and Assets Disposal Act, 2015.

In the circumstances, Management is in breach of the Law

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1646. Grounded Motor Vehicles and Motor Cycles

Review of the Fund’s asset management process shows that eight (8) out of eighteen (18) motor vehicles and one hundred and five (105) out of two hundred and ten (210) motor cycles were grounded due to various mechanical reasons. Although the Management made efforts and wrote to the Head of Public Service requesting approval for disposal through letter Ref; YEDF/CEO/838/2018 dated 6 March, 2018 no response had been received as at the time of audit. As a result, the assets continue to deteriorate and any salvage value that could have been realized may be lost.

DONOR FUNDED PROJECT

KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT (IDA CREDIT NO. 5812-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1647. Purchase of Goods and Services - Misclassifications

As disclosed in Note 9.4 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.873,068,576 under purchase of goods and services which includes an amount of Kshs.20,283,068 relating to hospitality supplies and services. However, the ledger provided in support of the balances reflected various payments totalling Kshs.15,914,692, or 78% which do not relate to the hospitality supplies and services account, but relates to domestic travel and subsistence and other operating expenses. Adjustments necessary to reclassify the expenditures to the relevant expenditure heads have not been effected.
Under the circumstances, the accuracy of the balance of Kshs.873,068,576 reported under purchase of goods and services could not be confirmed.

Other Matter

1648. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects budgeted receipts and actual on comparable basis amounting to Kshs.1,100,000,000 and Kshs.732,301,848 respectively resulting to a shortfall of Kshs.367,698,152 or 33% of the budget. Similarly, the Project’s approved expenditure budget was Kshs.1,100,000,000 while the actual expenditure was Kshs.937,481,186 resulting to under-expenditure of Kshs.162,518,815 or 15% of the budget. Consequently, planned activities of the Project may not have been implemented, thereby affecting achievement of the intended goals of the Project.

1649. Pending Bills

Note 9.1 to financial statements reflects pending bills of Kshs.13,482,306 as at 30 June, 2020. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1650. Unresolved Prior Year Issues

The following prior year issues remained unresolved as at 30 June, 2020:

1650.1 Unsupported Consultancy Services and Training Expenditures

As reported in 2017/18, a consultant was paid Kshs.27,461,500 to provide life skills training to youths in several Counties at a cost of Kshs.8,500 per participant. The payment included Kshs.1,800,000 for supply of computers for use by the trainers. However, available records indicated that only 2,584 youths were trained at an aggregate cost of Kshs.21,964,000 against Kshs.25,461,500 paid to the consultant. No explanation has been provided for the over-payment amounting to Kshs.3,697,500 made to the consultant.

Other records indicated that the Project paid stipends totalling Kshs.16,120,450 to the training course participants. However, only 2,584 youths were trained and paid Kshs.6,000 each resulting in expenditure totaling Kshs.15,504,000. The variance amounting to Kshs.620,450 between the expenditures shown in the two sets of records has not been explained.
1650.2 Unconfirmed Youth Training Program Expenditure

In 2017/18 financial year, Management paid Kshs.16,120,450 in stipends to trainee youths who participated in the life skills training course, and Kshs.27,461,500 to the consultants that provided the training. However, there was no evidence showing that the training curriculum was approved by Management. In addition, the contract did not indicate the Project outcomes targeted by the course.

Consequently, it was not possible to confirm whether the Project received value for money on the expenditure totalling Kshs.43,581,900 incurred on the training.

1650.3 High Administration Expenses

Review of 2017/18 financial year expenditure indicated that Kshs.253,104,269 was incurred on administrative and youth training activities during the year. However, analysis of the respective payment vouchers indicated that only 21% of the total expenditure incurred on the items was related to youth activities and programs whereas the balance (79%), was incurred on administrative activities.

1650.4 Irregular Appointment of a Training Consultant

The statement of receipts and payments for the year ended 30 June, 2018 reflected expenditure totalling Kshs.188,740,710 incurred on purchase of goods and services which included operating expenses amounting to Kshs.56,090,096. The later balance included Kshs.27,461,500 paid in June, 2018 to a consultant to provide life skills training. The following anomalies were observed in respect of this payment:

(a) The certificate of incorporation indicated that the bidder was a Limited Liability Company incorporated on 24 May, 2007 whereas the confidential business questionnaire attached in support of the payment indicated that the service provider was a Non-Governmental Organization. However, the Firm’s certificate of registration from the Non-Governmental Organization Board was not disclosed. As a result, the status and authenticity of the Firm engaged to offer the training services could not be verified.

(b) Minutes of meetings held between the bidder and Management in October, 2017 revealed that the consultant agreed with the State Department to abandon the original financial proposal and present a new one with trainee charge-rates that tallied with those prescribed in the terms of reference. This implied that the original bid was not responsive and should instead have been cancelled and a new tendering process initiated. Reconfiguring the proposal amounted to amendment of the tender contrary to Section 75(1) of the Public Procurement and Asset Disposal Act, 2015.

The bid documents, tender opening and evaluation and minutes of the Committee meeting that shortlisted the bidders were not provided for audit verification.
1650.5 Unsupported Consultancy Services Expenditure

The Management entered into a framework contract with a consultant to offer Life Skills Training to Youths in seventeen (17) Counties in 2018. As at 30 June, 2019, the consultant had received payments totaling Kshs.44,128,350. However, the certificate of inspection and acceptance of the contract’s deliverables was not availed for audit review. Further, the contract was signed seven (7) days after the award, contrary to Section 135 (3) of Public Procurement and Asset Disposal Act (PPDA), 2015 which requires public procurement contracts to be signed fourteen (14) days after award of a contract to allow for appeals by unsuccessful bidders, if any.

As a result, the regularity of the expenditure amounting to Kshs.44,128,350 incurred on the consultant and the value obtained thereof has not been confirmed.

1650.6 Irregular Consultancy Services Contract

The Project paid Kshs.8,240,000 to a consultant to design and implement a management system referred to as Interim Information Management System (IIMS) in 2017/18 financial year. However, documents presented for audit in support of the payment reflected several anomalies:

i) The contract was for a period of ninety (90) days from 28 July, 2017 to 31 March, 2018 and was priced at Kshs.16,000,000. However, the consultant’s proposal was approved on 17 April, 2019 and the contract signed on 17 May, 2019. It was backdated to 01 April, 2018 and set to end after 32 months on 31 December, 2020, or any other period as would be subsequently agreed to by the parties in writing.

ii) Documents attached to the Kshs.8,240,000 payment voucher indicated that the payment was for services rendered from 03 April, 2018 to January, 2019. However, in this period, there was no contract or agreed output. The anomaly implied that the services were offered without a contract contrary to Section 135(1) of the Public Procurement and Asset Disposal Act, 2015. Management has not explained why the law was flouted in procuring the consultancy services.

iii) The annexure to the contract template included conditions to be fulfilled before payments were made to the contractor. However, in the actual contract signed with the consultant, the conditions were labeled as ‘not applicable’ and ignored.

In view of these matters, the legality of the contract valued at Kshs.16,000,000 and value-for-money on expenditure amounting to Kshs.8,240,000 incurred on the contract during the year under review has not been confirmed.

1650.7 Irregular Contract on Provision of Communication Specialist Services

The statement of receipts and payments for the year ended 30 June, 2019, reflects use of goods and services totaling Kshs.523,239,782, as disclosed under Note 8.8 to the financial statements. The expenditure includes Kshs.4,800,000 paid to a consultant for provision of communication services at a monthly fee of Kshs.600,000 for a period of eight
(8) months commencing May through to December, 2018, as specified in an unreferenced contract document dated November 8, 2017. However, examination of records revealed the following anomalies which were not explained:

i.) Before signing the contract on 8 November, 2017, Management had notified the consultant of the offer for the services through a letter dated 2 November, 2017, which the consultant accepted two (2) days later on 4 November, 2017. That was contrary to provisions of Section 135 (3) of the Public Procurement and Asset Disposal Act, 2015 that prescribes a 14-day window for appeals by unsuccessful bidders before contracts are signed.

ii.) The conditions of the contract cited in the annexure to the contract document required several conditions to be fulfilled before any payments were made. However, these were not observed as they were termed ‘not applicable’ and ignored.

iii.) In all the payment vouchers examined, there was no evidence that the outputs agreed in the contract were attained before the respective payments were made. Furthermore, no certificate of inspection and acceptance of outputs was presented for audit review, and therefore its existence could not be confirmed.

In the view of these anomalies, the legality and value-for-money on the expenditure amounting to Kshs.4,800,000 incurred on provision of communication specialist services could not be confirmed.

1650.8 Non-Compliant Capacity-Building Consultancy Services Contract

During the year ended 30 June, 2019, the Project spent Kshs.4,290,000 on a consultant hired to build capacity for technical assistance support. However, the following anomalies were noted in respect to the expenditure:

i.) Signed and verified time sheets indicated that the consultant worked for a total of one hundred and fifty-four (154) days. However, invoice No. KYEOP-04 dated 20 May, 2019 issued by the consultant indicated that the work done covered one hundred and twenty-eight (128) days. No reason was provided for the anomaly.

ii.) The certificate of inspection and acceptance of the contract outputs was not presented for audit and its existence could therefore not be confirmed.

In the circumstances, Management paid the consultant Kshs.4,290,000 without confirming that the contracted services were delivered as expected. Therefore, the payment contradicted the requirements of Section 48(3) of the Public Procurement and Asset Disposal Act, 2015.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1651. Delay in Inspection and Acceptance of Goods and Services

Note 9.4 to the financial statements reflects office and general supplies expenditure of Kshs.10,173,100. Included in the amount is Kshs.1,594,800 being payments for supply and delivery of flash disks, refrigerator and hp toner cartridges. However, inspection and acceptance certificate in relation to the goods was issued 19 days after delivery contrary to Section 48(3) of the Public Procurement and Asset Disposal Act, 2015 that require immediate inspection and testing of goods supplied. No explanation has been provided for the delay.

1652. Validity of Contract for Consultancy Services- Design and Implementation of Innovation Challenge

The Management entered into a contract for provision of consultancy services to design and implement an innovation challenge on 31 March, 2020. The contract duration was for nineteen (19) months and at a contract sum of Kshs.48,889,293. However, the contract was signed by a person other than a director with no documentary evidence conferring authority to the person to sign on behalf of the consultant. Further, correspondence letter Ref: CF/2015/186892 dated 11/07/2017 from the Registrar of Companies attached in support of the payment voucher, shows that the consulting firm had five (5) directors of whom four (4) were foreigners of Indian nationality and one (1) Kenyan. The letter from the consulting firm states that the Kenyan Director is the authorized person to transact on behalf of the Company. Consequently, the person who executed the contract on behalf of the Consultancy was neither a director nor its authorized agent.

Subsequently, the Consultant was paid ten percent (10%) of the contract sum upon submission of an inception report of Kshs.4,804,637 on 25 June, 2020. This should not have been payable until the contract was duly executed in line with its mandate. From the foregoing, the validity and enforceability of the contract and related transactions cannot be confirmed and it exposes the Project to the risk of loss of public resources.

1653. Consultancy Services

1653.1 Contract for Delivery of Life Skills Training

The Management entered into contract with a life skills training consultant on 30 October, 2018 for delivery of training. The special condition to the contract under Section 41.2 provided that the procuring entity would make the 1st payment of 10% of eligible sum based on confirmed placement instructions and contracted cost per trainee upon completion of Training of Trainers (TOT) as per the deliverables in the terms of reference deliverables. The 2nd payment was to be paid after confirmation of placement
instructions and contracted cost per trainee and upon delivery and completion of training and satisfactory reports specified in the deliverables in the terms of reference.

However, examination of sampled payment vouchers revealed the following anomalies:

(i) The initial payment made of Kshs.13,218,400 represented 20% of the projected 6,890 youths spread over 16 Counties instead of the 13 stated in the contract. The basis of adding three additional Counties and replacing one with another one not in the contract has not been explained. There was also no contract amendment or addendum subsequently to cover for the variation. This led to an unauthorized expenditure of Kshs.3,733,600;

(ii) Although the payment of Kshs.13,218,400 related to the life skills training contract, the description on the payment voucher is misleading as it is indicated as core business skills training which is on a separate contract;

(iii) The consultant was paid an amount of Kshs.46,214,400 on 26 November, 2019 in respect of training 5980 youth in ten (10) Counties instead of the thirteen Counties in the contract. The amount was to cover the balance of 80% of the amounts payable per each youth trained. However, the number of youths trained and included in the final billed was higher in each of the ten Counties than the number projected and agreed upon in the initial billing. This led to an overstatement of expenditure by Kshs.17,889,000;

(iv) Seven of the contracted Counties covered in the 20% advance payment amounting to Kshs.5,242,600 had no training activities but there is no evidence of recovery or actions being taken to recover the over-payment;

(v) The contract specifically stipulated payment terms as 10% advance and 90% final payment. However, the management varied and paid in two instalments of 20% advance and 80% final payment contrary to the provisions of the contract.

1653.2 Contract for Delivery of Core Business Skills Training

The Management entered into contract with a consultant for delivery of Core Business Skills Training on 31 October, 2018. The special condition to the contract under Section 4.2 provided that the procuring entity would make the 1st payment of 10% of eligible sum based on confirmed placement instructions and contracted cost per trainee upon completion of Training of Trainers (TOT) as per the deliverables in the terms of reference. The 2nd payment was to be paid after confirmation of placement instructions and contracted cost per trainee and upon delivery and completion of training and satisfactory reports specified in the deliverables in the terms of reference.

The consultant was subsequently paid Kshs.39,272,800 for delivering Cycle IV life skills training to five thousand and ninety-nine (5,099) youth from thirteen (13) Counties which took place between 14 and 25 October, 2019. However, the following inconsistencies were observed:
i. The contract in support of the payment related to core business skills training instead of the life skills training cycle IV;

ii. The terms of reference to the framework agreement condition No.8 states that the final training report be submitted within fourteen (14) days after the end of the training of each cycle. However, the life skills report for cycle IV together with the forwarding letter attached to the payment voucher were received after more than two (2) months in January, 2020;

iii. Management paid the consultant a sum of Kshs.39,272,800 based on a 20% advance payment and 80% final payment contrary to the provisions of the contract. No explanations have been provided for the anomalies.

1654. Breaches to Public Procurement and Asset Disposal Act, 2015

1654.1 Consultancy Services for Interim Management Information System (MIS) Consultant

The Management sought for a no objection from the World Bank for amendments to the contract terms (timelines and costs) for the contracts of individual consultants working on development of interim MIS system and roll out and capacity support technical assistant for KYEOP through letter Ref: MPYG/KYEOP/04 dated 28 February, 2020. The no objection was granted on 16 March, 2020. However, the following observations were made:

i. Contract Addendum No.1 (Contract No.KE-MPYG-104837-CS-CDS) signed on 27 March, 2020, was for a period longer than the initial contract which was scheduled to expire on 31 December, 2020;

ii. Although the Accounting Officer duly signed the extension to the Contract, there was no evidence provided to show that there was need to amend the contract terms and the required consultation between the parties to warrant the proposed contract modifications. In addition, the contract variation never went through an evaluation committee as required under Section 139 (2) of Public Procurement and Asset Disposal Act, 2015.

iii. Analysis of the payment voucher No.158 dated 19 December, 2019 revealed that Management paid the Consultant Kshs.3,000,000 out of which Kshs.600,000 was unsupported by proof of deliverables achieved. Although the payment was to cover areas that were previously delivered by other implementing agencies, no confirmations from the other respective Agencies were attached in support despite respective approval by the national project coordinators.

1654.2 Provision of Communication Specialist Services

Available information indicates that a consultant was hired for a period of three (3) months vide contract dated 8 November, 2017 to provide communication services to the Project
at a monthly cost of Kshs.600,000 and paid Kshs.1,800,000. The following unsatisfactory issues were observed in relation to the payment:

i. The contract was signed on 8 November, 2017 before expiry of the appeals period of 14 days as prescribed under Section 135(3) of the Public Procurement and Asset Disposal Act, 2015; and

ii. The contract omitted general and special conditions which forms part of a standard contract as specified under Section 135(6) of Public Procurement and Asset Disposal Act, 2015.

1654.3  Procurement of Cleaning Services Without Contract

Contrary to the provisions of Section 104(1) of the Public Finance Management (National Government) Regulations, 2015, the Project’s Management procured cleaning services and incurred an expenditure of Kshs.1,222,650 without entering into contract with the service provider. Further, quotations for the procurement of the Services were floated to three (3) firms which were not prequalified as per the then annual list of prequalified suppliers contrary to Section 95(3) of Public Procurement and Asset Disposal Act, 2015. In the circumstance the Project is in breach of the law, while the propriety of expenditure of Kshs.1,222,650 on cleaning services could not be confirmed.

1654.4  Procurement of Non-Requisitioned Goods and Services

Accounting records maintained by the Project Management in relation to office and general supplies shows that a supplier was paid Kshs.1,026,500 for supply and delivery of assorted items which included five (5) pieces of cupboard with adjustable shelves, ten (10) reams of printing papers, ten (10) pieces of extension cables among other items. Scrutiny of the documentation in support of the payment voucher revealed the following inconsistencies:

i. Of the eight (8) items procured and paid for, four (4), costing Kshs.810,500 were not requisitioned contrary to Section 162 (4) of Public Procurement and Asset Disposal Act, 2015; and

ii. The goods purchased and supplied were inspected thirteen (13) days after delivery, contrary to Section 48(3) of the Public Procurement and Assets Disposal Act, 2015.

The Project Management is in breach of the Law to this extent.

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

Conclusion

1655. There were no material issues relating to effectiveness of internal controls, risk management and governance.
STATE DEPARTMENT FOR EAST AFRICAN COMMUNITY - VOTE 1221

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1656. Payment for Unlawful Employment

The statement of receipts and payments reflects an expenditure balance of Kshs.280,421,606 under use of goods and services which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.25,219,723 incurred on other operating expenses. The latter balance includes an amount of Kshs.4,400,000 spent on an officer who was retained on short-term contract as a financial advisor under the Ministry’s Programme with the Department for International Development (DFID) after retirement as per a letter from the Permanent Secretary dated 3 March, 2009. The details of the contract regarding payment, duration and conditions were not agreed upon due to delays in the conclusion of a Memorandum of Understanding between the Ministry and DFID.

The Officer instituted a suit against the Government on 5 November, 2012 in the Employment and Labour Relations Court seeking Kshs.4,000,000 as unpaid salary for ten (10) months, general damages for unlawful termination and costs of the suit. Judgment was delivered on 18 May, 2018 and the State Department was ordered to pay Kshs.4,000,000 as unpaid salary subject to statutory deductions for ten (10) months and Kshs.400,000 as compensation and costs of the suit.

Further, the Attorney General on 18 July, 2019 indicated that the decretal sum was Kshs.3,935,132 including costs and interest. However, actual payment amounted to Kshs.4,400,000 resulting into an unexplained overpayment of Kshs.464,868. In addition, the State Department did not avail evidence showing that the statutory deductions totalling Kshs.1,192,656 were remitted to the Kenya Revenue Authority and approval by the Public Service Commission to retain the Officer in the service beyond the mandatory retirement age.

In the circumstances, it was not possible to confirm validity and regularity of the payment of Kshs.4,400,000.

1657. Long Outstanding Imprests

The statement of assets and liabilities reflects accounts receivable - outstanding imprests of Kshs.262,326. However, as disclosed in Note 7 to the financial statements, the balance includes outstanding imprest of Kshs.174,836 relating to the financial year 2015/2016. No explanation was given for failure to recover the whole amount as required under Regulation 93 (6) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to take immediate action to recover the full amount from the salary of the defaulting officer with interest charged at the prevailing Central Bank Rate.
In the circumstances, the recoverability of the receivables balance of Kshs.174,836 could not be confirmed.

Other Matter

1658. Pending Bills

Note 15 to the financial statements reflects pending bills amounting to Kshs.5,010,015 which were not settled in 2019/2020 financial year but were instead carried forward to 2020/2021. Management has not provided an explanation for non-payment of the pending bills. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they are charged.

1659. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, some unresolved prior year issues are not disclosed under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1660. Non-Maintenance of Assets Register

The summary of fixed assets register under Annex 4 to the financial statements reflects Kshs.49,739,206 being the cumulative cost of all assets owned by the State Department. However, the Management did not maintain an assets register contrary to Regulation, 143 of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to maintain a register of assets under his or her control or possession as prescribed by the relevant laws.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1661. Lack of an Audit Committee

As reported in the previous year and as disclosed under Key Entity Information and Management section, the State Department did not have an independent Audit Committee as required by Section 73(5) of the Public Finance Management Act, 2012, which provides that every national government public entity shall establish an Audit Committee whose composition and functions shall be as prescribed by the regulations.
In the absence of a functioning Audit Committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of an Audit Committee were not executed thus hindering good corporate governance at the State Department.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1662. Pending Bills

Annex 1 to the financial statements reflects pending bills amounting to Kshs.2,439,340,189 chargeable to both the recurrent and development votes that were not settled during the year under review but were instead carried forward to the 2020/2021 financial year. The pending bills balance includes an amount of Kshs.2,438,725,299 which, as reported in the previous year, had no supporting documents.

In the absence of supporting documents, it was not possible to confirm the authenticity of the pending bills amounting to Kshs.2,438,725,299 and whether the bills are a proper charge to public funds.

Other Matter

1663. Budgetary Control and Performance

The State Department received Exchequer receipts totalling Kshs.5,224,758,438 against an approved budget of Kshs.5,884,758,438 resulting to a shortfall of Kshs.660,000,000 or 11%. Similarly, actual expenditure amounted to Kshs.5,224,718,525 against the approved budget of Kshs.5,884,758,438 resulting to an under-absorption of Kshs.660,039,913 or 11.2% which occurred mainly under transfers to other government entities. The shortfall in budgeted receipts and under-absorption implies that the overall goals and objectives of the State Department were not achieved as planned.

1664. Unresolved Prior Year Matters

1664.1 Irregular Advance Payment for Kimwarer Multipurpose Dam Development Project

As previously reported, the statement of receipts and payments for the year ended 30 June, 2019, reflected proceeds from foreign borrowing of Kshs.3,666,495,236 out of which Kshs.3,485,500,628 was paid to an International Joint Venture firm on 27 September, 2018. The payment, which was effected in the books of the State Department on 2 November, 2018 through journal entries, was an advance payment for designing, building, and transfer of the proposed Kimwarer Multipurpose Dam Development Project. Available information indicates that this matter is unresolved and under investigation by the relevant authorities.
1664.2 Unreconciled Grants and Transfers to Other Government Entities

As previously reported, the statement of receipts and payments for the year ended 30 June, 2019, reflected transfers to eight (8) other Government entities amounting to Kshs.8,138,743,577. However, confirmation from two Agencies revealed variances as follows:

<table>
<thead>
<tr>
<th>SAGA</th>
<th>Amount Disbursed by the State Department (Kshs.)</th>
<th>Amount Received by the SAGA (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ewaso Ng’iro North River Development Authority</td>
<td>338,129,280</td>
<td>339,535,887</td>
<td>(1,406,607)</td>
</tr>
<tr>
<td>Kerio Valley Development Authority-Direct Payment</td>
<td>3,666,495,236</td>
<td>Nil</td>
<td>3,666,495,236</td>
</tr>
</tbody>
</table>

In the circumstances, the accuracy and completeness of the grants and transfer to other Government entities balance of Kshs.8,138,743,577 for the year ended 30 June, 2019, could not be confirmed. A review of the matter in the financial year 2019/2020 revealed that no reconciliation has been done.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1665. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1666. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECT

KIMIRA OLUCH SMALLHOLDER FARM IMPROVEMENT PROJECT
(ADF LOAN NO. 2100150012296)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1667. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1668. Unsupported Pending Bills

Annex 2A to the financial statements reflects pending bills totalling Kshs.700,656,527 out of which bills totalling Kshs.198,472,177 are not supported with relevant and reliable records such as invoices and certificates of work done. As a result, the accuracy and validity of the pending bills balance totalling of Kshs.700,656,527 as at 30 June, 2020 has not been confirmed.

My opinion is, however, not modified in respect of this matter.

Other Matter

1669. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year under review reflects aggregate budgeted receipts amounting to Kshs.450,000,000 and actual receipts totalling Kshs.398,408,500 resulting to a shortfall of receipts amounting to Kshs.51,591,500 or 10% of the year’s budget. Further, the statement reflects approved final budgeted expenditure amounting to Kshs.450,000,000 and actual expenditures amounting to Kshs.466,089,116 resulting to over-expenditure of Kshs.16,089,116 or 4% of the budget.

Therefore, the Project did not utilize all its budget for the year and as a result, some of the activities due for implementation in the year were not executed. Further, approval of the over-expenditure amounting to Kshs.18,095,516 was not availed for audit review and as a result, its validity could not be confirmed.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1670. Irregular Payment of Personal Allowances

Records on compensation of employee's expenditures for the year under review indicated that personal allowance payments totalling Kshs.24,637,311 were made to seventeen (17) staff seconded to the Project. The payments were designated as salary - hardship allowances- and were paid at rates ranging from Kshs.31,000 to Kshs.77,500 per month. Although the Management explained that the allowances were approved by the Project Steering Committee on 23 February, 2012, authority for the payments from the Salaries and Remuneration Commission (SRC) was not presented for audit. As a result, the validity of the allowances totalling Kshs.24,637,311 could not be confirmed.

1671. Purchase of Goods and Services

1671.1 Procurement of Computers and Stationary

Procurement records examined indicated that Kshs.1,436,940 was spent on purchase of computers and accessories. However, no evidence was availed for audit review to show that the procurement was done competitively as provided for in Section 105 of the Public Procurement and Asset Disposal Act, 2015.

Similarly, no evidence was availed for audit review to confirm whether procurement of stationary costing Kshs.420,720 was done competitively as provided for in the Public Procurement and Asset Disposal Act, 2015.

As a result, the regularity and value for money on the expenditure totalling Kshs.1,857,660 spent on the two items could not be confirmed.

1671.2 Repair of Motor Vehicle

Records on repair of motor vehicles indicated that a sum of Kshs.1,288,204 was spent on repair of one of the Project's motor vehicles - GK 784Q - at the Dealer's garage. However, the pre-repair report prepared by the Ministry of Infrastructure, Housing and Urban Development had estimated that the repairs would cost Kshs.750,000 and therefore the payment resulted in the over-expenditure of Kshs.538,204.

Further, no post-repair inspection report was prepared to confirm that the vehicle was repaired as contracted or paid for.

Consequently, the regularity and value for money on payments totalling Kshs.1,288,204 incurred on repair of the vehicle could not be confirmed.
1671.3 Travel Costs and Accommodation Expenses

Examination of records on travel and accommodation costs totalling Kshs.25,563,305 incurred in the year under review highlighted the following anomalies:

i) Two (2) officers travelled to collect laptops from a supplier in Nairobi where they stayed for five days while, reportedly, awaiting the payment cheque to mature. Their stay in the City cost taxpayers Kshs.199,250 which sum amounted to wasteful expenditure.

ii) Several Officers attended a sector working group retreat held in Mombasa and incurred Kshs.834,310 in travel and accommodation. However, evidence of their presence at the retreat and the reports, if any, submitted on return were not availed for audit. As a result, validity and value for money on this expenditure could not be confirmed.

1672. Construction of Resettlement Houses and Chain-Link Fencing for Water Storage Reservoir

During the year under review, the Management awarded contracts to various contactors for construction of sixteen (16) lots of resettlement houses and chain-link fencing for water storage reservoirs. The contracts had an aggregate value of Kshs.125,262,400. However, Management applied restricted tendering instead of open tendering to procure the contractors’ services. This was contrary to Section 91 of Public Procurement and Asset Disposal Act, 2015 which provides open tendering as the conventional way to procure common-user goods, works and services. No plausible explanation was provided by Management for the failure to follow the Procurement Law. As a result, the contracts worth Kshs.125,262,400 were irregular and there was no confirmation that value for money was attained on the contracts.

1673. Ethnic Composition of Staff

During the year under review, the Project had thirty-two (32) employees out of whom twenty-four (24) representing 75% of the workforce were from the dominant community in the Project region. The status was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which requires all public entities to represent the diversity of the people of Kenya in the employment of staff and not have more than one third of staff from one ethnic community.

Consequently, the Management is in breach of law.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1674. Lack of Risk and Disaster Management Policies

Section 165(1a) of the Public Finance Management (National Government) Regulations, 2015, requires the Accounting Officer of each entity to develop risk management strategies. The audit has, however, confirmed that the Project has not established a risk management framework. In the absence of a risk management policy, the Project may not be able to identify, measure and control the impacts of unfavorable events that may have adverse effect on its operations.

1675. Lack of Audit Committee

Available information indicates that the Project has not established an Audit Committee contrary to Section 73(5) of the Public Finance Management Act, 2012 which states that every public entity shall establish an Internal Audit Committee whose composition and functions are prescribed in Regulations.

Consequently, Management has contravened the law on internal control and as a result, oversight on the Project is weak.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion


The following discrepancies were noted between balances in the financial statements and balances generated by IFMIS:

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Financial Statements Balance (Kshs.)</th>
<th>IFMIS Balance (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>802,082,160</td>
<td>7,248,047,712</td>
<td>(6,445,965,552)</td>
</tr>
<tr>
<td>Outstanding Impret and Clearance Accounts</td>
<td>0</td>
<td>(723,554)</td>
<td>723,554</td>
</tr>
<tr>
<td>Accounts Payables-deposits</td>
<td>801,455,929</td>
<td>3,013,471,814</td>
<td>(2,212,015,885)</td>
</tr>
<tr>
<td>Prior Year Adjustment on Bank Balances</td>
<td>10,287,002</td>
<td>0</td>
<td>10,287,002</td>
</tr>
</tbody>
</table>

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

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

Other Matter

1677.  Budgetary Control and Performance

The statement of appropriation - recurrent and development combined as at 30 June, 2020 reflects that The State Law Office and Department of Justice had actual receipts totalling to Kshs.4,343,454,283 against estimated receipts of Kshs.4,948,318,221 resulting in a shortfall of Kshs.604,863,938 or 12% of the budgeted receipts. Further, actual expenditure for the year amounted to Kshs.4,342,828,052 against a budget of Kshs.4,843,236,221 resulting in an under expenditure of Kshs.500,408,169 or 10% of the budgeted expenditure. Management attributed the under expenditure to non-release of Exchequer issues by The National Treasury and the effects of the Covid-19 pandemic which impacted negatively on service delivery to the citizens of Kenya.
1678. Pending Bills

As disclosed at Note 14 to the financial statements, The State Law Office and Department of Justice reported pending bills of Kshs.40,434,839 as at 30 June, 2020, which were not settled during the year but were instead carried forward to the 2020/2021 financial year. Failure to settle bills during the year to which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1679. Unregistered Lease Agreements

The statement of receipts and payments reflects an expenditure of Kshs.578,610,041 under use of goods and services which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.49,317,177 incurred on rentals of produced assets. However, and as previously reported, lease agreements for offices rented in Malindi, Meru, NSSF Mombasa, Cooperative House Nairobi and Embu were not fully executed and registered with the Ministry of Public Works in line with Section 47 of the Registered Land Act Cap 300.

In the circumstances, validity of the lease agreements could not be ascertained.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1680. Lack of an Approved Enterprise Risk Management Process and IT Strategic Committee

As previously reported, The State Law Office and Department of Justice did not have an approved well-documented enterprise wide risk management process and policies in place to effectively guide the risk management processes. This is contrary to Regulation 165 of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal controls that builds robust business operations.

Further, Treasury Circular No. 03/2009; Ref: MOF/IAG/033(75) requires that government entities/agencies should, among other things, develop and establish Risk Management Policy and Framework (RMPF) to guide its strategic and operational activities. However, the Office did not have an IT Strategic Committee, an IT Strategic Plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan, formally approved IT security policy to ensure data confidentiality, integrity
and availability, documented and tested emergency procedures, copies of the IT continuity plan and disaster recovery plan.

REVENUE STATEMENTS OF THE STATE LAW OFFICE AND DEPARTMENT OF JUSTICE

REPORT ON THE REVENUE STATEMENTS

Unqualified Opinion

1681. There were no material issues noted during the audit of the financial statements of the Office.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1682. Balance Carried Forward

Note 3 to the revenue statements reflects a balance carried forward of Kshs.188,409,693 which includes an amount of Kshs.168,776,500 indicated as held by Huduma Centre, and an amount of Kshs.1,099,057 held by Public Trustee. The balances relate to prior years revenue collections not remitted and transferred, to the Central Bank of Kenya revenue account, for a long period of time. This is contrary to Section 64(1) (a) of the Public Finance Management (National Government) Regulations, 2015, that requires an Accounting Officer and Receiver of revenue to personally be responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for all National Government revenue and other public moneys relating to their Ministries, Departments or Agencies.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1683. There were no material issues relating to effectiveness of internal controls, risk management and governance.
BUSINESS REGISTRATION SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1684. There were no material issues noted during the audit of the financial statements of the Service.

Other Matter

1685. Budgetary Control and Performance

As reflected in the statement of comparison of budget and actual amounts, the Business Registration Service actual expenditure for the year net of depreciation amounted to Kshs.270,123,992 against budgeted expenditure of Kshs.331,170,000 resulting in an overall under absorption of Kshs.61,046,008 or 18%. The under-spending affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1686. Staff Ethnic Composition

The Service had a total of one hundred and thirty (130) staff assigned to Business Registration Service from the State Law Office. However, as previously reported, a review of the ethnic composition report indicated that out of the one hundred and thirty (130) staff assigned, forty-six (46) were from the same ethnic community representing 35% of the total number of staff assigned. This is contrary to Section 7(2) of National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from same ethnic community.

The Registration Service was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1687. Lack of a Disaster Recovery and Continuity Plan

As previously reported, Business Registration Service did not have an approved Disaster Recovery Plan and IT Business Continuity Plan. This poses a significant threat to resumption of operations quickly and effectively in case of an emergency or disaster especially due to the sensitivity of the information on registration of companies under the custody of the institution.
REVENUE STATEMENTS OF BUSINESS REGISTRATION SERVICE

REPORT ON THE REVENUE STATEMENTS

Unqualified Opinion

1688. There were no material issues noted during the audit of the financial statements of the Service.

Other Matter

1689. Non-Provision of Service Providers’ Contracts

As reported in the previous year, the Business Registration Service contracted service providers to collect revenue on its behalf. The service providers include E-Citizen and by extension Safaricom and Kenya Commercial Bank among others. However, the respective contract agreements were not provided for audit review.

In the circumstance it was not possible to establish the legality and performance of the service providers. Further, it was not possible to ascertain the basis of the revenue collected in the absence of supporting contracts.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1690. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1691. Lack of a Disaster Recovery and IT Business Continuity Plan

Business Registration Services does not have an approved Disaster Recovery Plan and IT Business Continuity Plan. This poses a significant threat to the core function of the Business Registration Services especially due to the fact that it handles sensitive information about registration of Companies.

1692. Lack of Medium-Term Strategic Plan

Business Registration Service does not have a Strategic Plan for medium term fiscal framework and the fiscal policy objectives in contravention of Section 68(2) (g) of the Public Finance Management Act, 2012, which require the Accounting Officer to prepare
a strategic plan for the entity in conformity with the medium-term fiscal framework and fiscal policy objectives of the national government.

Under the circumstance, it was not possible to evaluate performance of the Business Registration Service.

**BUSINESS REGISTRATION SERVICE - OFFICIAL RECEIVER**

**REPORT ON THE FINANCIAL STATEMENTS**

**Basis for Qualified Opinion**

1693. **Unconfirmed Short-Term Deposits**

The statement of assets and liabilities as at 30 June, 2020 reflects a nil balance under short term deposits. However, as reported in the previous year, Management did not avail bank confirmation certificates for the closing balance of Kshs.185,273,300 as at 30 June, 2019, held in seventeen (17) bank accounts as disclosed in Note 7(a) to the financial statements for 2018/2019.

In the circumstances, the accuracy and validity of the nil balance for short-term deposits as at 30 June, 2020 could not be confirmed.

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

**Conclusion**

1694. There were no material issues relating to lawfulness and effectiveness in use of public resources.

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

**Conclusion**

1695. There were no material issues relating to effectiveness of internal controls, risk management and governance.
PUBLIC TRUSTEE OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1696. Deposits

The statement of financial position reflects a balance of Kshs.109,400,000 (2019 – Kshs.122,400,000) under deposits which, as previously reported, includes an amount of Kshs.71,250,000 held in Imperial Bank Limited. However, information available indicated that Imperial Bank Limited was placed under receivership by the Central Bank of Kenya on 13 October, 2015 and the Kenya Deposit Insurance Corporation (KDIC) appointed the receivers. Consequently, recoverability of the balance of Kshs.71,250,000 held at Imperial Bank remains doubtful.

Under the circumstances, the accuracy and existence of deposits balance of Kshs.109,400,000 as at 30 June, 2020 could not be confirmed.

1697. Investments

The statement of financial position reflects a balance of Kshs.232,160,000 under investments which, as disclosed in Note 14 to the financial statements, includes a balance of Kshs.144,098,000 described as deposits in financial institutions under the management of the Kenya Deposit Insurance Corporation (KDIC) as the Official Receiver. However, as previously reported, no explanation was provided for failure to seek refund of the dormant deposits. In addition, the dormant deposits of Kshs.144,098,000 includes investments totalling to Kshs.29,694,000 held in two (2) institutions as detailed below:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Investment Balance (Kshs.)</th>
<th>Managing Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Finance Ltd</td>
<td>22,750,000</td>
<td>Kenya Deposit Insurance Corporation (KDIC)</td>
</tr>
<tr>
<td>Allied Credit Ltd</td>
<td>6,944,000</td>
<td>Kenya Deposit Insurance Corporation (KDIC)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29,694,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

However, through letters dated 8 April, 2019, the Kenya Deposit Insurance Corporation notified the Public Trustee that the amounts were not payable as the two (2) institutions were wound up and stood dissolved indicating irrecoverability and therefore loss of funds.

1698. Cash and Cash Equivalents

The statement of financial position reflects a balance of Kshs.4,783,108,000 under cash and cash equivalents as at 30 June, 2020. However, bank reconciliation statements for the various Public Trustee administration bank accounts reflected outstanding reconciling items whose clearance status as at the time of the audit in March, 2021 was not disclosed as tabulated below:
<table>
<thead>
<tr>
<th>Account</th>
<th>Payments in Bank Statement (Unpresented Cheques) (Kshs.)</th>
<th>Receipts in Bank Statement not in Cashbook (Kshs.)</th>
<th>Payments in Cashbook not in Bank Statement (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration Account-Nairobi</td>
<td>-</td>
<td>14,292,282</td>
<td>-</td>
</tr>
<tr>
<td>Nyeri</td>
<td>232,993</td>
<td>772,963</td>
<td>-</td>
</tr>
<tr>
<td>Machakos</td>
<td>230,288</td>
<td>1,751,873</td>
<td>-</td>
</tr>
<tr>
<td>Malindi</td>
<td>-</td>
<td>338,911</td>
<td>-</td>
</tr>
<tr>
<td>Eldoret</td>
<td>-</td>
<td>1,177,836</td>
<td>-</td>
</tr>
<tr>
<td>Kakamega</td>
<td>14,528,357</td>
<td>5,272,406</td>
<td>-</td>
</tr>
<tr>
<td>Kisii</td>
<td>428,000</td>
<td>4,930,777</td>
<td>-</td>
</tr>
<tr>
<td>Kisumu</td>
<td></td>
<td>13,121,365</td>
<td>-</td>
</tr>
<tr>
<td>Garissa</td>
<td>-</td>
<td>-</td>
<td>4,214</td>
</tr>
<tr>
<td>Embu</td>
<td>-</td>
<td>9,874,086</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,419,638</strong></td>
<td><strong>51,532,499</strong></td>
<td><strong>5,414</strong></td>
</tr>
</tbody>
</table>

In the circumstances, the validity and accuracy of the cash and cash equivalents balance of Kshs.4,783,108,000 as at 30 June, 2020 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

**1699.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

**1700.** There were no material issues relating to effectiveness of internal controls, risk management and governance.
JUDICIARY - VOTE 1261

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1701. Cash and Cash Equivalents

1701.1 Unsupported Adjustments

Included in the cash and cash equivalents balance of Kshs.6,910,868,419 is Kshs.585,984,121 and Kshs.6,129,527,516 in respect of the deposits bank account and balances held in various commercial banks respectively. However, the balances were net of cash book adjustments amounting to Kshs.81,478,205 that were not adequately supported.

1701.2 Unexplained Loss of Cash Deposits

Examination of the deposit records maintained by the Molo Court station revealed a loss of Kshs.34,219,651 dating back to 2017/2018 financial year through theft by staff members who have since been dismissed. The matter was referred to the Director of Criminal Investigation and the Asset Recovery Agency.

In addition, bank reconciliation statements for the month of June, 2020 for the bank accounts for Embu, Nakuru and Malindi Court Stations reflected losses amounting to Kshs.2,682,152, Kshs.84,588,258 and Kshs.1,455,800 respectively. However, the nature of the loss, recovery strategies and court proceedings on the matter were not disclosed.

In view of the foregoing, it has not been possible to confirm that the bank balance of Kshs.6,129,527,516 held in various commercial banks as at 30 June, 2020 is fairly stated.

1702. Unreconciled Variances in Accounts Payables

The statement of assets and liabilities reflects Kshs.6,715,511,637 with respect to accounts payables which as disclosed at Note 11 to the financial statements, reflects general deposits – stations at various court stations amounting to Kshs.6,129,527,516. However, the analysis availed for audit review reflected an amount of Kshs.6,452,559,010 resulting to an unexplained difference of Kshs.323,031,494.

Further, the Management did not explain why the deposits payable from the stations of Kshs.6,452,559,010 differed with the cash deposits of Kshs.6,129,527,516 as shown under Note 9 and how the resultant difference would be serviced. In the circumstances, the accuracy of the general deposits-stations balance of Kshs.6,129,527,516 could not be confirmed

1703. Delayed Completion of Construction of Thirty-Nine (39) Courts

As disclosed under Annex 2 to the financial statements and as previously reported, the historical cost of assets of the Judiciary balance of Kshs.27,825,307,366 includes costs
incurred on construction works of thirty-nine (39) Law Courts spread across the Country. Construction works for some of the law courts were awarded in the financial year 2013 but had taken long to complete therefore, attracting interests on the contract sum.

A review of the position as at 30 June, 2020, indicated that a total of Kshs.822,204,890 was awarded to the contractors out of which an amount of Kshs.18,809,796 was paid in the 2019/2020 financial year as disclosed under Note 15 to the financial statements. Further, included in the award was a total of Kshs.773,740,811 to various contractors as claims on projects awarded but were yet to commence due to unavailability of land for construction, unpaid certificates, and interest on delayed payments.

Consequently, the value for money on the payments and the outstanding obligations could not be confirmed.

Other Matter

1704. Pending Bills

Note 14 to the financial statements reflects pending bills totaling 788,664,790 that were not settled during the financial year 2019/2020 but were instead carried forward to 2020/2021. Failure to settle bills in the year to which they relate distorts the financial statements for the year and also affects the budgetary provisions for the subsequent year.

1705. Failure to Prioritize Budgeting for Older and Stalled Projects

An analysis of total work certified in relation to the contracted amount, revealed that the Judiciary was budgeting for projects in subsequent periods before completion of projects already contracted for. In addition, payments were prioritized for projects contracted for much later in disregard to the earlier contracted projects as shown below;

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Court Stations</th>
<th>Total Amount Contracted (Kshs.)</th>
<th>Amount Certified to Date (Kshs.)</th>
<th>% Certified</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>9</td>
<td>2,130,222,115</td>
<td>662,978,894</td>
<td>31</td>
</tr>
<tr>
<td>2014</td>
<td>2</td>
<td>70,273,922</td>
<td>63,177,209</td>
<td>90</td>
</tr>
<tr>
<td>2015</td>
<td>11</td>
<td>748,927,843</td>
<td>657,190,769</td>
<td>88</td>
</tr>
<tr>
<td>2016</td>
<td>0</td>
<td>0.00</td>
<td>0.00</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>12</td>
<td>1,864,327,275</td>
<td>577,654,001</td>
<td>31</td>
</tr>
<tr>
<td>2018</td>
<td>0</td>
<td>0.00</td>
<td>0.00</td>
<td>0</td>
</tr>
<tr>
<td>2019</td>
<td>1</td>
<td>157,200,000</td>
<td>128,987,852</td>
<td>82</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>4,970,951,155</td>
<td>2,089,988,725</td>
<td>42</td>
</tr>
</tbody>
</table>

No reason or explanation was provided for the preference for payments of later projects instead of the earlier ones or why the Judiciary was undertaking additional projects before completing previous projects in violation of Regulation 56(2)(b) of the Public Finance Management Regulations, 2015 that requires continuing projects be budgeted for first before new projects are budgeted for by the entity.
1706. Unresolved Prior Year Audit Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1707. Failure to have a Valid Lease Agreement for HIV and AIDS Tribunal

The HIV and AIDS Tribunal was allocated Kshs.42,988,420 in respect of operational costs. Included in this amount was Kshs.7,233,778 for rentals of produced assets. A review of the rental documents for the HIV Tribunal revealed that a lease agreement was signed and executed on 25 May, 2018 for a cost of Kshs.5,575,322 per annum by the Tribunal’s Chief Executive Officer instead of the Chief Registrar of the Judiciary and backdated to 1 July, 2015. No adequate explanation or reason was provided by the Accounting Officer on why the Tribunal was occupying a building without a valid legal contract.

Further, an amount of Kshs.20,200,395 in rental arrears was demanded from the Tribunal as per correspondences availed for audit review - Ref: M/NHIF/FTH A/08-20/RWN 24 dated August, 2020 from the property managers (on behalf of NHIF) to the Chief Executive Officer of the Tribunal.

In the absence of duly executed lease agreements it was not possible to determine the accuracy and validity of the outstanding rent and the rent paid by the Tribunal.

1708. Failure to Withhold Performance Bonds

Audit review of the construction project files revealed that a total of four construction projects for Wajir, Olkalou, Mukurweini and Kibera Courts had been stopped due to poor performance and workmanship. The total contracted cost for the projects was Kshs.695,857,795 out of which Kshs.322,200,617 was works certified as at the time of stoppage. However, the performance bonds totaling Kshs.69,585,794.96 were not seized in violation of Section 142(2) of the Public Procurement and Asset Disposal Act, 2015 which provides that the performance security shall unconditionally be fully seized by the procuring entity as compensation without prejudice to other penalties provided for by the Act.

1709. Stalled Construction of Turkana High Court

During the year 2013, the Judiciary awarded a contractor, the tender for the construction of the High Court at Turkana at a cost of Kshs.814,886,141. Construction of the project commenced on 30 September, 2013 and was to end on 25 April, 2015. On 2 July, 2014, the project stalled with total works certified being at Kshs.140,079,212 out of which, a total of Kshs.101,294,765 had been paid. However, the certificates of works and inspection and acceptance reports were not availed for audit review.
Based on advice by the Attorney General vide letter Ref.AG/ARB/JD/23/16 dated 21 August, 2017, the Judiciary was advised to negotiate with the contractor for purposes of resuming construction, by undertaking joint re-measurements of the work done, preparation of a valuation report, to enter into an arrangement to have the outstanding certificates settled and the pending works completed, and to have a capping on the increase of interest rates due for the period of delay in the project implementation that had by then exceeded three years.

In March, 2019, an arbitration award of Kshs.290,645,723 was made against the Judiciary mainly for unpaid and uncertified certificates and retention money after failure by the Judiciary to reach an agreement with the contractor resulting in the total payable cost on the project escalating to Kshs.391,940,488. An audit inspection of the site in March, 2021 revealed that the only works done were construction of the pillars with the slab for the first floor, which is equivalent to approximately 15% of the works and is less than the total project cost to date of Kshs.391,940,488.

In addition, a letter dated 16 March, 2020 Ref.AG/CONF/12/C/144 VOL.I(82) by the Attorney General to Judiciary rendered invalid projects whose contract period had expired and not yet renewed, implying that the contract between The Judiciary and the contractor was now non-existent and required to be re-tendered.

Consequently, no benefit was achieved on the Kshs.391,940,488 claimed for the project and the public may not get value for money on this project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1710. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REVENUE STATEMENTS OF THE JUDICIARY

REPORT ON THE REVENUE STATEMENTS

Unqualified Opinion

1711. There were no material issues noted during the audit of the revenue statements.
Other Matter

1712. Budgetary Control and Performance

The statement of receipts and transfers reflects total non-tax receipts of Kshs.2,266,900,242 for the year ended 30 June, 2020 representing an under-collection of Kshs.723,957,271 from the total budgeted revenue of Kshs.2,990,857,513. Out of the expected revenue transfer to the Exchequer of Kshs.2,900,857,513, the Judiciary transferred revenue of Kshs.2,124,182,269 or 71% of the budgeted receipts. Management has attributed the under-collection of revenue to scaled down operations at the courts stations due to the Covid-19 Pandemic.

1713. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues were not disclosed under the progress on follow up of auditor’s recommendations section of the revenue statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1714. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1715. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECT

JUDICIAL PERFORMANCE IMPROVEMENT PROJECT (IDA CREDIT NO.5181- KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1716. Difference between Project Payments and Work Certified

The statement of receipt and payments reflects Kshs.1,519,539,642 on acquisition of non-financial assets which includes Kshs.1,474,939,671 relating to construction of buildings. A comparison of actual payments with certified works for four (4) contracts at Nakuru, Milimani, Wajir and Nyamira reveals excess payment of Kshs.3,798,892 that was attributed to previous years' taxes that had not been paid. However, no documentary evidence has been provided in support of the paid tax.

Consequently, the validity of Kshs.3,798,892 could not be ascertained.

Emphasis of Matter

1717. Special Account Reconciliation

The statement of receipts and payments reflects loans from external development partners of Kshs.750,051,429 as disclosed under Note 8.3 to the financial statements. However, the balance differed with the special accounts statements balance of Kshs.758,072,640 resulting in an unreconciled and unexplained difference of Kshs.8,021,211.

My opinion is not modified based on the effects described on the above matter.

Other Matter

1718. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,195,000,000 and Kshs.1,888,098,131 respectively resulting to an underfunding of Kshs.306,901,869 or 14% of the budget. Similarly, the statement reflects final payments budget and actual on comparable basis of Kshs.2,195,000,000 and Kshs.1,726,379,499 respectively resulting to an under expenditure of Kshs.468,620,501 or 21% of the budget. The underfunding and under expenditure affected the planned activities and could have impacted negatively on service delivery for the public.
1719. Pending Bills

Note 9.1 and 9.2 reflects pending bills totaling Kshs.83,675,667 while the IFMIS ledger reflects Kshs.32,693,603 for pending bills resulting in a difference of Kshs.50,982,064. No reconciliation or explanation has been availed for audit review. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1720. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1721. Delayed Implementation of Projects

Examination of records for the Project (JPIP) as at 30 June, 2020 revealed that work certified in respect of contractors totalled to Kshs.5,175,142,583.68 out of the contract sum amounting to Kshs.6,892,064,478. However, analysis of the project status provided by the Project Coordinator indicated that twenty (20) out of the twenty-eight (28) projects were still under construction. An audit inspection of sampled projects during the month of November, 2020 revealed delay in completion of projects.
ETHICS AND ANTI-CORRUPTION COMMISSION - VOTE 1271

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1722. There were no material issues noted during the audit of the financial statements of the Commission.

Emphasis of Matter

1723. Declining Financial Performance

During the year under review, the Commission reported a deficit of Kshs.116,545,540 (2018/2019 - deficit Kshs.20,108,198). The cumulative deficits for the two years have resulted in depletion of revenue reserves by Kshs.136,653,738 from Kshs.712,225,241 in the prior year to Kshs.167,480,766 as at 30 June, 2020. Although Management has disclosed at Note 29 to the financial statements that the deficits are mainly due to depreciation and unremitted Exchequer, the Commission's performance is on a downward trend and if strategies are not put in place to reverse the trend, the Commission is likely to experience financial difficulties in future.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1724. Valuation of Property, Plant and Equipment

As reported in the previous year, the Commission remitted Kshs.1,518,000,000 to the National Land Commission (NLC) for compulsory acquisition of the Integrity Centre Building which houses the Commission's offices.

According to the valuation report based on inspection conducted on 14 February, 2018, the NLC valued the property at Kshs.1,543,382,916 as detailed below:

<table>
<thead>
<tr>
<th>Component</th>
<th>Acreage</th>
<th>Value (Kshs.)</th>
<th>15% Statutory Allowance (Kshs.)</th>
<th>Total Value (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>1.203</td>
<td>691,725,000</td>
<td>103,758,750</td>
<td>795,483,750</td>
</tr>
<tr>
<td>Improvements</td>
<td></td>
<td>650,347,101</td>
<td>97,552,065</td>
<td>747,899,166</td>
</tr>
<tr>
<td>Total Compensation</td>
<td>1,342,072,101</td>
<td>201,310,815</td>
<td></td>
<td>1,543,382,916</td>
</tr>
</tbody>
</table>
Although the NLC had requested for valuation services from the Ministry of Lands and Physical Planning, available records indicate that the valuation of the property was however done by the NLC itself. No evidence was availed by the National Land Commission to clarify whether the Ministry of Lands and Physical Planning played any role in the valuation of the property. This is despite the fact that the Department of Land Valuation in the Ministry is mandated to provide valuation services for and by all National and County Government entities. This exposes the National Land Commission to the risk of conflict of interest which may arise from the Commission conducting the valuation and thereafter paying the compensation thereof.

Due to failure to involve the mandated Government Valuer, Ministry of Lands and Physical Planning, it has not been possible to ascertain whether the Commission obtained value for money in the acquisition process of its headquarters, the Integrity Centre Building.

Further, according to a letter Ref, B35/NB/9720B/VOL.2/67 dated 4 March, 2020 from the State Department for Public Works, copies of the development plans (architectural, structural, electrical, mechanical and civil works drawings) submitted to the EACC by the NLC in respect of the property were not acceptable on the basis that:

(i) The drawings were copies of structural details and without calculations;
(ii) Architectural drawings were not provided;
(iii) Services drawings were not provided; and
(iv) The structural drawings provided were not the approved ones as required by the Nairobi City County Government.

According to the Management, this has hampered effective planning for the maintenance of essential electro-mechanical services and possible refurbishment and redevelopment of the Integrity Centre building.

Consequently, it has not been possible to ascertain whether the Commission obtained value for money in the acquisition process of its Headquarters, the Integrity Centre building.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1725. There were no material issues relating to effectiveness of internal controls, risk management and governance.
ETHICS AND ANTI-CORRUPTION COMMISSION - STAFF HOUSE MORTGAGE AND CAR LOAN SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1726. There were no material issues noted during the audit of the financial statements of the Scheme.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1727. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1728. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1729. There were no material issues noted during the audit of the financial statements of the Service.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1730. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1731. There were no material issues relating to effectiveness of internal controls, risk management and governance.

INTELLIGENCE SERVICE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1732. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

1733. Winding Up of the Fund

As disclosed under Note 12 to the financial statements, the Fund is subject to winding up upon the lapse of the maximum ten years provided The Intelligence Service Fund (ISDF) through the Legal Notice No.110 of 2002 and the Exchequer and Audit (Intelligence Service Development Fund). In accordance with Section 209(3) of the Public Finance
Management Regulations, 2012, the Management has written to the Office of the Cabinet Secretary, State Department for Interior and Coordination of the National Government requesting for the approval to wind up the Fund.

My opinion is not modified based on the effects of the matter described above.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1734. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1735. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1736. There were no material issues noted during the audit of the financial statements of the Office.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1737. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1738. Understaffing

A review of the staff establishment revealed that the Office has a staff establishment of 1340 Legal Officers and 819 Non-Legal Officers in various positions. However, it was noted that only 608 Legal and 381 Non-Legal Officers were in-post respectively resulting to a shortage of 732 and 438 for both legal and non-legal staff. The understaffing hampers the Office in effectively discharging its mandate.
OFFICE OF THE REGISTRAR OF POLITICAL PARTIES - VOTE 1311

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1739. There were no material issues noted during the audit of the financial statements of the Office.

Other Matter

1740. Pending Bills

Note 9 to the financial statements reflects pending bill amounting to Kshs.3,960,263 that were not settled in the year under review but were carried forward to 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1741. Inapplicable Allowance

The office Staff Mortgage and Car Loan Scheme Advisory Committee incurred an expenditure of Kshs.650,000 paid to sixteen (16) officers for ten (10) days. However, the Office of the Registrar of Political Parties Regulations on Staff Mortgage and Car Allowance stipulate that a Committee of seven (7) members shall be formed. However, a committee of sixteen (16) members was formed and paid by the office thus incurring an additional cost of Kshs.360,000. Further, it was established that the officers held only five (5) meetings against ten (10) meetings that were paid for. The propriety of the expenditure of Kshs.360,000 could not be confirmed.

1742. Accommodations and Travel Allowances

The statement of receipts and payments reflects an expenditure of Kshs.121,977,444 which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.26,363,700 incurred on domestic travel and subsistence allowances. The latter balance includes an expenditure of Kshs.12,486,000 paid to Political Parties Liaison members for accommodation and travel allowances. Although the Registrar had sought the advice of the Salaries and Remuneration Commission (SRC) on compensation of the members, the Commission had not given a directive as at the time of audit. Under the circumstances, the regularity of the payments could not be confirmed.
Basis for Conclusion

1743. Understaffing

The Office had a staff establishment of two hundred and thirty-five (235) officers. However, and as previously reported, only sixty-six (66) Officers were in-post resulting into a shortage of one hundred and sixty-nine (169) staff members. The understaffing hampers effective discharging of the mandate of the Office.

1744. Audit Committee

The term for all the Audit Committee members expired in October, 2019. However, there is no evidence of extension of terms of service or recruitment of new members. In the absence of an effective Audit Committee, the Office was prone to serious internal control weaknesses.

POLITICAL PARTIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1745. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1746. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1747. There were no material issues relating to effectiveness of internal controls, risk management and governance.
OFFICE OF THE REGISTRAR OF POLITICAL PARTIES-STAFF
MORTGAGE LOAN FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1748. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1749. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1750. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OFFICE OF THE REGISTRAR OF POLITICAL PARTIES-CAR LOAN FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1751. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1752. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1753. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1754. There were no material issues noted during the audit of the financial statements of the Agency.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1755. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1756. Under Staffing

The Agency’s Human Resource Policy Manual, 2016 provides for two hundred and ninety-six (296) staff members. However, only one hundred and nine (109) staff were in post as at the time of audit, resulting into a shortfall of one hundred and eighty-seven (187) staff members across the various staff cadres. The under staffing may hinder effective delivery of services by the Agency.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1757. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1758. Pending Bills

As disclosed under Note 15.1 to the financial statements, the Commission had pending bills totalling Kshs.2,789,882 in respect of supply of goods as at 30 June, 2020 that were not settled during the year but were instead carried forward to 2020/2021. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1759. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1760. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1761. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1762. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1763. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1764. Discrepancies Between Financial Statements and IFMIS Figures

The financial statements reflected balances which were at variance with amounts in the Integrated Financial Management Information System (IFMIS) as summarized below:

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Balance as per IFMIS Statements (Kshs.)</th>
<th>Balance in the Financial Statements (Kshs.)</th>
<th>Difference (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total receipts</td>
<td>1,625,134,446</td>
<td>16,559,509,546</td>
<td>(14,934,375,100)</td>
</tr>
<tr>
<td>Total payments</td>
<td>1,619,768,795</td>
<td>16,654,611,332</td>
<td>(15,034,842,537)</td>
</tr>
<tr>
<td>Financial assets</td>
<td>1,793,362,788</td>
<td>12,438,596,658</td>
<td>(10,645,233,870)</td>
</tr>
<tr>
<td>Fund balance b/f</td>
<td>12,037,488</td>
<td>11,434,110</td>
<td>603,378</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>1,775,959,649</td>
<td>12,522,264,334</td>
<td>(10,746,304,685)</td>
</tr>
</tbody>
</table>

The Management has not provided explanation for the variances.

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

Other Matter

1765. Unresolved Prior Year Audit Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, some of the unresolved prior year issues are not disclosed under the progress on follow up of auditor’s recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

1766. Pending Bills

Note 17 to the financial statements indicates that the Commission had pending bills totalling Kshs.30,235,320 as at 30 June, 2020. Management has not explained why the bills were not settled during the year when they occurred. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1767. Long Outstanding Imprests

The statement of assets and liabilities reflects accounts receivables balance of Kshs.6,291,100 which, as disclosed in Note 11 to the financial statements includes Government imprests of Kshs.1,155,220 which had been outstanding for more than one year. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Regulation 93(6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

Under the circumstances, recoverability of the Government imprest balance of Kshs.1,155,220 as at 30 June, 2020 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1768. Under Staffing in Internal Audit Unit

A review of the Commission’s Internal Audit Unit revealed that during the year under review, the Unit had only three (3) staff members comprising of one (1) acting head of the unit and two (2) clerical officers against an approved establishment of twelve (12) officers, resulting into a deficit of nine (9) staff. The significant under staffing of the Unit might have adversely affected effective performance of the Unit thus compromising on the effectiveness of internal controls, governance and risk management systems.
Basis for Qualified Opinion

1769. Long-Term Receivables from Exchange Transactions

As disclosed in Note 4 to the financial statements, the statement of financial position reflects a balance of Kshs.30,686,594 under non-current receivables as at 30 June, 2020. The balance is made up of long-term loan repayments due from mortgage loans of Kshs.26,151,594 and long-term loan repayments due from car loans of Kshs.4,535,000. However, Management has not explained why car loans totalling to Kshs.4,535,000 were issued from the Housing Scheme Fund, contrary to Paragraph 7(1) of the Public Finance Management (National Land Commission Housing Fund) Regulations, 2018 which states that a loan advanced to a borrower under these Regulations shall be utilized for the purchase of a residential house, the development of a residential house, or the purchase of land and development of a residential house by the borrower.

Under the circumstances, the validity of long-term loan repayments due from car loans of Kshs.4,535,000 as at 30 June, 2020 could not be confirmed.

Conclusion

1770. There were no material issues relating to lawfulness and effectiveness in use of public resources.

Conclusion

1771. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1772. Recoveries - Mortgage Account

As disclosed in Note 4 to the financial statements, the statement of financial position reflects recoveries in respect of mortgage account of Kshs.1,162,114 as at 30 June, 2020 arising from issuing of car loans from the mortgage account. It is not clear, and Management has not explained why car loans were issued out of the Mortgage Fund, contrary to Paragraph 7(1) of the Public Finance Management (National Land Commission Housing Fund) Regulations, 2018 which states that a loan advanced to a borrower under these Regulations shall be utilized for the purchase of a residential house, the development of a residential house, or the purchase of land and development of a residential house by the borrower.

In the circumstances, the validity of recoveries in respect of mortgage account balance of Kshs.1,162,114 as at 30 June, 2020 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1773. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1774. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECT

SUPPORT TO THE ATTAINMENT OF VISION 2030 THROUGH DEVOLVED LAND REFORMS IN COMMUNITY LANDS OF KENYA PROJECT NO. GCP/KEN/085/EC (LETTER OF AGREEMENT 2018/001) – NATIONAL LAND COMMISSION

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1775. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1776. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1777. There were no material issues relating to effectiveness of internal controls, risk management and governance.
INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION - VOTE 2031

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1778. Accounts Receivables

The statement of financial position as at 30 June, 2020 reflects amounts of Kshs.11,160,000 and Kshs.26,193,000 in respect of accounts receivables and car loan accounts receivables, respectively. As disclosed under Notes 11 and 12 to the financial statements, the amounts relate to imprests or salary advances and car loans, respectively held by staff and former Commissioners of the defunct Electoral Commission of Kenya. The funds, which have been outstanding for more than ten (10) years, were recovered from the final dues of the staff and former Commissioners by The National Treasury but were not remitted to the Commission.

In the circumstances, recoverability of the accounts' receivables and car loans accounts receivables amounting to Kshs.11,160,000 and Kshs.26,193,000 respectively, could not be ascertained.

1779. Property, Plant and Equipment

As disclosed in Note 13 to the financial statements, the statement of financial position reflects a balance of Kshs.2,318,020,000 in respect of property plant and equipment as at 30 June, 2020 which includes an amount of Kshs.113,514,000 for office buildings. However, as reported in the year 2018/2019, the value of forty-one (41) constituency office block buildings has not been included in the amount disclosed in the financial statements. Further, the Commission is yet to obtain ownership documents for several parcels of land allocated by the National and County Governments and whose values have also not been included in the financial statements. In addition, as reported in the previous years, although the Commission maintained an asset register, it was not comprehensive as required under Regulation 143(2) of the Public Finance Management (National Government) Regulations, 2015 and assets of undetermined value inherited from the defunct Electoral Commission of Kenya has been omitted.

In the circumstances, it has not been possible to ascertain the accuracy and completeness of the balance of Kshs.2,318,020,000 for property, plant and equipment included in the statement of financial position as at 30 June, 2020.
1780. Inventories

The Commission held significant quantities of strategic and non-strategic election materials in various stores located in various warehouses at its County and Constituency offices. These include items of undetermined values inherited from the defunct Electoral Commission of Kenya. However, and as reported in the previous years, the values of these inventories have not been determined and disclosed in the financial statements under review.

Consequently, the total assets balance of Kshs.2,467,704,000 reflected in the statement of financial position as at 30 June, 2020 is not fairly stated.

Other Matter

1781. Accounts Payables

The statement of financial position reflects a balance of Kshs.3,124,814,000 against accounts payables as at 30 June, 2020 (2019 - Kshs.4,334,280,000). Management has explained that the existence of the accounts payables was mainly due to failure by The National Treasury to release funds from the Exchequer for settlement of the same. Failure to settle the bills during the year adversely affects the provisions for the subsequent periods to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1782. Outstanding Court Awards

The statement of financial position as at 30 June, 2020 reflects Kshs.21,903,000 in respect of receivables from non-exchange transactions. As disclosed in Note 10 to the financial statements, the balance includes an amount of Kshs.5,396,000 Appropriations-In-Aid (AIA) receivables relating to amounts due from court cases which were decided in the year 2013 and for which costs had been awarded to the Commission.

Management has not demonstrated measures taken to collect the amounts awarded or collect the revenue due as required under Regulation 64(1) of the Public Finance Management (National Government) Regulations, 2015 which states that an Accounting Officer and a Receiver of Revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for, all National Government revenue and other public moneys relating to their Ministries, Departments or Agencies.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1783. There were no material issues relating to effectiveness of internal controls, risk management and governance.

INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION STAFF MORTGAGE AND CAR LOAN SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1784. There were no material issues noted during the audit of the financial statements of the Scheme.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1785. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1786. There were no material issues relating to effectiveness of internal controls, risk management and governance.
Basis for Qualified Opinion

1787. Unsupported Domestic Travel and Subsistence

The statements of receipts and payments for the year ended 30 June, 2020 reflects total expenditure of Kshs.3,881,415,626 in respect of use of goods and services. As disclosed under Note 4 to the financial statements, the expenditure includes an amount of Kshs.1,395,384,441 relating to domestic travel and subsistence out of which Kshs.11,392,479 was paid to the Members in respect of mileage claims. However, no explanation was provided as to why three (3) Members were paid twice or thrice for the same date of travel.

Further, examination of payments for claims by Members for mileage and domestic subsistence facilitation revealed instances where some Members were paid domestic subsistence facilitation and mileage claims amounting to Kshs.5,219,357 on days when they were outside the country and already receiving foreign subsistence allowances. The irregular payments had not been recovered by the time of the audit in December, 2020.

In the circumstances, the propriety of the expenditure of Kshs.11,392,479 and Kshs.5,219,358 included under domestic travel and subsistence in the statement of receipts and payments for the year ended 30 June, 2020 could not be determined.

1788. Non-Current Assets

As disclosed in Note 8 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects total expenditure of Kshs.724,789,352 in respect of acquisition of assets. The expenditure, however, excludes an amount of Kshs.14,100,000 which was incurred on acquisition of furniture and other office equipment at the County offices during the year under review. The acquired furniture and other office equipment are also omitted from the summary of fixed assets register under Annex 2 to the financial statements. Further, the summary of fixed asset register disclosed under Annex 2 to the financial statements indicates that the Parliamentary Service Commission held fixed assets with historical costs totalling Kshs.8,159,409,156 as at 30 June, 2020. However, the fixed assets register was not provided for audit review.

In addition, and as reported in the year 2018/2019, ownership documents for the following properties owned and controlled by the Commission were not availed for audit review:
Consequently, it was not possible to confirm the ownership of non-current assets held by the Parliamentary Service Commission as well as the completeness and accuracy of the fixed assets balance of Kshs.8,159,409,156 as at 30 June, 2020.

Other Matter

1789. Pending Bills

Note 14.1 to the financial statements reflects pending bills amounting to Kshs.122,340,709 that were not settled in the year under review but were carried forward to the 2020/2021 financial year. The Commission has attributed non-payment of the pending bills to delayed Exchequer releases by The National Treasury. Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1790. Irregular Procurement of Office Supplies and Services, Accommodation and Transport Service at County Offices

The statement of receipts and payments for the year ended 30 June, 2020 reflects an expenditure of Kshs.3,881,415,626 in respect of use of goods and services. As disclosed under Note 4 to the financial statements, the amount includes Kshs.767,007,315 relating to other operating expenses out of which Kshs.8,710,614 was incurred on office supplies and services, accommodation and transport at the County offices. Although the respective amounts of expenditure in various cases were above the threshold for low value procurement method, the management of the County offices did not apply alternative procurement methods as required under Section 91 of the Public Procurement and Asset Disposal Act, 2015 but procured these goods and services directly through cash purchases.

1791. Accounts Receivables’ - Outstanding Imprests

The statement of assets and liabilities reflects an accounts receivables’ balance of Kshs.17,476,419 as at 30 June, 2020. The balance includes imprests totalling
Kshs.13,826,087 which were due for surrender on or before 30 June, 2020. No satisfactory explanation has been provided by the Management for failure to ensure that all imprests are surrendered or accounted for when they fall due. Further, no action has been taken by Management to recover the full amounts of outstanding imprests from the salaries of the defaulting Members and staff contrary to the provisions of Regulation 93(5) and (6) of the Public Finance Management (National Government) Regulations, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1792. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PARLIAMENTARY CAR LOAN SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1793. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1794. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1795. There were no material issues relating to effectiveness of internal controls, risk management and governance.
PARLIAMENTARY MORTGAGE LOAN SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1796. Receivables - Non-Performing Loans

As disclosed in Note 6 to the financial statements, the statement of financial position reflects a balance of Kshs.7,242,680,817 under receivables which includes an amount of Kshs.7,239,589,103 advanced to members and staff, out of which loans amounting to Kshs.61,256,049 were not being serviced. Further, no adequate provision has been made in the financial statements to provide for uncertainty in the recovery of the loans.

Under the circumstance, recoverability of loans amounting to Kshs.61,256,049 included in the receivables balance of Kshs.7,242,680,817 as at 30 June, 2020 is doubtful.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1797. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1798. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PARLIAMENTARY CATERING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1799. Understatement of Expenditure

The statement of financial performance reflects a total expenditure of Kshs.69,465,669 incurred during the year under review. However, a review of the cashbook and payment
details presented for audit revealed that the actual amount incurred was Kshs.70,284,635 resulting to an unexplained variance of Kshs.818,966.

In the circumstances, the accuracy of the expenditure of Kshs.69,465,669 reflected in the financial statements as at 30 June, 2020 could not be confirmed.

Other Matter

1800. Pending Bills

Note 6 to the financial statements reflects pending bills of Kshs.8,436,381 which were not paid during the year under review but were instead carried forward to the 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year's provisions, since the bills form the first charge to that year's budget provisions.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1801. Accounts Receivables

As disclosed in Note 5 to the financial statements, the statement of financial position reflects an amount of Kshs.1,247,767 in respect of monies owed to the Fund by Ex-Members, current Members of Parliament and Parliamentary staff. However, Regulation 11 of the Public Finance Management (Parliamentary Catering Fund) Regulations, 2019 requires the Administrator of the Fund to establish a catering payment system for the services offered at the catering facility which includes card or mobile payments and monthly deductions. The Regulations also requires Members to pay their bills promptly. However contrary to this Regulation, an amount of Kshs.1,247,767 was still outstanding as at 30 June, 2020.

Consequently, the administration of the Fund was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1802. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1803. There were no material issues noted during the audit of the financial statements of the National Assembly.

Other Matter

1804. Pending Bills

Annex 5 to the financial statements indicates that the National Assembly had pending bills totalling Kshs.156,192,903 as at 30 June, 2020, which were not settled in 2019/2020 but were instead carried forward to the 2020/2021 financial year. The Management has explained that the bills were unpaid due to challenges related to the Integrated Financial Information System (IFMIS) connectivity towards the end of the financial year, delays in Exchequer releases and inadequate supporting documents- from the suppliers of goods and services. Failure to settle bills during the year to which they relate, adversely affects the provisions of the subsequent year to which they are charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1805. Irregular Procurement of Office Supplies and Services, Accommodation and Transport Service at Constituency Offices

The statement of receipts and payments for the year ended 30 June, 2020 reflects an expenditure of Kshs.7,564,548,299 in respect of use of goods and services. As disclosed in Note 4 to the financial statements, the amount includes Kshs.2,482,743,939 relating to other operating expenses out of which Kshs.45,335,769 was incurred on office supplies and services, accommodation and transport at the Constituency Offices. Although the expenditure in various cases were above the threshold for low value procurement method, the Management of the county constituency offices did not apply alternative procurement methods as required under Section 91 of the Public Procurement and Asset Disposal Act, 2015 but procured the above goods and services directly through cash purchases.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1806. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1807. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1808. Pending Bills

Annex 1 to the financial statements indicates that the Parliamentary Joint Services had pending bills amounting to Kshs.45,462,874 as at 30 June, 2020. The pending bills relate to construction of buildings and supply of goods and services which were not settled in 2019/2020 financial year but were instead carried forward to 2020/2021. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they are charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1809. Failure to Maintain Assets Register

The statement of receipts and payments for the year ended 30 June, 2020 reflects an expenditure of Kshs.1,643,577,284 in respect of acquisition of assets. As disclosed under Note 6 and Annex 3 to the financial statements, the amount represents the total historical cost of assets purchased and held by the Parliamentary Joint Services as at 30 June, 2020. However, the Management did not maintain an assets register contrary to Regulation 143 of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to maintain a register of assets under his or her control or possession as prescribed by the relevant laws.

The Management explained that assets are jointly owned by three votes of Parliament - the Senate, the National Assembly and the Parliamentary Joint Services and that, the Parliamentary Service Commission is in the process of developing a policy to address the ownership.
Conclusion

1810. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1811. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1812. Pending Bills

Note 13.1 to the financial statements reflects pending bills amounting to Kshs.1,860,525 that were not settled in the year under review but were carried forward to 2020/2021 financial year. Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year’s budgeted programmes as the pending bills form a first charge to that year’s budget provision.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1813. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1814. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1815. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1816. Pending Bills

Annex II to the financial statements shows that the Commission on Revenue Allocation had pending bills totalling to Kshs.7,470,306 which were not settled as at 30 June, 2020. The pending bills relates to supply of goods and services which were not settled in 2019/2020 financial year but were instead carried forward to 2020/2021 financial year. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they are charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1817. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1818. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1819. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1820. Unpaid Fringe Benefit Tax

During the year under review, the Fund Management gave out loans to employees at an interest rate below the market rate, which attracted the Fringe Benefit Tax payable by the Commission. However, as at the end of the year, the Fringe Benefit Tax payable to the Kenya Revenue Authority was Kshs.831,826. Failure to comply with the stipulated remittance timelines attracts fines and penalties. The Fund Management is therefore in breach of Section 12B of the Income Tax Act which states that a Fringe Benefit Tax is payable commencing on the 12th June, 1998 by every employer in respect of a loan provided to an individual who is a director or an employee at an interest rate lower than the market interest rate.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1821. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1822. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1823. Pending Bills

As disclosed in Note 18 to the financial statements, the Commission had pending bills of Kshs.9,360,827 as at 30 June, 2020. Management has not provided an explanation for failure to settle the bills. Failure to settle bills during the year to which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1824. Unresolved Prior Year Matter

1824.1 Irregular Extension of Group Personal Accident Insurance Cover

As previously reported, the statement of receipts and payments for the year ended 30 June, 2019 reflected an expenditure of Kshs.426,345,328 under use of goods and services. Included in the expenditure was an amount of Kshs.86,018,429 relating to insurance costs that includes Kshs.2,930,327 paid to an insurance Company in respect of group personal accident cover for the staff, covering the period from 1 October, 2018 to 30 September, 2019. However, the insurance contract used in support of the payment had expired on 30 June, 2018. The contract was renewed on existing basis without subjecting the extension through the procurement process in line with Section 139(2) (a) of the Public Procurement and Asset Disposal Act, 2015 which requires the Accounting Officer to approve changes to a contract upon recommendation by the Evaluation Committee. Although Management provided a letter of extension, minutes of the Evaluation Committee were not provided for audit review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1825. Irregular Payments of Special Duty Allowances

The statement of receipts and payments reflects an expenditure of Kshs.1,578,187,488 under compensation of employees which includes an amount of Kshs.1,091,587 special duty allowances. The allowance was paid to thirteen (13) members of staff who had
performed duties of higher posts for a duration exceeding six (6) months contrary to Section C15 (4) of the Human Resource Policies and Procedures Manual for the Public Service of May, 2016 which provides that special duty allowance will not be payable to an Officer for more than six (6) months.

Under the circumstances, the Commission was in breach of the Human Resource Policies and Procedures for the Public Service.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1826. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1827. There were no material issues noted during the audit of the financial statements of the Commission.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1828. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1829. Lack of Offsite Back Up and Disaster Recovery Centre

The Commission is the custodian of all remuneration information for Public and State Officers in the Country. However, it does not maintain an offsite backup for this critical information. Although Management has commenced engagements with the Management of the Kenya Revenue Authority (KRA) with the objective of securing an offsite backup and data recovery site, no formal agreement had been signed as at 30 June, 2020.

Consequently, the Commission is at risk of information loss in the event of a disaster at its premises.
REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1830. Stores and Cash Losses

The statement of assets and liabilities reflects an accounts receivable balance of Kshs.847,227,279 which includes stores and cash losses amounting to Kshs.10,487,516 and Kshs.2,928,398 respectively, which as previously reported, occurred between the years 1988 and 2000. The matter was investigated and the Director of Public Prosecutions directed the suspect to be charged with the offence of stealing by person employed in the Public Service contrary to Section 280 of the Penal Code. A review of the matter during the year under review indicates that the Court ruling on 12 March, 2019 determined that the accused had a case to answer and the next defense hearing date was set for 12 June, 2019 which was adjourned to 23 December, 2019 and later to January, 2020. The Management has however, indicated that on 6 March, 2020 the judgement was delivered where the court exonerated the accused from all the charges. It has therefore not been possible to confirm the recoverability of Kshs.10,487,516 and Kshs.2,928,398 being the value of stores and cash losses respectively.

Consequently, the accuracy of accounts receivable balance of Kshs.847,227,279 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

1831. Property, Plant and Equipment Schedule

As reported in the previous years, the property, plant and equipment schedule balance of Kshs.4,556,808,968 under Annex XVI, other important disclosures as at 30 June, 2020, includes a balance of Kshs.88,096 being the residual value of one (1) motor vehicle procured in 2004 at a cost of Kshs.2,085,869. A review of the matter in January, 2018 revealed that the vehicle had earlier been taken and auctioned by the auctioneers after obtaining a duplicate log book No.20063490279 from the Kenya Revenue Authority.

Although the Commission repossessed the vehicle, the case has been pending before Court. A review of the matter in 2018/19 indicated that, the Commission (Defendant) prepared an application to dismiss the suit for want of prosecution which was heard on 22 November, 2018. According to Management, the plaintiff objected on the ground that the failure for the matter to proceed was due to the file missing from the registry. The case was not dismissed but set for hearing on 3 October, 2019. The case was later adjourned to 20 February, 2020. On 15 September, 2020 the Court ruled that the motor vehicle be released to the plaintiff but the Commission appealed the ruling on 20 November, 2020. No further updates on the case had been presented for audit review as at the date of this report.
In the circumstances, it has not been possible to confirm that the property, plant and equipment schedule balance of Kshs.4,556,808,968 as at 30 June, 2020 is fairly stated.

Other Matter

1832. Budgetary Control and Performance

The Commission had an approved development receipts budget and actual on comparable basis of Kshs.400,000,000 and Kshs.347,526,000 respectively resulting to an under-funding of Kshs.52,474,000 or 13% of the budget. Similarly, the Commission expended an amount of Kshs.271,066,000 or 68% of the development budget of Kshs.400,000,000 resulting to under-utilization of Kshs.128,934,000 or 32% of the budget. The under-expenditure mainly occurred under SEQUIP expenditure where the Commission expended Kshs.271,066,000 against an approved budget of Kshs.400,000,000 resulting to an under-expenditure of Kshs.128,934,000.

Management has attributed the utilization to the reduced activities due to the effects of the COVID 19 pandemic.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1833. Non-Compliance with One Third Basic Pay Rule

A review of the payrolls for the months of March and June, 2020 reflects that two hundred and fifteen (215) teachers and twelve (12) secretariat staff received net salaries lower than a third of their basic salary. This is Contrary to Human Resource Policies and Procedures Manual for the Public Service dated May, 2016 Section C.1 (3) which states that Public officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries and Heads of Human Resource Units should ensure compliance.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1834. There were no material issues relating to effectiveness of internal controls, risk management and governance.
DONOR FUNDED PROJECT

SECONDARY EDUCATION QUALITY IMPROVEMENT PROJECT
(IDA CREDIT NO.6138-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1835. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1836. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects that the Project received an amount of Kshs.347,526,267 or 87% of the approved budget of Kshs.400,000,000. Similarly, the Project utilized Kshs.271,065,923 on use of goods and services resulting into under expenditure of Kshs.128,934,077 or 32% of the budget. Management has attributed the low absorption to lack of funding at the beginning of the financial year and the budget being availed in December, 2019 through a supplementary budget.

In the circumstances, the under absorption of the approved budget is an indication of the activities not implemented by the Management leading to non-provision of services to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1837. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1838. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1839. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1840. Pending Bills

Note 13 to the financial statements indicates that the Commission had pending bills of Kshs.17,636,826 as at 30 June, 2020. Management has explained that the bills related to disputed rent between the landlord and the Commission. Reconciliation has since been agreed upon and the Commission is in the process of settling the reconciled bills.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1841. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1842. There were no material issues relating to effectiveness of internal controls, risk management and governance.
OFFICE OF THE CONTROLLER OF BUDGET - VOTE 2121

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1843. There were no material issues noted during the audit of the financial statements of the Office.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1844. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1845. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1846. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1847. There were no material issues relating to lawfulness and effectiveness in use of public resources.
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1848. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1849. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1850. Pending Bills

As disclosed in Note 29.1 to the financial statements, the Commission had pending bills totalling Kshs.2,174,251 as at 30 June, 2020 that were not settled during the year 2019/2020 but were instead carried forward to 2020/2021. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1851. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1852. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1853. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1854. Pending Bills

As disclosed under Notes 15 to the financial statements, the Commission had pending bills totalling Kshs.5,887,415 as at 30 June, 2020 that were not settled during the year 2019/2020 but were instead carried forward to 2020/2021. Management has attributed the delay in settlement of pending bills to late submission of invoices by suppliers and lack of Exchequer releases. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1855. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1856. There were no material issues relating to effectiveness of internal controls, risk management and governance.
REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1857. There were no material issues noted during the audit of the financial statements of the Authority.

Other Matter

1858. Pending Bills

As disclosed in Note 12.1 to the financial statements, Independent Policing Oversight Authority had pending bills totalling Kshs.4,636,480 as at 30 June, 2020 which were not settled during the year but were instead carried forward to the financial year 2020/2021. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1859. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1860. There were no material issues relating to effectiveness of internal controls, risk management and governance.
APPRECIATION

I wish to sincerely thank the entire staff of the Office of the Auditor-General for their commitment, passion and professionalism in carrying out their duties. Special appreciation goes to the team that prepared this Consolidated Audit Report.

I wish also to appreciate my clients/auditees for the cooperation they accorded my staff during the audit.

Nancy Gathungu  
AUDITOR-GENERAL

Nairobi

28 May, 2021
Appendix A: Unmodified/Unqualified Opinion

No. MINISTRIES, DEPARTMENTS AND AGENCIES (MDAs)/FUNDS/DONOR FUNDED PROJECTS

1. The Presidency
2. State Department for Immigration and Citizen Services
3. Ministry of Defence
4. State Department for Post Training and Skills Development
5. State Department for Transport
6. State Department for Shipping and Maritime
7. State Department for Housing and Urban Development
8. Ministry of Energy
9. State Department for Fisheries, Aquaculture and the Blue Economy
10. State Department for Irrigation
11. State Department for Agricultural Research
12. State Department for Trade and Enterprise Development
13. State Department for Petroleum
14. State Department for Wildlife
15. Ethics and Anti-Corruption Commission
16. National Intelligence Service
17. Office of the Director of Public Prosecutions
18. Office of the Registrar of Political Parties
19. Witness Protection Agency
21. National Assembly
22. Parliamentary Joint Services
23. Judicial Service Commission
24. Commission on Revenue Allocation
25. Public Service Commission
26. Salaries and Remuneration Commission
27. National Police Service Commission
28. Office of the Controller of Budget
29. Commission on Administrative Justice
30. National Gender and Equality Commission
31. Independent Policing Oversight Authority
32. Revenue Statements (Development)
33. Revenue Statements - State Department for Immigration and Citizen Services
34. Statements of Revenue - Ministry of Defence
35. Revenue Statements of the State Law office and Department of Justice
36. Revenue Statements of Business Registration Service
37. Revenue Statements of The Judiciary
38. National Exchequer Account
39. Consolidated Fund Services - Subscriptions to International Organizations
40. East Africa Tourist Visa Fee Collection Account
41. Consolidated Fund Services - Salaries, Allowances and Miscellaneous Services
42. Equalisation Fund – The National Treasury
43. Contingencies Fund – The National Treasury
44. Covid-19 Emergency Response Fund – The National Treasury
45. State Officers and Public officers Motor Car Loan Scheme Fund – The National Treasury
46. Asiatic Widows and Orphans Pension Fund – The National Treasury
47. African Union and Other International Organizations Subscription Fund
49. Roads Annuity Fund - State Department for Infrastructure
50. Railway Development Levy Fund (Operations Account) - State Department for Transport
52. Petroleum Development Levy Fund - Ministry of Energy
53. Petroleum Development Levy Fund – State Department for Petroleum
54. Petroleum Training Levy Fund - State Department for Petroleum
55. Business Registration Service
56. Ethics and Anti-Corruption Commission - Staff House Mortgage and Car Loan Scheme
57. Intelligence Service Development Fund
58. Political Parties Fund
59. Office of the Registrar of Political Parties-Staff Mortgage Loan Fund
60. Office of the Registrar of Political Parties-Car Loan Fund
61. Kenya National Commission on Human Rights Mortgage and Car Loan Scheme Fund
62. Independent Electoral and Boundaries Commission Staff Mortgage and Car Loan Scheme

63. Parliamentary Car Loan Scheme Fund

64. Commission on Revenue Allocation Staff Mortgage Scheme Fund

65. Office of the Controller of Budget Mortgage Fund

66. Financial Sector Support Project (IDA Credit No. 5627-KE) – The National Treasury

67. Infrastructure Finance and Public Private Partnership Project - IDA Credit No. 5157-KE – The National Treasury

68. Study and Capacity Building Fund Project (Credit No. CKE 6015 01K) – The National Treasury


70. Micro Finance Sector Support Credit Project (Credit No. CKE 3004 01E and CKE 6010 01E) – The National Treasury

71. Programme for Rural Outreach of Financial Innovations and Technologies (Profit) (IFAD Loan No.814-KE and Grant No.1218-KE) – The National Treasury

72. Additional Financing For The Infrastructure Finance and Public Private Partnership Project (IDA Credit No. 6121-KE) – The National Treasury

73. Financing Locally-Led Climate Action Program (Preparation Advance No. IDA V319-KE) – The National Treasury

74. Eastern Africa Regional Transport, Trade and Development Facilitation Project (IDA Credit No. 5638-KE) - Kenya Revenue Authority

75. Data Collection and Database Development Project (UNFPA-KEN7P32A) - Kenya National Bureau of Statistics


77. Kenya Development Response to Displacement Impacts Project (IDA Credit No.6021-KE) – The Presidency
78. Technical Assistance to Enhance the Capacity of the President’s Delivery Unit (ADB Grant No.5500155012902) – The Presidency

79. Kenya Symbiocity Programme-Grant No.51110060 - Council of Governors

80. Kenya Italy Debt for Development Program (KIDDP) – State Department for Vocational and Technical Training

81. Support to Technical Vocational Education and Training for Relevant Skills Development Project - Phase II (Loan No.2100150033295) - State Department for Vocational and Technical Training

82. East Africa Skills For Transformation and Regional Integration Project (EASTRIP) IDA Loan Credit No.6334-KE - State Department for Vocational and Technical Training

83. East Africa Skills for Transformation and Regional Integration Project (IDA Loan No. 6334-KE) – Meru National Polytechnic

84. East Africa Skills Transformation and Regional Integration Project (EASTRIP) – Grant/Credit No. IDA 6334-KE — Kisumu National Polytechnic

85. East Africa Skills Transformation and Regional Integration Project (Credit Number: IDA 6334-KE) – Kenya Coast National Polytechnic

86. Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project No. KEN-4 – State Department for University Education

87. Eastern and Southern Africa Higher Education Centers of Excellence (ACE II) Project (Credit No. 5798-KE) – State Department for University Education

88. Africa Center of Excellence in Sustainable Use of Insects as Food and Feeds Project (IDA Credit No. 5798-KE) – Jaramogi Oginga Odinga University of Science and Technology

89. Secondary Education Quality Improvement Project (Credit No.6138 – KE) – State Department for Early Learning and Basic Education

90. East Africa Public Health Laboratory Networking Project (EAPHLN) Credit No.5616-KE – Ministry of Health

91. Health Sector Support Project – SWAP Secretariat (IDA Cr. No. 4771-KE and Cr. No.5367-KE) – Ministry of Health
92. East Africa’s Centre of Excellence for Skills and Tertiary Education in Biomedical Sciences – Phase 1 (Loan No.2100150031997) Project – Ministry of Health

93. Global Fund Tuberculosis Grant Programme (Grant No.KEN-T-TNT-854 and KEN-T-TNT-1548) - Ministry of Health


95. Support of The Health Care Financing Strategy - Reproductive Health - Output Based Approach (RH-OBA) Project (Credit BMZ No. Kenya 201065853) – Ministry of Health


97. Covid-19 Emergency Response Project (Credit No.6598-KE) – Ministry of Health

98. East Africa Public Health Laboratory Networking Project (EAPHLN) Credit No.4732-KE – Kenya Medical Supplies Authority

99. National Urban Transport Improvement Project (IDA Credit No. 5140-KE) – State Department for Infrastructure

100. Kenya Transport Sector Support Project (IDA Credit No. 4926-KE and No. 5410-KE (Component B1 Support to Ministry of Roads) - State Department for Infrastructure

101. East Africa Skills for Transformation and Regional Integration Project (Credit No. 6334-KE) - State Department for Infrastructure

102. Support To Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project In Kenya (Agreement No. KE/FED/023-571) – Kenya Rural Roads Authority

103. Nuno-Modogashe Road Project – Kenya National Highways Authority

104. North Eastern Transport Improvement Project (IDA Credit No. V0630) – Kenya National Highways Authority


106. Nairobi Outer Ring Road Improvement Project No. P-KE-Db0-020 – Kenya Urban Roads Authority
107. Kibwezi-Mutomo-Kitui Road Project (Contract No. BLA2016K001) - Kenya National Highways Authority

108. Mombasa West Integrated Roads Network Programme Phase 2 Dualling of Magongo Road (A109I) and Expansion of Kipevu Road – Kenya National Highways Authority


110. Mombasa Port Area Road Development Project (Loan Agreements Nos.KE-P29 and KE-P32) – Kenya National Highways Authority

111. Mombasa-Nairobi-Addis Ababa Road Corridor Project Phase II (Marsabit-Turbi Road) ID No. P-Z1-DBO-027 – Kenya National Highways Authority

112. Mombasa-Nairobi-Addis Ababa Road Corridor Project Phase III (Turbi - Moyale) No. P-ZI-DB0-095 Loan No. 2100150025546 – Kenya National Highways Authority

113. Mombasa–Mariakani Highway Project Lot 1 (Mombasa-Kwa Jomvu) Loan No. 2100150032743 – Kenya National Highways Authority

114. EPC / Turnkey Construction of Five Footbridges and T-Mall Flyover in Mombasa and Langata Road Credit No. KEN-01001-19 and No. KEN-02001-19 – Kenya National Highways Authority

115. Timboroa-Eldoret Road Rehabilitation Project No. P-KE-DB0-019 (Loan No. 2100150023344) – Kenya National Highways Authority

116. Nairobi-Thika Highway Improvement Project Lot I and II (Credit No. 2100150015544) – Kenya National Highways Authority

117. Multinational Arusha-Holili/Taveta-Voi Road Project Loan No.2100150028894 – Kenya National Highways Authority

118. Port Reitz/Moi International Airport Access (C110) Road (FIDIC EPC/Turnkey Based) – Kenya National Highways Authority

119. Dualling of Nairobi - Dagoretti Corner Road C60/C61 (Phase 1) Project - JICA Grant Agreement No. 1260210 – Kenya Urban Roads Authority

120. East Africa Trade and Transport Facilitation Project (IDA Credit No. 4148-KE) – Kenya National Highways Authority
121. Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania-Kisii-Ahero (A1) Road Rehabilitation-Credit No.2000130015238 – Kenya National Highways Authority

122. Northern Corridor Rehabilitation Programme Phase III (Eldoret-Turbo-Webuye-Malaba Road Improvement Project) – Kenya National Highways Authority


125. Nairobi Missing Link Roads and Non-Motorised Transport Facilities (Grant No. KE/FED/022-951) – Kenya Urban Roads Authority


128. National Urban Transport Improvement Project - IDA Credit No. 5140 - KE – Kenya National Highways Authority

129. National Urban Transport Improvement Project No. IDA 5140-KE– Kenya Urban Roads Authority

130. Northern Corridor Transport Improvement Project Ida Credit No.3930-KE and No.4571-KE – Kenya National Highways Authority

131. Regional Mombasa Port Access Road Project (Loan No. 27459, Credit No. 84010 and Grant No. 202061919) – Kenya National Highways Authority

132. Upgrading of “Gilgil Machinery” Road Project– Kenya Rural Roads Authority

133. Dualling of Nairobi - Dagoretti Corner Road C60/C61 (Phase 2)-Project-JICA Grant No.1760220 – Kenya Urban Roads Authority

135. Arusha-Namanga-Athi River Road Development Project No. P-Z1-DB0-040 – Kenya National Highways Authority


137. National Urban Transport Improvement Project Credit No. 5140- KE (MOT Component) - State Department for Transport

138. East Africa Trade and Transport Facilitation Project Ida Credit No. 4148-KE and Credit No. 4977-KE (MOT Component) - State Department for Transport

139. East Africa Trade and Transport Facilitation Project (MOT/KRC Component) Credit No.4148-KE and Credit No. 4977-KE – State Department for Transport

140. Kenya Transport Sector Support Project Credit No. 4926-KE and No. 5410-KE (MOT Component) - State Department for Transport

141. Northern Corridor Transport Improvement Project Credit No. 3930-KE (MOT Component) - State Department for Transport

142. National Urban Transport Improvement Project Credit No. IDA 5140-KE (KRC Component) – Kenya Railways Corporation

143. Kenya Aviation Modernization Project (Preparation Advance No. V0440) - Kenya Airports Authority

144. Kenya Transport Sector Support Project (IDA Credit No. 4926-KE and 5410-KE) - Kenya Civil Aviation Authority

145. Kenya Transport Sector Support Project (Credit No. 4926-KE and No. 5410-KE) - Kenya Airports Authority

146. Multi-National Lake Victoria Maritime Communications and Transport Project (ADF Loan No. 2100150036247) – Kenya Maritime Authority

147. Safe Roads/Usalama Barabarani Programme (EU Grant No. KE/FED/037-778) - National Transport and Safety Authority

148. Kenya Informal Settlement Improvement Project No. P113542 – State Department for Housing and Urban Development

149. Nairobi Metropolitan Services Improvement Project (IDA Credit No. 5102-KE) – State Department for Housing and Urban Development
150. Upper Tana Catchment Natural Resources Management Project IFAD Loan No.1-867-Ke and Spanish Trust Fund Loan No.1-E-8-KE – Ministry of Water and Sanitation

151. Coastal Region Water Security and Climate Resilience Project (IDA Cr. No.5543-KE) – Ministry of Water and Sanitation

152. Thwake Multi-Purpose Water Development Program Phase I (AFDB Loan No. 2100150029993, No. 2000200003351 and No. 5050200000501; and AFDB Grant No. 2100155025973) – Ministry of Water and Sanitation

153. Kenya Italy Debt for Development Programme - Ministry of Water and Sanitation

154. Kenya Water Security and Climate Resilience Project (IDA Cr. No. 5268/5674-KE and Grant No. TFOA0761A – Ministry of Water and Sanitation

155. Water and Sanitation Development Project (IDA Cr. No.6029/6030-KE) - Ministry of Water and Sanitation

156. Lake Victoria Water Supply and Sanitation Program - (Phase II) Project No. P-Z1-EA0-004 (ADF Grant No.2100155019967) - Lake Victoria South Water Works Development Agency

157. Lake Victoria Water and Sanitation Project – Number Convention AFD CKE 1093 02 M – Lake Victoria South Water Works Development Agency

158. Water and Sanitation Services Improvement Project (IDA Credit Number 5103-KE) - Coast Water Works Development Agency

159. Kenya Towns Sustainable Water Supply and Sanitation Program (Loan No.2000200000501) - Athi Water Works Development Agency

160. Support to Water and Sanitation Services in Peri-Urban Area Project (Loan No.BMZ 2013.6543.6) – Athi Water Works Development Agency

161. Nairobi Water Distribution Network Project (Credit No. BMZ 2020.82.527/KV26833) – Athi Water Works Development Agency

162. Northern Collector Phase 1 and Additional Rehabilitation and Development of the Network Project - Athi Water Works Development Agency

163. Nairobi Sanitation Output Based Aid Project (IDA Grant No. TF014251 and No. TF0A5607) - Nairobi City Water and Sewerage Company Limited

655
164. Kenya Urban Water and Sanitation Oba Project Fund for Low Income Areas - Water Sector Trust Fund
165. Sound Chemicals Management Mainstreaming and UPOPS Reduction In Kenya Project (Grant No. 99820) – Ministry of Environment and Forestry
166. Institutional Strengthening of the Ozone Depleting Substances Project (UNEP Project Account No. UNEP/KEN/SEV/80/INS/63) – Ministry of Environment and Forestry
169. Green Zones Development Support Project Phase II - Kenya Forest Service
170. Kenya Water Tower Project - Kenya Forest Service
171. Northern Kenya Conservation Project Credit No. CKE 1036 01 H – Kenya Wildlife Service
174. Green Growth and Employment Thematic Programme (Cr No:2015-39789) - National Environment Management Authority
175. Integrated Programme to Build Resilience to Climate Change and Adaptive Capacity of Vulnerable Communities In Kenya - National Environment Management Authority
176. GCF Project Preparation Facility: “Devolved Climate Change Governance to Strengthen Resilience of Communities’ In Target Counties” - National Environment Management Authority
177. GCF Readiness and Preparatory Support: “NEMA Capacity Strengthening Programme Towards Accessing Climate Finance From Green Climate Fund” - National Environment Management Authority
178. Eastern Africa Regional Transport, Trade and Development Facilitation Project (IDA Credit No. 5638-KE) - Information and Communication Technology Authority

179. Kenya Electricity Modernization Project (IDA Cr. No. 5587 KE) – Ministry of Energy


181. Bogoria Silali Geothermal Project (Loan No.2013.66.103) - Geothermal Development Company Limited

182. Multinational - Kenya Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries (ADF Loan No. 2100150022643) - Kenya Electricity Transmission Company Limited

183. Multinational Kenya-Tanzania Power Interconnection Project (Kenyan Component) (ADF Loan No.2100150032846) - Kenya Electricity Transmission Company Limited

184. Last Mile Connectivity Project 1 (Loan No.2100150032195) – Kenya Power and Lighting Company PLC

185. Last Mile Connectivity Project II (Loan No.2000200000152) – Kenya Power and Lighting Company PLC

186. Eastern Electricity Highway Project (Ida Credit No. 5148-KE; AFD Loan No: CKE 1030 01B and ADF Loan No: 2100150027845) - Kenya Electricity Transmission Company Limited

187. Rural Electrification in Five Regions Project (Cr.No.11/597KE, 1407PKE) - Rural Electrification and Renewable Energy Corporation


189. 220KV and 132KV Transmission Lines and Substations (Exim Bank of India Funded) Projects - Kenya Electricity Transmission Company

190. Kenya Electricity Modernisation Project (IDA Credit 5587-KE) – Rural Electrification and Renewable Energy Corporation

191. Nairobi Ring Transmission Line Project (AFD Credit No. Cke6012.01, AFD Credit No. Cke1068 01, AFD Credit No. Cke1030.01.B, EIB Credit No.25.367/KE and GOK) – Kenya Electricity Transmission Company Limited
192. Power Transmission System Improvement Project (ADF Loan No.2100150023752) - Kenya Electricity Transmission Company LTD
193. Menengai Geothermal Project - Geothermal Development Company Limited
194. Rural Electrification Scheme - Kenya Power and Lighting Company PLC
196. Smallholder Dairy Commercialization Programme (IFAD Loan No. 678-KE and Grant No. 815-KE) – State Department for Livestock
197. Regional Pastoral Livelihoods Resilience Project (IDA Credit No. KE 53880-KE) - State Department for Livestock
198. Kenya Cereal Enhancement Programme - Climate Resilient Agricultural Livelihood Window (EU Grant No.200000623 EU, Grant No.2000001522, IFAD No. Loan 2000001121, and ASAP Grant No.2000001122) – State Department for Crop Development
199. Small-Scale Irrigation and Value Addition Project (ADF Loan No.2000130014530 and Grant No.5570155000751) – State Department for Crop Development
200. Rice Based Market Oriented Agricultural Promotion Project - State Department for Crop Development
201. Capacity Development Project for Enhancement of Rice Production in Irrigation Schemes in Kenya - (Project Grant/Credit No: 1161001009) - State Department for Crop Development
202. National Agricultural and Rural Inclusive Growth Project (IDA Credit No.5900-KE) - State Department for Crop Development
203. Kenya Climate Smart Agriculture Project (IDA Credit No.5945 – KE) - State Department for Crop Development
204. Enable Youth Kenya Program – (ADF Loan No. 2100150038895) - State Department for Crop Development
205. Agricultural Sector Development Support Programme II (SIDA Grant No. 51110109) - State Department for Crop Development
206. Centre of Excellence In Sustainable Agricultural and Agribusiness Management Credit No.5798-KE - Egerton University
207. Kenya Marine Fisheries and Socio-Economic Development Project (IDA Credit No. V1310-KE) – State Department for Fisheries, Aquaculture and the Blue Economy

208. Aquaculture Business Development Programme (IFAD Loan No.2000002052) - State Department for Fisheries, Aquaculture and the Blue Economy

209. Mwea Irrigation Development Project (Loan No. KE-P27) – National Irrigation Authority

210. Strengthening Fertilizer Quality and Regulatory Standards In Kenya Project (Agra Grant No. 2013 Ship 001) – State Department for Agricultural Research

211. Supporting Agricultural Input and Output Marketing Policy and Regulatory Reforms to Improve the Enabling Business Environment for Agriculture In Kenya Project (Agra Grant No. 2018 KE 005) - State Department for Agricultural Research

212. Kenya Petroleum Technical Assistance Project (IDA Credit No.5526-KE and Grant No. TFOA 3418) – State Department for Industrialization

213. Kenya Industry and Entrepreneurship Project (Credit No. 6268-KE) – State Department for Industrialization

214. Kenya Youth Employment and Opportunities Project (IDA Credit No.5812-KE) - Micro and Small Enterprise Authority

215. Kenya Youth Employment Opportunity Project (Cr. No.5812-KE) - State Department for Industrialization

216. Kenya Youth Employment and Opportunities Project Credit No. 5812 KE - National Industrial Training Authority


218. Kenya Social and Economic Inclusion Project IDA Cr No. 6348-KE and GR No. TF0A 9527 – State Department for Social Protection

219. Kenya Petroleum Technical Assistance Project (IDA Credit No.5526-KE and Grant No. TFOA 3418) – State Department for Petroleum

220. Kimira Oluch Smallholder Farm Improvement Project (ADF Loan No. 2100150012296) - State Department for Regional and Northern Corridor Development

222. Secondary Education Quality Improvement Project (IDA Credit No.6138-KE) - Teachers Service Commission
Appendix B: Qualified Opinion

No.  MINISTRIES, DEPARTMENTS AND AGENCIES (MDAs)/FUNDS/DONOR FUNDED PROJECTS
1. The National Treasury
2. State Department for Planning
3. State Department for Interior
4. Statement Department for Correctional Services
5. State Department for Devolution
6. State Department for Development of the Arid and Semi-Arid Lands (ASALS)
7. Ministry of Foreign Affairs
8. State Department for Vocational and Technical Training
9. State Department for University Education
10. State Department for Early Learning and Basic Education
11. State Department for Infrastructure
12. State Department for Public Works
13. Ministry of Water and Sanitation
14. Ministry of Environment and Forestry
15. Ministry of Lands and Physical Planning
16. State Department for Information, Communication Technology and Innovation
17. State Department for Broadcasting and Telecommunications
18. State Department for Sports
19. State Department for Culture and Heritage
20. State Department for Livestock
21. State Department for Crop Development
22. State Department for Co-operatives
23. State Department for Industrialization
24. State Department for Labour
25. State Department for Social Protection
26. State Department for Mining
27. State Department for Tourism
28. State Department for Gender
29. State Department for Public Service
30. State Department for Youth Affairs
31. State Department for East African Community
32. State Department for Regional and Northern Corridor Development
33. The State Law Office and Department of Justice
34. The Judiciary
35. National Land Commission
36. Independent Electoral and Boundaries Commission
37. Parliamentary Service Commission
38. Teachers Service Commission
39. Revenue Statements (Recurrent) - The National Treasury
40. Revenue Statements of the Pensions Department
41. Revenue Statements - State Department for Interior
42. Revenue Statements for the Ministry of Lands and Physical Planning
43. Revenue Statements of the State Department for Fisheries, Aquaculture and The Blue Economy
44. Revenue Statements of the State Department for Mining
45. Petroleum Development Levy Fund (Holding Account) – The National Treasury
46. Treasury Main Clearance Fund
47. Provident Fund – The National Treasury
48. European Widows and Orphans Pension Fund – The National Treasury
49. Women Enterprise Fund - State Department for Planning
50. National Government Affirmative Action Fund – State Department for Planning
51. National Government Constituencies Development Fund Board - State Department for Planning
52. National Cohesion and Integration Commission - State Department for Interior
53. National Humanitarian Fund – State Department for Interior
54. Government Press Fund – State Department for Interior
55. Prison Industries Revolving Fund – State Department for Correctional Services
56. Prison Farms Revolving Fund – State Department for Correctional Services
57. Street Families Rehabilitation Trust Fund – State Department for Devolution
58. Mechanical and Transport Fund – State Department for Infrastructure
59. Civil Servants Housing Scheme Fund - State Department for Housing and Urban Development
60. State Officers House Mortgage Scheme Fund - State Department for Housing and Urban Development
61. Kenya Slum Upgrading Low Cost Housing and Infrastructure Trust Fund (KENSUF) - State Department for Housing and Urban Development
62. Sports, Arts and Social Development Fund – State Department for Sports
63. Commodities Fund - State Department for Crop Development
64. Occupational Safety and Health Fund – State Department for Labour

65. Business Registration Service - Official Receiver – State Law Office and Department of Justice

66. Public Trustee - State Law Office and Department of Justice

67. National Land Commission - Staff Car Loan Scheme Fund

68. Parliamentary Mortgage Loan Scheme Fund

69. Parliamentary Catering Fund

70. National Land Commission - Housing Scheme Fund

71. Railway Development Levy Fund (Holding Account) – State Department for Transport

72. Global Fund Programme - To Accelerate the Reduction of TB, Leprosy and Lung Disease Burden Through Provision of People Centered, Universally Accessible, Acceptable and Affordable Quality Services In Kenya (Grant No. KEN-T-TNT 1548) – The National Treasury

73. Public Financial Management Reforms Program (Credit No.6133-KE) – The National Treasury

74. Global Fund Program - To Reduce Morbidity and Mortality Caused By Malaria in the Various Epidemiological Zones by Two Thirds of the 2015 Level by 2020 Program-Grant Agreement-KEN-M-TNT No.1546 – The National Treasury

75. Global Fund Program-To Contribute to Achieving Vision 2030 Through Universal Access To Comprehensive HIV Prevention, Treatment and Care Project - KEN-H-TNT, GA No. 1547 - The National Treasury

76. Coordination of Population Policy Implementation Project (UNFPA Project No. KEN08POP) – National Council for Population and Development


78. Instruments for Devolution Advice and Support Project - Grant No.KE/FED/024/230 – State Department for Devolution

79. Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project (ID No. P-KE-IAD-001 - Loan Agreement No.2100150027993) – State Department for University Education
<table>
<thead>
<tr>
<th>No.</th>
<th>Project Title</th>
<th>Implementer</th>
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<tbody>
<tr>
<td>80</td>
<td>Africa Centre of Excellence (ACE II) in Phytochemicals, Textiles and Renewable Energy (PTRE) Project (IDA Credit No. 5798-KE) – Moi University</td>
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<td>81</td>
<td>Kenya Primary Education Development Project (Grant No. TFO18863) – State Department for Early Learning and Basic Education</td>
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<td>82</td>
<td>GOK/UNICEF Education for Young People Programme – State Department for Early Learning and Basic Education</td>
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<td>83</td>
<td>Global Fund – Expanding HIV Prevention, Care and Treatment Services to Reach Universal Access (80% Coverage) to Reduce Both Incidence and Associated Impact Program (Grant No. KEN-H-MOF/KEN-H-TNT No.853) – Ministry of Health</td>
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<td>84</td>
<td>Kenya Health Sector Support (EMMS) Project (IDA Credit No.4771 and No. 50340 – KE) – Ministry of Health</td>
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<td>85</td>
<td>Health Sector Support Project - Health Sector Services Fund (Grant No.4771-KE and TF-16027) - Ministry of Health</td>
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<td>86</td>
<td>Support of the Health Financing Strategy - Output Based Approach (OBA) Programme (Credit No. 201065853) – Ministry of Health</td>
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<td>87</td>
<td>Transforming Health Systems for Universal Care (THS-UC) Project Grant IDA Credit No.5836-KE, TFOA2561 and TFOA2792 - Ministry of Health</td>
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<td>88</td>
<td>Global Fund HIV AIDS Program (Grant No. KEN-H-TNT GA 1547) - Ministry of Health</td>
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<td>89</td>
<td>Health Sector Support Project (Credit No.4771-KE) – Kenya Medical Supplies Authority (KEMSA)</td>
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<td>90</td>
<td>Global Fund HIV/AIDS Project Grant No. KEN-H-TNT-1547 – National Aids Control Council</td>
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<td>91</td>
<td>Eastern Africa Regional Transport, Trade and Development Facilitation Project (IDA Credit No.5638-KE) – State Department for Infrastructure</td>
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<td>92</td>
<td>Improvement of Rural Roads and Market Infrastructure in Western Kenya Project Credit No. BMZ 2007-65 123 (KFW) – Kenya Rural Roads Authority</td>
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<td>93</td>
<td>Kenya South Sudan Link (Kitale Morphus) Road Project (Ref. No.202062065 and BMZ No.202083939) – Kenya National Highways Authority</td>
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<td>94</td>
<td>Central Kenya Rural Roads Improvement and Maintenance Project (AFD Credit No. CKE 101201B, Credit No. CKE 1046 01 J and Credit No. CKE 1094 01 M) – Kenya Rural Roads Authority</td>
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95. Mombasa-Nairobi-Addis Ababa Road Corridor Development Project No. P-ZI-DBO-018 (Isiolo/Merille/Moyale Road) – Kenya National Highways Authority

96. Kenya Urban Support Program (IDA Credit No.6134-KE) - State Department for Housing and Urban Development

97. Kisumu Urban Project (Project Advance Account)-CKE 1035.01.G - County Government of Kisumu

98. Kisumu Urban Project (Cash Expenditure)-CKE 1035.01.G – County Government of Kisumu

99. Water and Sanitation Services Improvement Project (IDA Cr. No.5103-KE) – Lake Victoria North Water Works Development Agency

100. Kenya Towns Sustainable Water Supply and Sanitation Program (AFDB Loan No. 2000200000501) – Tana Water Works Development Agency


102. Water Sector Development Programme of Kisii and Nyamira Water Supply and Sanitation Project (Grant No. ORIO11/KE/21) – Lake Victoria South Water Works Development Agency

103. Water Sector Development Programme Lake Victoria South (Kericho, Kisii, Nyamira and Litein) Loan No. BMZ 2010 65 861 and Grant No. BMZ 2010 70 457 – Lake Victoria South Water Works Development Agency

104. Water and Sanitation Services Improvement Project (IDA Credit No.5103 KE) - Athi Water Works Development Agency

105. Trilateral Development Cooperation In Kenya, Water and Sanitation Sector Project (Credit No. BMZ 201365352) – Lake Victoria South Water Works Development Agency

106. System For Land Based Emissions and Estimation in Kenya (SLEEK) Project – Ministry of Environment and Forestry


108. Drought Resilience and Sustainable Livelihoods Programme (ADF Loan No. 210015028345) – State Department for Crop Development

109. Kenya Youth Employment and Opportunities Project (IDA Credit No. 5812-KE) – State Department for Youth Affairs

110. Judicial Performance Improvement Project (IDA Credit No.5181- KE) - The Judiciary
Appendix C: Adverse Opinion

No. MINISTRIES, DEPARTMENTS AND AGENCIES (MDAs)/FUNDS/DONOR FUNDED PROJECTS

1. Ministry of Health

2. Kenya Health Sector Programme Support III – Danida Ref. 104. Kenya.810.300 (Grant) - County Government of Kisii

3. Consolidated Fund Services – Public Debt

4. Revenue Statements – Government Investments and Public Enterprises

5. Consolidated Fund Services – Pension and Gratuities

6. Rural Enterprise Fund – The National Treasury

7. Asian officers Family Pension Fund - The National Treasury

8. Veterinary Services Development Fund - State Department for Livestock

9. Agricultural Information Resource Centre Revolving Fund - State Department for Crop Development

10. Youth Enterprise Development Fund - State Department for Youth
Appendix D: Disclaimer of Opinion

No. MINISTRIES, DEPARTMENTS AND AGENCIES (MDAs)/FUNDS/DONOR FUNDED PROJECTS

1. Statement of Outstanding Obligations Guaranteed by the Government of Kenya - The National Treasury
2. Government Clearing Agency Fund – The National Treasury
3. Kenya Local Loans Support Fund - The National Treasury
4. Stores and Services Fund – State Department for Public Works
5. Land Settlement Fund - Ministry of Lands and Physical Planning
6. Revenue Statements – State Department for Crop Development
7. Strategic Food Reserve Trust Fund - State Department for Crop Development
8. Co-operative Societies Liquidation Fund – State Department for Co-operatives
9. Management and Supervision Fund - State Department for Co-operatives
10. Uwezo Fund – State Department for Gender
11. Mechanical and Transport Fund - National Youth Service – State Department for Public Service