OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

Report of the Auditor-General on the Financial Statements for National Government for the Year 2016/2017

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1. General

1.1. Legal Mandate of the Office of the Auditor-General

- Office of the Auditor-General is established as an Independent Office under Article 248(3) of the Constitution of the Republic of Kenya.
- The Auditor-General is appointed in accordance with Article 229 of the Constitution.
- The statutory duties and responsibilities of the Auditor-General are given in Article 229(4) (5) (6) and (7) of the Constitution and Public Audit Act, 2015.

I have already issued my audit reports to the respective accounting officers for the financial statements for 2016/2017 of their respective Ministries, Agencies, Departments and Funds.

This report provides detailed audit findings of the financial statements of the National Government of the Republic of Kenya for the financial year ended 30 June 2017.

The scope of the audit in National Government includes Ministries, Government Departments, Agencies, Funds and Development Partners' funded Projects.

1.2. Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit, 2015.

1.3. Auditor-General's Responsibility

I carried out my audit in accordance with International Standards of Supreme Audit Institutions. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting policies used and significant estimates made by Management, as well as evaluating the overall presentation of the financial statements. Further, it includes procedures to determine whether public money has been applied lawfully and in an effective way.

I considered the public entities' internal control systems in order to determine my auditing procedures for the purpose of expressing an opinion on their financial statements. To ensure that the execution of the National Budget was in conformity with the provisions of existing laws, regulations and prescribed procedures, the audit essentially covered authorization and approval of expenditure, budget procedures, management of bank accounts and a review of the internal control systems set up by the audited public entities.

The detailed Audit Report for each National Government entity audited is provided below:

THE NATIONAL TREASURY

FINANCIAL STATEMENTS FOR VOTE 1071

Basis for Qualified Opinion

1. Grants and Transfers to Other Government Entities

The statements of receipts and payments for the year ended 30 June 2017 reflects an expenditure amounting Kshs.28,070,205,786 under grants and transfers to other Government units. Examination of National Treasury records revealed that the amounts constitute both recurrent and capital transfers across different account heads and items out of which an amount of Kshs.167,704,106 was indicated to have been paid to individual persons and companies. Consequently, it was not possible to ascertain the propriety of the balance of Kshs.167,704,106 under transfers to other government units.

2. Pending Bills

Note 19 to the financial statements reflects pending bills amounting to Kshs.80,450,957. Examination of available records revealed that the above balance includes bills amounting to Kshs.12,170,055 that were rolled over from the financial year 2015/2016. It has not been explained why the amount of Kshs.12,170,055 was not cleared as a first charge during the respective years but continue to be rolled over the years with some dating as far back 2011.

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.

Other Matter

3. Budget Performance and Control

A review of the statement of comparison between the budget and actual amounts for the year ended 30 June 2017 as drawn from the Appropriation Accounts revealed that the Development Vote D1071 registered a net expenditure of Kshs.25,182,007,997 compared to a budgeted provision of Kshs.36,105,345,657, thereby resulting to an under-expenditure of Kshs.10,923,337,660 or 30%. Although the National Treasury had an overall satisfactory performance, some individual items registered dismal performance while others performed exceedingly above their budgeted amounts.

NATIONAL EXCHEQUER ACCOUNT

Unqualified Opinion

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

Emphasis of Matter

Budget Control and Performance

The statement of comparison of budget and actual performance shows that the exchequer issues to some Ministries, Departments and Agencies was below 80%. The criteria used by the National Treasury in authorizing exchequer requests from the Ministries, Departments and Agencies may be subjective as some entities received 100% budget allocation while others received as low as 33.39%. The budget formulation and implementation process of such Ministries, Departments and Agencies whose funds were withheld may also be hampered. The under issue of the budgeted amounts to the entities may hinder the accomplishment of the planned projects and hence affect the service delivery to the citizens. The Government may not achieve its intended objectives as earmarked projects may not be implemented due to lack of such funding.

THE RECEIVER OF REVENUE (RECURRENT)

Basis for Qualified Opinion

4. Arrears of Revenue

The statement of arrears of revenue reflects revenue receipts amounting to Kshs.193,997,651,702 as at 30 June 2017, which though budgeted for has remained uncollected. The balance constitutes arrears for PAYE, Other Income Tax, VAT and Excise Taxes, loan redemptions and loan interests. Although the amount reconciles with the respective statement of arrears of revenue by the collector of revenue, (the Kenya Revenue Authority), the management has not accounted for the movement of the arrears from the earlier balance of Kshs.194,951,716,541(2015) and Kshs.380,600,178,374 (2016) recorded during the previous periods.

The public may lose colossal sums of money through non-collection of the budgeted revenue as well as the arrears if not effectively followed up and enforced by the collector of revenue, (Kenya Revenue Authority). Besides the failure to collect the arrears, the National Treasury has not explained satisfactorily how it is addressing the persistent increase in arrears of revenue.

THE RECEIVER OF REVENUE (DEVELOPMENT)

Unqualified Opinion

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

Emphasis of Matter

The statement of comparison between the actual receipts and the budget provision for the year ended 30 June 2017 revealed that an amount of Kshs.38,401,038,479 was received and utilized out of the budgetary provision of Kshs.61,084,845,860. This therefore means that the National Treasury under collected and underutilized Kshs.22,683,807,381 or 37% of the total budget provision. Although management has indicated that the absorption was adversely affected by the late release of donor funds and the lengthy procurement processes, some projects recorded low absorption rates despite funds having been made available. Further, the procurement processes are well documented and known, therefore elaborate efforts ought to have been put in place well in advance for better management of project implementation.

THE STATEMENT OF OUTSTANDING LOANS

Basis for Adverse opinion

5. Outstanding Loan balances

The statement of outstanding loans as at 30 June 2017 reflects total loans issued of Kshs.811,372,028,795 which includes new loans issued in 2016/2017 totalling Kshs.223,856,759,335. An amount of Kshs.17,635,666,924 of the loans issued had been redeemed/repaid, leaving a balance of Kshs.793,736,361,870 outstanding as at that date which represents an increase of Kshs.221,487,512,242 or approximately 39% of total outstanding loan balance of Kshs.572,248,849,628 reported as at 30 June 2016. However, accuracy of the outstanding loan balance of Kshs.572,248,849,628 as at 30 June 2016 could not be confirmed as some eighteen (18) institutions/parastatals with a total loan balance of Kshs.150,164,723,345 reflected in the statement differed significantly with the loan balance of Kshs.117,530,162,338 independently confirmed by institutions/parastatals during the 2014/2015 financial year as indicated below.

Outstanding Loans Independently Confirmed as at 30 June 2016

	Name of Institution	Amount of loan in GOK records Kshs.	Amount of loan confirmed Kshs.	Variance Kshs.
1	Agricultural Finance Corporation	529,119,163	538,587,64	(9,468,481)
2	Agricultural Settlement Fund and Central Land Board	83,026,236	10,963,879	72,062,357
3	Agro Chemical & Food Company Limited	1,107,075,120	2,941,884,000	(1,834,808,880)
4	Coast Water Service Board	1,551,379,206	795,400,000	755,979,206
5	Coffee Board of Kenya	752,510,309	709,358,000	43,152,309
6	Kenya Airport Authority	1,524,889,530	2,536,891,308	(1,012,001,777)
7	Kenya Civil Aviation Authority	2,016,927,789	2,021,866,063	(4,938,274)
8	Kenya Electricity Generating Co .Ltd	79,461,731,502	64,082,093,864	15,379,637,639
9	Kenya Industrial Estates Ltd	423,950,484	743,218,039	(319,267,555)
10	Kenya Meat Commission	940,241,100	300,000,000	640,241,100
11	Kenya Power and Lighting Co. Limited	34,568,563,918	31,527,309,970	3,041,253,947
12	Kenyatta University	10,857,620,656	4,656,592,535	6,201,028.121
13	K-rep Bank	97,495,981	66,223,569	31,272,412
14	Lake Victoria South Water Service Board	5,734,185,606	2,361,053,466	3,373,132,140
15	National Irrigation Board	2,262,036,544	-	2,262,036,544
16	National Water Conservation and Pipeline Corporation	2,460,874,897	-	2,460,874,897
17	Rift Valley Water Services Board	1,411,529,796	1,362,012,293	49,517,503
18	Tanathi Water Services Board	4,381,565,506	2,877,707,708	1,503,857,798
	Totals	**150,164,723,345**	**117,530,162,338**	**32,633,561,007**

The resultant variance of Kshs.32,633,561,007 was not reconciled or explained casting doubt on the accuracy of the outstanding loan balance of Kshs.572,248,849,628 carried forward during the 2016/2017 financial year.

In absence of reconciliations and elaborate reporting instrument there is high likelihood of holding onto non-existent balances and eventual loss of public funds.

6. Non-Performing or Dormant Loans

As was reported during the previous financial year, the total outstanding loans balance of Kshs.793,736,361,870 reflected in the statement of outstanding loans as at 30 June 2017 includes loans amounting to Kshs.21,972,597,717 issued to various institutions over the years. However, during the year under review, the said institutions have not made any efforts to repay their respective loans upon maturity as shown below.

Effective Years of Loan Repayment

	Corporation/ Entity	**Amount Lent (Kshs.)**	**Effective year of repayment**
1	Associated Sugar Factory, Ramisi	15,818,960	June,1988
2	Coast Water Services Board	6,756,217,290	June,2018
3	East African Sugar Industries Ltd, Muhoroni	177,123,100	Not indicated
4	Eldoret Municipal Council	1,058,673,824	June,1999
5	Halal Meat Products	27,701,420	Not indicated
6	Kenya Meat Commission	940,241,000	Not Indicated
7	Moi University	231,250,000	Not Indicated
8	Kenya National Federation of Cooperatives	5,595,600	Not indicated
9	Kenya Torray Mills	2,982,480	Not indicated
10	Kenya Tourist Development Corporation	48,000,000	Not Indicated
11	Kenya Urban Transport Various Towns	40,706,140	Not indicated
12	Local Government Loans Authority	7,594,273,720	Not indicated
13	Miwani Outgrowers Mills Ltd	22,600,020	Not indicated
14	Miwani Sugar Mills Ltd (Miwani sugar co. (1989) Ltd)	78,088,180	Not indicated
15	National Water Conservation & Pipeline Corporation	2,460,874,897	Not Indicated
16	Nzoia Sugar Co.Ltd	158,510,100	Not Indicated
17	P.J. Products	2,036,820	Not Indicated
18	Pyrethrum Board of Kenya	863,368,270	2008
19	Rift Valley Water Services Board	1,411,529,796	November,2011

Effective Years of Loan Repayment

	Corporation/ Entity	Amount Lent (Kshs.)	Effective year of repayment
20	South Nyanza Sugar Company	47,200,200	Not Indicated
21	Uplands Bacon	26,205,900	Sept,1981
22	Mumias Outgrowers	3,600,000	Not Indicated
	Totals	**21,972,597,717**	

7. Presentation of the statement

The statement did not contain disclosure on the applicable reporting framework and other non-financial information as required by the PSASB as well as statement on progress made on the auditor's report among others. Further, the statement did not include other requirements as provided for under section 81 of the Public Finance Management Act 2012 such as the statement of receipts and payments, cash flow and notes to the statement. In addition, the IPSAS 24 provides for the inclusion of the statement of comparison between the budget and actual amounts to assess the performance of management but the same was not included.

In the absence of the necessary statements and disclosures, the statement of outstanding loans as at 30 June 2017 did not comply with the Public Sector Accounting Standard Board requirements.

Other Matter

8. Lack of fundamental documents and Criteria of loan disbursement

The management did not provide the annual work plans, cash books, ledger, trial balances, quarterly reports and monitoring and evaluation reports for the loans issued during the year or such other document as to determine the beneficiaries, terms of the loans and the approval /authorization of disbursement. The determination of loans to benefiting institutions appears to be done outside the Department of Government Investment in Public Entities thus reducing it to the level of implementation of decisions made elsewhere. As a result, some institutions have not been repaying their loans once they mature while failing institution continue to receive additional funding even when they are underperforming. This is exhibited by the continued growth of the outstanding loans amounts now standing at Kshs.811billion. There are high chances that the outstanding loans may not be repaid leading to bad debts and loss of public funds.

EQUALISATION FUND

Unqualified Opinion

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

Emphasis of Matter

Use of Budget as a Control Tool

A review of the statement of comparison between the budget and actual amounts revealed that whereas the National Treasury had budgeted to transfer an amount of Kshs.12,400,000,000 to implementing Ministries, Departments and Agencies, only an amount of Kshs.942,313,944 or 7.6% of the budgeted amount was transferred to Ministries, Departments and Agencies. This is indeed a very dismal performance by the Fund management with regard to the set objectives. This is despite the fact that the allocation to the Fund was applied retrospectively to the financial year 2011/2012.

PETROLEUM DEVELOPMENT LEVY FUND - HOLDING ACCOUNT

Unqualified Opinion

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

CONTINGENCIES FUND

Unqualified Opinion

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

RAILWAY DEVELOPMENT LEVY FUND - HOLDING ACCOUNT

Unqualified Opinion

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

Other Matter

9. Budget as a Control Tool

During the financial statement review, it was noted that the funds budget is prepared and maintained by the State Department for Infrastructure, which is the implementing agency. The National Treasury does not maintain other key accounting records such as the ledger and trial balance from where the financial statements ought to be prepared. The financial statements are thus prepared from entries in the cashbook and the bank statements records. Further, the disbursements of funds is not supported by the budget provisions but are solely on approvals from the fund's Advisory Committee. This may have led to a budget absorption rate of 43% and 39% performance in revenue generation and revenue disbursement respectively.

RURAL ENTERPRISE FUND

Basis for Adverse Opinion

10. Winding up of the Fund

The Rural Enterprise Fund was recommended for winding up through Legal Notice No. 97 dated 29 June 2012 as 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. However, the National Treasury has not yet closed the Fund's books of account despite the Legal Notice and has continued to prepare and submit the Fund's financial statements for audit five years after the winding up decision was made. The financial statements presented reflect balances brought forward whose accuracy and validity could not be vouched after the winding-up notice of the Fund. Further, the Fund management has not provided any information on the progress made since and the probable time when the process is expected to be completed.

11. Unresolved Prior Years Matters

A review of the unsatisfactory matters highlighted in the report prior to 2015/2016 revealed that the issues raised remained unresolved during the year 2016/2017 as indicated below:

i) Unbanked Cash

The statement reflects unbanked cash balances totalling Kshs.3,348,895 brought forward from 2012/2013 and earlier years. According to available information, the amount comprises of Kshs.1,951,921 representing cash with District Commissioners (Loans Repaid); Kshs.108,840 being cash with District Commissioner (Interest on Loans); and Kshs.1,288,135 relating to cash in the District Commissioners miscellaneous deposit account. Further, there was no evidence to confirm actual existence of the balance of Kshs.3,348,895 at the District Commissioners Office. In addition, the balance of Kshs.1,951,921 under District Commissioners (Loans Repaid) included advances amounting to Kshs.207,344 in form of IOUs issued from the Fund to some five officers working at the District Commissioner's Office, Kisumu in 1997/1998. The IOUs had not, however, been surrendered as at 30 June 2014.

ii) Unreconciled Balance

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

STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND

Unqualified Opinion

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

Emphasis of Matter

Idle Cash

Whereas 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 servants in December 2014, the fund management has not undertaken any activities since then. The National Treasury however, has continued to transfer money to the Fund account at the Central Bank of Kenya which stood at Kshs.2,835,000,000 as at 30 June 2017. Although the amount has been confirmed to exist it could have been utilized for other more deserving cases in the Government while the National Treasury continues to develop or create an enabling environment for the Fund's operation. Through the Fund, the National Treasury management continues to withhold vital services to government officers earmarked to benefit from the loan scheme and hence loss of revenue from interest earnings that would have accrued over the years.

GOVERNMENT CLEARING AGENCY FUND

Basis for Disclaimer of Opinion

12. Unsupported Long Outstanding Balances

As was reported during the financial year 2015/2016, the statement of assets and liabilities as at 30 June 2017 reflects a balance brought forward of Kshs.300,931,776 and Kshs.52,973,897 under accounts receivables – debtors and accounts payables - creditors respectively. However these balance have not been supported with records and documents such as debtors and creditors' ledgers or registers. Specifically, the creditors' balances have not been supported with contracts, local purchase/services orders, invoices and delivery notes. As a result the accuracy, completeness and validity of the balances cannot be ascertained. Further, the debtors' balance of Kshs.300,931,776 was net of a Clearance Account balance of Kshs.654,000,000 which had also not been supported with any verifiable documents making it difficult to ascertain what it represents.

13. Unsupported Fund Balance

The statement of assets and liabilities reflects a Fund balance brought forward (Old Account) of Kshs.247,957,879 which, as in the previous instance, have not been supported with verifiable documents. As a result, the accuracy and validity of the balances cannot be confirmed.

14. Cash and Cash Equivalent

The statement of cash flow for the year ended 30 June 2017 reflected a cash and cash equivalent closing balance of Kshs.18,849,635. A review of the cashbook and bank reconciliation statements for Government Clearing Agency Mombasa branch as at 30 June 2017, revealed that the Agency branch had a reconciled closing cash balance of Kshs.56,352,095 which is excluded from the cash balance disclosed in the financial statements. This reconciled closing cash balance of Kshs.56,352,095 has not been disclosed in the financial statements.

15. Use of Budget as a Control Tool

Contrary to the International Public Sector Accounting Standards (IPSAS) paragraph 1.9.8 on Presentation of a Comparison of Budget and Actual Amounts, management did not include the statement of comparison of budget and actual amounts. A review of the National Treasury budget indicated that the Government Clearing Fund operational budget is captured under the Head 1071009000 where a provisions of Kshs.48,507,381 was made and an amount of Kshs.37,175,938 or 77% was expended during the year. However, it was noted that no Appropriation-in-Aid or revenue component was budgeted for and there was no designated officer as a receiver of revenue for its operations.

In absence of any revenue or Appropriation-in-Aid budget component, the Agency commercial operations are not budgeted for and thus the revenue collected is not under the control of the National Treasury which therefore exposes the Government to operate outside the budget processes.

16. Failure to Execute Mandate

A review of the Agency operations manual revealed that the Agency functions are indicated as receiving of clearance/shipping documents from Government ministries/departments/state corporations and preparation and processing of imports/exports, warehousing and transport documents through customs, port authorities, shipping, transport, insurance agents - (underwriters) including banks and cargo surveillance agents; among other services. It was estimated that only three institutions of such government undertaking are regularly cleared by the Agency while the rest of the businesses is taken by private companies and individuals in the industry.

THE TREASURY MAIN CLEARANCE FUND

Basis for Qualified of Opinion

17. Winding up of the Fund

The Treasury Main Clearance Fund has not been in operation for a long time. Consequently, the Public Accounts Committee in its sitting made recommendations for the Fund to be wound up among other dormant Funds. However, over the years and despite the recommendations from the Public Accounts Committee, the National Treasury is yet to close the Fund's books of account and has continued to prepare and submit the Fund's financial statements for audit. The financial statements contain brought forward balances whose accuracy, existence and validity could not be vouched. Although on 3 September, 2013 the National Treasury constituted a task force to review and recommend for closure of such dormant Funds. The taskforce has endlessly been seeking for extension of time to finalize their work. The management has not provided any information on the progress made by the task force for the last five years of its existence.

18. Unresolved Prior Years Matters

A review of the unsatisfactory matters highlighted in the audit report for 2015/2016 and prior years revealed that the issues still remained unresolved during the year 2016/2017 as indicated below:

i) Accounts Receivable – Debtors

As was reported during the 2015/2016 and earlier years, the statement of assets and liabilities as at 30 June 2017 reflects an accounts receivable-debtors balance of Kshs.12,503,607,446 out of which Kshs.2,332,170,394 had not been analyzed. Consequently, the completeness and accuracy of the balance could not be ascertained.

Further, the balance of Kshs.12,503,607,446 has been outstanding for a long period of time. No progress has been made towards the recovery of the debts which have been due for many years.

ii) Accounts Payable – Creditors

Similarly, as was reported during the previous year, the statement of assets and liabilities of the Treasury Main Clearance Fund Account as at 30 June 2017 reflects an accounts payable - creditors balance of Kshs.12,490,478,941 which included amounts of Kshs.523,686 under Pay Master General special account, Kshs.2,285,511,054 under advance deposits, Kshs.29,963,830.85 under advance deposits - Ministry of Information and Communications and Kshs.93,455 under Joint Consolidated Fund interest all brought forward from 2015/2016 and earlier years. However, and as reported in the previous years, these amounts have not been analysed or supported with relevant documents.

Consequently, the completeness and accuracy of the creditors balance of Kshs.12,490,478,941 as at 30 June 2017 could not be ascertained and cleared from the books of account.

iii) Deficit Balance Brought Forward

As was reported during the previous year, the statement of assets and liabilities as at 30 June 2017 also reflects a net financial position as closing fund balance of Kshs.13,128,505 which constitute a deficit brought forward of Kshs.871,495 and fund balance brought forward of Kshs.14,000,000 that has not been reconciled. The balance as reflected in the statements of financial position without proper reconciliation cast doubt on the accuracy of the Treasury Main Clearance Fund statement.

DONOR FUNDED PROJECTS

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

Unqualified Opinion

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

Other Matter

19. Budgetary Control and Performance

The statement of comparative budget and actual amounts indicates that the project had a budgeted provision of Kshs.483,805,000 for loans from external development partners but only Kshs.205,275,000 was received resulting to unrealized receipts of Kshs.278,530,000 equivalent to a 58% shortfall on the budgeted amount. Similarly, out of the budgeted expenditure of Kshs.483,805,000, only Kshs.228,985,757 was spent resulting to an under-expenditure of Kshs.254,819,243 or 53% of the budgeted sum. The under-expenditure was mainly attributed to a low spending on compensation of employees whereby out of a budget of Kshs.143,451,250, only Kshs.3,891,601 or 3% was utilized leaving Kshs.139,559,649 or 97% of the financial year's budget unspent.

GLOBAL FUND PROGRAM TO STEER THE COUNTRY TOWARDS ACHIEVEMENT OF THE TB MILLENNIUM DEVELOPMENT GOALS IN LINE WITH THE GLOBAL STOP TB STRATEGY (GRANT NO. KEN – S11 – G12-T) PROJECT

Unqualified Opinion

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

Emphasis of Matter

Budget Control and Performance

The Global Fund had budgeted to spend Kshs.1,428,948,258 on TB control but recorded an expenditure of Kshs.760,997,456 only, leaving a balance of Kshs.667,950,802 or 47% as under absorption. This scenario has the implication that almost half of the budgeted development programmes were not implemented. In particular, the project had budgeted Kshs.1,551,503 for acquisition of non-financial assets such as computers, other Information Technology equipment and medical and dental equipment but no expenditure as incurred on the said components.

Similarly, from the statement of receipts and payment it is noted that a receipts of Kshs.759,109,816 was received during the year against the budget of Kshs.2,330,462,642 indicating that Kshs.1,571,352,826 was not received. Consequently, the project may not have fully implemented programmes and activities approved in the budget thus delaying provision of services to the citizens.

INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIPS PROJECT (IDA CREDIT NO.5157 KE)

Unqualified Opinion

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

PUBLIC FINANCIAL MANAGEMENT REFORMS PROGRAM

Unqualified Opinion

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

Other Matter

20. Budget Control and Performance

The financial statements of the Public Financial Management Reforms (PFMR) Program reflect a budgeted receipt from Government Entities of Kshs.302,058,126, while the actual amount on comparable basis received from the National Treasury was Kshs.92,058,126 or 31% of the budgeted receipts implying that there was an under- collection of Kshs.210,000,000 representing 69.5% of the expected receipts.

In addition, the financial statements of the PFMR Program indicate that the budgeted expenditure of the purchase of goods and services component was Kshs.318,385,000, while the actual on comparable basis expenditure was Kshs.144,348,802 (45%) of the final budgeted expenditure. In view of the above, the resultant under-expenditure Kshs.174,036,198 represents 55% of the budgeted expenditure.

Consequently, the Program may have not fully implemented programmes and work plans approved in the budget thus delaying provision of services to the citizens.

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

Unqualified Opinion

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

Other Matter

21. Budget Control and Performance

The Global Fund had a budget provision for HIV of Kshs.11,347,547,428 voted for the financial year 2016/2017. However, the Project recorded an actual expenditure of Kshs.6,961,787,438 thereby underspending by Kshs.4,385,759,989 or about 39%.

The budget absorption and utilization rate stood at 61%, implying that about 39% of the budgeted development programmes were not implemented. The project management budgeted Kshs.119,841,179 for acquisition of non-financial assets but only Kshs.2,086,000 (or 2%) was spent on purchase of computer and furniture leaving 98% or Kshs.117,755,179 budgeted for purchase of motor vehicles and medical and dental equipment unspent.

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

Unqualified Opinion

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparative budget and actual amount reveals that the project had budgeted receipts of Kshs.10,000,000 as proceeds from domestic and foreign grants but only received Kshs.3,420,000 resulting to an unrealized receipt of Kshs.6,580,000 or 66% of the budgeted amounts. Similarly, out of the budgeted expenditure of Kshs.10,000,000 actual expenditure amounted to Kshs.3,420,000 resulting to an under expenditure of Kshs.6,580,000 or under receipts of 66% of the budget.

Consequently, the project may not have fully realized its potential from activities approved in the budget thus delaying provision of services to the citizens.

TECHNICAL SUPPORT PROGRAMMES PROJECT (KE/FED/2009/021421)

Unqualified Opinion

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

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

Unqualified Opinion

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

Emphasis of Matter

Budget Control and Performance

Further, the statement of comparative budget and actual amounts reveals that the project had budgeted loan receipts of Kshs.81,000,000 from external development partners but only realised Kshs.50,501,410 resulting in an unrealized receipts of Kshs.30,498,590 or 38%. Similarly, out of the budgeted expenditure of Kshs.81,000,000, actual expenditure amounted to Kshs.48,349,905 resulting to an under expenditure of Kshs.32,650,095 or under receipts of 40%.

Consequently, the project may not implement all its activities approved in the budget thus delayed provision of services to the citizens.

MICRO FINANCE SECTOR SUPPORT CREDIT PROJECT

Unqualified Opinion

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

Emphasis of Matter

Going Concern/Sustainability of Services

Clause 10 of the financial agreement between the Government of Kenya and French Development Agency (AFD) states that the deadline of disbursement shall be 31 October 2010. Further, the financial statements of the Micro-Finance Sector Support Credit project under project information show that the project end date is 31 December 2014 as per amendment No.002.

Further, it was also noted that the Project Management Unit continued to prepare financial statements despite the project having ended on 31 December 2014 without submitting the accompanying project closure report. The Micro-Finance Sector Support credit project risks giving the misrepresented view that the project is still running yet there is evidence that it was scheduled to close on 31 December 2014.

GLOBAL FUND FOR SCALING UP MALARIA CONTROL INTERVENTIONS FOR IMPACT PROJECT (GRANT NO. KEN- M- TNT)

Unqualified Opinion

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

Emphasis of Matter

Budget Control and Performance

The Global Fund KEN-M-TNT had a budget of Kshs.2,026,014,894 for the year under review but recorded an expenditure of Kshs.980,173,582 leaving a balance of Kshs.1,045,841,312 equivalent to 52% budget under-absorption. This implies that more than half of the activities budgeted for development programmes were not implemented.

Similarly, from the statement of receipts and payments, an amount of Kshs.961,375,971 was received during the year against a budget of Kshs.2,026,014,894 and thus Kshs.1,064,638,923 of budgeted funds were not received. Similarly in the previous year, funds amounting to Kshs.1,568,213,904 were not received. It is however noted that the programme was closing on 31 December 2017, no explanation has been provided on how the project management intends to account for the undisbursed funds. Consequently, the project may not have fully implemented its activities.

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

Basis for Qualified Opinion

22. Compliance with the Financing Agreement

During the year under review, Government of Kenya (GOK) counterpart funds were released at the close of the financial year. Consequently, programme activities earmarked for execution utilized the Donor’s funds in anticipation that Government funds will be released in time to set off the expenditures before the close of the year. Available information however indicates that the GOK funds were released on 30 June 2017 and recorded in the Programme’s books of account on 3 July 2017. This in effect meant that the money was not available to finance the Project’s activities outlined in the annual work plan.

In addition, contrary to the provisions of the financing agreement, the management did not seek for authority in form of a letter of no objection before it committed donor funds to purchase a motor vehicle at a cost of Kshs.4,797,600.

23. Management and Custody of Assets

During the year under review, a project vehicle- Registration Number GKB 226F- was involved in an accident on 28 November, 2015 along Makuyu - Thika - Muranga Road. However, no report was made on the accident by the driver as required in law. The vehicle was at the time of the accident carrying National Treasury officials who had appropriately been authorized by the Principal Administrative Secretary to use the vehicle outside Nairobi Area and beyond government working hours in Western Kenya between 22-28 November, 2015. It was not possible to confirm whether the authority for the journeys to Western Kenya had been granted as the vehicle's work tickets were not made available for audit review. In addition, the project's management appears not to have been privy to the arrangement as no request or notification was availed attesting to such requesthaving been made to release the vehicle for the said use.

After the accident, the Project's management sought authority to purchase a new vehicle using GOK funds on the premise that the old project vehicle was not in serviceable condition. The request contradicted the Chief Mechanical and Transport Engineer (CMTE) certificate of Examination and Test (VT A No. 800948) which had indicated that the vehicle was serviceable upon assessment of the extent of the damage caused in the accident.

CONSOLIDATED FUND SERVICES - SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Basis for Qualified Opinion

24. Cash and Cash Equivalent

The statement of assets and liabilities reflects cash and cash equivalent of Kshs.62,189,652 as at 30 June 2017. Although the figure is correctly stated and supported by the bank reconciliation statement, the following anomalies were noted.

a) Payments in the Cashbook not in Bank Statement

The bank reconciliation statement includes payments in cashbook not in bank statement totalling Kshs.217,044,268 which includes Kshs.4,896,342 that have been outstanding since October 2014. It has not been explained why the payments have taken so long to be reflected in the bank.

b) Receipts in the Bank Statement not in the Cashbook

The bank reconciliation statement also reflects receipts in bank statement not recorded in the cashbook of Kshs.637,637.65 as at 30 June 2017. Some of the receipts have not been recorded in the cashbook since 2014. No explanation has been given why the cashbook has not been updated.

25. Account Balances not Recorded in Ledger

The financial statements reflects balances of individual items that were not reflected in the ledger of the fund for the financial year 2016/2017 as indicated below.

Exchequer releases	3,905,744,684
Transfers from other government entities	362,830,853
Other receipts	18,420,097

The management has not explained the source of the balance and therefore the figures in the financial statement in respect to the specific items cannot be authenticated.

26. Prior year Adjustment

The statement of assets and liabilities as at 30 June 2017 shows a prior-year adjustment of Kshs.26,919,334 being part of the net financial position. The statement indicates that the prior-year adjustment is explained in Note 11 to the financial statements. However, Note 11 to the financial statements indicates a prior-year adjustment of Kshs.31,142,627. The resultant discrepancy between the notes and the statement of assets and liabilities has not been explained.

27. Suspense Balance

The statement of assets and liabilities reflects a balance of Kshs.4,456,673 referred to as a difference. The management have not explained what this differences represents and therefore it is not possible to confirm the suspense account balance as presented in the statement of assets and liabilities.

28. Pending Issues for the Financial Year 2015/2016

In the audit report for 2015/2016, several issues were raised which they have not been responded to satisfactorily by the management.

i) Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2016 reflected an amount of Kshs.8,883,205,334, referred to as a prior year adjustment but has not been explained or analysed.

Further, the statement had reflected funds balance brought forward, compensation of employees and account receivables which had been re-stated to Kshs.8,566,405,035, Kshs.2,416,693,457 and nil balance, instead of Kshs.397,382,932, Kshs.2,418,352,317 and 8,663,621,032 respectively as reflected in the audited financial statements for 2014/2015.

In addition, the statement of financial position also shows clearance of outstanding item of Kshs.11,980,334. The National Treasury has not explained or provided details of the said adjustments. Consequently, the accuracy of the balances reflected in the financial statements cannot be ascertained.

ii) Unspent Appropriation/Cash Balance

The statement of financial position as at 30 June 2016 reflected a bank balance of Kshs.397,382,932 under the comparative balances for the financial year 2014/2015 bid which had been re-stated Kshs.8,848,051,762 as balance carried forward in the statement of financial position as at 30 June 2016. No explanation has been provided to explain the reason for the restatement of the balance.

THE STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE KENYA GOVERNMENT

Basis for Qualified Opinion

29. Long Outstanding Balances

The statement of outstanding obligations guaranteed by the Kenya Government as at 30 June 2017 reflects long outstanding contingent liabilities totalling Kshs.164,132,746 made up of Kshs.11,814,920 and Kshs.152,317,825 relating to Kenya Railways Corporation and Cereals and Sugar Finance Corporation, respectively. Settlement of these liabilities appear to be uncertain because the National Treasury has indicated that their clearance is dependent on redemption of bonds issued by Kenya Railway Corporation and completion of winding up process of the Cereal and Sugar Finance Corporation.

KENYA LOCAL LOANS SUPPORT FUND

Basis for Disclaimer of Opinion

30. Un-supported Balances

The balances reflected in the statement of financial assets under cash balances, investment at cost Cereals and Sugar Finance Corporation (CSFC) and accrued interest of Kshs.5,000,000, Kshs.10,410,374, and Kshs.71,595,406, respectively have not been supported by notes, analyses and other documentary evidence. The accuracy of the balances cannot therefore be ascertained.

31. Failure to Redeem Stocks

In the audit reports for previous years, reference had been made to stocks valued at Kshs.10,430,700 which were past their redemption dates with the last redemption date for a sum of Kshs.17,400 having been on 6 February 2010.

The National Treasury had explained in the past that the stocks were redeemed some years ago but erroneously accounted for as revenue. However, records to confirm the erroneous accounting for receipts and subsequent correction in the books of account have not been made available for audit review to date.

32. Winding Up of the Fund

According to information available, the Kenya Local Loans Support Fund is in the process of being wound up in line with recommendations of the Public Accounts Committee and instructions by the National Treasury that all dormant funds be wound up. However, the process had not been completed as at 30 June 2017.

CONSOLIDATED FUND SERVICES - PUBLIC DEBT

Basis for Qualified Opinion

33. Understated Treasury Bond Balance

The summary statement of outstanding public debt reflects outstanding treasury bonds balance of Kshs.1,313,560,945,967 as at 30 June 2017. The schedule of outstanding treasury bonds provided, however, reflects a balance of Kshs.1,338,719,195,967 as at the same date. Thus, the Treasury Bonds balance is understated by Kshs.25,158,250,000. The balances in the statement of outstanding public debt of Kshs1,313,560,945,967 cannot therefore be confirmed.

34. Cash and Cash Equivalent

(a) The statement of assets and liabilities reflects a bank balance of Kshs.757,714,555 which however differs with the Cashbook balance of Kshs.1,741,262,570 by Kshs.989,548,015 as at 30 June 2017. The difference has not been explained.

(b) Bank Reconciliation Statement

i) Payments in Bank Statement Not in the Cashbook.

Included in the bank reconciliation statement are payments of Kshs.414,385,511 which have been outstanding since the financial year 2014/2015. It is not clear why the payments have not been recorded in the cashbook to date. The payments details are as indicated below.

Date	Reference	Amount (Kshs)
30/09/2014	1000136537	207,047,871.90
30/03/2015	FT15086JYFN9	2,188.25
19/05/2015	FT15139872WC	2,043.80
19/05/2015	FT15139FHKW9	2,452.55
19/05/2015	FT151393CXXX	4,743.75
19/05/2015	FT15139ZNJW4	5,313.90
19/05/2015	FT151397ZLI7S	5,313.90
19/05/2015	FT15139ZIJ7S	5,555.90
19/05/2015	FT15139NNZDP	16,187.75
19/05/2015	FT151395HX09	71,986.65
19/05/2015	FT15139JFMIL	224, 199.15
19//05/2015	FT1513970J8K	597,673.35
19/05/2015	FT15140JJ0XR	4,096.80
19/05/2015	FT151403WYN2	5,325.85
19/05/2015	FT15140HFBMF	4,865.05
20/05/2015	FT15140MMVRW	12,290.50
19/05/2015	FT151401194X	30,726.25
19/05/2015	FT151451CC3L	206,566,875.00
	Total	**414,385,511.15**

35. Variances between the Financial Statements and IFMIS Supporting Schedules

The financial statements balances differ with the IFMIS supporting schedules for the same items as indicated below.

Item	Financial Statements Balance	IFMIS Supporting Schedules	Difference
	Kshs	**Kshs.**	**Kshs.**
Exchequer Receipts	435,716,953,824.00	435,354,122,972.00	362,830,853.00
Transfers to Other Government Units	362,830,853.00	-	362,830,853.00
Repayment of Principal on Domestic and Foreign Borrowing	220,174,538,145.00	(148,316,523,950.30)	368,491,062,095.00
Accounts Payable	27,654,564,640.00	-	27,654,564,640.00
Balance Brought Forward	(26,896,689,533.00)	-	(26,896,689,533.00)

It's not clear why the financial statement balances and the related IFMIS schedules were at variance even though they were generated from the same transactions and source documents.

Prior Year issues.

36. Prior Year Adjustments

The Financial Statements for the year ended 30 June 2016 reflected comparative balances which were restated and therefore differed with those reflected in the audited financial statements for 2014/2015. The restated balances are analyzed below.

	Item Description	Audited Financial Statement Balances 2014/2015 Kshs	Balance as at 30.06.2016 Kshs.	Adjustment Difference Kshs.
1	Principal repayment	245,463,328,931.00	264,016,325,854	(18,552,996,923.00)
3	Receivables	0	91,565,685,447.00	(91,565,685,447.00)
5	Accounts Payable	0	27,654,564,640.00	(27,654,564,640.00)
6	Fund balance brought forward	(257,687,919.40)	86,445,236,805.00	(86,702,924,724.00)
8	Prior year adjustments	257,687,919.40	(22,177,044,458.00)	(22,434,732,377.00)
9	Difference	1,884,225,822.00	0	1,884,225,822.00

The management has however not provided any analysis and supporting documents to justify the adjustments. The accuracy of the balances could not therefore be confirmed.

Emphasis of Matter

a. Growth in Public Debt

The statement of Public Debt as at 30 June 2017 reflects an outstanding public debt balance of Kshs.4,168,943,902,577 representing an increase of Kshs.783,033,452,751.00 (23.2%) over the outstanding debt balance of Kshs.3,385,910,449,826.00 as at 30 June 2016. The increase is mainly as a result of new loans of Kshs.210,664,431,564 disbursed to the government by various development partners and borrowing of Kshs.1,453,006,750,000 from the domestic market through treasury bills and bonds. The total cost of borrowing during the year is Kshs.215,179,745,379 in respect of both internal and external loans. The outstanding loan balances of Kshs.4,168,943,902,577 are net of redemption on loans of Kshs.220,174,538,145 made during the year.

b. Ken-Ren Chemical and Fertilizer Company- Loan Repayment

As reported in the financial year 2015/2016 and earlier years, the Government of Kenya paid a total of Kshs.6,326,435,832 to the Government of Australia and Belgium. The amount was in respect of Government guaranteed debts incurred in 1970 on account of Ken Ren Chemical and Fertilizer Company. The project did not take off and no value for money was realized.

CONSOLIDATED FUND SERVICES – PENSION AND GRATUITIES

Basis for Qualified Opinion

37. Pension Payables

The statement of financial assets and liabilities reflects accounts payables of Kshs.3,243,545,200. The balance was not supported by schedules showing details such as names of pensioners, the pension numbers, and amounts owed to each Pensioner. It was therefore, not possible to establish the validity of the outstanding balance of Kshs.3,243,545,200.

38. Cash and Cash Equivalent

a) Bank Balance

The statement of financial assets and liabilities reflects an overdraft of Kshs.633,366,137 under cash and cash equivalent. The cashbook balance, bank reconciliation and board of survey report reflect a debit balance of Kshs.11,437,908 as at 30 June 2017 resulting into unexplained difference of Kshs.644,804,045 which has not been explained or reconciled. The closing balance reflected in the statement of assets and liabilities balance of Kshs.633,366,137 could not be confirmed.

b) Bank Reconciliation Statement

i) Payments in Cash Book not in the Bank Statement

The bank reconciliation statement reflects payments in the cashbook not in the bank statement amounting to Kshs.633,058,933 which included payments dating as back as 2014. No valid reason has been provided as to why the payments have not cleared.

ii) Receipts in Bank not in Cash Book

Further, the bank reconciliation statement reflects receipts in bank statement not posted to the cashbook totalling Kshs.450,762,273. Some of the receipts in the bank statement dated as far back as November 2011. No reason has been provided by management why the receipts in the bank have not been recorded in the cashbook.

iii) Receipts in Cashbook not in the Bank Statement

In addition, the bank reconciliation statement reflects receipts in the cashbook not recorded in the bank statement of Kshs.103,104,394. Some of the receipts that have remained outstanding in the cashbook date as far back as August 2007. Management have not provided any explanation why the receipts that have remained outstanding in the cashbook have not been cleared.

The accuracy of the cash and cash equivalent balance of Kshs.633,366,137, reflected in the statement of assets and liabilities could not be confirmed due to un-reconciled balances and unexplained long outstanding bank reconciliation items.

39. Irregular Payment of Pension

The statement of receipts and payments for the year ended 30 June 2017 reflects a payment of pension of Kshs.59,757,695,779. Included in this expenditure is civil pension of Kshs.22,901,547,520 as indicated in Note 8.2 to the financial statements. Examination of pension payments revealed that an amount of Kshs.1,306,966,518 was paid to retired teachers during the financial year 2016/2017 without being properly supported by documents such as the last pay slips as required by Pension Act 189, Section 10 (1) for proof that the payees were once teachers. The management has not explained the basis of calculating the pensions and why the payments were made without adherence to the laid down pension payment procedures. Therefore, the payment of civil pension of Kshs.22,901,547,520 could not be confirmed.

40. Military Gratuity

Further, the statement of receipts and payment reflect payment of pension of Kshs.59,757,695,779. Included in the payment is military gratuity of Kshs.4,562,597,165 which is overstated by Kshs.86,584,111. It has not been explained as to why the overstatement was made.

41. Unsupported Expenditure

In addition, the statement of receipts and payment reflects payment of ordinary pension of Kshs.34,074,626,471 and as supported by Note 8.2 to the financial statements. Included in ordinary pension of Kshs.34,074,626,471 is pension Kshs.58,656,973 paid to Asian and European Pensioners who retired due to Africanization of the public sector after independence in 1963. Their life certificates were not availed as required by the pension internal controls to confirm that the pensioners are still alive before payments were effected. The propriety of the expenditure could therefore not be confirmed.

42. Excess Expenditure

The statement of receipts and payments also reflects an over expenditure of Kshs.1,270,093,379 for the year ended 30 June 2017. The excess expenditure over the receipts for the year was funded from returned pension. However, the returned pension should be receipted in a deposit account awaiting the payment of claims from the respective pensioners.

43. Prior year's matters - Un-supported Clearance of Prior Year Adjustment

The statement of financial assets for the year 2015/2016 showed a prior year adjustment of Kshs.297,889,272 under the comparative balances for the financial year 2014/2015. The amount was cleared during the period 2015/2016 but the transaction was not supported or explained. The financial statements may not therefore have presented fairly the financial position as at 30 June 2016.

Other Matter

44. Failure to Submit Audited Parliamentary Pension Accounts

During the period under review, Civil and Commuted pension of Members of Parliament of Kshs.182,438,610 and Kshs.11,238,732 respectively were paid to the retiring/retired members of parliament. The audited Parliamentary Pensions Accounts were not submitted before payments were made as required by the Parliamentary Pension Act Cap 196, Section 21 (1) and (2). It was therefore not possible to confirm the validity and accuracy of the expenditure incurred.

45. Weak Payroll Internal Controls

Examination of the pension records revealed various control weaknesses;

i) Validity of the pension paid is not confirmed with the retiree data from other government agencies' databases such as registrar of persons for identification data, Kenya Revenue Authority for Personal Identification Number and Integrated Payroll and Personnel Database (IPPD) for employment details.

ii) Further, military personal files from the department of Defence are not submitted to the pension department to enable verification of the retirement claim details and basis of pension computation.

iii) In addition, life certificates for pensioners are not availed to confirm pension is not paid to deceased pensioners.

In absence of such controls, the department may be exposed to irregular payments of pension to non-existence pensioners.

THE RECEIVER OF REVENUE – PENSIONS DEPARTMENT

Basis for Qualified Opinion

46. Revenue Collected

The statement of receipts and transfer for the year ended 30 June 2017 reflects total revenue of Kshs.356,715,202 which has been disclosed in Note 10.1 as 31% contribution. The total revenue has not been analyzed to indicate what percentages of the revenue related to batement, Cap Deductions and the 2% Contribution. Further, the management provided for audit, details of the contributors and which category they have made their contribution.

47. Un-resolved Issues for 2015/2016 Financial year

47.1 Un-supported Balances

As reported in the previous year 2015/2016, the statement of revenue, under the Notes reflects General Deposit-Pay Master General of Kshs.1,051,602,039 which was not supported by trial balance figures and analyses during the 2014/2015 financial year audit.

47.2 As reported in the year 2013/2014, the statement of revenue reflected revenue totaling Kshs.1,457,308,992 which includes contributions and recoveries amounting to Kshs.840,964,210 as at 30 June 2014 as analyzed below:

	Kshs.
• 2% Contributions for Windows and Children Pension Scheme (W.C.PS)	246,409,365.80
• 31% Contributions	486,221,192.50
• Suspense Abatement - Recoveries	85,195,396.55
• CAP Deductions - Recoveries	23,138,254.90
Total	**840,964,209.75**

However, no evidence has been provided for audit review to confirm that the above accumulated contributions and recoveries were surrendered to the Exchequer then or thereafter as required under the Public Financial Management Act, 2012. The ledger for 2016/2017 still shows the amounts are being held by the Pensions Department.

47.3 Financial Position

The accumulated actual revenue balance of Kshs.2,125,593,875 disclosed under Note 4 in the statement of revenue (pensions) as at 30 June 2016 and nil balance carried forward has not been supported by related cashbook balances or bank records. In addition, no bank reconciliation statement or statement of financial position as at 30 June 2015 for the revenue has been prepared and submitted for audit.

47.4 Comparative Figures for 2013/2014

Note 4 to the statement of revenue reflects other suspense balance of Kshs.1,971,533 relating to overpayments of pension made over the years. However, the balance has not been analyzed. In addition, no indication has been given regarding how Pensions Department intends to recover the amounts overpaid to the pensioners.

Emphasis of Matter

Budgeting of Revenue

I draw attention to significant accounting policy 2 which indicates that the revenue budget was approved as required by the Law and included in the government printed estimates. The accounting policy also indicates that a high level assessment of the revenue's actual performance against the comparable budget for the financial year under review had been included. However, the statement of comparison of budget and actual amounts reflects budgeted amount as zero.

The amount of revenue collected is significant and ought to have been included in the budget for the financial year 2016/2017. My opinion is not qualified in respect of this matter.

PROVIDENT FUND

Basis for Qualified Opinion

48. Cash Deposit

The statement of financial assets and liabilities as at 30 June 2017 reflects other receivables balance of Kshs.3,796,226 representing a cash deposit held in the insolvent Cereals and Sugar finance Corporation. As reported previously, the Cabinet gave approval on 13 September 2007 for the winding-up of the Corporation and directed the National Treasury to take over its assets and liabilities. However, the winding up of the Corporation had not been finalized as at 30 June, 2017. In the circumstances, realization of the amount of Kshs.3,796,226 is still doubtful.

49. Un-analyzed Balance

The statement of financial assets and liabilities also reflects other pending payables balance of Kshs.9,715,111 made up of Kshs.9,622,726 and Kshs.92,385 relating to surplus cash remitted by Departments and interest due to National Government entities respectively. The balances have repeatedly been brought forward from previous years without any supporting analyses. In absence of the analyses, it has not been possible to confirm the accuracy, validity and completeness of these balances.

EUROPEAN WIDOWS AND ORPHANS PENSION SCHEME FUND

Basis for Qualified Opinion

50. Understatement of Expenditures

The statement of receipts and payments for the year ended 30 June 2017 reflects expenditure of Kshs.100,680 being annual pension payments to two widows. The expenditure was not recorded in both the European Widows and Ophans Pension Scheme Fund cashbook and the respective bank statement. The expenditure was however, said to have been erroneously charged to the Asian Officers Family Pension Fund bank account but there was no reimbursement made as at 30 June 2017. The bank balances and the cashbook balance is therefore over stated by Kshs.100,680.

51. Understatement of Income and Surplus

The statement of receipts and payments for the year ended 30 June 2017 reflects income of Kshs.1,728,686 while the receipts recorded in the bank statement for the year is Kshs.6,029,462. The difference of Ksh.4,300,776 has not been explained. The surplus for the year has consequently been understated by Kshs.4,300,776. No explanation has been given for failing to record all the revenue receipts.

52. Investment in the Insolvent Cereal and Sugar Finance Corporation

As reported in the previous years, the statement of assets and liabilities reflects receivables balance of Kshs.16,900,000 relating to a cash investment held in Cereals and Sugar Finance Corporation. The Corporation is technically insolvent and Government has approved its winding up, with a further requirement that National Treasury takes over its assets and liabilities. The recoverability of the amount of Kshs.16,900,000 is therefore in doubt.

53. Understatement of Investment

As reported in the previous year, the financial statements reflects investment balance of Kshs.25,516.933 as at 30 June 2017.

The share certificate provided for audit revealed that 8,643,429 shares with a book value of Kshs.8,415,420 were held at the same date. The resulting difference of Kshs.12,898,307 has not been reconciled.

54. Failure to Invest Funds

As highlighted in the report for 2015/2016 and earlier years, The National Treasury holds cash proceeds from the redemption of 11% Kenya Stock 2000 of Kshs.9,000,000. The Stocks were redeemed in July 2001 and the proceeds were expected to be re-invested immediately but are still being held in Deposit Account to date. Failure to re-invest the funds for the last sixteen years has denied the Fund income that would finance the payment of pensions due to its beneficiaries.

ASIAN OFFICERS FAMILY PENSION FUND

Basis for Qualified Opinion

55. Un-Supported Balances

The statement of financial assets and liabilities and Note 9.4, reflects receivables balance of Kshs.15,300,680 out of which Kshs.15,200,000 relates to cash owed by the defunct Cereals and Sugar Finance Corporation (CSFC) that is undergoing a winding up process. The balance is however not supported by deposit certificates or other documentary evidence.

Further, the sundry debtors receivables reported in the previous years of Kshs.248,021,691 is an amount due from the Joint Consolidated Fund (JCF) which was not supported but which has since been cleared from the books of the fund without providing adequate documentation on how the balance was subsequent written off.

Consequently, the receivable of Kshs.15,200,000 reflected in the statement of financial assets and liabilities cannot be confirmed correct.

56. Failure to Provide Records for Verification

As previously reported, the statement of receipts and payment for the 2015/2016 financial year reflected an expenditure of Kshs.1,328,196 being pension payments made during the year. The amount included Kshs.144,000 paid to four beneficiaries whose files were not provided for verification. Further in the current year under review, the statement of receipts and payments reflects an expenditure of Kshs.1,635,696 which includes payments of Kshs.107,800 to two beneficiary files of No.BPN/PB 589 and BPN/PB 1688 that the Department failed to avail for audit verification. Therefore, it is not possible to confirm the validity of the pension paid.

57. Irregular Pension Payment

The previous year's audit revealed that pension payment of Kshs.519,800 were made to two deceased beneficiaries between the year 2007 and 2015. A further Kshs.42,000 was paid between July 2015 and Jan 2016. The families of the two beneficiaries notified the department of the demise of the pensioners in September 2007 and February 2008 respectively. The Department, however, continued to make payments until January 2016. The total payment made to the deceased pensioners was Kshs.519,800.

The Department has so far recovered Kshs.418,710 which had been disbursed to the bank but not withdrawn. The balance of Kshs.143,090 has not been recovered. Further, the recovered amount was received in the Pension Department's main bank account and has not been transferred to the Fund Account.

ASIATIC WIDOWS AND ORPHANS PENSION FUND

Unqualified Opinion

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

Emphasis of Matter

As similarly reported in the previous years, the Fund has been dormant since June 2002 when the only surviving beneficiary died. Further, the Cabinet through a memorandum dated 26 June 2012 authorized the Attorney General, Minister of State for Public Service and the Minister for Finance to initiate the process of winding up of the Fund. According to the task force appointed by the National Treasury on winding up of the dormant Funds, report dated August 2015, a draft legal Notice has been prepared in conjunction with the State Law Office for de-gazzettement of the Fund. However, the Legal Notice has not been made available for audit to confirm the final action taken.

My opinion is not qualified in respect of this matter.

SUBSCRIPTION BY KENYA GOVERNMENT TO INTERNATIONAL ORGANIZATIONS

Basis for Adverse Opinion

58. Unsupported Balances

The statement of subscription of Kenya Government to international organization for the year ended 30 June 2017 reflects nil operations. However, and as reported during the previous year, the statements of details of Kenya Government share subscription and capital contribution to international organizations under note 5 to the financial statements reflected local value of subscriptions totalling Kshs.51,403,651,783 against various amounts in foreign currencies as at 30 June 2016. However, independent confirmation of balances as at 30 June 2016, shows that subscriptions were received from only four out of the twelve organizations.

Further, the amount confirmed by two out of those four organizations differs with the balances reflected in the statement submitted by the National Treasury as follows.

Organization	Balance as per the Statement (Foreign currency)	Balance as per the Statement (Local value) Kshs.	Balance as per the Confirmation (Foreign currency)
P.T.A. Bank Harare	USD24,208,356.00	2,447,518,049.98	USD25,967,315.00
Macro-Economic Financial Management Institute	USD 355,255.00	35,917,026.06	USD384,162.00
	TOTAL	**2,483,435,076.04**	

No explanation has been provided for the above differences.

In addition, independent confirmations of Government of Kenya share subscriptions and capital contribution balances as at 30 June 2016 were not received from eight organizations listed below:

Organization	Balance as per the Statement (Foreign currency)	Balance as per the Statement (Local Value) Kshs.
International Monetary Fund	SDR258,124,458.00	36,444,592,225.02
International Bank for Reconstruction and Development	US15,899,693.01	1,607,493,942.64
Development Association Washington D.C	USD.2,361,413.00	238,744,049.41
African Dev. Bank Abidjan	U.A48,010,000.00	6,882,262,306.00
Multilateral Investment Guarantee Agency	USD622,383.00	62,924,290.54
Shelter Afrique	USD7,007,546.00	708,478,317.20
East Africa Development Bank Kampala	USD22,500,000.00	2,274,799,500.00
Africa Export-Import Bank	USD2,391,807.00	241,816,949.68
	TOTAL	**48,461,111,580.49**

The subscriptions for 2014/2015 totalling Kshs.116,813,106,919 in respect of ten organizations, were restated to Kshs.49,750,957,607 by converting balances in foreign currencies obtained from the Organizations as tabulated in the following table.

Organization	Statement Balance-2014/15 (Foreign currency)	Statement Balance-2014/15 (Local Value) Kshs.	Statement Balance-2014/15-Restated (Foreign currency)	Statement Balance-2014/15-Restated (Local Value) Kshs.
International Monetary Fund	SDR261,156,794.00	36,397,422,379.78	SDR254,797,122.40	35,974,805,711.45
International Bank for Reconstruction and Development	US296,882,735.02	29,284,334,852.73	US15,512,384.29	1,568,336,178.70
African Dev. Bank Abidjan	U.A260,960,000.00	35,481,165,440.00	U.A45,536,130.58	6,527,631,640.00
Multilateral Investment Guarantee Agency	USD3,278,460.00	323,385,327.32	USD607,222.05	61,391,485.70
Shelter Afrique	USD2,000,000.00	197,278,800.00	USD6,836,845.62	691,220,132.90
East Africa Development Bank Kampala	USD80,000,000.00	10,877,120,000.00	USD21,951,911.04	2,219,386,500.00
P.T.A. Bank Harare	USD26,680,000.00	3,627,519,520.00	USD23,618,652.32	2,387,897,710.85
African Capacity Building Initiative	USD250,000.00	24,659,850.00	USD487,820.25	49,319,700.00
Africa Export-Import Bank	USD5,960,000.00	587,890,824.00	USD2,333,543.75	235,926,407.40
Macro-Economic Financial Management Institute	USD125,000.00	12,329,925.00	USD346,601.16	35,042,140.05
	Total	**116,813,106,919.00**		**49,750,957,607**

However, notes explaining the restated balances were not presented for audit. Consequently, it has not been possible to confirm the validity and accuracy of the comparative balances as at 30 June 2016.

THE PRESIDENCY

FINANCIAL STATEMENTS FOR VOTE 1011

Unqualified Opinion

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

Basis for Qualified Opinion

59. Contract Number COMMS/NPS/001/2013-2014 for National Secure Communication Network and Surveillance System for National Police Service

The State Department for Interior and Coordination of Government, acting on behalf of National Police Service (NPS) entered into a direct procurement contract on 25 November 2014 with M/s Safaricom Limited for the Provision of National Secure Communication Network and Surveillance System in Mombasa, Nairobi and its Environs at a negotiated contract Price of Kshs.12,031,251,844 in cash and payment in kind through allocation of frequency (2x20Mhz in the 800Mhz band) valued at Kshs.6,750,000,000 by the Communication Authority of Kenya(CAK).

The scope of the five-year (5) contract included;

(i) Command and Control System
(ii) Communication System
(iii) National Surveillance System

The State Department of Interior through letter Ref No. AC 50/21/2016/2017/15 dated 6 March 2018 explains that CAK withdrew from allocating Safaricom spectrum and further explains that, in the event that CAK and Safaricom fails to agree on the license terms, then the contract price shall be adjusted by Kshs.6,750,000,000 to Kshs.18,781,251,844.

Consequently, the contract reverted to Kshs.18,781,251,844 stopping, if any, negotiations which should have been held before hand with CAK. At the time of audit, Kshs.9,800,642,336 had been paid under the contract.

60. Irregular Use of District Suspense Account

Examination of payment voucher number 034 dated 08 April 2016 show that Kshs.2,255,171,342 was paid to a company for the Supply of a new twin turbine troop carrier helicopter. However the expenditure was charged to District Suspense Account which is not a voted provision, therefore, cannot be used as an expenditure item.

Further, the statement of assets reflects a balance of Kshs.157,397,821 in respect of District Suspense Account whose analysis has not been provided for audit review.

61. Construction Works at National Police Service (NPS) Training Schools

61.1 Introduction

Due to shortages of barracks; classrooms; toilets; bathrooms and staff houses, the National Police Service awarded five (5) contracts during the financial year, 2014/2015.

61.2 Award and Scope of Work

The contracts were planned as follows;

(i) A contractor was identified to supply materials (iron and plain sheets; doors; windows; nails and other minor materials) in all the four (4) training institutions at a cost of Kshs.261,000,000 which had been paid at the time of audit.

(ii) Four (4) contractors were awarded contracts to undertake civil, mechanical and electrical works in the four (4) listed training institutions and paid as follows;

Institute	**Contract Number**	**Contract Sum Kshs.**	**Payment to date of Audit Kshs.**
KPC-Kiganjo	CQS/D102/010/2014-2015	157,000,000	192,449,080
APTC-Embakasi	CQS/D102/011/2014-2015	169,087,303	193,581,827
GSU- Embakasi	CQS/D102/012/2014-2015	51,356,366	67,260,767
GSU-FTC Magandi	CQS/D102/013/2014-2015	45,116,344	45,108,455
Total		**422,560,014**	**498,400,129**

61.3 Contract Period

The contract period is recorded as six (6) weeks from the date of site possession recorded as 01 December 2014.

61.4 Audit Inspections

(i) Award of Contract

Examination of records show that bids for the contractors at Kiganjo Police Training College and GSU Training School, Embakasi were rejected at preliminary stage, therefore, their award of contract is not only irregular but illegal and does not comply with Article 227 (1) of the Constitution.

In addition, prices of materials purportedly supplied and eventually paid as Kshs.261,000,000 were not informed by a market survey contrary to Section 8(3)(z) of the Public Procurement and Disposal Regulation (2006).

(ii) Excess Payments

Examination of records show that bids were supposed to be based on surface area. However in unclear circumstances the rates for the surface areas submitted for barracks, classrooms, staff houses, toilets and bathrooms differed for the same materials resulting in excess payment of Kshs.16,647,679.

In addition, audit has revealed that three (3) contractors working at KPC ,Kiganjo; APTC and GSU Training Colleges were overpaid by Kshs.74,534,379.

(iii) Payment for Undelivered Materials

Although, Kshs.4,786,274 was paid to the supplier of materials in respect of material purportedly supplied as KPC, Kiganjo, verification of delivery notes, invoices and ispection of construction site reveals that these materials were not delivered.

(iv) Unspent Balance of Kshs.41,000,000

Examination of AIE No.A832045 dated 03 October 2016 show that Kshs.41,000,000 for the construction of Bio Gas and rehabilitation of parade ground at Kiganjo has not been undertaken and the balance is kept in the account for which no explanation has been given.

(v) Unvouched Expenditure

Payment vouchers for payments totaling Kshs.391,243,037, have not been availed for audit contrary to Section 9(1) (e) of the Public Audit Act 2015 in spite of several requests made.

(vi) Theft of Iron Sheets at Kiganjo

Although there is clear evidence that the contractor's employee was arrested for theft of 42 Iron Sheets, there is no evidence that the culprit was arraigned and charged in court for the offence.

(vii) Delay in Execution of Contract

The contract were to commence 01 December 2014 for a period of six (6) weeks. An evaluation undertaken during the month of May 2017 show that contractors working at KPC and APTC were still on site as their contracts were still incomplete.

(viii) Poor Workmanship

Audit inspection undertaken at KPC, Kiganjo and APTC, Embakasi revelead that the quality of workmanship was poor as follows;

a) Cracks are observed on pavements along outside walls of classrooms both at KPC and APTC;

b) Concrete sinks did not have taps at KPC, Kiganjo and APTC, Embakasi;

c) Clothe lines stands bending because they are not well supported at KPC Kiganjo;
d) Incomplete electrical installation works-switches and sockets at KPC Kiganjo;
e) Concrete slab made instead of precast pavement slab as provided for in the Bill of Quantities at KPC Kiganjo;
f) One of the installed 20,000 litres tank ripped off at the top due to poor quality at KPC Kiganjo;
g) Cracks on other floor in classroom and barracks were observed at APT Embakasi;
h) Wire mesh put underneath the slab are exposed due to chipping and wearing out of the pavement at APTC Embakasi;
i) Black polythene paper laid underneath the slab are exposed out of the slab at APTC at Embakasi;
j) Black chalk board in classroom does not show clear writing at APTC Embakasi;
k) Peeling off of paint on metallic washroom door was observed at APTC Embakasi;
l) Reaping off of ridge caps was also observed at APTC Embakasi;

(ix) Outstanding Works

Although trainees are using these incomplete facilities, outstanding works are listed as follows;

a) Incomplete electrical works at both KPC, Kiganjo and APTC, Embaksi;
b) Unfinished roof ceilings in barracks and classrooms at APTC Embakasi;
c) Unfinished electrical installation-socket and switches at APTC Embakasi;
d) Unfinished pavement work between the classroom blocks at APTC Embakasi;

62. Cash Transfer to Regional Commissioner – North Eastern

In my Prior year report, unsatisfactory matter was reported in relations to transfer of Kshs.150,000,000 Regional Commissioner – North Eastern which was not accounted.

Similarly, Kshs.350,000,000 was transferred to Regional Commissioner – North Eastern during the year under review, which again has not been accounted. No reason has been given for huge transfers that are not being supported with expenditure returns required in accordance with Section 9 (1) (e) of Public Audit Act (2015).

Although the Department explains that the money was used as confidential expenditure, it is not correct as the transfer was charged to District Suspense Account which is not a voted provision and cannot be used as an expenditure item.

63. Irregular and Illegal Deductions on Recruits Police Constables Allowances

Examination of records show that Kshs.313,848,000 was irregularly deducted from recruits allowances training at Kenya Police College (KPC), Kiganjo and General Service Unit (GSU) Training School, Embakasi as follows;

Training Institute	Amount (Kshs)
Kenya Police College (KPC), Kiganjo	197,257,500
GSU Training School, Embakasi	116,590,500
Total	**313,848,000**

Although it has been explained through letter reference SEC.POL.1/1/26/27/47 dated 15 January 2018 and GSU.SEC.POL.1/1/26/VOL.II/13 dated 08 February 2018, that deductions were for barrack maintenance, haircut and medical fund among others, the audit has revealed that recruits were directed to sign that they received the entire amount of their allowance.

In addition, the audit has revealed massive irregularities as follows;

(i) These deductions contravened Section 43 (1) (c) of the Public Finance Management Act (2012) which prohibits re-allocation of funds from wages to non-wages expenditure.

(ii) The Department has not justified failure to provide funds for maintenance of barracks and medical funds in their annual budget.

(iii) The audit has further revealed that deduction from recruits' allowances amounting to Kshs.14,525,910 at GSU were deposited at account number 01240000008512 maintained at Cooperative Bank of Kenya, Tom Mboya Branch.

The General Service Unit has explained verbally during a meeting held on 01 March 2018 at the Auditor-General boardroom that the account is for distribution of recruits' allowances. However, the promise to produce the bank statement and authority to open the account has not been acted upon contrary to Section 9 (1) (e) (i) of the Public Audit Act (2015).

(iv) These deductions border on criminal act on the part of those officers who sanctioned forceful recovery from helpless recruits.

64. Other Matters

64.1 Bank Reconciliation Statements

The bank reconciliation statements reflects receipts in the bank statements not recorded in the cash books totaling Kshs.8,101,558,242 which comprises of Kshs.7,967,603,859 Kshs.44,710,334 and Kshs.89,244,048 for recurrent cash book, development cash book and deposits cash book respectively. No reason has been given for delay in entering the amounts in the cash books.

The bank reconciliation statements as at 30 June 2017 also reflects payments in the cash books not recorded in the bank statement totalling Kshs.16,469,223,550 which comprises of Kshs.12,282,971,167, Kshs.4,162,169,532 and Kshs.24,082,851 for recurrent cash book, development cash book and deposits cash book respectively. No reason has been given for failure to debit back these balances in the Cash books.

Further, the bank reconciliation statements also reflects receipts of Kshs.3,233,476,341 in the cash books not recorded in the banks statements. This comprises of Kshs.2,772,837,746, Kshs.431,696,929 and Kshs.28,941,665 for recurrent cash book, development cash book and deposits cash book respectively. No explanation has been given for failure to correct these anomalies through relevant journal entries in the cash books.

64.2 Irregular Bank Payments – Kshs.11,424,466,751

Examination of bank reconciliation statements show that payments totalling Kshs.11,424,466,751 shown below was paid from the bank accounts maintained by the State Department for Interior but were not posted to the cashbooks.

Bank Account	**Payments Kshs.**
Recurrent	8,642,543,374
Development	2,767,520,679
Deposits	14,402,696
TOTAL	**11,424,466,750**

The payments were made without support documents contrary to Regulation 85(4) (B) and (C) of the Public Finance Management (National Government) Regulations, 2015 which requires all signatories in respect of payments to thoroughly scrutinize supporting documents.

64.3 Acquisition of Assets

The statement of receipts and payments reflects an amount of Kshs.24,398,063,674 in respect of expenditure on acquisition of assets. However, a fixed assets register was not availed to confirm the existence of the acquired assets.

No explanation has been provided for failure to maintain the fixed assets register as required under Regulation 143 of the Public Finance Management (National Government) Regulations, 2015.

64.4 Deposits

The statement of assets reflects a balance of Kshs.474,232,315 in respect of deposits whose analysis has not been provided for audit review.

64.5 Pending Bills

Examination of the financial statements show that bills totaling Kshs.1,164,848,469 were not settled during the year under review but were instead carried forward to the financial year 2017/2018. Had the bills been paid and the expenditure charged to the account of financial year 2016/2017, the statement of receipts and payments for the year under review would have reflected a surplus of Kshs.608,162,415 instead of a surplus of Kshs.1,773,010,883 now reflected.

64.6 National Humanitarian Fund

Examination of the financial statements of the National Humanitarian Fund (NHF) and those of State Department for Interior (SDI) has revealed the following discrepancies;

Item	NHF F/S Kshs.	SDI F/S Kshs.	Discrepancy Kshs.
Budget of NHF	1,987,703,859	2,000,000,000	12,296,141
Grants from SDI	1,933,899,805	1,977,951,815	44,052,010
TOTAL			**56,348,151**

REVENUE STATEMENT – STATE DEPARTMENT FOR INTERIOR

Basis for Qualified Opinion

65. Inaccuracy of the Revenue Statement

The statement of receipts and transfers reflects total non-tax receipts of Kshs.10,752,953,005 which differs with the amount of Kshs.10,562,478,476 shown in the trial balance. The resulting difference of Kshs.190,474,529 has not been explained or reconciled.

66. Revenue from Hire of Security Services

66.1. Although, Security of Government Buildings (SGB) unit offers security services to Kenya Revenue Authority (KRA), records show that KRA did not pay for the services during the period starting January 2016 to June 2017 contrary to Regulation 64(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015. In addition, the State Department does not maintain record of staff deployed to provide security services to KRA offices and field stations.

Further, the hire of security services was not paid for in advance during the year under review contrary to Section 57(6) (1) of the National Police Service (NPS) standing orders.

66.2. Although the Regional Commander for Administration Police Service, Nairobi, appears to have collected revenue totalling Kshs.11,241,747 during the year under review, the accuracy and completeness of this figure cannot be confirmed in the absence of:

(i) Deployment registers and books of account as required under Regulation 64(6) of the Public Finance Management (National Government) Regulations, 2015 and Section 57 (4) of the NPS Standing Orders; and

(ii) Documentary evidence relating to revenue collected from Standard Chartered Bank - Harambee Avenue, Standard Chartered Bank - Kenyatta Avenue and Safaricom Offices at Sarit Centre, where armed Administration Police Officers have been guarding.

66.3. Examination of records maintained at the Rapid Deployment Unit (RDU), shows that revenue totalling Kshs.6,178,050 was irregularly spent at source contrary to Regulation 64(4) of Public Finance Management (National Government) Regulations, 2015 as follows:

Station	**Irregular Deductions (Kshs.)**
RDU	726,450
Sub county AP commander- Ndhiwa	561,000
Sub county AP commander- Mbita	1,799,000
Sub county AP commander- Homabay	1,178,000

Station	Irregular Deductions (Kshs.)
Sub county AP commander- Siaya	1,544,300
Sub county AP commander- Rachuonyo South	369,300
Total	**6,178,050**

In addition, Kenya Gazette Notice No. 955 dated 09 February 2007 requires that charges for hire of security for police officers ranked as constable is Kshs.100 per hour. However, the officer in charge of Rapid Deployment Unit (RDU) charged a firm at the rate of Kshs.50 per hour, resulting in a loss of Kshs.876,000.

67. Revenue from Issuance of Police Clearance Certificates

According to Note 1 to the revenue statements, the State Department collected an amount of Kshs.373,272,300 against certificate of good conduct (certificates of police clearance) in the financial year 2016/2017.The amount includes Kshs.55,130,292 and Kshs.318,142,008 surrendered by DCI headquarters and DCI county offices respectively.

However, audit inspection undertaken at the Directorate of Criminal Investigations (DCI) headquarters indicate that 639,546 police clearance certificates were issued at an application fee of Kshs.1,000 each during the year under review bringing the total amount due from issue of police clearance certificates to Kshs.639,546,000. The difference of Kshs.266,273,700 between the amount collectable of Kshs.639,546,000 and amount recorded of Kshs.373,272,300 has not been explained or reconciled.

68. Undisclosed Revenue Collected from Issue of Work Permits

Note 1 to the revenue statements discloses that an amount of Kshs.4,038,858,777 was collected from work permit fees. In the 2016/2017 financial year, records maintained at work permit section show that 2,964 work permits valued at Kshs.521,660,000 were issued without miscellaneous receipts. In the circumstances, it is not possible to confirm that the amount of Kshs.521,660,000 was received, accounted for and deposited into the revenue account.

In addition, records show that various blank work permit books were issued to the work permit section. However, 965 blank work permits have not been accounted for.

69. Unaccounted Revenue Collected through e-Citizen

Although indications are that e-Citizen has enhanced delivery of services to the citizens and public, no documentary evidence has been provided to confirm that revenue collected through e-Citizen during the year under review was transferred to the Principal Secretary who is the receiver of revenue for the State Department.

NATIONAL COHESION AND INTEGRATION COMMISSION

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this Commission.

THE GOVERNMENT PRESS FUND

Unqualified Opinion

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

NATIONAL HUMANITARIAN FUND

Basis for Qualified Opinion

70. Unaccounted for Imprests and Advances

The statement of financial assets and liabilities as at 30 June 2017 reflects a balance of Kshs.71,960,000 against imprests and advances. Available records indicate that advances totalling Kshs.129,893,050 were previously issued to five County Commissioners in which an amount of Kshs.45,120,477 was refunded to the Fund`s bank account at Central Bank of Kenya while Kshs.12,812,573 in respect of two counties was accounted for through payment vouchers leaving a balance of Kshs.71,960,000.

No satisfactory explanation has been provided for failure by Mandera, Nakuru and Bomet County Commissioners to account for the remaining balance of Kshs.71,960,000 as required under Section 71 of the Public Finance Management Act,2012.

KENYA CITIZENS AND FOREIGN NATIONALS MANAGEMENT SERVICE

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this Service.

Other Matter

71. Human Resource Management

During the year under review and as similarly reported in the past financial years, the Service continued to be managed by an acting Director General/Chief Executive. No justification has been made for failure of the Board to recruit a substantive Director General /Chief Executive competitively in accordance with Section 13(1) and (2) of the Kenya Citizens and Foreign Nationals Management Act, 2011.

It has further been observed that the Board has not designed to date a proposed organization and pay structure for the Service for consideration and advice by the Salaries and Remuneration Commission.

In addition, failure by the State Corporations Advisory Committee (SCAC) to categorize the Service has hampered delivery of services in accordance with Section 4(2) of the Kenya Citizens and Foreign Nationals Management Service Act.

72. Lack of Budgetary Approval

The statement of comparison of budget and actual amounts reflects a final budget of Kshs.91,215,000 for the year 2016/2017. However, the budget was not approved by the Cabinet Secretary contrary to Section 19(3) of the Kenya Citizens and Foreign Nationals Management Act, 2011. In addition, the omission contravened Section 68 (1) of the Public Finance Management Act, 2012.

THE STATE DEPARTMENT FOR CORRECTIONAL SERVICES

FINANCIAL STATEMENTS FOR VOTE 1023

Basis for Adverse Opinion

73. Pending Bills

Disclosed at Note 13.1 and detailed in Annex 1 to the financial statements are bills totalling Kshs.6,519,486,805 that were pending as at 30 June 2017. Failure to settle the bills in the year to which they relate adversely affects the following year's provision to which they have to be charged. Had the pending bills been paid and the expenditure charged to the accounts for financial year 2016/2017, the statement of receipts and payments would have reflected a deficit of Kshs.6,264,037,418 instead of the net surplus of Kshs.255,449,387 now shown.

Further, audit verification of the bills undertaken during the months of March and April 2018 at the Prisons Headquarters and in a sample of thirty-two (32) prisons across the country revealed the following irregularities:

73.1. Invalid Pending Bills at the Headquarters

Bills totalling Kshs.288,612,468 reflected in the headquarters records could not be traced to the records of the prisons where food ration was claimed to have been delivered. In addition, bills totalling Kshs.18,613,290 which related to the suppliers of food ration who had already been paid for the same at the headquarters but were still listed as pending.

73.2. Irregular Payments of Pending Bills

According to signal Ref. NO. PRIS 8/12 VOL. II (149**)** dated 30 September 2016 sent to Regional Commanders, the headquarters paid pending totalling Kshs.1,564,276,638 on behalf of various prisons. However, the following anomalies were noted:

(i). Receipt of food ration for bills totalling Kshs.304,406,454 paid at the headquarters could not be traced to the records maintained at various prisons across the country.

(ii). Although bills totalling Kshs.2,367,000 were paid at the headquarters on behalf of Kibos Medium Prison, a verification at the prison revealed that the two of the suppliers paid did not deliver the purported food ration.

(iii). Although, an amount of Kshs.12,391,302 was paid at the headquarters in relation to pending bills for Kisumu Main Prison, records show that the suppliers did not receive the purported amount paid. Indications are that the payments were irregularly made to recipients who did not supply food to the prison.

(iv). Cases of double payments totalling Kshs.22,579,752 in respect of Naivasha, Eldoret, Kakamega Prisons and Shikusa Borstal.

73.3. Other Invalid Pending Bills

Further, records maintained at the headquarters show that bills amounting to Kshs.7,454,000, Kshs.10,777,500 and Kshs.10,022,500 were pending at Meru Women, Nyeri Medium and Naivasha Medium Prisons respectively. However, a verification at the prisons revealed massive irregularities as the purported suppliers had never been contracted to supply food and there were no deliveries or receipts at the three prisons.

74. Procurement of Firewood

Audit verification undertaken in ten prisons revealed that firewood valued at Kshs.128,615,530 was claimed to have been received in the stores and issued out of the stores. However, documentary evidence of inspection of deliveries was not provided for audit review. In addition, the prisons did not have weighing scales for the firewood and consequently, it is not clear how the actual tonnage of firewood delivered was determined.

75. Funding of Food Ration and Firewood

Section 74 (1) (g) of the Prisons Act, 2016, gives provision of suitable diet and the Prisons Service through Internal Memo dated 26 April, 2018 states that a prisoner should consume an equivalent of Kshs.217.5 per day for meals and firewood. However, the audit revealed that some prisons were overfunded while others were underfunded as follows:

Over Funded Prisons

2014/2015	**Avg. Lock Up**	**Rate/Prisoner**	**Days per Year**	**Expected AIE Allocation-Kshs.**	**Actual AIE Allocation-Kshs.**	**Over-Funding-Kshs.**
KERICHO MEDIUM	258	217.5	365	20,481,975	25,500,000	(5,018,025)
KERICHO WOMEN	90	217.5	365	7,144,875	8,000,000	(855,125)
KAMITI YCTC	54	217.5	365	4,286,925	7,336,500	(3,049,575)
						(8,922,725)

Under Funded Prisons (29 Prisons)

Year	Expected AIE Allocation – Kshs.	Actual AIE Allocation- Kshs.	Under Funding- Kshs.
2014/2015	2,519,918,025	1,346,466,500	1,173,451,525
2015/2016	2,554,689,750	695,347,000	1,859,342,750
2016/2017	2,421,318,750	969,000,216	1,452,318,534
TOTAL	**7,495,926,525**	**3,010,813,716**	**4,485,112,809**

No satisfactory explanation has been provided for the over and under-funding.

76. Proposed Erection and Completion of Staff Houses at Nakuru and Eldoret GK Prisons

Audit inspections undertaken at Kenya Prison Services Eldoret and Nakuru stations on 11 and 14 December 2017, respectively revealed that the then Office of the Vice President and Ministry of Home Affairs awarded the above contract No. WP. ITEM NO.RV/NKR 501 JOB NO. 0138F & 0304F, to a contractor at a tender amount of Kshs.102,285,587 and works commenced on 18 August 2006. Records also show that the contract amount was later revised to Kshs.198,159,364, while the completion date of the contract initially recorded as 52 weeks and estimated to end on12 September 2007 was later revised to 31 August 2012.

Records made available for audit to indicates that the contractor has so far been paid Kshs.182,665,540 or 92% of contract sum and works completed stands at 98% while more than ten (10) years have elapsed.

The contract records also indicate that the contractor entered into another contract with another contractor on unclear date to execute awarded works on their behalf. However, the contractor abandoned works due to outstanding payments of executed works. It is not clear under what circumstances the electrical sub-contract with the initial contractor terminated on 12 October 2011 and another arrangement made with another contractor to undertake electrical sub-contract since December 2011.

A physical status report submitted by a Senior Superintending Architect (SSA) on 8 August 2013 disclosed progress as follows:

(i). Eldoret Prison

- Six (6) bungalows with incomplete electrical works. Due to poor condition in which prison officers live, these houses are occupied in their incomplete state.
- First block of the flats with eight (8) houses is 90% complete.
- Second and third block of flats with sixteen (16) houses are incomplete
- Plumbing and drainage works is 40% complete

(ii). Nakuru Prison

- Builder's Works in all twenty (20) units is complete
- Electrical Works is at 65% complete
- Plumbing and drainage works is at 40% complete

The following was observed during the audit

(i). The contract has taken more than ten years or 520 weeks to be completed as opposed to initially planned 52 weeks.

(ii). Main Builder's poor performance on site resulted in use of domestic sub-contractors to undertake his works.

(iii). There is a claim on escalation in costs which has not been approved. It was explained that the contractor's delay to deliver the project on schedule is the main reasons for escalation in costs.

(iv). There are no site meetings or consultative meetings going on as the prison staff continue to live in horrible shelters.

The Architect has recommended a handing over of site "as it is" to the client (State Department of Correctional Services) so that outstanding works can be completed in phases under County Works Officers.

In an effort to complete the project in phases, the State Department for Correctional Services allocated Kshs.12,000,000 and Kshs.32,000,000 for Nakuru and Eldoret Main Prisons respectively, during the 2016/2017 financial year.

AIEs were subsequently issued to Officers-in-Charge of the two Prisons. However, the Commissioner General has proposed that the existing contract should be terminated first before undertaking the remaining works.

Although the proposed way forward is reasonable, a thorough evaluation and documentation of outstanding works is yet to be done by a team composed of an Architect, a Quantity Surveyor; Electrical, Structural and Mechanical (BS) Engineers. However, the proposed way forward is silent on legal consequences/implications of handing over this site to the client "as it is".

The State Department is reported to have written to the Attorney General seeking legal opinion on this matter. The Chief Architect (Project Manager) and technical team serving at State Department of Public Works should have provided the necessary advice on this matter.

Through their incomplete letter Ref: B.D05/0138F & 0304E/103 dated 31 July 2015, the Directorate of Public Works claims that it does not have institutional memory and, therefore, can't sort out what was paid for specific items on the two sites since the project was run as one contract and can't advise on the issue of omitting part of works. It is not clear how the project manager would certify payments totalling Kshs.182,665,540 or 92% of contract sum without institutional memory, therefore, can't sort out payments in terms of the items.

Major outstanding works relate to two specialist sub-contractors (electrical and plumbing) both of whom have abandoned the site. They are documented as follows:

- Electricity connection and meters
- Water supply connection and meters
- Incomplete electrical works (electrical fittings and connections to mains)
- Incomplete plumbing (water storage tanks) and drainage works
- Stolen manhole covers posing risk to residents
- Fixing ridge tiles at flats in Eldoret
- Visible deterioration in terms of shrub growth on concrete surface, leakages, peeling off of putty and paints
- The contract site is bushy, dark at night posing threat of attack from wild animals like leopards to residents as has been experienced before when the Prison lost 41 flock of sheep.

77. Stalled and Incomplete Projects

Examination of accounting records revealed that amounts of Kshs.200,407,159 and Kshs.675,842,255 were incurred on stalled and ongoing projects respectively, in 2016/2017. An audit inspection undertaken during the month of May, 2017 in a selected sample of prisons revealed that these projects continue to stall and on-going projects were incomplete at a time when there was evidence of critical accommodation needs for prison staff.

78. Undelivered Ballistic Plates for Bullet Proof Jackets

Procurement records also show that the State Department procured three hundred bullet proof jackets and three hundred bullet proof vests at a cost of Kshs.22,275,000 and Kshs.20,998,500 respectively.

Records further show that goods were received into the store and later distributed to various Prison Stations across the country.

However, an audit inspection carried out revealed that the body armours received do not have ballistic panels and cannot be used to protect staff against rifle fire, ammunition, knife stab and sharp or pointed instrument. In the circumstances, the State Department has not obtained the value for money in respect of the expenditure totalling Kshs.43,273,500 as required under Section 68(1)(b) of Public Finance Management Act,2012.

79. Construction of Perimeter Wall at Eldoret Prison, Contract No. CQS/D102/23/2016-2017

The above contract was awarded to a contractor at a tender sum of Kshs.24,882,843 on 20 April, 2017 for construction of a perimeter wall (650 meters long) following a restricted tendering procurement method. The contract period was indicated as twelve weeks from the date of site possession.

However, in unexplained circumstances, the Prisons Department issued additional funds amounting to Kshs.7,500,000 which was utilized in constructing the perimeter wall measuring 234 meters through use of prisoners and staff. Payments of Kshs.11,805,699 and Kshs.13,077,144 through payment vouchers number 33 and 36 both dated 30 June 2017, respectively were made to the contractor in 2016/2017 financial year.

Audit inspection undertaken during the months of May 2017 and November 2017 revealed the following:

(i) The State Department for Correctional Services has explained through a letter Ref: SDC/SEC/FIN/3/12 VOL. V (23) dated 4 January 2018 that the original works awarded at Kshs.24,882,843 did not include razor wire, paint, decoration, plaster of walls, beams and columns. However, audit has revealed that the Bills of Quantities were prepared by Chief Quantity Surveyor, an expert in contracting who has not disowned the purported contracted works.

(ii) In addition, the State Department purports that the savings on already constructed wall by Prisons Department will be used to complete omitted works without providing a technical evaluation on the savings, the basis upon which the savings could have been accounted before award of the contract.

(iii) Although it has been explained that a transformer on construction site has not been re-located hampering progress, works remain incomplete.

(iv) Indications are that the contract was awarded and the contractor paid Kshs.24,882,843 after which prisoners were used to construct the same wall at additional cost of Kshs.7,500,000.

80. Proposed Supply, Delivery, Installation, Testing and Commissioning of IP Based CCTV Surveillance System at Naivasha, G.K. Prison

The above contract No. CWO/NRB/D102/18/2016-2017 was awarded to a contractor at Kshs.43,184,480 on 10 January, 2017 for supply, delivery, installation, testing and commissioning of IP Based CCTV Surveillance System at Naivasha G.K. Prison. The contract period was indicated as twelve (12) weeks from the date of site possession. Payment vouchers numbers 6329, 4957, and 4948 all totalling Kshs.43,184,480 were processed in respect of the contractor in 2016/2017 financial year.

Audit inspection undertaken on 13 December, 2017 revealed a loss of Kshs.8,645,000 detailed as follows:

(i). Although the contractor was paid Kshs.12,028,000 for the purported supply of one hundred and ninety (190) cameras, verification confirmed existence of one hundred and fifty-eight (158) cameras resulting in a loss of thirty-two (32) 5 Megapixel Cameras costing Kshs.1,728,000.

(ii). Audit further established that fifty-two (52) cameras costing Kshs.4,576,000 installed at reception and hospital block are defective and, therefore, not functioning.

(iii). Further, audit revealed that the contractor supplied eight (8) Power Distribution Boards instead of thirty (30) resulting in a loss of twenty-two (22)contracted costing Kshs.550,000.

(iv). In addition, the contractor was required to supply and install 64 Channel 400 Mbps Network Video Recorder (NVR) with minimum 48TB 12 Hot swap HDDs Internal Video Storage (RAID 6). However, five 3.63 TB totalling 18.15 TB and 5 Hot swap HDDs were installed instead of 48 TB and 12 Hot swap HDDs required, resulting in a loss of Kshs.1,791,000. Consequently, the storage capacity is low resulting in fluctuations in the required CCTV services.

(v). It was also observed that the required training on use of the CCTV services has not been undertaken by the contractor.

(vi). The State Department did not provide for audit review certificate of completion together with minutes of handing over of the project.

81. Construction of Staff Houses at Naivasha Maximum Security Prison

During the year under review, Development AIEs No A853002 and A836813 of Kshs.2,000,000 each were issued to the officer-in-charge of Naivasha Maximum Prison for construction of staff houses. The funds were to be used for purchase of building materials while prisoners were to provide free labour and technical staff serving in the prison were to assist with the required technical and supervision skills.

Audit inspection undertaken at the prison on 13 December 2017 revealed gross anomalies as follows:

(i). There was evidence of double payments of suppliers for construction materials which were all purportedly issued to buildings/construction site with nil balances of materials in the store at the time of audit.

(ii). Quality of workmanship was poor with the houses lacking proper ventilation for occupants. There was also no evidence that technical standards relating to plumb line; maintenance of levels; and requirement of square (90 degrees) at corners had been achieved.

(iii). There were no material test results to confirm that quality of construction materials used met technical specifications.

(iv). There was evidence of apparent excess payments or loss of Kshs.888,900 as shown in the table below:

Item	Qty Procured	Approx. Qty used	Excess Qty	Excess Payments (Kshs)
Iron sheets 2.5m	200pcs	60 Pcs	140 pcs	218,400
Iron sheets 3.0m	200pcs	60Pcs	140 pcs	252,000
Building stones 9"	3900 ft	3000 ft	900 ft	58,500
Building stones 6"	9000 ft	3000 ft	6000 ft	360,000
Total				**888,900**

82. Unsupported District Suspense

The statement of assets and liabilities reflects a balance of Kshs.673,392,624 against District Suspense Account which differs with the amount of Kshs.3,320,903,324 reflected in the State Department`s records by unexplained and unreconciled figure of Kshs.2,647,510,670.

In addition, the District Suspense Accounts balance has not been supported by authentic and verifiable source documents. Consequently, it has not been possible to confirm the validity, completeness and accuracy of the balance.

83. Prior Year Adjustments

The statement of assets and liabilities further reflects a negative prior year adjustment of Kshs.(2,520,670,050) and as disclosed in Note 11 to the financial statements. However, analyses and supporting documents in respect of this negative balance has not been provided. Consequently, it has not been possible to confirm the validity, completeness and accuracy of the balance.

THE REVENUE STATEMENTS OF THE STATE DEPARTMENT FOR CORRECTIONAL SERVICES

Unqualified Opinion

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

PRISON INDUSTRIES REVOLVING FUND

Basis for Disclaimer of Opinion

84. Fixed Assets

The statement of financial position reflects a fixed assets balance of Kshs.83,110,514 as at 30 June 2017 which, as similarly reported in the previous year, include scrap machinery valued at Kshs.2,926,440 that has since become obsolete.

The fixed assets have been lumped up based on their nature or function instead of being properly identified and recorded. In addition, a detailed schedule to support the balance of Kshs.83,110,514 has not been provided for audit review. The Fund did not also maintain fixed assets register during the year under review as reported in the previous year.

Consequently, the existence, completeness and correct values of the fixed assets reflected in the financial statements cannot be confirmed.

85. Accounts receivables (Debtors)

The debtors balance rose from the previous year's figure of Kshs.44,853,557 to Kshs.77,391,758 as at 30 June 2017 as shown in the statement of financial position. Included in this figure is Kshs.40,156,907 owed by government departments. The debtors balance also includes Kshs.177,260 owed by private debtors dating back to the year 2000. No satisfactory explanation has been provided for failure to collect these long outstanding debts.

86. Paymaster General Account

The statement of financial position reflects a balance of Kshs.178,175,323 against Paymaster General Account as at 30 June 2017. This includes an amount of Kshs.175,210,763 representing cash and cash equivalents explained as held by the former Ministry of Home Affairs Deposit Account which is yet to be transferred to the Fund's new account. However, no documentation has been provided to support the said balance. Consequently, the existence, completeness and accuracy of the Pay Master General (P.M.G) balance of Kshs.178,175,323 cannot be confirmed.

87. Suspense Account

The statement of financial position also shows a balance of Kshs.3,647,677 under suspense account but whose analysis has not been provided for audit review. It is therefore, not possible to confirm its validity, completeness and accuracy.

88. Accounts Payables (Creditors)

The financial statements reflect a balance of Kshs.69,651,920 against creditors as at 30 June 2017. As similarly reported in 2015/2016, no reasons have been provided for failure to pay the creditors despite the huge Pay Master General (bank) balance as at 30 June 2017.

PRISON FARM REVOLVING FUND

Basis for Qualified Opinion

89. Accounts Receivables (Debtors)

The statement of financial position reflects debtors` balance of Kshs.204,003,180 as at 30 June 2017. Although management has explained that part of the debts is owed by other government agencies, there were no measures taken to recover outstanding debts and avoid further accumulation of huge debts.

90. Suspense Account

The statement of financial position reflects a balance of Kshs.5,825,968 against suspense account which, has not been supported with analyses and verifiable source documents contrary to Regulation 107 (1) of the Public Finance Management (National Government) Regulations, 2015. Consequently, the validity, completeness and accuracy of the balance of Kshs.5,825,968 cannot be confirmed.

91. Accounts Payables (Creditors)

The statement of financial position reflects a balance of Kshs.30,002,138 against accounts payables (creditors). No satisfactory reasons have been provided for failure to pay these debts despite the huge Pay Master General (bank) balance of Kshs.57,504,034 as of 30 June 2017.

92. Undisclosed Loss of Livestock

Available records indicate that the Prison Farm Revolving Fund lost Kshs.198,000 in Nakuru Main Prison following an attack by leopards on a flock of sheep killing five(5) rams, twenty-five (25) sheep and critically injuring eleven (11) others on the night of 16 March 2017. However, the loss has not been disclosed in the financial statements for the year ended 30 June 2017. In addition, the State Department for Correctional Services has not taken measures to reinforce the security of farm assets to avoid future losses.

93. Fixed Assets Register

The statement of financial position reflects fixed assets balance of Kshs.32,698,618 as at 30 June 2017. A detailed schedule to support the balance has, however, not been provided for audit review. The fixed assets have instead been lumped together based on their nature or function without providing the particulars. Further the Fund did not maintain a fixed assets register during the year under review. Consequently, the existence, location, completeness and accuracy of the fixed assets and the related balance reflected in the financial statements cannot be confirmed.

Basis for Qualified Opinion

94. Opening Balances

The financial statements for the year ended 30 June 2017 include restated comparative figures for the financial year 2015/2016. However, no documents have been provided for audit verification in support of the restated comparative figures. The accuracy and validity of the comparative figures as reported cannot, therefore, be confirmed.

95. Other Revenue

The statement of receipts and payments reflects other revenues amounting to Kshs.3,031,318. These other revenues are described under Note 3 as receipts found in the State Department`s bank statement which had been credited to the bank account. However, the management has not provided any supporting documents to prove that the receipts were due to the State Department for services rendered. Consequently, the validity, completeness and accuracy of other revenues cannot be confirmed.

96. Grants and Transfers to Other Government Entities

The financial statements reflect payments totalling Kshs.541,135,010 as grants and transfers to other government entities. However, the amounts recorded in the financial statements of the receiving government entities differs from the ones reported in the State Department's financial statements as detailed below:

Entity	Amount as Per the Entity`s Financial Statements Kshs.	Amount Reported in the State Dept. Financial Statements Kshs.	Variance Kshs.
Council of Governors	153,202,024	160,145,650	6,943,026
KDSP Component	101,159,883	80,939,360	(20,170,523)

The variances above have not been explained or reconciled.

97. Use of Goods and Services

The use of goods and services payments totalling Kshs.415,522,851 as reflected in the statement of receipts and payments and disclosed in Note 5 to the financial statements includes an amount of Kshs.260,256,399 in respect of other operating expenses.

However, examination of the ledger revealed Kshs.26,257,517 was charged to operating expenses instead of the correct items of the expenditure:

Nature of Expense	Amount Kshs
Communication, supplies and services	3,219,000
Salaries to staff	580,000
Domestic travel & subsistence, staff meal allowances	15,697,081
Accommodation and Conference	5,113,500
Motor Vehicle Repairs & Maintenance	722,036
Routine Maintenance – Other assets	925,900
Total	**26,257,517**

No explanations have been provided for the above anomalies.

In addition, an unexplained journal entry of Kshs.19, 897,500 was similarly posted to the operating expenses account and no explanation to justify this journal has been provided.

98. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June 2017 reflects an amount of Kshs.76,795,422 as cash and cash equivalents comprising of the bank balances of Kshs.75,987,651 and cash balances of Kshs.807,771. However, though the balances were supported by bank statements, board of survey report and bank confirmation certificates as at 30 June 2017, the bank reconciliation statements for the rest of the year have not been presented for audit review. The completeness of transactions arising from the bank accounts and the cash system for the whole year cannot not be confirmed under the circumstances.

In addition, the bank confirmation certificate as at 30 June 2017 reflects an amount of Kshs.1,163,889 in respect of Kenya Devolution Support Programme, which has not been taken into account inspite of the programme expenditure forming part of the other operating expenses. Further, an adjustment of Kshs.440,298 under the deposits account has not been explained.

In the circumstances, the completeness and accuracy of the cash and cash equivalents balance of Kshs.76,795,422 as at 30 June 2017 cannot be confirmed.

99. Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2017 reflects prior year adjustments of Kshs.180,997,512 in respect of the current year and Kshs.792,501 in respect of the previous year. However, the reasons for the prior year adjustments and the documentation in support of the adjustments have not been provided. Further, the treatment does not satisfy the requirement of International Public Sector Accounting Standards 3 on, “Accounting Policies, Changes in Accounting Estimates and Errors” which, require restatement of the affected figures in the year the error first occurred except when it is impracticable and this fact must be disclosed. Under the circumstances, the accuracy and validity of the adjustments as presented cannot be ascertained.

100. Pending Bills

The State Department of Devolution reported pending bills amounting to Kshs.3,296,627,373 as at 30 June 2017, comprising of Kshs.3,286,465,791 brought forward from the previous year and Kshs.10,161,582 for the financial year 2016/2017. 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. Had the bills been paid and expenditure charged to the accounts for 2016/2017, the statement of receipts and payments for the year would have reflected a deficit of Kshs.3,259,566,371 instead of the surplus of Kshs.37,061,102 now shown.

STATE DEPARTMENT FOR SPECIAL PROGRAMMES

FINANCIAL STATEMENTS FOR VOTE 1033

Basis for Qualified Opinion

101. Pending Bills

The State Department of Special Programmes reported pending bills totalling Kshs.118,865,458 as at 30 June 2017 out of which bills amounting to Kshs.116,113,212 or about 98% had been brought forward from the year 2015/2016. Failure to settle pending bills during the year to which they relate distorts the financial statements for the year and adversely affects the provisions of the subsequent year to which they have to be charged. Had the pending bills of Kshs.118,865,458 been paid in 2016/2017 and the expenditure charged to the accounts for that financial year, the statement of receipts and payments would have reflected a deficit of Kshs.92,044,585 instead of the surplus of Kshs.26,820,873 now shown.

102. Acquisition of Assets

The expenditure of Kshs.38,424,433 on acquisition of assets as disclosed in Note 8 to the financial statements includes an amount of Kshs.32,182,850 incurred in respect of Wajir Sewerage Project which stalled in the year 2013. The following matters were noted with regard to payment for the Wajir Sewerage Project:

(i) The amount was paid on the strength of advice from the Attorney General on a claim that had been filed by the Contractor. However, the advice was that, part of the claim was payable but only to the extent that a certificate of work done had been issued.

(ii) Certificate No. 01 was issued on 6 June 2013 by the Resident Engineer for an amount of Kshs.32,182,850. However, the minutes for the progress meeting held on the 3 June 2013 indicated that the contractor had done 5% of the work, equivalent to Kshs.15,446,878 of the contract sum of Kshs.308,937,558. The contractor was, therefore, overpaid by an amount of Kshs.16,735,972.

(iii) The contractor was paid the entire amount on the certificate without retaining the necessary retention money as is the case with payments for construction contracts.

(iv) Although the project stalled in 2013 and the contractor ought to have been issued with a formal contract termination letter and surcharged for breach of the contract, this was not done.

(v) The project remains incomplete to date and there are no activities going on at the site. This therefore casts doubt on the value for money received on use of public funds for the payment of Kshs.32,182,850.

103. Motor Vehicles

The summary of fixed assets register which is attached as Annex 2 to the financial statements does not reflect transport equipment (motor vehicles). Available information, however, indicate that the State Department of Special Programmes was handed over thirteen motor vehicles by the defunct Western Kenya Community Development Project, which are claimed to be grounded at various locations in Western Kenya. Further, eleven motor vehicles identified for boarding have not been disposed-off so far. Another motor vehicle registration KBJ 936E (GKB 320D) Toyota Hilux double cabin had been reported lost. From the foregoing, the total cost of fixed assets of Kshs.87,980,743 reported cannot be confirmed, and the existence of the assets is in doubt.

STREET FAMILIES REHABILITATION TRUST FUND – STATE DEPARTMENT OF SPECIAL PROGRAMMES

Basis for Qualified Opinion

104. Lack of Ownership Documents for Land

Records maintained by the Street Families Rehabilitation Trust Fund (SFRTF) indicates that the Fund owns various pieces of land all of which had no ownership documents as of 30 June, 2017 as detailed below:

(i). LR No. 209/11325

The land was donated and surrendered to the Fund by the Kenya Pipeline Company Limited (KPC) on 23 August 2007 vide a letter Ref. No. LE/LA/25/4 addressed to the Commissioner of Lands by the Managing Director of the Company. The title was surrendered to the Commissioner of Lands on 6 August 2007 for purposes of transferring and registering the property in the name of the Fund. However, ten years down the line, the transfer has never been effected.

(ii). LR No. Mavoko Town Block 3/2545

The Fund purchased the land measuring 8.090 hectares at a cost of Kshs.38 million on 6 December 2013. The original title was surrendered to the Ministry of Lands for subsequent transfer in the same month. However, to date the said property has not been transferred to the Fund.

(iii). Unidentified Land in Counties

The Board of Trustees in the minutes dated 19 September 2016 indicated that the Fund had been allocated land in various counties by the defunct Local Authorities. The Fund is yet to identify where the pieces of land are located and obtain either the title deeds or any legal documents of allocation. Under the circumstances, there is real threat of loss of these properties if the Fund does not expedite the process of obtaining ownership documents.

105. Failure to Prepare Financial Statements for the Previous Years

The Trust Fund was established on 11 March 2003 and Section 12(2) of the Trust Deed requires the Fund to be audited in line with the Public Audit Act. The Fund has, however, prepared its first financial statements ever for the year 2016/2017 only. Although it is evident that there were activities such as Board meetings held on April 2016 and cash transfer amounting to Kshs.230,000,000 to the Fund's bank account in the 2015/2016 financial year, no satisfactory explanation has been given for failure to prepare the financial statements for that year.

106. Initial Capital Fund

The Trust Deed indicates that the fund was to have an initial capital fund of Kshs.5.05 million. This amount is not reflected in the financial statements for 2016/2017 and neither has any details been provided on whether the monies were paid to the Fund at the point of formation as expected and how it was accounted for.

STATE DEPARTMENT FOR PLANNING AND STATISTICS

FINANCIAL STATEMENTS FOR VOTE 1034

Basis for Disclaimer of Opinion

107. Trial Balance and Financial Statements

The first trial balance as at 30 June 2017 provided for audit reflected a credit balance of Kshs.38,202,648,535 which did not agree with the debit balance of Kshs.36,524,054,642. Subsequently, the trial balance was amended to have the debit and debits agreeing but the movement between the two trial balances has not been explained. In addition, the account balances reflected in the amended trial balance does not agree with the balances reflected in the financial statements. No reasons have been given for the variances or a reconciliation of the balances reflected in the two records provided for audit review.

In addition, the comparative surplus of Kshs.1,877,590,910 under 2015/2016 financial year shown in the statement of receipts and payments does not agree with the comparative surplus (2015/2016) in the statement of assets and liabilities which is reflected as a debit of Kshs.1,820,184,001. Consequently, the accuracy of the financial statements is doubtful.

108. Unsupported Adjustments to the Financial Statements

The financial statements submitted on 30 September 2017 were amended and a revised set of financial statements prepared and re-submitted. However, the movements in the balances noted below were not supported by any documentation or journal entries making it difficult to confirm the accuracy of the new balances.

Component	Initial Financial Statements (Kshs.)	Revised Financial Statements (Kshs.)
Bank balance	2,014,472	12,191,813
Outstanding imprest	571,498,282	561,320,941
Fund balance b/f	-	76,081,384
Prior year adjustments	-	(76,081,384)

In addition, analyses for various expense accounts have unexplained adjustments as shown below that have been processed to agree the balances in the financial statements:

Code	Item	Balance reflected in the Initial accounts analyses Kshs.	Balance in the Revised accounts analyses (Kshs.)	Unexplained adjustment (Kshs.)
2210300	Domestic travel and Subsistence and other transportation costs	63,914,660.65	63,940,860.65	26,200.00
2210600	Rentals of produced assets	40,541,830.55	40,724,530.55	182,700.00
2210700	Training	66,640,854.50	67,072,054.50	431,200.00
2210800	Hospitality supplies and services	83,524,153.55	84,717,653.55	1,193,500.00
2211200	Fuel Oil and Lubricants	29,187,173.00	29,207,173.00	20,000.00
2220100	Routine maintenance –m/vehicle assets	18,639,238.00	18,777,236.00	137,998.00
2220200	Routine maintenance -other assets	6,741,511.85	6,753,793.15	12,281.30
	Membership and subscription	72,453,395	75,432,409	2,979,014
TOTAL				**4,982,893**

109. Wrong Classification and Charge of Expenses

Kshs.25,252,896 was charged to the wrong items of expenditure accounts for the reasons that the funds in the respective correct accounts had been exhausted. The wrong charging of the expenditure amounts to reallocation. However, authority for reallocation was not obtained from the National Treasury. No documentary evidence has been provided for audit verification to support the charge of expenditure to the accounts indicated below:

Expenditure Account Charged	Correct Account to Have Been Charged	Expenditure Amount Kshs.
Domestic Travel	Foreign Travel	312,295
Pre-feasibility, feasibility and Appraisal Studies	Printing	8,340,000
Specialized Material	Hospitality/Training	350,000

Expenditure Account Charged	Correct Account to Have Been Charged	Expenditure Amount Kshs.
Other Operating Expenses	Domestic Travel	1,255,700
Construction of buildings	Maintenance of buildings	7,493,645
Construction of buildings	Refurbishment of buildings	6,590,000
Refurbishment of buildings	Hospitality	494,256
Refurbishment of buildings	Hospitality	417,000
Total		**25,252,896**

110. Membership Dues and Subscriptions to International Organizations

Note 9 to the financial statements discloses that an amount of Kshs.75,432,409 was paid as membership dues and subscriptions to international organizations for the year ended 30 June 2017. However, relevant payment vouchers and supporting documentation show that a total of Kshs.78,165,786 was paid as subscriptions, resulting to a difference of Kshs.2,733,377. In addition, there are differences between the amounts recorded in the payment vouchers and the accounts analysis in respect of two payees as detailed below:

Payee	Purpose	Payment Vouchers (Kshs.)	Account Analysis (Kshs.)	Variance between the amount paid as per the PV and figure posted in the account analysis (Kshs.)
African, Caribbean and Pacific Group of States Secretariat (ACP) Secretariat	Kenya’s annual contribution towards the ACP Secretariat being her membership fee.	14,635,786	11,573,781	3,062,005
NEPAD Continental Secretariat in South Africa (NEPAD) Secretariat	Kenya's annual contributions towards the NEPAD Secretariat to support its operational activities	10,880,000	8,355,164	2,524,836

No explanations have been provided for the above variances.

111. Variances in Disbursements to Semi-Autonomous Government Agencies (SAGAs)

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other government entities amounting to Kshs.33,323,844,396. However, variances were noted between the amounts disbursed by the State Department and amounts received by two SAGAs during the year under review as indicated below:

Entity	Amount disbursed by Ministry (Kshs)	Amount received by Entity (Kshs.) as per their financial statements	Difference Kshs.
Ewaso Ngiro North Development Authority	248,879,280	276,879,280	28,000,000
Kenya Institute for Public Research and Analysis	301,570,627	322,648,000	21,077,373

No explanation has been provided for the above variances.

112. Utilities Supplies and Services

Disclosed in the financial statements at Note 7 is an amount of Kshs.1,000,000 in respect of utilities supplies and services. However, this item is not in the approved budget estimates for the year ended 30 June 2017. In addition, no supporting documents have been provided for audit examination in respect of the expenditure.

113. Acquisition Assets

The statement of receipts and payments reflects an expenditure of Kshs.668,102,870 on acquisition of assets which, includes a total of Kshs.310,830,233 in respect of construction of buildings, refurbishment of buildings and construction and civil works. Information available, however, indicated that the amount of Kshs.310,830,233 was disbursed to projects and Regional Authorities but has been wrongly accounted for under acquisition of assets.

In addition, the construction and civil works expenditure of Kshs.271,692,590 includes amounts of Kshs.10,000,000 in respect of funds disbursed to PALWECO Project and Kshs.10,442,590 in respect of infrastructure and civil works funded by Finland Government all which have no supporting documents. Further, the acquisition of assets expenditure includes an amount of Kshs.269,424,461 for research, studies, project preparation, design and supervision that does not represent any tangible assets because the amount was used mainly to pay the staff per- diems.

114. Proceeds from Foreign Borrowing

As disclosed in Note 3 to the financial statements proceeds from foreign borrowing of Kshs.15,302,899 relate to a direct payment made by a donor on behalf of Kerio Valley Development Authority to a consultant.

The soft loan agreement was made on 28 January 2007 and a further endorsement made on 18 September 2007. The project being funded had a lifespan of four years and had detailed deliverables for each phase up to December 2013. Information available indicates that the consultancy contract was signed on 4 December 2014, which was outside the period of the financing agreement. The payment to the consultant was made in July 2016 which was also outside the agreement timelines.

No amended financing loan agreement has been provided for audit review to confirm the extension of the project execution period, if any. Consequently, the validity of the receipts and expenditure captured in the financial statements cannot be confirmed.

115. District Suspense (AIEs)

The statement of assets and liabilities as at 30 June 2017 reflects accounts receivable balance of Kshs.561,320,941 which includes a district suspense figure of Kshs.557,798,755. The district suspense figure has been explained as the difference between the monies disbursed to various Regional Authorities for drought intervention measures totalling Kshs.700,500,000 and amounts converted to expenditure. The following anomalies have been noted as regards the disbursement:

(i) No evidence has been provided to demonstrate approval by Cabinet for the use of Regional Authorities as the vehicles to deliver drought mitigation measures;

(ii) The basis of allocating funds to various Regional Authorities and the details of the programmes each Regional Authority was to run have not been provided for audit examination; and

(iii) The Regional Authorities did not confirm the amount of monies received and unaccounted for as at 30 June 2017.

Further, the amounts converted to expenditure comprise Kshs.132,523,904 and Kshs.701,245 in respect of Ewaso Ngiro South Development Authority and Ewaso Ngiro North Development Authority respectively. However, an amount of Kshs.9,476,096 disbursed to Ewaso Ngiro South Development Authority has not been disclosed either as expenditure or outstanding AIE and has not been supported with any relevant documentation. The exclusion of the figure of Kshs.9,476,096 from the financial records has not been explained.

116. Cash and Cash Equivalents

The bank balances of Kshs.12,191,813 as at 30 June 2017 reflected in the statement of assets and liabilities and disclosed under Note 12A to the financial statements differs from the verified cash book balances as at that date as detailed below:

Account	Balance as per Note 12A Kshs.	Balance as per Cashbook Kshs.	Difference Kshs.
Recurrent	1,693,603	65,786,573.25	64,092,970.25
Development	320,870	63,330,511	63,009,641
Deposits	10,177,341	10,109,514.05	67,826.95

Further, trial balance figures for bank balances differs with the balances as per financial statements (Note 12A) as detailed below:

Account	Trial balance Kshs.	Financial Statements Kshs.	Difference Kshs.
Recurrent	1,744,074,553	1,693,603	1,742,380,950
Deposits	0	10,177,341	(10,177,341)
Development	1,000,059,857	320,870	999,738,987

In addition, the bank statement balances as per the reconciliations differ with bank certificate balances provided as detailed below:

Account	Bank Certificate Balance as at 30th June 2017 Kshs.	Balance reflected in the Bank Reconciliation (balance as per bank certificate) Kshs.	Variance Kshs.
Recurrent	268,399,971.65	1,693,602.60	266,706,369.05
Development	110,449,357.30	320,870.80	110,128,486.50

Also, the cash book balance in the reconciliation statement for the deposits account differs with the actual cash book balance as shown below:

Account	Bank Reconciliation Statement Cashbook balance Kshs.	Cashbook Balance as at 30 June 2017 Kshs.	Variance Kshs.
Deposits	10,177,341	10,109,514.05	67,826.95

The above differences have not been reconciled or explained.

117. Bank Reconciliations Statements

The bank balances of Kshs.12,191,813 include an amount of Kshs.1,693,603 in respect of recurrent account. However, the reconciliation statement for the recurrent cash book reflects receipts in the bank statement not in cash book of Kshs.2,105,672 out of which Kshs.116,499 were dated July 2017 and therefore relates to 2017/2018 financial year. The statement also reflects payments in the bank statement and not posted in the cashbook amounting to Kshs.44,349,057 out of which Kshs.3,180,559 were dated July 2017 and therefore relate to 2017/2018 financial year. In addition, another payment of Kshs.9,039,078 was over one month old and no explanation has been provided for the delay in its resolution.

Further, the statement reflects receipts in the cash book not in the bank statement totalling Kshs.34,956,458 which include an unexplained adjustment of Kshs.34,769,910 in the cash book.

In addition, the bank balances of Kshs.12,191,813 also include an amount of Kshs.320,870 in respect of development account. However, the reconciliation statement for the development cash book also reflects payments in the bank statement but not in the cash book of Kshs.1,291,100.50 all of which were over one month old. The reconciliation statement also reflects receipts in the bank statements not in cash book of Kshs.5,180,386.00 out of which Kshs.4,325,950 had been outstanding for one month as of 30 June 2017.

The above anomalies have not been explained.

118. Prior Year Adjustments

Disclosed at Note 16 to the financial statements are prior year adjustments amounting to Kshs.76,081,384. However, justification for the prior year adjustments and the documentary evidence to support the figures have not been provided for audit verification. In addition, the prior year adjustments have not been done in line with International Public Sector Accounting Standards which require restatement of all affected prior year balances in the financial statements unless it is impracticable to do so.

119. Pending Bills

Records maintained by the State Department of Planning and as disclosed in Note 18.1 to the financial statements indicate that bills totalling Kshs.26,475,233 were not settled during the year 2016/2017 but were instead carried forward to 2017/2018. Had the bills been paid and the expenditure charged to the accounts for 2016/2017, the statement of receipts and payments for the year ended 30 June 2017 would have reflected a reduced surplus of Kshs.536,925,074 instead of the amount of Kshs.563,400,307 now reported.

Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions for the subsequent year to which they have to be charged.

120. Fixed Assets Register

The statement of receipts and payments reflects expenditure totalling Kshs.668,102,870 on acquisition of assets in 2016/2017 which agrees with a summary of fixed assets register at Annex 4 to the financial statements. However, the actual fixed assets register provided for audit verification reflects assets totalling Kshs.10,997,175 leaving an unexplained balance of Kshs.657,105,695. No reason has been given for failure to update the fixed assets register.

121. Budget and Budgetary Control

Although the statements of appropriation for recurrent and development financial statements do not reflect excess expenditure above budget at the global level, the itemized budget under use of goods and services reflect over expenditure under domestic travel and routine maintenance of motor vehicle as detailed below:

Item	Actual (Kshs.)	Budget (Kshs.)	Variances (Kshs.)	% Variance
Domestic Travel	63,903,061	53,002,930	10,900,131	21%
Routine maintenance – motor vehicle and other transport facilities	18,777,236	15,870,000	2,907,236	18%

No authority for reallocation of the above expenditure has been provided for audit review though the reported variances exceeded the ceiling of 10%.

NATIONAL YOUTH SERVICE MECHANICAL AND TRANSPORT FUND

Basis for Disclaimer of Opinion

122. Costs of Operation

Statement of financial performance reflects revenue amounting to Kshs.235,386,086 and total operating expenses of Kshs.483,547,363 for the year ended 30 June 2017. However, the management of the Fund has included depreciation and amortization expenses and bank charges only in the reported total operating expenses of Kshs.483,547,363 and excluded all other costs and expenses in relation to the operations of the Fund. These excluded costs and expenses include undetermined value of personnel emoluments, spares and other repairs of Kshs.1,156,942,596 and fuel and lubricants of Kshs.776,524,309 all totalling Kshs.1,933,466,905. These costs directly relate to the operation of the Fund and should have been matched to the revenue in order to arrive at the loss for the period.

Consequently, the reported loss for the period of Kshs.248,161,278 and the cumulative deficit of Kshs.644,399,164 as at 30 June 2017 are not fairly stated.

123. Non-Current Assets

The statement of financial position as at 30 June 2017, reflect total non-current assets balance of Kshs.5,779,547,213 which include an amount of Kshs.3,736,740,990 relating to plant and heavy machinery. However, the Fund`s management has not valued the plant and heavy machinery for financial reporting purpose since inception. The total non-current assets balance of Kshs.5,779,547,213 as at 30 June, 2017 is not, therefore, fairly stated under the circumstances.

Further, it was indicated in the report for 2015/2016 that, the non-current assets movement schedule under Note 3 and the statement of financial position reflected a net book value of Kshs.6,263,076,866.57 while the computed figure using appropriate rates showed a balance of Kshs.6,366,028,632. The resulting variance of Kshs.102,951,764.94 has not been analyzed or explained.

In addition, and as previously reported in 2015/2016, the accumulated depreciation brought forward as 1 July 2016 of Kshs.2,178,510,682 included unsupported adjustments of Kshs.3,662,814 relating to plant and heavy machinery and unaccounted for depreciation of Kshs.94,168,883. No documentation has been provided in support of these movement to date.

Under the circumstances, the accuracy of non-current assets brought forward balance of Kshs.6,263,076,867 as at 1 July 2016 and the closing balance of Kshs.5,779,547,213 as at 30 June 2017 can not be confirmed.

124. Domestic Debts

As disclosed under Note 4(a) to the financial statements, gross domestic debts of Kshs.429,523,206 includes balance brought forward of Kshs.299,503,490. The balance brought forward include unsupported Director General National Youth Service debt of Kshs.18,380,963 in respect of financial year 2013/2014 and an amount of Kshs.124,600,000 borrowed from the Fund’s Account at Kenya Commercial Bank Moi Avenue by the Ministry of Devolution and Planning in the same financial year. Information available indicates that there was no documented policy or authority given to borrow from the Fund. During the year under review, an amount of Kshs.58,839,952 was repaid leaving a balance of Kshs.429,523,206. No proper justification has been provided for non-settlement of the outstanding balance of Kshs.429,523,206 as at 30 June 2017.

125. Commercial Debts

Disclosed under Note 4(b) to the financial statements are commercial debts totalling Kshs.438,787,714 made up of Tana Road Project debt of Kshs.424,987,103 and other debts of Kshs.13,800,611 all being more than three years old. No provision for impairment has, however, been made against the long outstanding debts even though the recovery is clearly uncertain. Under the circumstances, the commercial debts balance of Kshs.438,787,714 as reported in the financial statements is not fairly stated.

126. Non-Current Liabilities Sundry Creditors

The statement of financial position reflects under non-current liabilities, sundry creditors balance of Kshs.8,579,223. The balance was previously classified as a current liability. No documentation has been provided to justify its reclassification to long term liability. In addition, the balance has been outstanding for over four years and there is no clear justification as to why the amounts have not been settled.

127. Fund Balance

The Fund balance of Kshs.8,409,522,779 as at 30 June 2017 comprise of various adjustments passed in the previous years and in the current year all of which have not been supported to date as highlighted below:

Year ended	Amount Kshs.	Description
30 June 2014	39,807,203.75	Prior year adjustment error
30 June 2015	26,860,668.96	Prior year adjustment error
30 June 2016	6,951,553.18	Prior year adjustment error
30 June 2016	136,013,262.00	Changes in Net Book Value
30 June 2017	1,488,772.00	Prior year adjustment

In addition, the balance includes an amount of Kshs.327,993,842 reflected as addition to the Fund balance during the year and Kshs.205,419,622 in respect of earlier years related to grants received from the State Department of Public Service and Youth in form of stocks. However, the amounts are not adjusted to reflect the stock consumption over the years or any impairment that may be necessitated by changes in fair value. Under the circumstances, the accuracy and completeness of the Fund balance amount of Kshs.8,409,522,779 as at 30 June 2017 can not be confirmed.

128. Inventory

The statement of financial position reflects an inventory balance of Kshs.503,774,082 as at 30 June 2017. However, part of the stock balance relates to spares procured in 2014/2015 financial year amounting to Kshs.175,780,240 which have had no movement or consumption during the year under review. This is a possible indicator of obsolescence of the stock but no provision for impairment has been made against the balance. Consequently, the inventory balance of Kshs.503,774,082 as at 30 June 2017 is not fairly stated.

129. Statement of Cash flows

The statement of cash flows reflects under cash flows from operating activities what has been described as “increase/decrease in differences” figure of Kshs.1,600,372 and a comparative figure of Kshs.47,310,811. These figures have not been supported with any documentation. Consequently, the accuracy of the statement of cash flows cannot be confirmed.

WOMEN ENTERPRISE FUND

Basis for Qualified Opinion

130. Remuneration of Directors

The Fund had a budgetary provision of Kshs.6,852,000 on remuneration of directors but spent Kshs.10,486,000 during the year 2016/2017 resulting in an over expenditure Kshs.3,634,401 (53%). Authority for reallocation of funds from other items to remuneration of directors or in support of the over-expenditure was not provided for audit verification.

The remuneration of directors’ expenditure of Kshs.10,486,401 includes an amount Kshs.960,000 paid to board members as sitting allowances for undertaking normal operational activities of approving loans to various groups. The expenditure also includes an amount of Kshs.1,107,200 paid to non-board members as sitting allowance for being in attendance of various board committee meetings. The propriety of expenditure totalling Kshs.2,067,200 in respect of these allowances could not therefore be confirmed under the circumstances.

Although the board had an approved annual calendar of meetings with five (5) scheduled full board meetings and twenty-five (25) scheduled committee meetings for the financial year 2016/2017, eighteen (18) full board meetings and fifty (50) committee meetings were held during the year. The board did not therefore adhere to the corporate plan and consequently, subjected the Fund to unbudgeted expenditure of Kshs.3,634,401 on remuneration of directors.

131. Receivables from Exchange Transactions

(i) Loss of Funds

The receivables from exchange transactions balance of Kshs.2,323,541,431 includes an amount of Kshs.21,170,000 due from twenty constituencies but claimed to have been misappropriated by the employees. The amount also includes Kshs.3,100,000 and Kshs.6,300,000 due from Kwanza Constituency and Kisumu County respectively, which were misappropriated by employees in 2015/16 financial year.

No provision has however been made in the financial statements in respect of the above losses nor were efforts to recover made.

(ii) Non-performing Financial Intermediaries Loans

The receivables from exchange transactions balance of Kshs.2,323,541,431 includes non-performing loans totalling Kshs.106,618,100 due from financial intermediary partners whose provision in relation to this uncertainty has not been incorporated in the financial statements.

(iii) Doubtful Recovery of LPO Financing and CWEs Loans

The receivables from exchange transactions' balance of Kshs.2,323,541,431 further includes loans relating to LPO Financing of Kshs.7,440,277 which were due and not paid as at 30 June 2017 and Constituency Women Enterprise Schemes (CWEs) of Kshs.65,135,500 with no repayments recorded during the year under review. Recoverability of these loans is doubtful since they have been in arrears for periods that are longer than the repayment periods stipulated in the loan agreements. Although the recovery of these loan balances is clearly doubtful, no provision for doubtful debts has been made against them in the financial statements.

(iv) Unsupported Opening Balances

The opening balances of LPO Financing and Pikipiki loans of Kshs.5,302,714 and Kshs.2,126,445 respectively were not analyzed. It has, therefore, not been possible to verify and confirm these balances as reflected in the financial statements.

(v) Outstanding Imprests

The receivables from exchange transactions' balance of Kshs.2,323,541,431 includes outstanding imprests of Kshs.1,321,459 which ought to have been surrendered or otherwise accounted for on or before 30 June 2017 in accordance with regulation 93 of the Public Finance Management (National Government) Regulations 2015. In addition, during the year under review, various officers were issued with multiple imprests amounting to Kshs.4,975,780 before accounting for the imprests previously issued to them. No explanation has been provided for this breach of the law.

132. Payables and Accruals

Payables and accruals' balance of Kshs.29,895,361 includes an amount of Kshs.26,762,000 in respect of loans approved for various groups as of 30 June 2017 but not disbursed for various reasons. However, the non-disbursement of funds after the approval did not constitute a liability because the funds were still with the Women Enterprise Fund as at 30 June 2017. No explanation has been provided for this inappropriate accounting treatment of undisbursed funds.

133. Gratuity

The gratuity fund was previously operated outside the Fund`s financial records and as at 30 June 2016, the amount of cash held in the gratuity account was disclosed as Kshs.25,251,035 and no corresponding liability was shown in the financial statements for that period. In the year under review, both the cash and the liability for gratuity account were introduced in the financial records of the Fund but no detailed composition of the opening balance liability has been provided for audit examination. The respective comparative figures for 2015/2016 have not been restated in the financial statements for the year ended 30 June 2017 to cater for the introduction of gratuity liability in the accounting records. As a consequence, the accuracy of the closing balance of gratuity liability amounting to Kshs.15,310,323 as at 30 June 2017 could not be ascertained.

Further, the total gratuity expenditure for the year as reflected under Note 8 to the financial statements amounts to Kshs.10,640,300 while the detailed schedule provided in support of the expenditure amounts to Kshs.21,870,545 resulting in an unexplained difference of Kshs.11,230,245.

134. Communication Supplies and Service

The communication supplies and services expense as disclosed in Note 7 to the financial statements of Kshs.5,684,446 includes staff airtime allowance amounting to Kshs.3,675,682 comprising of monies paid to staff on a monthly basis. This amount was not, however, subjected to tax in line with the income tax law during the year under review. No explanation has been provided for the non-compliance.

Other Matter

135. Financial Performance

Although the Fund’s financial performance improved during the year from a loss of Kshs.97,050,501 in 2015/2016 to a loss of Kshs.12,043,444 in 2016/17, its accumulated surplus continued to be on a downward trend from Kshs.520,274,021 in 2015/16 to Kshs.508,233,689 in 2016/17. The management has indicated that it is lobbying the National Treasury for funding of the Fund’s operations but this has not been addressed to date.

NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND

Basis for Disclaimer of Opinion

136. Cash and Cash Equivalents

The cash and cash equivalents' balance of Kshs.127,358,483 as reflected on the statement of financial position as at 30 June 2017 represents cash held at the Central Bank as disclosed in Note 14(b) to the financial statements. Although it is evident that the Fund operated additional bank accounts in the forty-seven Counties, no cashbooks, bank statements and bank reconciliations for the bank accounts were provided for audit review. In addition, the cash balances held in these bank accounts have not been included in the statement of financial position as at 30 June, 2017.

The Public Finance Management (National Government Affirmative Action Fund) Regulations, 2016 under regulation 24 (4) requires that a bank account be opened for each County Committee. Although, it is evident that the County bank accounts were opened and funds transferred from the main account to these accounts, no information was provided on the specific approval by the National Treasury to opening these bank accounts. It was also not possible to verify whether the accounts operating mandates were in line with the regulations or not.

Regulation 24(8) of the Public Finance Management (National Government Affirmative Action Fund) Regulations 2016, requires that balances held at the end of the financial year be returned to the National Government Affirmative Action Fund account. However, no evidence was provided to show that the above regulation was adhered to by any of the County Committees for the year ended 30 June 2017.

137. Presentation of Financial Statements

Although the financial statements have been prepared on accrual basis of accounting, the statement of financial performance, reflects account items for the expenses which differs from the format prescribed by the Public Sector Accounting Standards Board. No justification has been provided for this deviation from the prescribed reporting format.

In addition, an amount of Kshs.163,496,536 spent on acquisition of motor vehicles as disclosed in Note 8 to the financial statements has been expensed and presented in the statement of financial performance instead of being capitalized and presented as non-current assets under property, plant and equipment in the statement of financial position. This is contrary to the requirement of International Public Sector Accounting Standard (IPSAS) 17, Paragraph 13, which requires tangible assets that are held for use in the production or supply of goods or services for administrative purposes or otherwise and are expected to be used for more than one reporting period, to be classified and treated as part of property, plant and equipment.

Further, the financial statements for the year ended 30 June 2017 reflect comparative figures for 2015/2016 in the statement of financial performance, statement of financial position, statement of changes in net assets, statement of cash flows and notes to financial statements. However, the comparative figures have not been supported with any relevant documentation to show the conversion of prior year figures from IPSAS cash basis accounting to IPSAS accrual basis of accounting.

138. Annual Budget for Year 2016/2017

The financial statements include a statement of comparison of budget against actual amounts. However, the approved budget for the year 2016/2017 was not provided for audit verification. Consequently, it has not been possible to confirm whether the expenditure for various account items were within the approved budget.

139. Responsibility for Preparation and Submission of Financial Statements

The Public Finance Management (National Government Affirmative Action Fund) Regulations, 2016 regulation 15 designates the accounting officer of the State Department responsible for matters relating to gender affairs as the designated administrator of the Fund with the responsibility of keeping proper books of accounts, preparing and signing the financial statements for each year and submitting to the Auditor-General for audit. However, the financial statements submitted have not been signed by the designated Fund administrator contrary to the regulations and Section 84 of the Public Finance Management Act, 2012.

140. Accuracy of Financial Statements

The brought forward balance of Kshs.2,313,420,402 in respect of revenue from non-exchange transactions reflected in the statement of financial performance does not agree with the figure of Kshs.2,130,000,000 disclosed in Note 1 to the financial statements.

In addition, Exchequer receipts comparative figure of Kshs.4,050,000,000 reflected in the statement of financial performance differs with the figure of Kshs.2,130,000,000 disclosed in Note 2 to the financial statements. Further, the receipts have been described differently as "exchequer receipts" and "operational grants" in the statement of financial performance and Note 2, respectively.

141. Unexplained Adjustments

An adjustment of Kshs.7,258,321 processed against the expenditure on transfer to other Government units which increased the initial reported figure of Kshs.4,006,699,872 to the final figure of Kshs.4,013,958,193 as reflected in the statement of financial performance has not been explained. Consequently, the accuracy of the figure could not be ascertained.

142. Transfer to Secretariat

The statement of financial performance reflects against board expenses amounts of Kshs.192,326,620 and Kshs.40,000,000 for 2016/2017 and 2015/2016 financial years, respectively. The amounts, however, relate to transfers to the Fund`s Secretariat. The transfer to the Fund`s Secretariat is required to be 5% of the total disbursements but in this case, there is no indication of the basis on how the amounts transferred have been derived. The total transfers to the Secretariat for the two years should have been 5% of

Kshs.6,180,000,000 amounting to Kshs.309,000,000. The short fall of Kshs.76,673,371 has not been explained.

Further, no documentation was provided to support how the amounts have been utilized by the Fund management. Although 60% of these amounts were to be transferred to the county committees, no documentary evidence was provided to show that the amounts were transferred to the committees and if so, how the county committees had utilized the funds.

In addition, accountabilities statement for transfers to the Secretariat have not been prepared and provided for audit verification, and a separate bank account was not maintained for the Fund`s Secretariat.

143. Transfer to Other Government Units

Transfer to Other Government Units amounting to Kshs.4,013,958,103 shown in the statement of financial performance relates to disbursement made by the Fund to the County Committees. However, even though there were Board minutes to support approval of transfer of funds to the County Committees detailing the amounts and the period, the basis of approvals in form of approved work plans were not provided for audit verification. Further, the Board`s approved County Committees projects` reports were not provided for audit verification and there were no accountability statements from the County Committees and supporting documents for the payments made out of the funds from the Committees' bank accounts.

In addition, the County Committees' cash and bank balances as at 30 June 2017 were not accounted for in the financial statements but assumed to have been utilized and forming part of the expenditure which was erroneous. Records of the County Committees' bank accounts were not provided for audit examination. Consequently, it has not been possible to ascertain compliance with the Fund`s regulations, receipt of funds and validity of payments out of these bank accounts by the County Committees thus the propriety and accuracy of transfers to other government entities expenditure of Kshs.4,103,958,103 could not be confirmed.

144. Emergency Reserve

Legal Notice No. 52 of 1 April 2016 Clause 13 stipulates that, there shall be an emergency reserve for the Fund made up of 2% of the allocations and which shall be un-allocated to cater for emergencies. The expected emergency reserve balance should have been 123,600,000 as at the 30 June 2017 less any utilization that should be in line with the regulations. However, no emergency reserve has been reflected and disclosed in the financial statements in terms of the amount. The Fund`s management appeared not to have implemented or adhered to the regulations with regard to the emergency reserve.

NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND BOARD

Basis for Qualified Opinion

145. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalent balance of Kshs.1,564,762,110. However, the bank reconciliation statement as at 30 June 2017 for KCB Bank Account has long outstanding payments in the bank statements not reflected in cash book amounting to Kshs.32,589,081.

Further, the cash and cash equivalent balance of Kshs.1,564,762,110 also include an amount of Kshs.332,537,617 held at Chase Bank Limited as an Investment. However, Chase Bank Limited was placed under statutory management by Central Bank of Kenya on 7 April 2016 and the realization of this amount is contingent upon the bank reverting back to its normal operations.

Consequently, it has not been possible to confirm the accuracy and validity of cash and cash equivalent balance of Kshs.1,564,762,110 as at 30 June 2017.

146. Trade and Other Payables

Trade and other payables balance of Kshs.124,173,750 as reflected in the statement of financial position excludes a brought forward liability of Kshs.14,917,200 in respect of Stimulus Project Management Committee (SPMCs) and Constituency Project Tender Committee (CPTCs) which were operating under the Economic Stimulus Programme (ESP). No documentation has been provided in support of the authority to write off the liability. Consequently, the payables balance of Kshs.124,173,750 as at 30 June 2017 is not fairly stated.

DONOR FUNDED PROJECTS

COMESA STATISTICAL CAPACITY BUILDING PROJECT PZ1-K00-044 GRANT NO.2100155022166

Basis for Adverse Opinion

147. Non Compliance with International Public Sector Accounting Standards (Cash Basis)

Contrary to the guidelines issued by the Public Sector Accounting Standards Board, the financial statements for the year under review do not include the statement of comparison of budget and actual amounts and hence do not comply with the International Public Sector Accounting Standards (Cash Basis) financial reporting framework.

148. Unauthorized Expenditure

The statement of receipts and payments reflects payments totalling Kshs.2,310 for the year ended 30 June 2017. The grant period for the project as per the Protocol Agreement ended on 30 June 2014. The management has, however, not provided documents in support for any project extension. Consequently the validity of the expenditure since the closure of the project cumulatively amounting to Kshs.10,078 (2015/2016- Ksh.7,768) is in doubt.

149. Accuracy of Financial Statements

The statement of receipts and payments reflects a cumulative surplus of Kshs.759,415 while there is no corresponding asset in the statement of assets and liabilities. Further, the statement of assets and liabilities includes an amount of Kshs.759,415 described as Grant Refund which does not represent either an asset or liability as at 30 June 2017.

No reasons have been given for the anomalies.

150. Project Grant Refund

The Project bank account was closed on 24 February 2017 and an amount of Kshs.759,415 refunded to COMESA. However, information availed for audit indicates that the demand for refund by COMESA amounted to USD 9232 (KES equivalent to 922,200) resulting in refund shortfall amounting to Kshs.163,785. No explanation on how the shortfall amount was to be refunded has been provided for audit verification.

CO-ORDINATION OF POPULATION POLICY IMPLEMENTATION PROJECT

Unqualified Opinion

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

DATA COLLECTION AND DATA BASE DEVELOPMENT PROJECT - UNFPA NO.KEN 7P32A

Basis for Qualified Opinion

151. Lack of Financing Agreement

The management did not provide the financing agreement for the project. Consequently, it has been not possible to confirm whether the Project's management complied fully with the financing agreement or otherwise, validity of receipt and corresponding expenditure for the project activities.

152. Statement of Comparative Budget and Actual Amounts

Although the statement of comparative budget against actual amounts has details of the budget amounts for each activity line, approved budget has not been provided for audit verification to support the budget figures in the financial statements for 2016/2017. Further, actual receipts on comparable basis as reflected in the statement of comparative budget and actual amounts of Kshs.5,721,527 does not agree with the statement of receipts and payments which reflect a nil balance.

In addition, the statement of comparative budget and actual amounts reflects miscellaneous receipts of Kshs.14,064 under final budget and nil receipts under actual amounts on comparable basis. The statement of receipts and payments, however, reflects actual amount of Kshs.14,064 under miscellaneous appropriation in aid receipts. The anomaly has not been explained.

Consequently, it has not been possible to confirm the accuracy of the statement of budget against actual amounts for the year ended 30 June 2017.

KENINFO DATA BASE PROJECT (UNICEF) – KENYA NATIONAL BUREAU OF STATISTICS

Basis for Adverse Opinion

153. Non-Compliance with International Public Sector Accounting Standards

The financial statements for the year ended 30 June, 2017 do not include the statement of comparison of budget and actual amounts contrary to the requirements under paragraph 1.9.8 of International Public Sector Accounting Standards (Cash Basis) and the guidelines issued by Public Sector Accounting Standards Board pursuant to Section 194 of the Public Finance Management Act, 2012.

154. Inaccurate Comparative Figure

The statement of cash flows for the year ended 30 June, 2017 reflects under 2015/2016 in respect of cash and cash equivalents at the end of period a comparative figure of Kshs.67,858 which do not agree with the previous year`s financial statements figure of Kshs.63,898 for the same item. No explanation has been provided for this anomaly.

155. Unauthorized Expenditure

According to the Protocol Agreement, the Project activities ended on 30 June 2014. However, the project incurred expenditure amounting to Kshs.11,110 since the closure of the project of Kshs.3,960, Kshs.3960 and Kshs.3,190 for the financial year ended 30 June 2015, 30 June 2016 and 30 June 2017 respectively. No documentation in support of extension of the project and authority to incur the expenditure beyond closure date have been provided for audit verification.

156. Project Cash Refund

The Project bank account was closed on 16 March 2017 and the cash balance of Kshs.60,708 transferred to Kenya National Bureau of Statistics main account. No evidence has been provided to show that the funds were channeled back to the donor partner as envisaged in the funding agreement.

MINISTRY OF DEFENCE

FINANCIAL STATEMENTS FOR VOTE 1041

Unqualified opinion

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

Emphasis of Matter

a. Installation of ERP System at Various Military Barracks

Contract documents and records indicate that the Ministry of Defence awarded a contract through direct procurement method and paid Kshs.123,693,024 to a firm in respect of installation and maintenance of an Enterprise Resource Planning (ERP) system in 2010/2011 financial year. According to the contract documents, the system was to be installed at Kenya Army Ordinance Corp (KAOC), 23 Ordinance Composite Company (OCC) Lanet, 43 Ordinance Composite Company (OCC), Central Supplies Depot (CSD) and Naval Supplies Depot (NSD).

However, an audit inspection undertaken at Kenya Army Ordinance Corps (KAOC) - Kahawa Barracks revealed that the system failed and that the staff stationed at the procurement and stores sections are using a manual system. The staff were equally not trained on the system contrary to the stipulations in the contract document.

Further, the justification for awarding a two-year maintenance contract for 2012/2013 and 2013/2014 financial years to an already failed system at a cost of Kshs.16,266,100 per year to the supplier has not been explained. An audit verification also revealed that another company was awarded a similar contract at undisclosed contract sum and has been paid Kshs.9,925,000 during the financial years 2016/2017 and 2017/2018 for maintenance of the same system.

In the circumstances, it is not possible to confirm that value of money has been obtained on use of resources under the initial contract valued at Kshs.156,225,224 as required under Section 68 (1)(b) of Public Finance Management Act, 2012.

b. Procurement of Liquefied Petroleum Gas (LPG)

The records maintained at Ministry of Defence Headquarters also show that an Amount of Kshs.184,359,000 was spent in respect of purchase of Liquefied Petroleum Gas (LPG) during the financial year 2016/2017. The records further reveal that the Ministerial Tender Committee (MTC) had recommended National Oil Corporation and Dash Energy Ltd whose market prices were Kshs.95,000 and Kshs.115,000 per ton for Nairobi and other areas, respectively.

However, in unexplained circumstances, the Ministry opted to procure the same product from a Merchant, the 10th lowest bidder, at a higher price of Kshs.190,000 and Kshs.195,000 per ton in Nairobi and other areas respectively, resulting in an apparent opportunity loss of Kshs.84,239,500 contrary to the requirements under regulation 10 (2)(e) of the Public Procurement and Disposal Regulations, 2006.

Consequently, the validity of the expenditure of Kshs.84,239,500 on purchase of Liquefied Petroleum Gas (LPG) could not be confirmed and value for money was not realised contrary to the requirement of Regulation 10(2)(e) of the Public Procurement and Disposal Regulations, 2006.

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE

FINANCIAL STATEMENTS FOR VOTE 1052

Basis for Qualified Opinion

157. Payment of Foreign Service Allowance to Ineligible Officers

The statement of receipts and payments reflects payments of Kshs.6,367,410,324 against compensation of employees as disclosed in Note 5 of the financial statements. The amount includes foreign service allowance totalling Kshs.24,837,757 paid irregularly to ten (10) officers whose official tour of duty at various missions came to an end but did not report back to the Ministry Headquarters contrary to Section C.6 (a) of the Foreign Service Regulations which provides, that an officer will cease to draw foreign service allowance from the date he vacates his post at the end of his service at the mission outside Kenya in line with the posting letters which stipulate that the postings are for four (4) years.

158. Use of Goods and Services

The statement of receipts and payments reflects payments totalling Kshs.6,862,713,237 under use of goods and services and as further disclosed in Note 6 of the financial statements. The amounts include irregular payments as follows:

158.1 Insurance Premiums

According to Note 6 an amount of Kshs.57,003,455 was incurred on insurance costs. However, audit of Kenya Permanent Mission in Geneva and Kenya High Commission in London revealed that payments for insurance premiums totalling Kshs.11,498,606 and Kshs.3,393,028, respectively relating to medical insurance, properties, household goods, plant, equipment and machinery and various vehicles owned by the missions were made without valuation reports. In the absence of the reports, it is not possible to confirm the basis upon which the insurance contracts were awarded to the service providers.

158.2 Irregular Payment of Rent

Disclosed under Note 6 to the financial statements is an amount of Kshs.2,375,072,829 on rental of produced assets. Examination of records revealed that although tour of duty for ten officers had ended, they continued to occupy rented houses in various missions resulting in irregular payment of Kshs.9,140,000.

159. Other Grants and Transfers

The statement of receipts and payments reflects an amount of Kshs.2,510,514,339 against other grants and other payments. The amount includes USD 160,316 (equivalent to Kshs.16,432,390) disbursed to the Kenya Mission in Bujumbura for payment to International Conference on Great Lake Region but irregularly paid to another officer from a different government department serving in the mission without payment voucher and supporting documents contrary regulation 104 (1) of Public Finance Management (National Government) Regulations, 2015.

160. Acquisition of Assets

The statement of receipts and payments reflects an amount of Kshs.2,665,385,564 against acquisition of assets. The audit has revealed anomalies as follows with regard to the assets:

160.1 Proposed Construction of Ambassador's Residence; Four Staff Houses; and Renovation of Four Staff Houses and Chancery - Pretoria

The contract was advertised in Pretoria News and attracted thirteen contractors. The bids were evaluated and adjudicated during Ministerial Tender Committee (MTC) meeting held on 9 June 2015 Ref. No. MFA/MTC/031/2014-2015 under minute number 3, which approved and awarded the tender to a contractor, at a tender sum of Rands 102,000,000 (Kshs.816,000,000)

The scope of work included construction of new Ambassador's residence (261 Crown Avenue) new staff houses (318 Polaris Avenue) renovation of chancery (302 Brooks street) renewal of four (4) dilapidated staff houses (various locations)

Payment records made available for audit review reveled that twenty-four (24) certificates valued at Rands 59,736,228.43 or 58 % of the contract sum had been submitted by the contractor and paid as at the time of audit inspection on 16 November 2017.

The contract period was initially set to be eighteen (8) months with effect from 18 August. However, the completion date was later revised by 354 days to 22 January 2018 due to the following:

- Boundary/land dispute between Kenya High Commission and Iranian Embassy in South Africa. This dispute lasted for eight months; a joint confirmation of beacons was undertaken by both parties' surveyors which established that the wall of Iranian houses had exceeded the boundary by approximately one to two meters.
- Delay in appointment of sub-contractors due to different methods of procurement used in South Africa and Kenya.
- Existence of 11 KVA electrical cable, which was not anticipated but crossed through the construction site and had to be relocated immediately at the cost of the Government of Kenya or wait for another one year to be relocated by the responsible service provider.
- Delay in payment of at least five certificates that were piling at a given time during the execution of the contract which resulted in suspension of works.

Although the extension of time was awarded without cost, breach of contractual obligations automatically attracts cost implications. In the circumstances, the contractor has submitted two claims valued at Rands 10,291,267 as follows:

- Extension of contract period by 354 days valued at Rands 4,071,841

- Standing time and disruption claim valued at Rands 6,219,426

An inspection undertaken on all construction sites on 16 November 2017 revealed a number of issues, some of which require immediate intervention of the High Commission, Ministry of Foreign Affairs and the National Treasury. This include:

- pending payments totalling Rands 762,000 (or about Kshs.6,096,000) due to consultants as a risk to successful completion of the project.
- The audit team was unable to establish order and coherence in the project team as the structural and electrical engineers as well as the quantity surveyor did not attend the meeting. The clerk of works also not on site during the visit.
- Although the extension of time had been awarded specifying the completion date as 22 January 2018, the contractor's programme of work issued in accordance with clause 13 of the condition of contract is in conflict as works are due to end in August 2018. It is not clear whether there is an anticipation for recovery of liquidated damages in accordance with clause 27 of the conditions of contract.
- Although the contract period had been extended, no documentary evidence was provided for audit review that would clarify the position of insurance and performance bond issued in accordance with clause 28 of the condition of contract.
- No evidence of additional works was observed. However, like any other contract, some minor changes in the design with the approval of the client are expected.
- Site meeting minutes were not been made available for audit review.
- In addition, there is a likelihood of high cost over-runs in this project due to the following reasons:

(i). Massive earthworks observed at the site for the construction of new ambassador's residence (261 Crown Avenue) and the site for the construction of four (4) new staff houses (318 Polaris Avenue).

(ii). There are high chances that the contract will exceed twelve (12) months, thus giving rise to indent chances that the contract will automatically attract price adjustments.

(iii). Clause 23.3 of the conditions of contract dictates that the employer pays the contractor within thirty days of the date of issue of the certificate otherwise it will start attracting interest on delayed payments.

(iv). Clause 33.1 (d) of the conditions of the contract is specific on circumstances upon which the contractor can terminate a contract due to failure to pay submitted certificates within 30 days. The contractor has succeeded before and can do it again in light of the recent austerity measures introduced by the National Treasury.

160.2 Leased Properties Abroad

The Ministry of Foreign Affairs has continued to operate mostly on leased office space for its chanceries / consular offices in foreign missions abroad and on rented residential houses for its home-based staff. Consequently, during the year under review, the Ministry incurred expenditure totalling Kshs.2,372,176,985 on lease of properties abroad, which could have been avoided or minimized if there was a clear policy on purchase or construction of government owned properties for the missions.

160.3 Ownership Documents for Government Properties

Audit of records relating to missions abroad revealed that Government of Kenya owned properties in nine countries that do not have original title documents. Further Government owned properties in seven countries are documented in foreign languages which has never been interpreted while the other four properties are registered in third parties' names. No satisfactory reasons have been given for failure to acquire title deeds for these properties.

160.4 Assets Register

A comprehensive and approved register of all the assets controlled and possessed by the Ministry was not provided for audit review. In addition, contrary to the requirements of Public Sector Accounting Standards Board, a summary of assets register as at 30 June, 2017 has not been disclosed in the notes to the financial statements. Consequently, it has not been possible to confirm the existence and value of non- current assets owned or held by the Ministry as of 30 June, 2017.

161. Confidential Expenditure

IFMIS records relating to the Ministry of Foreign Affairs indicate that a total expenditure of Kshs.437,776,983 was incurred on confidential expenditure in 2016/2017 financial year on campaign. However, a certificate issued by the Cabinet Secretary responsible for the Ministry as required under regulation 101(5) of the Public Financial Management (National Government) Regulations 2015 including, the supporting schedules and documents reflects confidential expenditure totalling Kshs.385,681,684 for the year then ended resulting in expenditure difference of Kshs.52,095,299 has not been fully accounted for or satisfactorily explained by the Ministry.

The schedules for bank payments in respect of the confidential expenditure reflects some payments totalling Kshs.50,000,000 through a local bank out of which an amount of Kshs.30,000,000 is claimed to have been transferred to another government agency. However, the financial statements of that agency for the year ended 30 June 2017 do not reflect any transfers from the Ministry of Foreign Affairs. The remaining amount of Kshs.20,000,000 is indicated in the documents made available for audit as having been paid to the Principal Secretary for the purposes of a special activity, but is not supported by any relevant documentation. Consequently, the propriety of the total expenditure of Kshs.50,000,000 can not be confirmed.

In addition, Section 54(2) of the Public Procurement and Asset Disposal Act, 2015 require that standard goods, services and work with known market prices be procured at the prevailing market prices. However, some tonners purchased at a total cost of

Kshs.27,368,000 under the confidential expenditure item were overpriced by Kshs.9,857,800 over and above their prevailing market prices. No satisfactory explanation has been provided for this anomaly.

STATE DEPARTMENT OF BASIC EDUCATION

FINANCIAL STATEMENTS FOR VOTE 1063

Basis for Qualified Opinion

162. Failure to Surrender Temporary Imprests

The statement of assets and liabilities as at 30 June 2017 reflects accounts receivables balance of Kshs.213,67,488 which as disclosed in note 13 to the financial statements includes imprest totallling Kshs.3,305,371 which had not been surrendered as at 30 June 2017. This is contrary to Section 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Consequently, the state department contravened the law and the validity of the expenditure totalling Kshs.3,305,371 for the year ended 30 June 2017 could not be ascertained.

163. Accounts Payable - Deposits and Retentions

The statement of assets and liabilities as at 30 June 2017 reflects accounts payable balance of Kshs.64,852,390 which as disclosed in note 14 to the financial statements includes other liabilities figure of Kshs.62,990,464 and whose nature and supporting documents were not availed for audit review. In addition, it is not clear and management has not explained why the payables balance of Kshs.62,990,464 which has been outstanding over three (3) years has not been settled as at the date of this report. In the circumstances, the accuracy, validity and completeness of the accounts payable balance of Kshs.64,852,390 for the year ended 30 June 2017 could not be ascertained.

164. Failure to Disclose Pending Bills

Records maintained at the state department indicate that an amount totalling Kshs.1,960,860 was paid to various supliers during the year under review. However, examination of supporting documents revealed that one of the local purchase orders (LPOs) and invoices amounting to Kshs.1,960,860 relates to the financial year 2013/2014 but the same was not included in the pending bills for the same year. No reason or justification has been given for failure to disclose the amount of Kshs.1,960,860 as pending bills in the previous years and with effect from the year in which they relate. In the circumstances, it has not been possible to confirm that payment of Kshs.1,960,860 was a proper charge to public resources.

165. Use of Goods and Services

165.1 Single Sourcing of Services

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services figure of Kshs.4,843,009,920 which includes payments totalling Kshs.7,576,448 in respect of repairs of motor vehicles amounting to Kshs.2,802,710 made up of 21 payments accommodation and conference laptops amounting to Kshs.1,659,300 and procurement of air tickets of Kshs.3,114,438 made up of 5 payments.

This is contrary to Section 103 (1) of the Public Procurement and Asset Disposal Act 2015 which stipulates that the use of direct procurement is only allowed as long as the purpose is not to avoid competition. In the circumstances, it has not been possible to confirm the propriety of expenditure totalling Kshs.7,576,448 for the year ended 30 June 2017.

165.2 Maintenance of Lifts without a Valid Contract

The statement of receipts and payments for the year ended 30 June 2017 reflect use of goods and services balance of Kshs.4,843,009,920 which includes a payment of Kshs.596,800 made to a firm in respect of maintenance of lifts. A review of procurement records revealed that the services were rendered on an expired contract which was in force during the period between July 2010 and June 2013. The services were therefore rendered without a valid contract, contrary to Section 139(2) of the Public Procurement and Assets Disposal Act, 2015 which require the accounting officer of a procuring entity to approve extension of contract period upon recommendation of an evaluation committee. The state department was therefore in breach of the law and the validity of the expenditure of Kshs.596,800 for the year ended 30 June 2017 could not be ascertained.

165.3 Procurement of Sanitary Towels

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services balance of Kshs.4,843,009,920 which includes Kshs.32,315,778 being supply and delivery of sanitary towels. However, scrutiny of procurement records revealed that the state department advertised a tender for supply and delivery of sanitary towels on 8 November 2016. The bids were divided into eight (8) lots and fifty-two (52) bids were received and opened and the preliminary technical and commercial evaluation were carried out and ten (10) bidders proceeded to price comparison. Examination of the evaluation revealed that, six (6) bidders who quoted higher prices compared to the lowest bidders were awarded the tenders and therefore occasioning a possible loss of Kshs.25,173,451 as detailed below:

Lots	Awarded Bidder	Position in bid	Amount (Kshs.)	Lowest Bid (Kshs.)	Loss (Kshs.)
1	Nexhom Africa	3	23,352,030	21,406,028	1,946,001
2	Konyipad Construction	6	23,826,574	19,915,830	3,910,744
3	Imani Holdings	2	32,111,125	30,173,202	1,937,923

Lots	Awarded Bidder	Position in bid	Amount (Kshs.)	Lowest Bid (Kshs.)	Loss (Kshs.)
4	Paula Services	3	50,092,455	40,185,590	9,906,864
5	Rossaby Enterprises	2	49,574,576	42,875,309	6,699,267
6	Hassib Investments	2	23,952,150	23,179,500	772,650
	TOTAL		**202,908,910**	**177,735,459**	**25,173,451**

The evaluation is contrary to section 80(2) of the Public Procurement and Asset Disposal Act 2015 which require evaluation and comparison of bids be done using procedures and criteria set out in the tender documents. No satisfactory explanation was provided for the above anomaly. In the circumstances, it has not been possible to confirm that the excess expenditure totalling Kshs.25,173,451 for the year ended 30 June 2017 was a proper charge to public funds.

165.4 Nugatory Payment on Tyres

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services figure Kshs.4,843,009,920 which includes a payment of Kshs.459,420 in respect of purchase of thirty (30) pcs of tyres size 205/65R16. A physical check of the store revealed that the tyres were still lying in the store and that the state department has no vehicles using this size of tyres. No explanation has been provided for this anomaly and it is not clear why the department procured tyres contrary to the provisions of section 68 (1) of the Public Finance Management Act 2012 which stipulates that the accounting officer should ensure that the resources of the respective entity for which he or she is the accounting officer are used in a way that is lawful, authorized, effective, efficient, economical and transparent. Consequently, the validity of expenditure totalling Kshs.459,420 on tyres for the year ended 30 June 2017 could not be ascertained.

165.5 Payment of Rent without Valid Lease Agreements

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services figure of Kshs.4,843,009,920 which includes payments totalling Kshs.195,654,482 in respect of rentals of produced assets as disclosed in note 6 to the financial statements. The figure of Kshs.195,654,482 also includes Kshs.2,267,560 being rent of office space for various state department offices whose valid and current lease agreements with various landlords and property managers were not availed for audit verification.

In addition, It was further noted that there were long outstanding rent balances amounting to Kshs.2,810,560 that had not been included in the approved list of pending bills for the year ended 30 June 2016.

Further, the state department made a payment of Kshs.295,920 and whose supporting documents/invoices were was not availed for audit review. In the circumstances, it was not possible to confirm that the rent paid of Kshs.2,267,560 was in line with the existing agreement and consistent with market rates and therefore the validity of the same could not be ascertained for the year ended 30 June 2017.

165.6 Splitting of Tenders on purchase of Computers and Accessories

The statement of receipts and payments further reflects use of goods and services figure of Kshs.4,843,009,920 which includes an expenditure of Kshs.13,272,215 on procurement of goods through request for quotations instead of open tendering as they had exceeded the procurement threshold for quotations as detailed below.

		Printers		
Date	**Pv no**	**Payee**	**Details**	**Amount (Kshs.)**
30-Jun-17	5229	Letimboka enterprises	supply of heavy duty photocopier	508,500
29-Jun-17	4798	Finnese IT solutions	supply of 25ppm laserjet printers	840,000
29-Jun-17	4870	Joely General supplies	supply of HP laserjet printers of 45ppm	1,164,900
29-Jun-17	4899	Gerberk solutions	supply of HP laserjet printers	299,995
Sub-total				**2,813,395**
		Computers		
30-Jun-17	5230	Westwood suppliers	supply of core I5 desktops	1,935,000
29-Jun-17	4861	Mivcom Agencies	supply of desktop computers	1,975,700
29-Jun-17	4370	Timcom enterprises	supply of desktop computers core i5	1,927,500
29-Jun-17	4899	Gerberk solutions	supply of desktop computers core i5	1,784,720
30-Jun-17	5213	Huvami Enterprises	supply of Desktops computers	257,400
SUB-TOTAL				**7,880,320**
		Harddisks		
29-Jun-17	4898	Marken Enterprises	supply of 10 hard disks	1,598,000

Date	Pv no	Printers Payee	Details	Amount (Kshs.)
29-Jun-17	4832	Kathumbi agencies	supply of 1TB HDD	980,500
Sub-total				**2,578,500**
Grand Total				**13,272,215**

This is contrary to Section 54(1) of the Public Procurement and Asset Disposal Act 2015 which states that no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of a procurement procedure except where prescribed.

In the circumstances, it has not been possible to confirm that goods worth Kshs.13,272,213 for the year ended 30 June, 2017 were competitively procured and the state department breached the law.

166. Obsolete Stores

Examination of stores records revealed that 128 uninterrupted power supply batteries (UPS's) worth Kshs.1,218,176 at the latest market price index issued by the Public Procurement Regulatory Authority have been lying in the store for over four (4) years and have since become obsolete. It is not clear and management has not explained the circumstances under which the UPSs were procured and never put to use. In the circumstances, it has not been possible to confirm the propriety of expenditure totalling Kshs.1,218,176 and the expenditure may have been wasteful.

167. Double Payments of School Fees

The statement of receipts and payments for the year ended 30 June 2017 reflects other grants and transfers figure of Kshs.4,255,893 which includes payments of Kshs.1,592,277 and Kshs.255,500 favour of two secondary schools in respect of school fees for three students respectively. These payments were later paid again vide PV no 4422 dated 22 June 2017 resulting to a double payment. No satisfactory explanation has been provided for this Anomaly. Consequently, it has not been possible to confirm the validity of expenditure totalling Kshs.1,857,777 for the year ended 30 June 2017.

168. Transfers to other Government Units

168.1 Special Needs Education Grants

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other government units figure of Kshs.31,768,317,355 which includes grants totalling Kshs.459,999,960 made to 180 Special primary Schools vide payment voucher No.70 and Kshs.300,000,000 to 30 special secondary schools vide payment voucher number 69 during the year under review. However, the State Department did not avail the criteria used to identify the schools and basis of allocating the funds to the 210 schools for audit review. In the circumstances, it was not possible to confirm whether fairness and equity was observed as per the provisions of article 201 of the constitution of Kenya which requires the Public finance system to promote fairness and equitable sharing in the society.

168.2 G-United National Volunteering Programme

168.2.1 Unaccounted for Stipend Payments to Volunteers

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other government units figure of 31,768,317,355 which includes Kshs.49,815,625 disbursed to Kenya Institute of Curriculum Development vide payment voucher No.168 for payment of cohort three (3) volunteers stipend. However, the returns on how the amount of Kshs.49,815,625 was utilized was not availed for audit review.

Further, a payment of Kshs.1,673,600 to Meru Teachers training college vide Payment Voucher No.177 in respect of accommodation for G-united graduates was also not supported with documents indicating the actual number of participants who were accommodated as well as fare reimbursements.

In the circumstances, it has not been possible to confirm the propriety of expenditure totalling Kshs.51,489,225 for the year ended 30 June 2017.

168.2.2 Excessive Procurement of Goods for Cohort 2 Programme

Examination of G-united payment records revealed payments totaling Kshs.2,765,000 were made towards procurement of volunteer handbooks and readers for read out sessions booklets for use by cohort 2 volunteers under the national volunteer's mentorship programme. However, the materials procured were beyond the actual number of volunteers deployed under cohort 2 as indicated below;

Payment Voucher number cheque no	Item	No. of Items procured	Cost (Kshs.)	Budgeted no. of items	Actual no volunteers	Resultant loss due to excess procurement (Kshs.)
60	Volunteer hand book and code of conduct	700	1,305,500	350	144	652,750
20003795	Readers for read out sessions	1,500	1,459,500	300	144	1,167,600
TOTAL			**2,765,000**			**1,820,350**

From the above analysis, the Ministry incurred nugatory costs amounting totalling Kshs.1,820,350 by engaging in excessive procurement.

In addition, the evaluation committee minutes and the procurement plan revealed that this procurement was reserved for the youth, women and persons with disability. However, the supplier under Payment Voucher no 60 did not avail the Youth Access to Government Procurement Opportunities (YAGPO) certificate. In the circumstances, this expenditure of Kshs.2,765,000 for the year ended 30 June 2017 may not be a proper charge to public funds.

168.2.3 Excessive Procurement of Goods for Cohort 3

Examination of G-united payment records revealed payments totaling Kshs.9,619,750 towards procurement of volunteer handbooks and other promotional materials related to the programme for use by cohort 3 volunteers under the national volunteer's mentorship programme.

However, available records indicate that 482 volunteers were recruited and posted to various counties under cohort 3 yet the state department procured volunteer handbooks and other promotional materials relating to the programme for 1,100 volunteers as indicated below;

Payment Voucher Number/cheque No	Item	No. of Items procured	Cost (Kshs.)	Budgeted No. of items	Actual no volunteers	Resultant loss due to excess procurement (Kshs)
179	Printing of Guide books (VGA assesment books)	1,100	1,985,500	1,000	482	1,115,490
	Branded notebooks	1,100	275,000	1,000	482	154,500
	Branded executive pens	1,100	214,500	1,000	482	120,510
161	Printing of volunteers handbooks	1,100	1,996,500	1,000	482	1,121,670
160	VGA record books	1,100	1,991,000	1,000	482	1,118,580
154	Branded field note books	1,100	1,375,000	1,000	482	772,500
153	Branded Polo Tshirts	1,100	1,045,000	1,000	482	587,100

Payment Voucher Number/cheque No	Item	No. of Items procured	Cost (Kshs.)	Budgeted No. of items	Actual no volunteers	Resultant loss due to excess procurement (Kshs)
	Branded caps	1,100	605,000	1,000	482	339,900
152	Branded Pamphlets	1,150	132,250	1,000	482	76,820
	Total		**9,619,750**			**5,407,070**

From the above, the State Department incurred nugatory costs amounting to Kshs.5,407,070 by engaging in excessive procurement. In the circumstances, this expenditure of Kshs.5,407,070 for the year ended 30 June 2017 may not be a proper charge to public funds.

Further, payment voucher No. 188 to Thogoto teachers training college of Kshs.4,538,450 in respect of training was not supported by schedules of attendance for the trainees. In the circumstances, it was not possible to confirm if the above expenditure was a proper charge to public funds.

169. Unresolved Prior Year Matters

169.1 Cash and Bank Balances

169.1.1 Bank Reconciliation Statement Recurrent Vote

As reported in 2015/2016 audit report, the statement of financial assets as at 30 June 2016 reflects cash and cash equivalents balance of Kshs.211,277,228 which includes recurrent bank balance of Kshs.145,922,554. However, examination of the bank reconciliation statement for the month of June 2016 revealed the following unexplained anomalies:

i. The bank reconciliation statement for the recurrent cashbook as at 30 June 2016 reflects payments in the cashbook not in the bank statement (unpresented cheques) totalling Kshs.1,286,744,076, which includes unexplained cashbook adjustments totalling Kshs.5,981,971.

ii. The bank reconciliation statement also reflects receipts in the bank statement not recorded in the cash book totalling Kshs.70,543,359 which have been outstanding for a long period of time. No reason has been provided for delay in updating and capturing these receipts in the cash book. In addition, the reconciliation statement reflects payments in bank not posted in cash book totalling Kshs.11,224,808. Further, no reason has been provided for the delay in recording these payments in the cash book.

iii. The bank reconciliation statement as at 30 June 2016 also reflects receipts in cashbook not in bank statement balance of Kshs.656,633,243 which also includes an unexplained cashbook adjustment of Kshs.12,069,712.

Consequently, it has not been possible to confirm that the cash-and-cash equivalent balance of Kshs.211,277,228 as at 30 June 2016 is fairly stated.

169.2 Unaccounted for Computers

As previously reported, the statement of receipts and payments for the year ended 30 June 2016 reflects acquisition of assets figure of Kshs.1,603,072,039 which includes an amount of Kshs.230,740,000 in respect of supply and delivery of 3,320 computers to Public Secondary Schools. The supply of the computers was done through tender No. NCB/MOEST/010/2015 -16 which was awarded on 25 February 2016. It was further noted that the computers were delivered on 24 June 2016 and inspected on 27 June 2016. However, the list of the serialized computers availed for audit review reflected 1,107 computers resulting to a variance of 2,213 computers worth Kshs.153,803,500 which had not been accounted for as at the date of the audit. A review of the matter in February 2018 revealed that although the computers have since been distributed to various schools, no distribution list has been availed for audit verification. In addition, no report on the stolen computers from the warehouse was availed for audit review. In the absence of distribution records and report on the stolen computers and unaccounted for computers worth Kshs.153,803,500, it has not been possible to confirm that all the computers procured for schools have been accounted for and put to the intended use and that the validity of expenditure totalling Kshs.153,803,500 as at 30 June 2017 could not be confirmed.

169.3 Audit of Secondary Schools

As reported in 2015/2016 audit report, the statement of receipts and payments for the year ended 30 June 2016 reflects subsidies of Kshs.30,258,894,767 which includes an amount of Kshs.29,891,807,844 in respect of Free Day Secondary Education (FDSE) funding that was disbursed to various secondary schools. An audit inspection carried out on the public day secondary schools in Nairobi and Kiambu counties revealed the following unsatisfactory matters:

169.3.1 Rent Arrears

Examination of schools records revealed that nine (9) secondary schools had outstanding rent arrears amounting to Kshs.6,733,037 due from teachers and other members of staff. It was however noted that the schools had not put in place appropriate measures to recover the arrears. A review of the matter in June 2017 revealed that, some of the schools had made recoveries totalling Kshs.2,594,053 leaving an outstanding balance of Kshs.4,138,984 as at 30 June 2017 in six (6) schools as detailed below:

	School	Amount	Cleared	Balance
		Kshs.	Kshs.	Kshs.
1	Nairobi School	394,255	246,108	148,147
2	Mang'u High	985,500	435,000	551,500
3	Jamhuri High school	3,842,882	1,371,945	2,470,937
4	Alliance Boys	146,000	21,000	125,000

5	Dagoretti High	160,000	124,000	36,000
6	Kenya High	1,203,400	396,000.00	807,400
	TOTAL	**6,733,037**	**2,594,053**	**4,138,984**

It is not clear if and when the outstanding balance of Kshs.4,138,984 will be fully recovered.

169.3.2 Institutional Creditors

As previously reported, examination of records maintained by ten (10) schools revealed that there were accumulated creditors totalling Kshs.52,995,406 as at 30 June, 2016. Review of the creditors balances in June 2017 revealed that some schools had settled debts totalling Kshs.42,186,733 leaving an outstanding balance of Kshs.10,808,673.50 as at 30 June 2017 as detailed below:

	School	**Amount**	**Cleared**	**Balance**
		Kshs.	**Kshs.**	**Kshs.**
1	Kamukunji Secondary	1,516,102	100,000	1,416,102
2	Moi Forces Academy	7,785,346	2,067,480	5,717,866
3	Alliance Boys	9,633,862	9,633,862	-
4	Lenana High School	11,163,833	11,163,833	-
5	Dagoretti High	1,262,647	-	1,262,647
6	Kenya High	353,272	-	353,272
7	Mangu High	16,396,673	16,396,673	-
8	Pangani Girls	1,215,439	-	1,215,439
9	Ngara Girls	3,035,793	2,192,445	843,348
10	Langata High	632,440	632,440	_
	TOTAL	**52,995,406**	**42,186,733**	**10,808,674**

It is not clear and no satisfactory explanation had been provided for failure to promptly pay for goods procured promptly thus causing debts to remain outstanding for long periods of time.

169.3.3 Land Ownership

As previously reported, audit inspection revealed that three (3) schools; St. George's primary school, Kamukunji secondary School and Highway Secondary School in Nairobi County stands on land whose ownership documents were not availed for audit review contrary to the Presidential directive that school land ownership documents be processed and registered in the names of school committees and management boards.

Further, it was established that part of Buruburu Girls School land was encroached on by a private developer and the matter is under a litigation in the High Court of Kenya. In addition, it was also noted that the Kamukunji High school land was occupied by squatters illegally. Although the school management was aware of the squatters' presence, there was no evidence of steps having been taken to safeguard the institutions land availed for audit review. A review of the above matter in June 2017 revealed unchanged position. Consequently, ownership of the school land could not be ascertained as at the date of this report.

169.3.4 Pangani Girls High School

As previously reported, examination of expenditure documents revealed that a sum of Kshs.2,800,000 was paid as out-of-pocket allowance to non-teaching staff for an educational trip as a token of appreciation for good work done in 2015. However, no supporting documents such as signed schedules by the payees as well as approval for the same was availed for audit review. In the absence of the signed schedules and other supporting documents, it has not been possible to confirm the validity of expenditure totalling Kshs.2,800,000.

In addition, examination of the school's correspondence files revealed that Kshs.2,084,704 was paid to a supplier in the year 2014 for supply of an electric generator. However, no relevant evidence showing how the firm was identified and awarded the contract were availed for audit review. Physical verification/inspection in December 2017 revealed that the generator had not functioned since the time of installation. Although the management was aware of the anomaly, no evidence of the steps taken to recover the amount paid from the supplier was seen as at the date of the report.

In the circumstance, the school did not get value for its resources and the expenditure of Kshs.2,084,704 was not a proper charge on public resources.

STATE DEPARTMENT OF VOCATIONAL AND TECHNICAL TRAINING

FINANCIAL STATEMENTS FOR VOTE 1064

Basis for Qualified Opinion

170. Cash and Bank Balances

Excluded from the cash and bank balances of Kshs.156,769,047 as at 30 June, 2017 is a payment in the cashbook not in the bank statement amounting to Kshs.600,000 relating to development account which was not reversed in the cashbook as at the date of this report.

In the circumstances, it has not been possible to confirm that cash and bank balance of Kshs.156,769,047 as at 30 June, 2017 is fairly stated.

171. Under-Collection of AIA

The statement of receipts and payments for the year ended 30 June, 2017 reflects proceeds Appropriation-in-Aid figure of Kshs.696,180,311 and which is at variance with the approved estimates figure of Kshs.995,699,998 resulting in under-collection of AIA of Kshs.299,519,687 or approximately 30% of the total estimated receipts. No explanation has been given for the under collection of Appropriation-in-Aid of Kshs.299,519,687 for the year ended 30 June 2017.

172. Nugatory Payment

The statement of receipts and payments for the year ended 30 June, 2017 reflects use of goods and services figure of Kshs.3,497,472,588. This figure includes an amount of Kshs.159,817,204 paid to a clearing and forwarding firm on 29 June 2017 in respect of interest, storage, delays and court costs on a contract signed in 2011 for the provision of clearance and inland logistics services for the Government of Kenya-China Project. Although the payment of Kshs.159,817,204 was supported by a High Court decree and certificate of order both dated 7 September 2016, documents availed for audit review indicate that the amount was arrived at after the consent between the clearing firm and the defendant (Ministry). Further, examination of the decree document reflects a contract sum of Kshs.137,135,407, while the contract signed on 13 December, 2011 indicates a contract sum of Kshs.59,954,926. No explanation was availed for audit review on how the contract sum changed from the initial Kshs.59,954,926 to Kshs.137,135,407 and finally to Kshs.159,817,214.

In addition, it is not clear and the management has not explained the basis of the interest charged at 3% per month (36% per year) instead of 6% per annum of the principal sum as spelt out under Section 26 of the Civil Procedure Act or between 12% -14% per annum applied in settlement of court cases. Further, no explanation has been provided as to why the Ministry consented to pay Kshs.159,817,204 instead of appealing the case considering the huge interest differences. Besides, no judgement has been availed for audit review to support the basis of the payment.

In the circumstances, the expenditure of Kshs.159,817,204 cannot be confirmed as a proper charge to public funds and value for money could not be ascertained.

173. Delay in Completion of Projects

The statement of receipts and payments for the year ended 30 June, 2017 reflects transfers to other government units figure of Kshs.4,329,951,710 which includes Kshs.1,037,244,895 disbursed to various institutions for settlement of claims from various contractors. These claims arose when the Ministry awarded contracts for the construction of additional seventy (70) new technical training institutes across the country at a total contract sum of Kshs.3,821,946,490 for a period of one year.

However, review of the projects' progress report of December 2017 indicates that all the seventy (70) institutions are incomplete, yet the contract period has already lapsed. The project was therefore way behind schedule.

In addition, the State Department of Vocational and Technical Training had earlier embarked on construction of sixty (60) new institutes in October 2014 at a total contract sum of Kshs.3,246,940,968 and for a contract period of one year. A review of the project progress report dated December 2017 further revealed that twenty-four (24) institutes worth Kshs.1,284,489,490 are still incomplete.

All the 24 institutions are incomplete despite the fact that the contract period has already lapsed and the Ministry has released its entire contribution totaling Kshs.2,646,940,968 for the projects.

In the circumstances, it has not been possible to confirm when and if the project will be completed and when the stakeholders will get value for money from the public resources totaling Kshs.5,106,436,447.

174. Construction of Septic Tanks in nine (9) New Technical Institutes

The statement of receipts and payments for the year ended 30 June, 2017 reflects transfers to other government units figure of Kshs.4,329,951,710 which includes payments of Kshs.39,929,939 to eight (8) technical training institutes vide payment voucher No.115 dated 19 May 2017 towards construction of septic tanks. This project was proceeded by the construction of nine (9) technical institutes in counties with none during the year 2014/2015 at a contract sum of Kshs.487,865,560. However, available information indicates that the institutes are incomplete while one Chepareria TI has since collapsed. Although the management has explained that a team of experts is carrying out investigation on the cause of the collapsed building, the outcome is unknown. It is not clear and management has not explained why the initial project worth Kshs.487,865,560 has not been completed as at the date of this report. Further, the management has not explained why the construction of septic tanks was not included in the main contract sum.

In the circumstances, it has not been possible to confirm the validity of the expenditure of Kshs.39,929,939 for the year ended 30 June 2017 incurred on construction of septic tanks.

175. Procurement of Equipment for TTIS – Kenya-China project

The Ministry of Education, Science and Technology State Department of Vocational and Technical Training entered into a contract with AVIC International Holding Corporation for the supply of equipment under Kenya-China project on establishment of Technical and Vocational Training workshops at a total cost of US $ 166,618,659 later revised to US $158,785,183 (Kshs.16,402,509,404) through an addendum dated 25 May 2016.

This project proceeded a previously negotiated project Contract No. ATE/KEZ/09M5409 with the same contractor for the supply of equipment to various TVETs at a cost of US $ 133,427,833 (Kshs.13,743,066,799). However, minutes of the meeting on negotiations between vendor and State Department were not availed for audit review. It was further noted that an essential component of the project, the Government of Kenya was to undertake civil works on construction of 130 Technical Training Institutes. However, a review of the status report dated December 2017 indicates percentage of work done averaged 51% despite the fact the first batch of equipment were delivered in December 2017. The project was therefore behind schedule. The Ministry did not provide reasons for the delay in project completion.

In the circumstances, it has not been possible to confirm if and when the project will be completed and when the stakeholders will obtain the value for their public resources.

In addition, it was noted that the on 11 January, 2017 the State Department-VTT paid Kshs.2,440,000,000 to the Principal Secretary-Treasury Deposit account for equipment under Kenya-China Project on establishment of Technical and Vocational Training Workshop in Kenya. However, no supporting analysis on how the Kshs.2,440,000,000 was utilized was availed for audit review. In the circumstances, it has not been possible to confirm the validity of expenditure of Kshs.2,440,000,000 for the year ended 30 June 2017.

176. Payment of Rent without Valid Lease Agreements

The statement of receipts and payments for the year ended 30 June, 2017 reflects use of goods and service figure of Kshs.3,497,472,558 and which includes payments totalling Kshs.57,244,711 in respect of rentals of produced assets as disclosed in Note 3 to the financial statements. The figure of Kshs.57,244,711 also includes Kshs.55,369,049 being rent of office space for the various departments whose lease agreements with various landlords and property managers were not availed for audit verification. In the circumstances, it has not been possible to confirm that the rent of Kshs.55,369,049 paid was in line with the existing agreement and consistent with market rates.

177. Direct Procurement of Goods and Services

The statement of receipts and payments for the year ended 30 June, 2017 reflects use of goods and services figure of Kshs.3,497,472,558 and which includes payments totalling Kshs.463,883 in respect of air tickets procured from suppliers through direct procurement. No reasons were given for direct procurement as opposed to competitive bidding. In the circumstances, the air tickets may have been overpriced and procurement was not in accordance Section 161 (2) (d) Public Procurement and Assets Disposal Act 2015 on procedure for request for quotations which states that at least three persons shall submit their quotations prior to evaluation.

178. Pending Bills

178.1 Unclear Payments for Equipment for Vocational Training Centres

Examination of payment records for the year under review revealed that the Department paid pending bills for the year 2015/2016 totalling Kshs.8,362,600 relating to procurement of tools and equipment for youth polytechnics. However, scrutiny of the procurement records revealed that purchase of equipment for Youth Polytechnics had not been factored in the procurement plan for the year 2015/2016. This is contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act 2015 which requires the Accounting Officer not to commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.

In the circumstances, the validity of expenditure of Kshs.8,362,600 on equipment for the year ended 30 June, 2017 could not be confirmed and the State Department therefore is in breach of the law.

178.2 Unauthorized Payment of Pending Bills

Examination of pending bills revealed that during the year under review, the State Department paid Kshs.1,695,000 and Kshs.2,082,336 to Kenya Education Management Institute and Contractors respectively. These two payments were however not included in the approved list of pending bills for the year 2015/2016. No explanation has been provided for this anomaly.

In the circumstances, it has not been possible to confirm that expenditure totalling Kshs.3,777,336 was a proper charge to public resources.

179. Transfers to Other Government Units

The statement of receipts and payments for the year ended 30 June, 2017 reflects transfers to other government units figure of Kshs.4,329,951,710 which includes payments totalling Kshs.91,400,000 made to ten (10) Technical Institutes and seven (7) National Polytechnics towards renovation of workshops as summarized below:

However, no evidence was availed for audit review showing how the Institutions were identified and amount disbursed to each Institution was arrived at.

In the circumstances, it has not been possible to confirm the authenticity of payments totalling Kshs.91,400,000 to the five (5) Technical Institutions and seven (7) National Polytechnics for the year ended 30 June 2017.

Other Matter

180. Budgetary Control and Performance

The State Department for Vocation Training and Technical Training had a total budget of Kshs.8,418,210,938 voted for the financial year 2016/2017 comprising of Kshs.5,888,749,368 for Development and Kshs.2,529,461,570 for Recurrent votes respectively. The budget absorption in the department was as follows: -

Item	Budgeted Allocation 2016/2017	Actual 2016/2017	Under Absorption	Absorption in %
	Kshs	Kshs	Kshs	
Recurrent	2,529,461,570	2,470,397,010	59,064,560	98%
Development	5,888,749,368	5,378,328,281	510,421,087	91%
Total	**8,418,210,938**	**7,848,725,291**	**569,485,647**	

It has however not been explained why the Department did not fully utilize the budget allocation as at 30 June 2017. Failure to utilize a budget is an indication that some projects and programmes are not carried out as planned hence need to formulate a budget with priority areas.

180.1 Recurrent Vote

The budget performance analysis for the recurrent budget totalling Kshs.2,529,461,570 is as detailed below:

Item	Budget 2016-2017 Kshs	Actuals 2016-2017 Kshs	Under Absorption Kshs	% Absorption
Use of goods and services	379,266,198	338,406,481	40,859,717	89%
Transfers to Other Government Units	2,130,363,052	2,129,498,529	864,523	99.95%
Acquisition of Assets	19,832,320	2,492,000	17,340,320	13%
Grand Total	**2,529,461,570**	**2,470,397,010**	**59,064,560**	**98%**

The State Department underutilized the budget for acquisition of assets by 87%. The under absorption of the approved budget is an indication of activities not implemented by the State Department which implies non delivery of goods and services to citizens in the year ended 30 June 2017.

180.2 Development Vote

The budget performance analysis for Development vote budget totalling Kshs.5,888,749,368 was as detailed below:

Item	Budget 2016-2017 Kshs	Actuals 2016-2017 Kshs	Under Expenditure Kshs	% Absorption
Use of goods and services	3,391,251,554	3,159,066,077	232,185,477	93%
Transfers to Other Government Units	2,325,999,370	2,200,453,181	125,546,189	95%
Other grants and transfers	10,000,000	0	10,000,000	0%
Acquisition of Assets	161,498,444	18,809,023	142,689,421	12%
Grand Total	**5,888,749,368**	**5,378,328,281**	**510,421,087**	

The Department underutilized the budget under acquisition of assets and other grants and transfers by 88% and 100% respectively. The under absorption of the approved budget is an indication of activities not implemented by the Ministry which implies non delivery of goods and services to the citizens during the year under review.

STATE DEPARTMENT OF UNIVERSITY EDUCATION

FINANCIAL STATEMENTS FOR VOTE 1065

Basis for Qualified Opinion

181. Nugatory Payment

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services figure of Kshs.740,922,565 which includes an amount of Kshs.20,790,625 paid to the Principal Secretary (PS) National Treasury who in turn paid for reimbursement of demurrage and storage charges under GoK/African Development Bank Higher Education Science and Technology project. However, no supporting or accompanying invoices on demurrage and storage charges were availed for audit review. In addition, examination of IFMIS payments details revealed that the payments were paid under 'below the line' expenditure whose ledger was also not availed for audit verification.

In addition, available information indicate that the above payment of Kshs.20,790,626 was paid in the previous year in respect of demurrage and storage charges as detailed below. This may amount to double payment of public resources.

Payment Date	Cheque No.	Amount Kshs.
1-Jul-16	2377	1,432,675
1-Jul-16	2379	1,780,798
1-Jul-16	2376	2,222,721
1-Jul-16	2378	15,354,432
Total		**20,790,627**

In the circumstances, it has not been possible to confirm that expenditure of Kshs.20,790,625 paid in the year under review was a proper charge to public resources.

182. Transfers to Other Government Units

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other Government Units figure of Kshs.60,911,006,803 which comprises Kshs.7,844,854,056 and Kshs.53,066,152,748 in respect of development and recurrent grants. The figure of Kshs.7,844,854,056 includes development grants of Kshs.279,846,149 and Kshs.935,078,854 transferred to Kisii and Moi Universities respectively. However, a review of the records maintained by the Ministry revealed that Kshs.145,703,038 disbursed to Kisii university in respect of ICT theatre was based on Interim certificates covering the period 16 September 2011 to 2 April 2013. However, no supporting information was made available to ascertain that these bills were pending. In addition, Moi University was paid Kshs.33,443,953 in respect of construction of a library annex out of which Kshs.14,163,570 and Kshs.18,227,228 relate to interim certificates dating back to 25 September 2012. A further amount of Kshs.76,752,911 was disbursed in respect to the proposed construction of School of Public Health, a 2,250-students Hostel Block and sewerage system based on interim certificates issued in the period between 8 March 2010 and 25 September 2012. No satisfactory reasons were provided for delay in settling these long outstanding debts. The Ministry did not provide the policy documents or the University Funding Board minutes to ascertain the actual basis for the disbursements.

In the circumstances, it has not been possible to confirm the authenticity of payments totalling Kshs.279,846,149 and Kshs.935,078,854 made to Kisii University and Moi University respectively including why the payments were made through interim certificates for the year ended 30 June 2017.

183. Procurement of Contracted Professional Services

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services figure of Kshs.740,922,565. However, examination of the payment vouchers and supporting documents revealed the following anomalies:

183.1 Consultancy Services on Research Funding Guidelines

On 14 March 2017 the state department signed a contract for consultancy services with University of Nairobi Enterprises and Services Limited to develop research funding guidelines at a contract sum of Kshs.9,890,000. However, procurement documents and records showing how the consultant was procured, evaluated and awarded the contract were not availed for audit review. It was therefore not possible to confirm whether the contract was procured competitively in compliance with the Public Procurement and Disposal Act, 2015 and the relevant regulations.

183.2 Consultancy Services on Capacity Building Strategy

The Ministry awarded the tender to develop a regional human resource capacity building strategy for the implementation of the Northern Corridor Integration Projects Jomo Kenyatta University of Science and Technology at a contract sum of Kshs.130,900,310 on 1 September 2016 with the completion date of 21 January 2017. The contract was done through single sourcing. However, neither supporting documents showing how JKUAT was identified nor how the contract sum determined was availed for audit review. In the circumstances, it has not been possible to confirm whether the contract was procured competitively in compliance with the Public Procurement and Disposal Act, 2015 and relevant regulations.

184. Expenditure on Leased Offices

The statement of receipts and payments for the year 30 June 2017 reflects use of goods and services figure of Kshs.740,922,565 which includes payments totalling Kshs.45,769,339 in respect of rentals of produced assets as disclosed in note 5 to the financial statements. The figure of Kshs.45,769,339 also includes Kshs.44,733,297 being of lease for office space and parking whose valid lease agreements and minutes of the Tender Committee approving the lease were not availed for audit verification.

In the circumstances, it has not been possible to confirm that the rent paid of Kshs.44,733,297 was in line with the existing agreement and consistent with market rates and that the contract was valid.

185. Failure to Surrender Temporary Imprests

The statement of assets and liabilities as at 30 June 2017 reflects accounts receivables balance of Kshs.230,008 which includes imprest of Kshs.32,418 and which had not been surrendered as at 30 June 2017. This is contrary to the requirements of Section 71(2) of the Public Finance Management Act, 2012, and Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which require that imprest should be surrendered or accounted for within 7 working days after returning to duty station.

In the circumstance, the state department is in breach of the law.

186. Unsupported Balance

The statement of assets and liabilities as at 30 June 2017 reflects a balance of Kshs.48,129,092 under prior year adjustments which includes district suspense figure of Kshs.5,259,494 and whose nature, supporting documents and analysis was not was explained and availed for audit review.

In the circumstance, it has not been possible to confirm the accuracy and completeness prior year adjustment balance of Kshs.48,129,092 as at 30 June 2017.

187. Pending Bills

As disclosed in Annex 4 of the financial statements, the State Department of University had pending bills totalling Kshs.347,139,946 which were not settled in 2016/2017 but were carried forward to 2017/2018. Out of Kshs.347,139,946, bills amounting to Kshs.3,281,460 relate to the Development Vote while the balance of Kshs.343,858,486 relate to Recurrent Vote. Had the bills been settled and the expenditure accounted for in 2016/2017, the financial statements for the year ended 30 June 2017 would have reflected a deficit (excess vote) of Kshs.104,464,746 instead of the surplus (under-expenditure) of Kshs.242,675,199 reflected for the year ended 30 June 2017. This is contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which requires that Accounting officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.

188. Unresolved Prior Year Matters

188.1 Inaccuracies in Cash and Cash Equivalents

As reported in 2015/2016, the statement of financial assets for the year ended 30 June 2016 reflected Kshs.114,885,090 being the bank balance against the combined Development, Recurrent and Deposits cashbooks bank balances amounting to

Kshs.86,562,980, resulting into unexplained difference of Kshs.28,322,109 as detailed below:

A/c No	Account Name	Cashbook Balance Kshs.	Financial Statement Balance Kshs.	Variance Kshs.
100209817	Development A/c	5,979,096	39,186,212	33,207,116
1000209895	Recurrent A/c	8,666,183	2,008,351	(6,657,832)
1000212667	Deposit A/c	71,917,700	73,690,526	1,772,826
Total		**86,562,980**	**114,885,089**	**28,322,109**

Further, the bank reconciliation statement for the deposits bank account reflected un-presented cheques amounts of Kshs.43,862,799 yet the same had cleared by 30 June 2017. No explanation was given for the anomaly.

In the circumstances the accuracy and completeness of the cash and cash equivalents balance of Kshs.115,687,142 as at 30 June 2017 could not be confirmed.

188.2 Unsupported Expenditure on China Equipment Containers

As reported in 2015/2016 audit report, the statement of receipts and payments for the year ended 30 June 2016 reflected Kshs.51,411,624,073 under transfers to other Government Units which includes Kshs.38,597,824 paid vide PV No.18 of 16 March, 2016 in respect of provision of clearance and inland logistics services for Government of Kenya on China Project equipment whose supporting documents were not availed for audit review. A review of the matter in December 2017 revealed that the position remains the same.

In the circumstances, it was not possible to confirm the validity of expenditure totalling Kshs.38,597,824.

188.3 Unsupported School Fees Expenditure

As previously reported, the statement of receipts and payments for the year ended 30 June 2016 reflected other grants and transfers figure of Kshs.212,635,290 which includes an amount of Kshs.5,242,496 paid vide payment voucher no. 795 dated 28 October 2015 in favour of the Principal Secretary - Ministry of Foreign Affairs towards payment for maintenance of two students while studying in Australia. However, and as previously reported no documentation supporting the payment of Kshs.5,242,496 were availed for audit review as at the date of audit. In the circumstances, it was not possible to ascertain the validity of this expenditure totalling Kshs.5,242,496 for the year ended 30 June 2017.

188.4 Accrued Interest of Delayed payment to Contractor - North Rift Technical Training Institute

As reported in 2015/2016 audit report, the statement of receipts and payments for the year ended 30 June 2016 reflected a figure of Kshs.51,411,624,073 under acquisition of assets which includes an amount of Kshs.17,240,000 paid to a contractor vide payment voucher no 004 dated 26 February 2016 towards construction of the North Rift Technical Training Institute. However, scrutiny of the supporting documents for Kshs.17,240,000 revealed that Kshs.990,000 was in respect of interest accrued due to delayed payment by the Ministry. Further, information available indicate that the Institute is incomplete and that the contract period lapsed on 12 November 2013. A review of the matter in December 2017 revealed that the position has so far not changed. In the circumstances, the stakeholders may not have obtained the value for their resources in this project.

188.5 Procurement of Equipment for North Rift Technical Training Institute

As previously reported, the Ministry signed a contract for the supply of electrical and electronic engineering equipment to the North Rift Technical Training Institute at a contract sum of USD 2,547,258.62 (equivalent to Kshs.233,209,933) on 29 January 2015. The payment records available at the Ministry indicate that Kshs.128,798,592 was paid during the year under review being final 50% of the invoice and effected vide payment voucher no 119 dated 30 June 2016. This expenditure is included in purchase of specialized plant, equipment and machinery balance of Kshs.185,152,868 under note 9 to the financial statements. However, available information indicate that the Institute was not complete and as a result, the electronic and electrical engineering equipment procured were instead taken to Baringo Technical Training Institute. A review of the status in December 2017 revealed that North Rift Technical Training Institute was 65% complete. It is not clear and the state department has not explained when and if the Institute will be completed and when the stake holders will get the value for their resources.

188.6 Mentorship Programme and Construction of New Technical Training Institutes

As reported in 2015/2016 audit report, the Ministry initiated project for construction of sixty (60) and a further seventy (70) new technical training institutes (TTI's) across the Country in order to enhance technical training. In order to oversee these constructions, a number of existing institutions were appointed by the Ministry to mentor the new institutes. The statement of receipts and payments reflects total expenditure of Kshs.51,411,624,073 under transfers to other Government units under which the above expenditure was charged. A review of financial and contractual records as well as physical verification of these projects revealed the following unsatisfactory matters:

188.6.1 Construction of the Proposed Kakrao Technical Training Institute

Records examined at Rongo University College indicated that, a contract was signed on 24 October 2014 between the College and a local contractor for the construction of the proposed Kakrao TTI at a contract sum of Kshs.48,720,833 for a contract period of 52 weeks ending on 14 October 2015.

A review of the matter in December 2017, revealed that the project was still incomplete and it is not clear when and if the contractor would resume work on site. In the circumstances, the stakeholders may not obtain value for their resources worth Kshs.48,720,833 if this project is not completed and put into intended use.

188.6.2 Construction of the Proposed Nyakach Technical Training Institute

The Ministry through Kisumu Polytechnic awarded a tender for the construction of Nyakach Technical Training Institute at a contract sum of Kshs.55,068,238 for a contract period of 52 weeks which was to end on 23 August 2015. The contract was later revised to Kshs.60,593,120 due to extra works not included in the original design. A physical examination of the project on 30 January 2017, revealed that Kshs.24,921,350 or 41% of the contract sum had been paid to the contractor while records from the clerk of works revealed that the works were at 55% completion level and an extra seventy nine (79) weeks or 152% of the time had lapsed since the project commenced. However, no tender minutes approving extension of the project duration beyond 23 August, 2015 was availed for audit review. It was therefore not clear why the works were way behind schedule despite the Ministry and Constituency Development Fund disbursing a total of Kshs.60,593,120 as at 30 June 2017.

Under the circumstances, stakeholders may not realize the value for their resources to the tune of Kshs.60,593,120, if this project is not completed and put to intended use.

188.6.3 Construction of the Proposed Riamo Technical Training Institute

As reported in 2015/2016, available information revealed that on 5 November 2014, the Ministry, through Kisii National Polytechnic entered into a contract for construction of Riamo Technical Training Institute at a contract sum of Kshs.48,627,833 for a period of 52 weeks ending October 2015. A review of payment records revealed that the contractor had been paid a sum of Kshs.10,835,059 as at 28 January 2016. Further scrutiny of the records revealed that on 16 February 2016, the main contractor subcontracted the works, when the level of completion was at 24%. The agreement was signed by both parties before an advocate on 16 February, 2016. The terms of agreement were as detailed below:

(i) The subcontractor was to supply all necessary materials and complete the works.

(ii) The main contractor to be paid only 10% of all the certified amounts while the subcontractor was to get 90% and paid directly to its account.

However, the following unsatisfactory matters were noted;

a) The agreement between the contractor and sub-contractor did not involve Kisii National Polytechnic or its appointed representative.

b) Certificate No. 5 raised by the project manager still bore the name of the main contractor as the payee. Thus it would appear the project supervisor was not part of the agreement.

c) The contract period as well as the performance bond had since expired and there was no evidence presented to show approval for contract extension.

No plausible reasons had been given for the above anomalies. In addition, examination of records revealed that the contract sum was varied by Kshs.2,752,219 from Kshs.48,627,833 to Kshs.51,380,052, while no tender minutes and supporting analysis to confirm that the variation was approved by the management of Kisii National polytechnic were availed for audit review. A review of the status in December 2017 indicates that the status remained unchanged.

In the circumstances, the stakeholders may not realize value for their resources worth Kshs.10,835,059 if this project is not completed and put to intended use.

188.6.4 Construction of the Proposed Taveta Technical Training Institute

As previously reported, Coast Institute of Technology awarded a contract for the construction of twin workshop on 8 September 2014 to a contractor for a period of fifty two (52) weeks at a contract sum of Kshs.46,441,290. However, examination of payment vouchers revealed that the first and the second certificates for Kshs14,290,446 and Kshs.9,715,584.40 respectively were paid without deducting withholding tax at the rate of 3% both totalling Kshs.720,181 as required in the section 5f(ii) of third schedule of the income tax Act of 2014. A review of the status in December 2017 indicate that the matter remains unchanged. In the circumstances the institute risks penalties from the Kenya Revenue Authority for not complying with law.

188.6.5 Construction of the Proposed Kaloleni Technical Training Institute

As reported in 2015/2016, records availed at Kenya Coast National Polytechnic indicated that on 27 March, 2015 the institution entered into a contract for construction of the proposed Kaloleni Technical Training Institute at a contract sum of Kshs.49,535,280 and a contract for a period of 52 weeks. However, available information indicated that additional works on septic tank were included and the project period was extended to 4 July, 2016. As at September 2016, the project was approximately 45% complete while Kshs.23,342,163 or about 47% of contract sum had been paid to the contractor.

Further, no site house was seen on the project site yet it had been provided for in the bill of quantities. Besides, no evidence to show that the contract period was approved for extension beyond 4 July 2016 was availed for audit review. The Ministry did not provide satisfactory explanation for the delay in project completion and why the site house was not erected.

In the circumstances, stakeholders may not realize value for their resources worth Kshs.23,342,163 if this project is not completed and put to intended use.

In addition, the general conditions of the contract requires that the winning tenderer is to provide a duly executed performance bond of 5 % of the contract value at the time of the contract signing, which is to remain valid during the duration of the contract. However, no performance bond was availed for audit review. A review of the status in December 2017 revealed that the status remains unchanged.

In the circumstances, the institute risk suffering financial loss in the event the contractor fails to execute the contract as contracted.

188.6.6 Construction of the Proposed Lamu East Technical Training Institute

As previously reported, records available at Kenya Coast National Polytechnic indicated that on 31 October 2014 the Institution awarded and signed a contract for construction of the proposed Lamu East Technical Training Institute with a contractor at a contract sum of Kshs.54,841,082 and for a period of 52 weeks. A review of the project status in December 2017, revealed that the project was still incomplete while Kshs.38,079,615 or 72% of the contract price has already been paid to the contractor. No evidence to show effort being made by the state department to revive the project was availed for audit review. The project was therefore way behind schedule and it is not clear if and when it will be completed.

In the circumstances, the project's stakeholders may not realize value for their resources worth Kshs.38,079,615 if this project is not completed and put to intended use.

188.6.7 Land Ownership

As reported in 2015/2016 audit report, a review of Ministry records relating to the new sixty (60) technical training institutes revealed that the Director, TVET through a letter Ref no.MST/DTE/6/5/VOL.V dated 12 November 2014 directed all the mentoring institutions for the new technical training institutes not to commence any construction works before title deeds for the sites are submitted by the area members of parliament. The title deeds were to be among documents expected to be handed over to the appointed principals. It was however, established that twenty five(25) sampled new institutes stand on land that did not have title deeds as proof of ownership contrary to the Ministry's directives. A review of the status in December 2017 revealed that the status remains the same as no title documents were availed for audit review. In the circumstances, the ownership of the land acquired for construction of sixty (60) new TTIs could not be ascertained as at the date of this report.

188.6.8 Delay in Construction Works

As previously reported, available records at various Technical Training Institutes indicated that tenders for the proposed erection and completion of twin workshops, classrooms and office blocks were awarded on various dates in 2014 for a period of fifty two (52) weeks. However, a review of the status in December 2017 indicate that eight (8) Institutes with a total contract sum of Kshs.428,075,604 had an amount totalling Kshs.294,864,837 already paid to the various contractors for projects which were still behind schedule as tabulated below.

Institution	Contract Sum (Kshs)	Amount Paid (Kshs)	% Paid Vs Contract Sum
Mirera TTI	49,235,785	36,721,324	74.58%
Koibatek TTI	52,318,715	41,274,498	78.89%
Kipipiri TTI	55,094,423	48,849,366	88.66%
Mathioya TTI	52,777,934	36,916,095	69.95%
Kaelo TTI	55,102,270	8,397,450	15.24%
Mathira TTI	57,369,957	28,343,767	49.41%
Laikipia North	52,332,676	43,978,328	84.04%
Muraga TTI	53,843,844	50,384,010	93.57%
Total	**428,075,604**	**294,864,838**	

No evidence of extension of contract period and renewal of expired performance bonds was availed for audit review.

In the circumstances, the stakeholders may not realize value for their resources of Kshs.294,864,837 if these projects are not completed and put to intended use.

188.6.9 Borehole Drilling Project at the Coast Institute of Technology

As reported in 2015/2016, examination of records maintained at Coast Institute of Technology revealed that the Institute awarded a contract for borehole drilling to a Company at a contract price of Kshs.3,936,450 on 10th March, 2015. The Institute paid Kshs.3,929,000 and a further Kshs.170,000 for the four rolls of electric wire cables that was used to supply electricity to the borehole all totalling Kshs.4,099,000. The resulting extra payment of Kshs.162,550 was not in the bill of quantities and was therefore not approved.

A review of the borehole status in December 2017 revealed that it has not been put to use since the water was unfit for human consumption as confirmed by the Government chemist. In the circumstances, it has not been possible to confirm the validity of expenditure totaling Kshs.4,099,000 incurred in drilling the borehole.

188.6.10 Construction of Perimeter Wall

As previously reported, available records at Coast Institute of Technology revealed that the Institute awarded a contract for construction of a perimeter wall at a contract price of Kshs.24,519,639 for a period of twenty five(25) weeks ending on 24 September 2015. The bill of quantities prepared in February 2015 indicate that the Engineer’s estimate was Kshs.27,26,962.

A review of the project in December 2017 revealed that the project was incomplete while the performance bond of Kshs.1,225,928 which had expired on 25 March 2016 and had not been renewed as at the date of this report. Further, the contract price had been varied by Kshs.222,940 without approval of the tender committee. Under the circumstances, the stakeholders may not have realized the value for their resources of Kshs.24,519,639 in this project.

DONOR FUNDED PROJECTS

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

Basis for Qualified Opinion

189. Inaccuracies in the Financial Statements

The statement of receipts and payments for the year ended 30 June 2017 reflects total payments of Kshs.236,934,330 which differ with Development Appropriation Account figure of Kshs.237,903,561 by an unexplained/unreconciled variance of Kshs.969,231.

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

190. Construction of Wajir Technical Training Institute

The Project entered into a contract for construction of a Mechanical Engineering Workshop at Wajir TTI at a contract price of Kshs.82,315,014.35 on 23 March, 2012 for a period of 52 weeks under GOK/ADB phase I. However, payment records under phase II indicates that Kshs.6,256,145 was paid vide voucher No. 86A dated 27 March 2017. A review of the project status on 24 October 2016 revealed that the extension of the contract period had been made twice with the practical completion and handing over expected on 31 January 2017. Further, the performance bond had expired on 6 May 2017 and had not been renewed hence exposing the Project to risk of financial loss in case of non-performance. Evidence of a further extension of the contract period beyond 31 January 2017 was not availed for audit review. It is not clear and the management has not explained if the project will ever be completed and when the stakeholders will get the value for money from the public resources.

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

Basis for Qualified Opinion

191. Purchase of Goods and Services

As previously reported, the Ministry entered into supply contracts with various suppliers for supply of engineering equipment to selected Public Universities. According to the contracts, the suppliers were to be paid an advance payment of 20% upon signing of contracts and submission of a bank guarantee of an equivalent amount. A further 60% of the contract sum was payable upon shipment of the equipment and submission of shipping documents and a final payment of 20% was payable upon receipt and acceptance of the equipment. As at 30 June 2017 the cumulative amount on purchase of goods and services was Kshs.2,888,007,583. However, the following omissions were noted:

191.1 Equipment not Delivered

As was the case in the previous year, audit verification revealed that equipment worth Kshs.47,244,172 were not delivered to three universities despite being paid for as detailed in the table below:

Name of the University	Contract number	Equipment type	Quantity of components	Amount USD	Equivalent amount in Kshs
South Eastern Kenya University	ICB/MOHEST/ HEST/17/2013-2014	Engineering-electrical Equipment	12	USD 19,716	2,044,154.88
	ICB/MOHEST/ HEST/07/2012-2013	Engineering/ Mechanical Equipment	7	USD 36,036	3,736,212.48
Technical University of Mombasa	ICB/MOHEST/ HEST/09/2012-2013	Electrical Engineering Equipment	4	-	33,304,230
Meru University	ICB/MOHEST/ HEST/16/2012-2013	Applied Sciences Equipment	7	USD 78,699.60	8,159,574.53
TOTAL					**47,244,171.89**

It is not clear when and if the equipment will be delivered in order for stakeholders to get value for public resources and that the validity of Kshs.47,244,172 paid for goods not delivered could not be confirmed for the year ended 30 June 2017.

191.2 Equipment Installation

Equipment worth Kshs.222,464,621 supplied to four (4) universities; Masinde Muliro University, Meru University, South Eastern Kenya University, and Technical University of

Mombasa on 22 March 2015, 11 November 2016, 30 November 2016 and 18 November 2015 respectively had not been installed as at 24 October 2017. Information obtained from the Universities management showed that there was no particular designed and fully insulated space/room where the equipment could be installed while some of the equipment required necessary accessories to be installed. Although the contracts were signed way back in 2013, no satisfactory explanations were provided as to why the required space had not been identified or constructed in preparation for supply of the equipment and why the delivery of the necessary accessories had delayed. The details are as follows:-

Name of the University	Contract number	Equipment type	Quantity of components	Amount USD/£	Equivalent amount in Kshs
Masinde Muliro University	ICB/MOHEST/12/2012-2013	NMR Spectrometer	1	USD 459,134.94	47,603,110.58
Meru University	ICB/MOHEST/HEST/15/2013-2014	Mechanical Engineering Equipment	19	£ 68,760.58	9,340,437.19
	ICB/MOHEST/HEST/17/2012-2013	Civil Engineering Equipment	250	USD 754,257	78,201,365.76
South Eastern Kenya University	ICB/MOHEST/HEST/18/2013-2014	Agricultural Engineering Equipment	14	USD 54,025.84	5,601,399.09
	ICB/MOHEST/HEST/07/2012-2013	Engineering/ Mechanical Equipment	48	USD 388,752	40,305,807.36
	ICB/MOHEST/HEST/08/2012-2013	Engineering/ Textile Equipment	3	USD 249,984.00	25,918,341.12
Technical University of Mombasa	ICB/MOHEST/HEST/10/2012-2013	Automotive Engineering Equipment	14	Kshs 15 494,160.00	15,494,160.00
TOTAL					**222,464,621.10**

It is therefore not clear if and when the equipment will be installed in order for the stakeholders to get value for money from public resources worth Kshs.222,464,621.

191.3 Equipment not as per User Specification

Equipment delivered to Meru University, South Eastern Kenya University and Technical University of Kenya valued at Kshs.215,035,132 were found not to meet user specification, hence were rejected by the respective inspection and acceptance committees. However, these equipment had not been replaced as at 24 October 2017. In some cases, the equipment could not be used as they lacked essential accessories to operate. Details of the equipment is as shown below:

Name of the University	Contract number	Equipment type	Quantity of components	Amount USD/£	Equivalent amount in Kshs
Meru University	ICB/MOHEST/ HEST/15/2013 -2014	Mechanical Engineering Equipment	2	£ 27,462.11	3,730,453.02
	ICB/MOHEST/ HEST/16/2012 -2013 - Physics	Applied Sciences Equipment	311	USD 221,216.32	22,935,708.06
	ICB/MOHEST/ HEST/16/2012 -2013- Chemistry	Applied Sciences Equipment	48	USD 179,199.24	18,579,377.20
South Eastern Kenya University	Contract no. ICB/MOHEST/ HEST/17/2013 -2014	Engineering & Electrical Equipment	65	USD 236,539.77	24,524,443.35
	ICB/MOHEST/ HEST/18/2013 -2014	Agricultural Engineering Equipment	79	USD 248,556.79	25,770,367.99
	ICB/MOHEST/ HEST/07/2012 -2013	Mechanical Engineering Equipment	33	USD 413,540.38	42,875,866.60
	ICB/MOHEST/ HEST/08/2012 -2013	Engineering /Textile Equipment	25	USD 558,439.72	57,899,030.17
Technical University of Mombasa	ICB/MOHEST/ HEST/11/2012 -2013	Building Engineering Equipment	9	USD 180,554.45	18,719,885.38
TOTAL					**215,035,131.77**

In the circumstances, the propriety of expenditure totalling Kshs.215,035,131.77 on the equipment could not be ascertained as at 30 June 2017.

192. Prior year unresolved matters

192.1 Faulty/Obsolete Equipment

As previously reported, equipment delivered to Technical University of Kenya valued at Kshs.73,147,827 were found to be obsolete and not usable upon assessment by the University. Some of the equipment could not be used as they lacked essential accessories to operate while others were damaged during the process of testing. Details of the equipment is as shown below:

Equipment	Quantity	Total Cost (Kshs)	Remarks
Sheer testing machine	1	3,510,922	Faulty-broke during testing
Universal testing machine	1	8,477,381	Inferior specification (100Kns) as opposed to desired specification (1000Kns)
Hydraulic bending machine	1	16,889,579	Lack basic accessories including threads
Automatic absorption spectrophometry	1	2,698,158	Testing failed to yield expected outcome
Spectroscopy experiment kit	1	60,470	Not working
Realtime PCR	1	602,659	Does not meet specification – not real time
Digital analogue differential (Oscilloscopes)	10	5,270,284	Items obsolete
Arbitrary waveform generator	20	26,222,452	Items obsolete
Test and measure (multimetres)	10	4,305,488	Items obsolete
Bench power supplies 32V	5	1,536,576	Malfunctioned and not usable
Digital storage Oscilloccupes	4	3,573,858	Items obsolete
Total		**73,147,827**	

FOOD ASSISTANCE TO PRIMARY AND PRE-PRIMARY SCHOOLS IN ARID AND SEMI ARID AREAS AND DISADVANTAGED URBAN CHILDREN PROJECT NO. CP 200680

Basis of Adverse Opinion

193. Unsupported Receipts

As reported in 2015/2016, the statement of receipts and payments reflects other grants and transfers and payments balance of Kshs.735,096,957 whose supporting analysis was, not availed for audit review. Further, the expenditures totaling Kshs.735,096,957.00 were incurred without due regard to budgetary provisions contrary to Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015. In the circumstances it has not been possible to confirm the validity of the expenditures totalling Kshs.735,096,957 and accuracy of the financial statements for the year ended 30 June 2017.

194. Unsupported expenditure

Included in the purchase of goods and services balance of Kshs.1,635,814,964 as disclosed in Note 8.5 to the financial statements are payments of grants to semi-autonomous government organizations totalling Kshs.1,463,633,486. However, supporting documents made available for audit review were for expenditures totaling Kshs.1,065,134,336 only. Therefore, documents for expenditure totaling Kshs.398,499,150 were not availed for audit verification.

In the circumstance, it has not possible to confirm the validity of expenditure of Kshs.398,499,150 reported to have been incurred on payment of grants to government organizations during the year under review.

195. Unaccounted for District Expenditures

Included in the balance of Kshs.1,635,814,964 as disclosed in Note 8.5 to the financial statements is an amount of Kshs.135,263,603 in respect of Authority to Incur Expenditure Granted to various Districts Treasuries. The balance also includes a sum of Kshs.102,816,445 shown in the Ministry's ledger as hire of transport. However, examination of the Ministry records indicated that only Kshs.15,850,000 was disbursed to the districts Treasuries for hire of transport and Kshs.32,668,697 was used at the Ministry's head office to procure transport for food stuffs supplied to various schools thus leaving unexplained variance of Kshs.54,297,748.

In the circumstances, it has not been possible to confirm the validity of expenditure totalling Kshs.54,297,748 reported to have been incurred on hire of transport services during the year under review.

196. Unclear Payment

Examination of payment records revealed that the Ministry paid Kshs.348,150 during the year under review to a service provider for services rendered to the Ministry in the 2014/2015 financial year. However, there were no records availed to show the expenditure was reported as a pending bill in the financial year and the one after. In addition, the Ministry paid Kshs.2,996,200 and Kshs.53,230 to two (2) transporters respectively. Although, management explained that these payments related to the 2015/2016 financial year, no evidence was presented to show that these were reported as pending bills in the said financial year. In the circumstances, it has not been possible to confirm that payments totaling to Kshs.3,397,580 made in the year under review was a proper charge to public resources.

Further, it was also noted that another transport services provider was paid Kshs.497,000 to transport food from Nairobi to Garissa. However, examination of the schedule of the transport, payment records revealed that no food stuffs were purchased by World Food Program or the Ministry during the year under review. In the circumstance, it has not been possible to confirm the validity of additional transport expenditure totalling Kshs.497,000 reported to have been incurred on hire of transport services during the year under review.

197. Prior Years Unresolved Issues - Unreconciled Food Records and Expenditure

As reported in the previous year, the statement of receipts and payments reflected other grants and transfers and payments figure of Kshs.1,144,003,038, comprised of transfer of 12,620,667 metric tonnes of food commodities costing Kshs.885,928,652, cash transfer to schools in Samburu, Nairobi and Tana River Counties totalling to Kshs.195,753,169.70 and cash transfer to support capacity building of Kshs.62,321,215 .However, available records at the Ministry indicated that 4,461,711 metric tonnes of food commodities valued at Kshs.319,096,706.77 were distributed to various schools during the year under review. The resultant difference of 8,158,956 Metric tonnes of food commodities valued at Kshs.566,831,945.54 had not been accounted for as at the time of this audit. In addition, documentary evidence in support of the cash transfers totaling Kshs.195,753,169.70 reported to have been made to schools in Samburu, Nairobi and Tana River counties and Kshs.62,321,215 in support of capacity building has not been availed for audit review. In circumstance, the accuracy and completeness of food commodities costing at Kshs.566,831,945.50 and expenditures totalling Kshs.268,074,384.70 incurred in the comparative figures cannot be ascertained.

KENYA ITALY DEBT FOR DEVELOPMENT PROGRAMME (KIDDP)

Basis for Disclaimer Opinion

198. Unconfirmed Bank Balances

The statement of financial assets and liabilities as at 30 June, 2017 reflects a bank balance of Kshs.107,907,700 whose accuracy could not be confirmed as the bank reconciliation statement as at 30 June 2017 reflects payments in cash book not yet recorded in bank statement of Kshs.28,257,318.50 out of which payments totalling Kshs.2,451,635, some of which date back to 30 June 2015, are not supported with analyses. Further, the management has not indicated the dates when the payments totalling Kshs.28,257,318 were subsequently cleared by the respective banks.

In addition, the bank reconciliation statement as at 30 June 2017 reflects receipts in bank statement not yet recorded in cash book amounting to Kshs.980,850 described as returned cheques but whose nature has, not been explained.

Further, the bank reconciliation statement as at 30 June 2017 reflects payments in bank statement not yet recorded in cash book amounting to Kshs.259,794.10 which includes a prior year adjustment balance of Kshs.240,529 dating back to 30 June 2013 whose nature has not been explained or respective analyses availed for audit review.

Consequently, the accuracy of the bank balance of Kshs.107,907,700 could not be confirmed.

199. Unresolved Prior Years' Matters

199.1 Failure to Prepare and Submit for Audit 2013/2014 Financial Statements

As previously reported, although the project management submitted 2014/2015, 2015/2016 and 2016/2017 financial years' statements to the Auditor-General for audit, management did not prepare and submit the financial statements for 2013/2014 for audit. This was contrary to Section 4 (1) of the Public Audit Act 2003 that requires preparation of final accounts for every financial year. In the circumstance, the management breached the provisions of the Public Audit Act, 2003.

199.2 Balance Brought Forward

As previously reported, the statement of receipts and payments for the year ended 30 June 2015 reflects a balance of Kshs.9,522,133 brought forward from previous year. However, management did not explain the source and nature of the balance. Consequently, it was not possible to establish the validity of the balance.

199.3 Variance in the Financial Statements

As reported in the previous years, the accuracy of the financial statements could not be confirmed due to the following anomalies:

199.3.1 The statement of comparative budget and actual amounts for the year ended 30 June 2015 reflected a final budget balance of Kshs.118,600,000 under proceeds from domestic and foreign loans. However, the approved budget supporting the balance was not availed for audit verification. Further, the statement reflected actual proceeds from domestic and foreign grants totaling Kshs.18,731,449 which differed with the balance of Kshs.118,600,000 reflected in the statement of receipts and payments by an unexplained variance of Kshs.99,868,551. In the circumstances, it was not possible to confirm the accuracy and validity of proceeds from the domestic and foreign loans balance of Kshs.118,600,000 reflected in the said financial statements.

200. Unconfirmed/Excluded Expenditure

As reported in previous years, examination of payment vouchers revealed that expenditures totalling Kshs.59,724,550 and Kshs.24,050,356 in respect of purchase of workshop tools and construction of workshops respectively under Government Counterpart funding were omitted from the financial statements. In addition, expenditures of Kshs.8,190,400 and Kshs.1,288,814, both amounting to Kshs.9,479,214, reflected in the financial statements were incurred on tools and construction of workshops respectively under the loan component for management did not avail the project status progress report for audit review. In the circumstances, it was not possible to confirm the propriety of the expenditure totalling Kshs.9,479,214 on tools and construction of workshops.

GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME

Basis for Adverse Opinion

201. Cash and Cash Equivalents

The statement of financial assets and liabilities as at 30 June 2017 reflects cash and cash equivalent balance of Kshs.2,583,812. However, a recast of the cashbook in the month of August 2016 revealed that the balance carried down was Kshs.9,128,436 instead of Kshs.10,148,436 thus understating the balance by Kshs.1,020,000. This anomaly had not been corrected as at the date of this report. Further, the bank reconciliation statement also reflects payments in bank statements not recorded in cash book amounting to Kshs.505,000 out of which Kshs.503,350 was in respect of outward payment and whose nature has not been disclosed and analysis availed for audit review.

In addition, the cash book reflects cash book adjustment figure of Kshs.87,615 in in the month of September 2016 and whose supporting documents were not availed for audit verification.

In view of the above, it has not been possible to confirm validity and accuracy of the cash and cash equivalents balance of Kshs.2,583,812 as at 30 June 2017.

202. Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June 2017 reflects direct payments totalling to Kshs.64,522,372 representing 92.8% of the total expenditure. The supporting documents / analysis for these payments were not availed for audit verification as shown below;

Item	**Unsupported Expenditure Kshs**
Child friendly schools	54,575,568
Early childhood development	1,956,603
Education in emergencies	7,990,201
Total	**64,522,372**

In the absence of the supporting documents and analysis, it has not been possible to confirm the validity of expenditure totalling Kshs.64, 522,372 for the year ended 30 June 2017.

203. Unapproved Excess Expenditure

The statement of comparative budget and actual amounts reflects total budgeted expenditure of Kshs.25,000,000 against actual expenditure of Kshs.81,870,515 thus resulting to over expenditure of Kshs.56, 870,515 or 227% of the total budget as shown below:

Category	Final Budget (Kshs)	Actual on comparable basis (Kshs)	Variance (Kshs)	%
Early childhood development	5,000,000	19,304,746	-14,304,746	-286%
Nomadic Education	5,000,000	54,575,568	-49,575,568	-992%
Peace Education	5,000,000	7,990,201	-2,990,201	-60%
Child friendly schools	5,000,000	0	5,000,000	100%
Education in Emergencies	5,000,000	0	5,000,000	100%
Total Payments	**25,000,000**	**81,870,515**	**-56,870,515**	**-227%**

Further, there was no evidence provided to confirm if the excess expenditure was approved accordingly by the National treasury. In the circumstances, the validity of over-expenditure of Kshs.56, 870,515 for the year ended 30 June 2017 could not be confirmed.

204. Programme Progress Reports

A review of the statement of receipts and payments indicate that a total of Kshs.81,870,515 has been expended to the project as at 30 June 2017. However, progress reports on the various expenditure components totalling Kshs.1,221,710,416 as at 30 June 2017 were not presented for audit review.

In the circumstance, it has not been possible to verify the extent to which the programme achieved its objectives for the year under review. In addition, it has not been possible to ascertain if value for money was obtained by the state department of education on the money expended in this project.

KENYA PRIMARY EDUCATION DEVELOPMENT (PRIEDE) PROJECT

Basis for Qualified Opinion

205. Outstanding Imprest and Advances

The statement of financial assets as at 30 June 2017 reflects outstanding imprests and advances balance of Kshs.158,840,203 in respect of disbursements in form of Authority to Incur Expenditure (AIEs) to various Counties, Kenya National Examination Council (KNEC) and Teachers Service Commission (TSC) amounting to Kshs.92,195,177, Kshs.23,049,537, Kshs.39,247,492 respectively and imprest to staff amounting Kshs.3,798,197. Although the advances made to the agencies and imprests ought to have been accounted for or surrendered on or before 30 June 2017, no evidence of expenditure returns or surrender documents were availed for audit review as at the date of this report.

In the circumstances, the accuracy and completeness of the financial statements and the validity of expenditure of Kshs.158,840,203 for the year ended 30 June, 2017 cannot be confirmed.

206. Non-Compliance with Approved Budget

Included in Note 8.7 to the financial statements is expenditures totalling to Kshs.251,637,245 paid to ten consulting firms to train 4,000 schools on School Improvement Planning (SIP) against budgetary provision of Kshs.200,000,000 resulting to unapproved expenditure of Kshs.51,637,245.The unapproved expenditure of Kshs.51,637,245 was contrary to Section 3.5 of the project financial manual. The management therefore is in breach of its own internal regulations.

207. Irregular Procurement of Consultants

During the year under review the Ministry engaged ten (10) consultants to train 4000 schools on school improvement plan (SIP) through consultant's qualification selection method of procurement for ten regions in accordance with the provisions of the Public Procurement and Assets Disposal Act 2015 and the World Bank Guidelines on selection and employment of consultants of January 2011 (Revised July 2014). Examination of procurement and payment records for the consultancy services revealed that the ten (10) consultants were contracted at a total contract sum of Kshs.251,637,245. However, analyse showing how the consultants were evaluated and ranked by the tender evaluation committee was not vailed for audit review.

Further, examination of payment and contract records revealed that on 28th October, 2016 the Ministry contracted a consultant to carry out school improvement plan (SIP) training for key stakeholders in the Mau A Region at a contract sum of Kshs.24,721,420. However, the tender evaluation committee report revealed that only two firms were shortlisted in the region. The Ministry awarded the contract without obtaining prior no objection from the Bank as required by the World Bank guidelines on procurement of consultants which stipulates that, if less than three firms are shortlisted the borrower should seek for a no objection from the bank.

In the circumstances, the procurement of the consultants was done contrary to the Bank's procurement guidelines. The project management was therefore in breach of law and the propriety of expenditure totalling Kshs.251,637,245 could not be confirmed to be a proper charge to public funds for the year ended 30 June 2017.

208. Special Account Statements

The statement of receipts and payments for the year ended 30 June 2017 reflects a balance of Kshs.2,458,212,857 under proceeds from domestic and foreign grants which differs with the amount of Kshs.1,415,868,504 and Kshs.976,182,343 both totalling to Kshs.2,392,050,847 reflected in the special accounts statements. The management has not explained the resultant difference of Kshs.66,162,010.

209. Unresolved Prior Year Matters

209.1 Unconfirmed Transfers

As in the previous year, the statement of receipts and payments for the year ended 30 June 2016 reflects receipts of Kshs.23,902,753 from Government entities which is at variance with the supported disbursement to the Teachers Service Commission (TSC) and Kenya National Examination Council (KNEC) totalling Kshs.12,659,308. The resultant variance of Kshs.11,243,445 has not been explained. In the circumstance, it has not been possible to confirm the accuracy and validity of the transfers from Government entities of Kshs.23,902,753 for the year ended 30 June 2017.

209.2 Unsupported Expenditure

As previously reported and as disclosed in Note 8.7 to the financial statements, the purchase of goods and services' comparative balance of Kshs.58,356,590 includes an amount of Kshs.35,755,087 in respect of travel and other transport equipment whose analyses were however not availed for audit review. Further, included in the figure of Kshs.58,356,590 is an amount of Kshs.185,185 in respect of air tickets to Kisumu and whose supporting documents were not availed for audit review. In the circumstances, it has not been possible to confirm the validity of expenditure totaling Kshs.35,940,272 for the year ended 30 June 2016.

MINISTRY OF HEALTH

FINANCIAL STATEMENTS FOR VOTE 1081

Basis for Qualified Opinion

210. Un-surrendered Old Deposits Balances from Former Ministries

As previously reported, included in the statement of assets and liabilities as at 30 June, 2017 is cash and cash equivalent balance of Kshs.103,136,706. Further information revealed that deposits totalling Kshs.10,956,114,687 that were held in former Ministries of Medical Services and Ministry of Public Health and Sanitation which merged to form the Ministry of Health were never transferred to the new deposit account contrary to Treasury Circular No.AG/CONF.17/01/65 of September, 2013 which required deposits in former Ministries to be analysed and transferred to new account.

Consequently, management is in breach of Treasury Circular No.AG/CONF/17/01/65 of 2013 for failing to transfer the deposits of Kshs.10,956,114,687 to the new deposit account.

211. Bank Reconciliation – Recurrent Account

The statement of assets and liabilities as at 30 June 2017 reflects cash and cash equivalent balance of Kshs.103,136,706. Included in this amount, is recurrent account balance of Kshs.64,353,351. Further scrutiny of the bank reconciliation statement for the recurrent cash book as at 30 June 2017 revealed payments in cash book not recorded in the bank statement totaling Kshs.11,362,254 out of which Kshs.2,007,668 had not been captured in the bank statement as at the time of audit in March 2018. No reason has been given for the long delay in getting the same captured in bank statement.

Consequently it has not been possible to determine the accuracy of Kshs.2,007,668 included in the cash and cash equivalent balance of Kshs.103,136,706 in the statement of financial assets and liabilities as at 30 June 2017.

212. Imprest and Advances

The statement of financial assets and liabilities as at 30 June 2017 reflects outstanding imprest and advances totalling Kshs.11,406,952. Included in the imprest balance is an amount of Kshs.10,535,336 which ought to have been accounted for on or before 30 June 2017.

In the circumstance, it has not been possible to confirm the validity and accuracy of the accounts receivables balance of Kshs.11,406,952 and the propriety of the same as at 30 June 2017.

213. Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation to employees of Kshs.5,221,516,247. Included in the basic salaries and wages of permanent and temporary employees in note 6 to the financial statements is expenditure amounting to Kshs.6,204,018 whose payment vouchers and other related supporting records were not availed for audit review.

Further, a review of the monthly payroll and supporting documentation, revealed that basic salaries and wages of permanent and temporary employees as disclosed in Note 6 to the financial statements omitted an amount of Kshs.14,000,922 in arriving at the gross amounts in the financial statements.

In the circumstance, it has not been possible to confirm the accuracy of the expenditure of Kshs.20,254,940 included in the compensation of employees of Kshs.5,221,516,247 in the statement of receipts and payments for the year ended 30 June 2017.

214. Acquisition of Assets

The statement of receipts and payments for the year ended 30 June 2017 includes expenditure on acquisition of assets of Kshs.365,431,957 out of which payment vouchers and other related supporting records amounting to Kshs.68,190,154 were not availed for audit review. In addition, the particulars of the specific assets the expenditure relates to were not provided.

Consequently it has not been possible to ascertain the validity of Kshs.68,190,154 expenditure included in the acquisition of assets figure of Kshs.365,431,957 in the statement of receipts and payments for the year ended 30 June 2017.

215. Emergency Relief and Refugee Assistance

The statement of receipts and payments for the year ended 30 June 2017 includes expenditure on other grants and transfers amounting to Kshs.228,139,231. Included in this balance is Kshs.195,652,052 which relates to emergency relief and refugee assistance as disclosed in Note 9 to the financial statements. Payment vouchers and other related supporting documents for an expenditure amounting to Kshs.85,287,027 in respect of emergency relief and refugee assistance were not availed for audit review.

Consequently it has not been possible to ascertain the validity of Kshs.85,287,027 expenditure in respect of the emergency relief and refugee assistance included in other grants and transfers of Kshs.228,139,231.

216. Errors in the Financial Statements

The statement of receipts and payments for the year ended 30 June 2017 reflects various expenditure items amounting to Kshs.73,225,828 which were charged to wrong accounts thus contravening Section 99 (1) of the Public Finance (National Government) Regulations 2015.

Due to the above errors, it has not been possible to determine the accuracy and validity of payments totaling Kshs.73,225,828 under statements of receipts and payments for the year ended 30 June 2017.

217. Proposed Upgrading of Othaya District Hospital

As previously reported, the Ministry awarded a contract for the upgrading of facilities at Othaya District Hospital at a contract price of Kshs.436,300,799 which was later revised to Kshs.501,745,919. The initial completion period was 85 weeks but was extended to 123 weeks with new completion date being 25 October 2012. A status report dated 21 February, 2014 indicates cumulative payments of Kshs.501,574,918 representing 99.9% of the revised contract sum of Kshs.501,745,918. At the time, 192 weeks had elapsed out of contract period of 123 weeks.

An inspection of the project carried out on November 2015 revealed that the contractor and subcontractors were not on site. Although it indicated that the project had been terminated on a mutual agreement no documentary evidence was made available for audit verification. Further, no evidence was provided that the performance guarantee had been recalled and discharged against uncompleted works.

Further information shows that the directorate gave an estimate for completion of outstanding works as Kshs.272,500,000. Though the Ministry put a request to National Treasury for funding, Treasury responded by advising that health was a devolved function and therefore Nyeri County should take over. Further information also reveal that another contractor was given a new contract to complete the remaining works at a contract sum of Kshs.141,959,487.

The total expenditure for the construction of the hospital had accumulated to Kshs.578,542,747 by 30 June 2016.

In addition, the Ministry reported an expenditure of Kshs.145,154,150 during the year 2016/2017 for construction of Othaya District hospital which accumulated to Kshs.723,696,897 by 30 June 2017 and which when compared against the initial contract value of Kshs.436,300,798 gives rise to a variation of Kshs.287,396,099 which is about 66%. No project progress reports have been availed for audit review.

Consequently, it has not been possible to ascertain whether the Government obtained value for money for the expenditure of Kshs.723,696,897.

218. Long Outstanding County Debts

As previously reported, during 2013-2014 financial year, the Ministry paid on behalf of County Government salaries totaling Kshs.19,208,279,767 which were to be recovered in the same financial year. Documents and information available indicate that the Ministry only recovered Kshs.14,837,973,349 during 2013-2014 financial year leaving a balance of Kshs.4,370,306,417 which has remained outstanding to date and which has not been disclosed in the financial statements for the year ended 30 June 2017.

The Ministry has not explained why the amount has remained outstanding and why it has not been disclosed in the financial statements.

219. Irregular Payment on Portable Clinics

As previously reported, the Ministry awarded the contract for Supply of Portable Medical Clinics on 17 July, 2015 for supply of one hundred (100) portable medical clinics at Kshs.10,000,000 each totalling to Kshs.1 billion. The contract period was to be from the date of signing of the contract to the end of financial year 2015-2016 and has since elapsed despite the fact that the contract has not been executed. During the 2015-2016 financial year, the Ministry paid Kshs.800,000,000 for portable clinics but before installing, commissioning and handing over thus contravening the contractual agreement. Further, information available indicates that the containers were stored in government premises in Mombasa despite the fact that ownership has not passed to the Government.

Consequently, it has not been possible to determine whether the Government obtained value for money for the expenditure of Kshs.800,000,000.

220. Pending Bills

Records maintained by the Ministry of Health indicate that bills totaling Kshs.250,187,749 were not settled during the year 2016/2017 but were instead carried forward to 2017/2018. Had the bills been paid and the expenditure charged to the account for 2016/2017 the statement of receipts and payments for the year would have reflected a deficit of Kshs.180,365,136 instead of a surplus of Kshs.69,822,613.

Further, pending bills amounting to Kshs.75,820,676 relate to the year 2015/2016 (Kshs.65,685,624) and 2014/2015 (Kshs.10,135,052) which ought to have been cleared/paid as a priority in compliance with the Treasury Circular ref: No./DGIPE/A/1/10 of 18 December 2015 which requires all pending bills to be paid as a priority in the following financial year before payments for the financial year are made had not been cleared.

Consequently, the Ministry failed to comply with the Treasury Circular of ref: No./DGIPE/A/10 of 18 December 2015 on priority payments of pending bills.

Other Matter

221. Budget Absorption

The Ministry of Health had an approved total budget of Kshs.71,434,320,022 voted for the financial year 2016/2017 comprising of Kshs.35,737,009,339 for recurrent vote and Kshs.35,697,310,683 for development vote with an overall budget absorption of 79% as summarized below:

Item	Budget Allocation 2016/2017 (Kshs)	Actual 2016/2017 (Kshs)	Under Absorption (Kshs)	Absorption rate in (%)
Recurrent	35,737,009,339	30,343,689,889	5,393,319,450	85
Development	35,697,310,683	26,339,720,127	9,357,590,556	74
Total	**71,434,320,022**	**56,683,410,016**	**14,750,910,006**	**79**

Although the recurrent budget absorption and utilization rate was above three quarters i.e. 85%, the budget utilization rate for the Development budget was lower i.e. 74%. The implication of this is that more than quarter of the budgeted development programmes may not have been implemented. In this regard, there is need for the Accounting Officer to refocus the budgetary process with a view to focusing on priority areas in health infrastructure to boost the health services for the citizens of Kenya.

222. Recurrent Vote

The Ministry recurrent budget for the year ended 30 June 2017 was Kshs.35,737,009,339 against actual expenditure of Kshs.30,343,689,889 resulting to under absorption of Kshs.5,393,319,450 as detailed below;

Item	Budget (Kshs)	Actual (Kshs)	Under Absorption (Kshs)	(%) Under Expenditure
Compensation of Employees	5,928,263,701	5,221,516,247	706,747,454	12
Use of goods and services	2,092,857,648	1,420,610,289	672,247,359	32
Transfers to Other Government Units	27,242,054,277	23,304,163,426	3,937,890,851	14
Other grants and transfers	249,375,913	228,139,231	21,236,682	9
Social Security Benefits	100,000,000	100,000,000	-	0
Acquisition of Assets	124,457,800	69,260,696	55,197,104	44
Total	**35,737,009,339**	**30,343,689,889**	**5,393,319,450**	**15**

This is an indication of idle funds not put to proper use for services delivery. The management may have over budgeted on recurrent expenditure and therefore need for a more realistic budget for better delivery of services to the citizens.

223. Development Vote

The Ministry's development budget for the year ended 30 June 2017 was Kshs.35,697,310,683 against actual expenditure of Kshs.26,339,720,127 resulting to under absorption of Kshs.9,357,590,556 as detailed below;

Item	Budget Allocation 2016/2017 (Kshs)	Actual 2015/2016 (Kshs)	Under Absorption (Kshs)	Absorption rate in (%)
Use of goods and services	14,950,700,000	10,353,374,432	4,597,325,568	31
Transfers to Other Government Units	19,909,997,342	15,690,174,434	4,219,822,908	21
Acquisition of Assets	836,613,341	296,171,261	540,442,080	65
Total	**35,697,310,683**	**26,339,720,127**	**9,357,590,556**	**26**

The implication of this is that more than a quarter of the budgeted development programmes may not have been implemented. The management may have also over budgeted on development programmes and therefore needs more realistic budget in future for improved goods and services delivery to Kenyan people.

DONOR FUNDED PROJECTS

GLOBAL FUND – EXPANDING HIV PREVENTION, CARE AND TREATMENT SERVICES TO REACH UNIVERSAL ACCESS (80% COVERAGE) PROGRAM GRANT NO.KEN-H-MOF/KEN-H-TNT NO.853

Basis for Qualified Opinion

224. Imprests and Advances

The statement of financial assets and liabilities as at 30 June 2017 reflects outstanding imprests and advances totalling Kshs.34,814,162 which ought to have been accounted for on or before 30 June 2017. Further, it was observed that various officers were issued with multiple imprests contrary to Section 93 (4) and (5) of the Public Finance Management Regulations 2015 (National Government).

In the circumstance, it has not been possible to confirm the validity of the imprest and advances balance of Kshs.34,814,162 included in the statement of financial assets and liabilities as at 30 June 2017.

225. Statement of Cash flows

The statement of cash flows includes adjustments during the year of Kshs.1,954,314 which relate to reversed unpresented cheques which have been treated as a cash outflow rather than cash inflow.

In the circumstance, it has not been possible to confirm the accuracy of the statement of cash flows for the year ended 30 June 2017.

EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING PROJECT (EAPHLN) CREDIT NO.5616 – KE

Unqualified Opinion

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

KENYA HEALTH SECTOR SUPPORT PROGRAM III: DANIDA NON-POOL 104. KENYA.810.300 (GRANT)

Basis for Qualified Opinion

226. Late Submission of Financial Statements

Although the Public Finance Management Act, 2012 Section 68 and Public Audit Act, 2015 requires every Government entity to prepare and submit its financial statements to the Auditor - General within three (3) months after the end of each financial year to which the accounts it relates, the financial statements of the Project for the year ended 30 June 2017 were submitted for audit on 24 October 2017, being 24 days after the stipulated statutory deadline of 30 September 2017. The Project management is therefore in breach of the law.

227. Underutilization of Project Funds

The project was implemented over the duration of five years with a total utilization of Kshs.362,622,588 out of the approved budget of Kshs.675,000,000 representing 54% of the approved project funds. This resulted to an underutilization of 46% of the funds granted over the 5 years' Implementation period.

Under the circumstances, it has not been possible to confirm whether the project achieved its objective of poverty reduction in all dimensions and to the achievement of the Millennium Development Goals.

228. Purchase of Goods and Services

Included in the statement of receipts and payments for the year ended 30 June, 2017 is purchase of goods and services of Kshs.81,507,527 out of which a double payment of Kshs.631,565 was made to an entity. The Project is yet to recover the overpaid amount as at the time of this audit.

In the circumstance, validity of Kshs.631,565 being double payment could not be ascertained.

KENYA HEALTH SECTOR SUPPORT (EMMS COMPONENT 2) PROJECT (IDA NO.4771 AND 5034 – KE)

Basis for Disclaimer of Opinion

229. Late Submission of Financial Statements

The project financial statements were submitted to the office of the Auditor-General on 24 October 2017 for audit, twenty four (24) days after the statutory deadline of 30 September 2017. Consequently, the project management is in breach of the Law.

230. Cash and Cash Equivalent

The cash and cash equivalent balance of Kshs.789,726,531 included in the statement of financial assets and liabilities as at 30 June 2017 excludes long outstanding payment in bank statement not recorded in cashbook of Kshs.558,430,000 out of which Kshs.556,000,000 was paid to Health Sector Support Fund Result Based Financing on 26 April 2017. In the circumstances, the cash and bank balances of Kshs.789,726,531 is materially overstated. Also the payments in the statement of income and expenditure are also understated with the same amount. Consequently, the validity and accuracy of these financial statements could not be ascertained for the year ended 30 June 2017.

231. Transfers to Other Government Entities

The transfer to other government entities amount of Kshs.556,881,254 in the statement of receipts and payment for the year ended 30 June 2017 includes ineligible expenditure of Kshs.7,822,086 comprising of transfer to Kenya Medical Supplies Authority Kshs.4,500,850 and tax refund of Kshs.3,321,236 paid to a supplier. Further, the transfer to other government entities amount of Kshs.556,881,254 include unsupported transfer of Kshs.107,229,445 to Kenya Medical Supplies Authority. No explanation has been provided for incurring ineligible expenditure and failing to avail the supporting documents. Consequently, the accuracy and validity of transfers to other government entities of Kshs.115,051,531 for the year ended 30 June 2017 could not be confirmed.

HEALTH SECTOR SUPPORT PROJECT – SWAP SECRETARIAT (IDACR.NO4771 – KE)

Basis for Qualified Opinion

232. Late Submission of Financial Statements

Although the Public Finance Management Act, 2012 Section 68 and Public Audit Act, 2015 requires every government entity to prepare and submit its financial statements to the Auditor-General within three months after the end of each financial year to which the accounts relate, the financial statements of the project for the year ended 30 June 2017 were submitted for audit on 24 October 2017, twenty-four (24) days after the stipulated statutory deadline of 30 September 2017. The Project Management is therefore in breach of the law.

233. Statement of Cash Flows

The financial statements include statement of cash flows which include an adjustment of Kshs.23,903,390 in the year ended 30 June 2017 for the previous year and Kshs.6.218,802 which have not been explained or supported. In addition, the cash and cash equivalent balance at the beginning of the year shows Kshs.200,233,562

(2015/2016) while the audited financial statements show Kshs.212,948,642 resulting to a difference of Kshs.12,715,080.

Under the circumstances, it has not been possible to determine the accuracy of the statement of cash flows for the year ended 30 June 2017.

234. Imprests and Advances

The statement of financial assets and liabilities as at 30 June 2017 includes imprests and advances of Kshs.30,399,668 out of which Kshs.490,098 has been outstanding for more than five (5) years. Further, the management issued more than one imprest to three members of staff before surrender of earlier ones contrary to Section 93(4)(b) of the Public Finance Management 2012 which states that before issuing a temporary imprest, the accounting officer shall ensure that the applicant has no outstanding imprest. Section 93(5) requires a temporary imprest holder to surrender imprest within seven days upon returning to duty station.

Under the circumstances, the recoverability of the outstanding imprest of Kshs.30,399,668 is doubtful and the management is in breach of law.

235. Special Account Statements

The statement of receipts and payments for the year ended 30 June 2017 reflects proceeds from domestic and foreign borrowings of Kshs.2,075,749,735 while the special account statement shows that a total of Kshs.2,111,325,918 was drawn and transferred from the special account to the project account. No explanation or reconciliation has been provided for the difference of Kshs.35,576,182.

REPRODUCTIVE HEALTH FOR THE ENTIRE COUNTRY (UNFPA KEN 7R 11G)

Basis for Qualified Opinion

236. Purchase of Goods and Services

Included in the statement of receipts and payments for the year ended 30 June 2017 is purchase of goods and services of Kshs.8,933,925. This balance includes Kshs.7,232,800 paid to facilitate training in various Counties. However, the respective supporting documents were not availed for audit verification.

Under the circumstances, it has not possible to confirm the validity of the expenditures of the purchase of goods and services amount of Kshs.8,933,925 for the year ended 30 June 2017.

EAST AFRICA'S CENTRES OF EXCELLENCE FOR SKILLS AND TERTIARY EDUCATION IN BIOMEDICAL SCIENCES – PHASE I (CR NO. 2100150031997)

Basis for Disclaimer of Opinion

237. Unsupported Cash and Cash Equivalent Balance

Included in the statement of financial assets and liabilities as at 30 June 2017 is a bank balance of Kshs.9,203,765. However, the project management did not provide documents in support of the opening cash balance of Kshs.6,236,169 and imprest of Kshs.100,000. Further, the opening cash balance of Kshs.6,236,169 has not been taken into account in arriving at the closing balance of Kshs.9,203,765 reflected in the project's cash flow statement. Consequently, the validity and accuracy of the bank balance of Kshs.9,203,765 as at 30 June 2017 could not be confirmed.

238. Unsupported Expenditure

Included in the statement of receipts and payments for the year ended 30 June 2017 is payments for purchase of goods and services amounting to Kshs.54,410,806. This figure includes an amount of Kshs.9,122,745 in respect of imprest and whose surrender and ledger documents were not availed for audit review. In the circumstances, it has not been possible to confirm the validity of the expenditure of Kshs.9,122,745 included on purchases of goods and services of Kshs.54,410,806 in the statement of receipts and payments for the year ended 30 June 2017.

GLOBAL FUND TUBERCULOSIS GRANT PROGRAMME (GRANT NO. KEN-T-TNT-854)

Basis for Qualified Opinion

239. Outstanding Imprest Balance

The statement of financial assets and liabilities as at 30 June, 2017 reflects outstanding imprest and advances balance of Kshs.20,382.464 and which ought to have been accounted for on or before 30 June, 2017. Out of Kshs.20,382.464, Kshs.9,389,800 had not been accounted for as at the time of the audit in the month of November, 2017. Further, included in the unaccounted for balance of Kshs.9,389,800 is an amount of Kshs.717,973.75 which was advanced to provinces dating back to the year 2011 but has not been recovered to date. Consequently, it has not been possible to confirm the validity and recoverability of the imprest and advances balance of Kshs.20,382,464 included in the statement of financial assets and liabilities as at 30 June 2017.

GLOBAL FUND MALARIA ROUND 10 GRANT NO. KEN-011-G13-M

Basis for Qualified Opinion

240. Outstanding Imprest Balance

The statement of financial assets and liabilities as at 30 June 2017 reflects outstanding imprest and advances amounting to Kshs.1,336,336 advanced to one officer for support supervision of monitoring and evaluation activities. The management failed to recover the balance from the officer despite numerous correspondences with the Ministry of Health on the same. In the circumstance, the validity and recoverability of the imprest balance of Kshs.1,336,336 as at 30 June, 2017 is in doubt.

HEALTH SECTOR SUPPORT PROJECT- HEALTH SECTOR SERVICES FUND (HSSF) GRANT NO. 4771-KE AND TF-16027

Basis for Disclaimer of Opinion

241. Unsupported Cash Balances

The statement of financial assets and liabilities as at 30 June 2017 reflects a bank balance of Kshs.1,293,714,139. Included in this balance is Kshs.657,875,265 in respect of bank balances from forty seven (47) counties that were not supported with bank confirmation certificates, bank reconciliation statements and cash books. Consequently, the validity and accuracy of the cash and cash equivalent balance of Kshs.1,293,714,139 as at 30 June 2017 could not be ascertained.

242. Special Account Statements Recommendation

The statement of receipts and payments for the year ended 30 June 2017 reflects proceeds from domestic and foreign borrowings balance of Kshs.556,000,000 while the special account statement shows that a total of Kshs.567,868,366 was drawn and transferred from the special account to the project account. No explanation or reconciliation has been provided for the difference of Kshs.11,868,366.

OUTPUT BASED APPROACH (OBA) - PROJECT CREDIT - NO. 201065853

Unqualified Opinion

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

REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH (RH - OBA) - PROJECT CREDIT BMZ - NO. KENYA 201065853

Unqualified Opinion

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

STATE DEPARTMENT OF INFRASTRUCTURE

FINANCIAL STATEMENTS FOR VOTE 1091

Basis for Adverse Opinion

243. Inaccuracies in the Financial Statements

243.1 Variances between the Financial Statements and the Trial Balance

A comparison between the financial statements and the supporting trial balance revealed total positive variances of Kshs.120,591,704,974 and negative variances totalling Kshs.224,059,394,058 which were not explained or reconciled as shown hereunder:

Component	Financial/ Statements Balance (a)	Trial Balance (b)	Variance((a-b)	Audited Amounts
Positive Variances	Kshs.	Kshs	Kshs	Kshs
Transfer from other Govt. Units	42,431,534,913	40,762,534,913	1,669,000,000	42,431,534,913
Transfer to other Govt. agencies	42,933,784,911	39,267,059,530	3,666,725,381	42,933,784,911
Development bank accounts	1,808,362,271	-111,547,311,279	113,355,673,550	1,808,362,271
Deposits items	214,648,553	184,793,689	29,854,864	0
imprests	1,523,889	-5,315,546	6,839,435	1,523,889
Suspense &clearance acc.	1,215,183,092	-648,428,652	1,863,611,744	0
Total	**88,605,037,629**	**-31,986,667,345**	**120,591,704,974**	**87,175,205,984**
Negative Variances				
Deposit bank accounts	214,648,573	269,698,287	-55,049,714	268,254,087
UNICEF programme	0	64,477,959	-64,477,959	0
Ministerial-Agency	0	16,410,340	-16,410,340	0
Other debtors	0	14,341,689	-14,341,689	0
Debtors &advances	146,651	1,184,653	-1,038,002	146,651
Advance-Govt.	0	3,700	-3,700	0
Cash in hand	1,401,108	205,068,436,525	-205,067,035,417	1,401,108
Recurrent bank account	50,583,783	18,401,926,420	-18,351,342,637	50,583,792
Other liabilities	0	6,711,558	-6,711,558	0
Salary deductions	0	37,247,687	-37,247,687	0
Withholding taxes	0	1,604,102	-1,604,102	0
General provisions	0	444,131,253	-444,131,253	0
Total	**266,780,115**	**224,326,174,173**	**-224,059,394,058**	**320,385,638**

The accuracy and correctness of the Department's financial statements for the year ended 30 June 2017 could, therefore, not be confirmed.

243.2 In addition, the suspense clearance account balance of Kshs.1,215,183,092 has not been investigated and it is not clear the effects the figure may have on the financial statements.

243.3 Difference between the Financial Statements and IFMIS Generated Report

The financial statements submitted for audit also differed with IFMIS generated Report as shown below:

Component	Financial statements (Kshs)	IFMIS report (Kshs)	Difference (Kshs)
Receipts	157,650,386,160	155,981,386,160	1,669,000,000
Payments	155,755,000,347	152,088,585,415	3,666,414,932
Financial Assets	3,291,849,366	118,012,641,435	(114,720,792,069)
Financial Liabilities	214,648,553	113,868,266,672	(113,653,618,119)
Opening Balance	1,257,006,515	227,008,298	1,029,998,217

The above differences between the two sets of records were not explained or reconciled.

244. Statement of Financial Assets and Liabilities

The statement of financial assets and liabilities reflects a net financial assets balance of Kshs.3,077,200,813. A review of the statement and the supporting schedules for the balances therein revealed the following discrepancies:

244.1 Accounts Receivables and Suspense Account

The statement of financial assets and liabilities shows receivables balance of Kshs.1,216.853,632 as at 30 June 2017. Included in the balance is district suspense of Kshs.110,922,927 and amount of Kshs.1,104,260,165 described as clearance accounts which were not supported. In addition, management has not carried out any investigations on the cause of the suspense and clearance accounts.

In the circumstances, the correctness and the accuracy of receivables balance of Kshs.1,216,853,632 as at 30 June 2017 could therefore not be confirmed.

244.2 Accounts Payables - Deposits and Retention

The statement of financial assets and liabilities further shows accounts payables balance of Kshs.214,648,553 which is disclosed in Note No. 13 as deposits. The schedule in support of this balance was not availed for audit.

Consequently, the validity and accuracy of the accounts payable balance of Kshs.214,648,553 could not be confirmed.

245. Pending Accounts Payable

Note No.17.1 to the financial statements reflects pending accounts payable for the year of Kshs.2,501,700. This amount differs with the supporting schedule availed for audit verification which had a balance of Kshs.5,013,942. The resultant difference of Kshs.2,365,592 was not explained, or reconciled. Further, had the pending accounts payable been paid, the surplus reported in the statement of receipts and payments of Kshs.1,895,385,813 would have been reduced by the same amount.

246. Proposed Replacement of 3 No. Lifts at Works Building

The contract for above works was awarded on 30 October 2016 at a contract sum of Kshs.34,876,996. The works commenced on 6 January 2017 and were to be completed by 5 January 2018. A review of the procurement process and project implementation records revealed the following matters:

246.1 Tender Evaluation

Lack of Clarity in Technical Criteria

The first item in technical evaluation criteria was 'compliance with technical specification' which had a total of 40 marks. A review of the items under this heading showed there was lack of clarity on the technical specifications as follows:

(a) Duplication was noted in item Nos. 7.0 and 14.0 where in 7.0 the criterion was 'complete F12 form' with a score of 5 marks while in 14.0 it read 'Form 12 complete' 3 Marks unsigned 1 Mark. It was not clear why this repetition was deemed necessary and why different score was allocated on the same item.

(b) There was vagueness in some items e.g. 1.0, 2.0, 4.0, 7.0, 8.0, 13.0 &14.0, where some bidders got fraction of total marks without explaining how the fractions were arrived at.

(c) Item 4.0 required a lift rating of 1000kg/13 persons. The maximum score under this item was 3 marks but the winning bidder, got 1 out of three marks. This means that the bidder did not meet the requisite criteria for the lifts required. It was not clear how the bidder ended up being awarded while the lift capacity did not fit the specifications.

(d) The bid document for the winning bidder availed for audit did not have attachments. It was therefore not possible to confirm if they were fairly evaluated.

(e) Paragraph 16(5) of legal notice 106 of June 2013 requires that each member of the evaluation committee evaluate independently prior to sharing his scores with the other members. Paragraph 16(8) further states that the evaluation report shall include scores awarded by each evaluator. Individual scores sheets were not availed for verification. It was therefore not possible to confirm if evaluation was done in conformity with above provisions of the Procurement Act.

246.2 Award Price above Engineers Estimate

The contract was awarded at a contract price of Kshs.34,876,996 while the engineer's estimate was Kshs.28,574,500. The award price was therefore Kshs.6,302,496 or 22% more than the engineer's estimate. It was also observed that the awarded bidder was the highest of the five bids submitted. The second ranked bidder in technical evaluation stage, had quoted an amount of Kshs.20,995,000 which was Kshs.13,881,995 lower than the awarded price and no satisfactory explanation was provided.

246.3 Notification to Unsuccessful Bidders

Paragraph 19(2) of legal notice 106 requires the procuring entity to notify unsuccessful tenderers in writing and in the same letter provide reasons as to why they were not successful. A review of notification to the unsuccessful bidders dated 31 October 2016 shows that the management did not give the reasons as to why each bidder was unsuccessful as required.

In the circumstances it has not been possible to confirm that the Department obtained value for money in incurring Kshs.34,876,996.

247. Unresolved Prior Year Matters

The following matters in 2015/2016 audit report remained unresolved as at 30 June 2017.

247.1 Inaccuracies in the Financial Statements

Examination of the financial statements presented for audit revealed inaccuracies as outlined below:

247.1.1 Statement of Assets

a) Cash and Cash Equivalents

The statement of assets reflects a bank balance of Kshs.327,071,125. However, the supporting cashbooks for this balance reflect a balance of Kshs.300,800,231 resulting to unexplained net difference of Kshs.26,270,894 as summarized below:

Account No.	Account Name	Statements of Assets	Cash Book	Difference
1000209925	Recurrent	519,666	27,650,575	-27,130,909
1000209844	Development	72,925,351	301	72,925,050
1000212535	Deposits	250,713,023	240,597,922	10,115,101
1000231157	KTSSP Project	2,213,085	3,296,956	-1,083,871
1138520586	NUTRIP project	0	28,554,477	-28,554,477
	CBK-165	700,000	700,000	0
TOTAL		**327,071,125**	**300,800,231**	**26,270,894**

b) Accounts Payables - Deposits and Retentions

The statement of assets and liabilities reflects an accounts payables balance of Kshs.250,713,023 which is however disclosed under Note 13 to the financial statements as deposits. A review of the balance and the related records revealed the following anomalies:

(i) Lack of Supporting Documents

Management did not avail details on the composition of Kshs.250,713,023 reflected as payables as at 30 June 2016. Further, examination of the deposit cash book showed that it had a balance of Kshs.240,597,922 as at 30 June 2016 resulting to a variance of Kshs.10,115,101.

(ii) Un-explained Reduction of Payables

A comparison of payables balance for the year and that of the previous year showed that the payable balance reduced from Kshs.33,212,868,865 in 2014/15 to Kshs.250,713,023 in 2015/16 financial year representing a reduction by Kshs.32,962,155,842. However, the change in the balance was not explained.

c) Account Receivables

The statement of assets and liabilities for the year reflects a balance of Kshs.1,180,648,413 in respect of receivables which are analyzed in Note 12 to the financial statements as follows:

Item	**Amount Kshs.**
Salary Advance	740,359
Government imprests	506,139
District Suspense	75,141,750
Clearance accounts	1,104,260,165
Total	**1,180,648,413**

Review of supporting documents and schedules revealed the following matters:

i. Clearance Accounts

Included in accounts receivables balance of Kshs.1,180,648,413 is an amount of Kshs.1,104,260,165 described as clearance accounts. The management did not provide supporting documents for the total balance of Kshs.1,104,260,165.

ii. Government Imprest

The financial statements shows a figure of Kshs.506,139 on Government imprests. However, examination of the imprest register and schedules in support of the financial statements, revealed that the imprest amount outstanding at the close of the year was

Kshs.972,569. The outstanding imprest balance is therefore understated by Kshs.466,430.

In the circumstances, it has not been possible to confirm the accuracy of the Government imprests' balance.

247.1.2 Bank Reconciliation Statements

A review of the bank reconciliation statements availed in support of the bank balance of Kshs.327,071,125 as at 30 June 2016, revealed the following unsatisfactory matters:

a) Recurrent Bank Account

(i) Stale Cheques

The reconciliation statement for recurrent bank account shows Kshs.3,524,991,742 as payments in cash book not recorded in bank statement. Included in this amount is a total of Kshs.20,410,250 comprising of cheques which have been outstanding for more than six months and are unlikely to be cleared by the bank. Management did not explain why these payments had remained outstanding for so long.

(ii) Receipts in Bank Statement Not Recorded in Cash Book

The reconciliation statement also shows an amount of Kshs.11,045,760 as receipts in bank statement not recorded in cash book. However, no information or documents were availed to confirm the nature of these receipts and any efforts to resolve the outstanding balances.

(iii) Payment in Bank statements not recorded in Cash Book

The bank reconciliation statement shows an amount of Kshs.36,559,281 as payments in the bank statement not yet recorded in the cash book. Included in this amount are items totaling Kshs.19,543,471 which have been outstanding for more than six months. Management has not provided information on these have not been resolved.

(iv) Receipts in Cash Book not recorded in Bank Statement

The statement also shows a balance of Kshs.83,050,078 as receipts in cash book not recorded in the bank statement which includes a total of Kshs.365,425 described as cash book under casts. Cash book adjustments are by nature not reconciling items since they are passed to correct errors. Therefore, the validity of this balance could not be confirmed.

b) Development Bank Account

The bank reconciliation statement for the above account shows amount of Kshs.5,955,908,818 as payment in cashbook not yet recorded in the bank statement. Review of the supporting schedule for this balance showed an item described as Treasury unspent balance amounting to Kshs.72,925,351 which was, however, not analyzed. The balance above also includes an amount of Kshs.247,500 dated 29 June 2016 described as cashbook under-cast which should not appear as a reconciling item.

In the circumstances the accuracy and correctness of the bank balance of Kshs.327,071,125 as at 30 June 2016 could not be confirmed.

247.1.3 Pending Bills

Note 15 to the financial statements shows that the Department had outstanding bills totalling Kshs.122,496,227 as at 30 June 2016. The management did not explain the reason for committing the Department's resources in excess of the funds available.

247.2 Inaccuracies in the financial statements for the year ended 30 June 2015

The financial statements for the year ended 30 June 2015 had the following inaccuracies:

247.2.1 Accounts Receivables

Included in the receivables balance of negative Kshs.41,992,571,850 was a credit (Negative) balance of Kshs.41,994,231,622 as summarized below whose details or supporting documents were not availed for audit:

Suspense & clearance	12,326,945.80
Differences	-42,006,558,567.85
	-41,994,231,622.05

As a result of this discrepancy, it was not possible to confirm the accuracy and correctness of account receivables of negative Kshs.41,992,571,850 as at 30 June 2015 and why receivables had a credit (negative) balance.

247.2.2 Accounts Payable and Deposits

The statement of assets and liabilities disclosed an account payables balance of Kshs.33,212,868,865 made up of deposits, other liabilities and system required liabilities of Kshs.264,258,608, negative Kshs.30,827,757 and Kshs.32,979,438,014 respectively. The Accounting Officer explained that the deposit amount of Kshs.264,258,608 represents the bank balance on the deposit account. However, the Deposit Account cash book balance as at 30 June 2015 was Kshs.265,118,800 resulting to unexplained difference of Kshs.860,192.

Further, the negative Kshs.30,827,757 representing other liabilities and Kshs.32,979,438,014 representing system required liabilities were not analyzed. In addition, the Department had not disclosed pending bills as at 30 June 2015 for recurrent and development vote amounting to Kshs.57,651,140 and Kshs.30,265,963 for the two accounts respectively.

In the circumstances, the accuracy and correctness of the accounts payable balance of Kshs.33,212,868,865 as at 30 June 2015 could not be confirmed.

247.2.3 Cash and Cash Equivalents

The statement also reflected total cash and cash equivalents of Kshs.75,237,260,707 as at 30 June 2015 while all supporting records and documents showed total cash and cash equivalents balance of Kshs.389,670,252. The variance of Kshs.74,847,590,455 had not been reconciled or explained and therefore the accuracy of total cash and cash equivalents was doubtful.

247.2.4 Bank Balances

Included in total cash and cash equivalents balance of Kshs.75,237,260,707 was bank a balance of Kshs.267,935,814 composed of Kshs.266,632,602 and Kshs.1,303,212 for deposits and Kenya Transport Sector Support Project (KTSSP) bank balance respectively. However, the cash books and the supporting bank reconciliations reflected a bank balance of Kshs.389,670,252. Apparently the bank balance of Kshs.267,935,814 excluded Kshs.121,139,158 and Kshs.2,109,083 in respect of recurrent and development bank balance respectively. In addition, the deposit account cash book showed a balance of Kshs.265,118,800 resulting to a difference of Kshs.1,513,802. The bank balance was therefore understated by Kshs.123,248,240.

247.2.5 Cash Balance

The statement of assets and liabilities further reflected cash balance of Kshs.74,969,324,893 which was, however, not analyzed. In addition, the board of survey confirmed that there was no cash balance as at 30 June 2015.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.75,237,260,707 as at 30 June 2015 could not be confirmed.

247.2.6 Net Increase in Cash and Cash Equivalents

The cash flow statement for the year ended 30 June 2015 showed net increase in cash and cash equivalents of Kshs.8,747,882,993. However, addition of cash flows from all activities revealed that there was actually a net decrease in cash and cash equivalents of the same amount.

247.2.7 Cash and Cash Equivalents

The statement of cash flow also reflected Kshs.8,747,882,993 as balance of cash and cash equivalents as at 30 June 2015, while the statement of financial position reflected Kshs.75,237,260,707 despite the fact that the audited cash and cash equivalent was Kshs.389,670,252. The discrepancies between the above three similar accounts was not been explained or reconciled.

247.2.8 Transfers to other Government Agencies

The statement of receipts and payments for the year ended 30 June 2015 showed an amount of Kshs.84,478,361,622 on account of transfer to other governments agencies comprising Kshs.23,409,273,292 and Kshs.61,069,088,329 relating to recurrent vote and development vote respectively.

However, examination of the supporting documents for development vote showed a balance of Kshs.61,614,881,791 as follows:-

Journal vouchers (Direct payment)	29,818,825,898.60
Payment vouchers-	31,796,055,892.10
Total	**61,614,881,790.70**

The variance of Kshs.545,793,411 between the balance of Kshs.61,069,088,329 shown in the financial statements and that of Kshs.61,614,881,740 reflected in the supporting documents was not explained.

247.2.9 Transfer from Other Government Entities

The statement of receipts and payments reflected an amount of Kshs.22,446,501,146 as having been received from Kenya Roads Board. However, review of the records from Kenya Roads Board showed that amount of Kshs.25,036,325,644 was remitted to the Ministry for onward disbursement to Roads Authorities, resulting in unaccounted for transfers of Kshs.2,589,824,498.

247.2.10 Appropriation In Aid Collected from Regional Offices

During the year 2014/2015, it was observed that the regional offices of Materials Department collected AIA amounting to Kshs.14,568,050 which was not disclosed in the statement of receipts and payments for the year. Management did not provide a satisfactory explanation on whereabouts of these funds.

247.2.11 Proceeds from Foreign Borrowing

The statement of receipts and payments further reflects Kshs.24,746,958,750 in respect of proceeds from foreign borrowing, which differed from the total of journal entries of Kshs.27,541,044,073 resulting to understatement of Kshs.2,794,085,323.

The correctness and accuracy of the statement of receipts and payments for the year ended 30 June 2015 could not be confirmed.

247.2.12 Proceeds from Foreign Grants

The statement of receipts and payments showed an amount of Kshs.5,030,114,823 as receipts from foreign grant. However, the supporting schedule and the ledger showed an amount of Kshs.3,861,475,171 resulting to unexplained difference of Kshs.1,168,639,652.

247.2.13 Consultancy Services for Prospecting and Mapping of Road Construction Materials Sources

The Department entered into two consultancy contracts of Kshs.78,340,020 and Kshs.51,500,126 on 9 May 2014 for hardstone materials and natural materials respectively as follows:

(i) Contract No. CME/002/Rd/2013-2014 for consultancy services for prospecting and mapping sources of hardstone materials for road construction in Embu, Meru, Kitui, Machakos, Makueni and Tharaka Nithi Counties was awarded on 9 May 2014 for a contract sum of Kshs.78,340,020. The contract was to commence on 26 May 2014 for fifteen months.

(ii) Another Contract No. CME/001/Rd/2013-2014 for consultancy services for prospecting and mapping sources of natural materilas/gravel for road construction in Machakos, Makueni and Tharaka Nithi Counties was awarded on 9 May 2014 for a contract sum of Kshs.51,500,126. The contract was also to commence on 26 May 2014 and last for fifteen months.

Examination of development vote estimates showed that the two projects were not allocated any funds in the financial year 2014-15. It was noted that the two consultancies covered the same geographical area. It was not explained why they were not packaged as one consultancy contract.

(iii) Value for Money

Further, there was no evidence on how the results of prospecting and mapping under the two consultancies were applied and whether the public obtained value for money.

247.2.14 Contract No.490/04 (Road 2000) Improvement and Gravelling of Athi Market Kigucha Market Road D482

On 30 September 2002, the Ministry entered into a contract at a sum of Kshs.20,940,180 for improvement and gravelling of Road D482. The Contract commenced on 25 October 2002 with completion date of 24 April 2003 (6months).

The following were observed:

i. The contract was terminated on 22 February 2005 more than two years after the deadline of contract period of 24 April 2003.

ii. No extension of time had been granted to the contractor despite several requests and no liquidated damages were demanded from the contractor.

iii. Initial contract sum was Kshs.20,940,180 but the contractor was to be paid a total of Kshs.63,655,269 made up of an arbitration award of Kshs.55,235,910 and the sum of Kshs.8,419,359 paid before the contract was terminated.

iv. The contractor did not complete the road works as the contract was terminated.

v. The arbitrator in awarding the damages noted that the termination of the project did not follow the procedures laid out in the contract agreement.

vi. A review of the issue during the year under audit revealed that as at 30 June 2017, the principal amount of Kshs.55,235,910 had been fully settled by the Department as follows:

DATE	Payment Voucher Number	Amount Kshs.
28.10.2013	001267	3,300,000
17.01.2014	002389	3,300,000
03.07.2014	FT 14184J40N2	12,326,000
15.09.2014	000241	11,000,000
27.01.2015	002124	10,500,000
22.10.2015	002022	10,100,000
30.06.2015	004529	3,000,000
10.03.2017	001187	1,709,909
Total		**55,235,909**

A review of the legal file in the year further showed that on 19 December, 2016 the Contractor wrote to the Solicitor General vide a letter Ref.No:TCM/MRUB/90B claiming accrued interest of Kshs.17,721,427 for late settlement of above amount. This will further increase the costs related to above contract.

vii. In addition, as the initial contract sum was Kshs.20,940,180, the extra expenditure of Kshs.42,715,089 is a nugatory expenditure and should not have been a charge to public funds.

247.2.15 Unresolved Issues Relating to Deposits Account

(i) Unresolved issues for Deposits Account for 2012/13 and earlier years

As reported in the previous year, the statement of assets and Liabilities for deposits for the former Ministry of Roads reflected the following debit and credit balances relating to 2012/2013 and earlier years which besides being un-cleared for a long time had remained unanalyzed and unsupported as at 30 June 2016.

Account

Debits	**Amount (Kshs)**
Recurrent AIA	(184,700.00)
General Suspense	255,702,281.45
District Deposit Bank	251,227.00
Provincial suspense account	22,250,045.75
R/D cheques	38,487.75
Fuel Levy	30,004,897.50
Credits	
Stale cheques	719,064.00
Revenue deposit	52,409,214.20
Mechanical Branch Suspense	687,268,445.25

(ii) The statement as at 30 June 2013 also reflected a balance of Kshs.1,192,886,515 on 10% retention money composed of a balance of Kshs.1,438,823,266, relating to 2011/2012 and earlier years and movement during the year of negative Kshs.245,936,752. However, out of the Kshs.1,438,823,266 reported in 2011/2012 an amount of Kshs.1,431,064,186 relating to 2009/2010 could not be verified from the retention money register since serial numbers of the receipts accounting for the retention moneys were not indicated. Further, as reported in 2011/12 an amount of Kshs.11,822,080 released to a contractor was supported by receipts not issued for use in the Ministry's cash documents. The position remains unresolved to date.

(iii) Schedule supporting the retention money closing balance of Kshs.1,192,886,515 reflected debit balances under various accounts amounting to Kshs.233,311,537 implying irregular over-refunding of retention money. One contractor was paid Kshs.17,213,703 when the account already had a debit balance of Kshs.59,940,017 resulting in an overpayment of Kshs.77,153,720. Payment voucher no. 008618 for the amount of Kshs.17,213,703 paid was still not availed for audit review as at 30 June 2017.

(iv) Debit balances reflected in the 2011/2012 statement of Kshs.2,181,697,190 differed with the balance of Kshs.10,288,638,370 shown in the Ministry's trial balance as at 30 June 2012 by Kshs.8,106,941,180. Similarly, the credit balances totaling Kshs.2,181,697,190 differed with the trial balance totals of Kshs.3,335,760,496 by Kshs.1,154,063,305. Additionally, several accounts totaling Kshs.72,528,192 and credit balances of Kshs.16,549,108,680 shown in the trial balance were excluded from the statement of assets and liabilities as at 30 June 2012.

THE RECEIVER OF REVENUE – STATE DEPARTMENT FOR INFRASTRUCTURE

Unqualified

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

MECHANICAL AND TRANSPORT FUND

Basis for Qualified Opinion

248. Cash and Cash Equivalents

248.1 Receipts in Cash Book not in Bank Statements

The statement of financial position reflects cash and cash equivalent balance at the close of the year of Kshs.127,987,203. A review of the supporting bank reconciliation statement as at 30 June 2017 revealed a total of Kshs.2,380,660 representing receipts in cash book not in bank statements which comprised of collections received in four Fund regions between 2012 and 2016 but not banked or accounted for. The management has explained that this amount represent fraudulent deposit slips submitted by the clients some of which are subject of on-going court case. In the circumstances, the correctness and the accuracy of the cash and cash equivalents balance of kshs.127,987,203 could not be confirmed.

249. Routine Maintenance of Vehicles, Equipment, and other Assets and Inventories and other expenditure

249.1 The statement of financial performance for the year ended 30 June 2017 reflects Routine maintenance of vehicles, equipment and other assets expenditure of 365,074,217 as compared to Kshs.250,932,091 in the previous year (2015/2016), an increase of 45.5% while income from hire of equipment and miscellaneous services during the year decreased from Kshs.912,773,454 to Kshs.860,957,736.

No satisfactory explanation has been given for the huge increase of expenditure while income was decreasing simultaneously.

249.2 In addition note 12 on Inventories includes lubricants and oils, inventories valued at Kshs.12,113,445 in 2016/17 as compared to Kshs.3,704,821 in the previous year 2015/2016, representing an increase of 227%. Management has not satisfactory explained the reasons for holding such huge balances of Inventories on lubricants and oils.

249.3 Other Expenditures

Evidence available revealed that the following expenditures increased significantly from the previous year.

Item Expenditures

ITEM	EXPENDITURE		
	2016/2017 (Kshs)	2015/2016 (Kshs)	Variance (Kshs)
Maintenance of vehicles.	188,723,414	110,667,596	78,055,818
Tyres and tables	91,027,582	50,436,880	40,590,702
Fuel	27,603,561	10,488,880	17,114,681
Maintenance of other Assets	10,927,708	4,471,490	6,456,218
Purchase of Specialized Equipment	3,349,532	672,080	2,677,452
Printing and Advertising	4,023,762	2,882,820	1,140,912
Uniforms	2,958,066	945,900	2,012,166
Training	11,525,536	4,984,792	6,540,744
Wages for Temporary Employees	30,466,261	19,253,968	11,212,293

No satisfactory explanation was provided for the above huge increases in expenditures despite the Fund's income having decreased from Kshs.912,773,455 in 2015/2016 to Kshs.860,957,736 in 2016/2017.

DONOR FUNDED PROJECTS

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO.4926-KE/5410-KE COMPONENT B1-SUPPORT TO MINISTRY OF ROADS)

Unqualified Opinion

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

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT (IDA CREDIT NO.5140-KE)

Unqualified Opinion

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

Other Matter

250. Special Account Reconciliation

As reported in the previous financial year, the statement of receipts and payments reflected total receipts from development partners for the year as having amounted to Kshs.48,744,572 while the special account statement prepared and submitted for audit by the National Treasury reflected Kshs.8,000,736 as having been withdrawn to finance project activities. Management did not explain the cause of the variance amounting to Kshs.40,743,836. A review of the position in the current year shows the matter has not been resolved.

STATE DEPARTMENT OF TRANSPORT

FINANCIAL STATEMENTS FOR VOTE 1092

Basis for Adverse Opinion

251. Financial Statements Inaccuracies

251.1 Variances between Trial Balance and Financial Statements

A comparison between the financial statements and the supporting trial balance revealed total positive variances of Kshs.238,120,816 and negative variances totalling Kshs.295,288,337,930 which were not explained or reconciled.

In the circumstances, the accuracy and correctness of the Department's financial statements for the year ended 30 June 2017 could therefore not be confirmed.

251.2 Variances between the Financial Statements and IFMIS Generated Report

The financial statements submitted for audit also differed from IFMIS generated financial statements as shown below:

Details	Financial Statements	IFMIS Reports	Difference
	Kshs.	Kshs.	Kshs.
Financial Assets	77,053,284	43,881,666,298	-43,804,613,014
Financial Liabilities	52,540,895	35,528,277,814	-35,475,736,919
Opening Fund balances	427,982,411	8,328,876,093	-7,900,893,682

The above differences between these two sets of records were not explained.

252. Suspense Clearance Account

The trial balance as at 30 June 2017 reflects credit balance and debit balance of Kshs.14,078,691 and Kshs.288,504,593 respectively both described as suspense clearance account. The suspense clearance account balances have not been explained, thus the correctness and accuracy of the financial statement for the year ended 30 June 2017 could not be ascertained.

253. Budgetary Control

253.1 Under Utilization

The financial statements for the year ended 30 June 2017 include a summary of appropriation; recurrent and development combined which reflects an expenditure of Kshs.145,111,654,945 against the budget of Kshs.169,130,621,133 thus resulting in an under-expenditure of Kshs.24,018,966,188 i.e. 14% under-utilization and no satisfactory explanation was provided.

253.2 Pending Bills Annex1- Analysis of pending accounts payables reflects pending bills amounting to Kshs.6,368,644.47 as at 30 June 2017. Had the bills been paid, the surplus of Kshs.24,512,389 would have been reduced by the same amount of pending bills.

254. National Urban Transport Improvement Project-MOT Component

254.1 Special Account Reconciliation

The special account reconciliation for National Urban Transport Improvement Project (MOT Component) prepared by the National Treasury showed that an amount of USD 174,168.46 (Kshs.17,890,915.45) was transferred to the project bank account. However, the project financial statements showed an amount of Kshs.47,176,982 was received as loan revenue from External Development Partners. The difference of Kshs.29,286,067 between the two records was not reconciled.

Other Matter

255. Prior Year Unresolved Matter

255.1 Budgetary Control

As reported in the previous year, the financial statements for the year ended 30 June 2016 included a summary of appropriation; recurrent and development combined which reflects an expenditure of Kshs.73,004,859,771 against the budget of Kshs.170,322,963,791 thus resulting in an under-expenditure of Kshs.97,318,104,020 i.e. 57% under-utilization and no satisfactory explanation was provided.

256. Pending Bills

Further, note 26.1 to the financial statements reflected pending accounts payables totaling Kshs.66,010,455 which remained outstanding as at 30 June 2016. No satisfactory explanation was provided as to why the bills were not settled despite the knowledge that their non-payment would constrain the budget for 2016/2017 financial year should they be paid in the year. Had the pending bills been paid in the year under review, the under-utilization would have been reduced by Kshs.66,010,455. Also note 19.1 to the financial statements reflected pending bills of Kshs.2,408,879,265 whose analysis had not been provided to give details of pending bills as required by the Public Sector Accounting Standards Board. Had the bills been paid, the under-utilization would have reduced by Kshs.2,408,879,265.

257. Government Clearing Agency

As reported in the previous year, the State Department reflected expenditure by Government Clearing Agency totaling Kshs.81,725,454 for the year ended 30 June 2015. However, the financial statements of the Agency prepared by the National Treasury and submitted for audit reflected receipts of Kshs.1,747,692 while the State Department of Transport indicated receipts of Kshs.1,341,835 resulting to unexplained variance of Kshs.405, 857. Review of the matter in the year under review revealed that the matter is still outstanding.

258. Unaccounted for Deposits

As reported in the previous year, the financial statements of the Ministry of Transport and Infrastructure for the year ended 30 June 2014 omitted the deposits bank balance of Kshs.558,884,792 held in Central Bank Account No. 1000182188. Re-examination of the deposits balance in 2015/2016 revealed that out of the bank balance of Kshs.558,884,792 reflected in a reconciliation dated 8 September, 2014, the State Department of Transport received Kshs.101,772,644 and the State Department of Infrastructure received the balance amounting to Kshs.457,112,149. However, and although the State Department of Transport received Kshs.101,772,644 only Kshs.63,266,317 was reflected in the financial statements leaving a balance of Kshs.38,506,327 which was explained to have been transferred to the National Treasury in unclear circumstances. Review of the issue in 2016/2017 revealed that the issue remains outstanding.

RAILWAY DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT)

Unqualified Opinion

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

Other Matter

259. Prior Year Matter - Variances between amounts paid from Railway Development Levy Fund (RDLF) and amount reflected as received in Kenya Railways Corporation Financial Statements

As reported in the previous year, the Fund's statement of receipts and payments for the year ended 30 June 2016 reflected payments for acquisition of non- financial assets totalling Kshs.4,320,984,173 out of which payments totalling Kshs.393,443,836 made up of Kshs.205,363,955; Kshs.161,748,698 and Kshs.26,331,183 as shown in note 5 to the financial statements were paid during the year 2015/2016 for consultancy services relating to Standard Gauge Railway Project. However, the financial statements for of Kenya Railway Corporation for the year ended 30 June 2016 reflected work-in-progress amount of Kshs.453,201,881 as having been paid during the year 2015/2016 thus resulting in a variance of Kshs.59,758,045 which was not explained. A review of the issue in the year 2016/2017 revealed that the matter is still outstanding.

DONOR FUNDED PROJECTS

KENYA TRANSPORT SECTOR SUPPORT PROJECT CR NO 4926-KE AND 5410-KE (MOT COMPONENT)

Unqualified Opinion

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT IDA CREDIT NO.4148 (MOT COMPONENT)

Unqualified Opinion

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (IDA CREDIT NO.4148KE AND 4977KE-MOT/KRC COMPONENT)

Unqualified Opinion

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

STATE DEPARTMENT FOR MARITIME AND SHIPPING AFFAIRS

FINANCIAL STATEMENTS FOR VOTE 1093

Unqualified Opinion

There were no material issues noted during the audit of the financial statement

STATE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FINANCIAL STATEMENTS FOR VOTE 1094

Basis for Qualified Opinion

260. Accounts Receivables - Outstanding Imprests

The statement of assets and liabilities as at 30 June 2017 reflects financial assets totaling Kshs.710,374,182 out of which Kshs.26,260,178 are accounts receivables. Included in the accounts receivable balance of Kshs.26,260,178 is an amount of Kshs.9,608,578.00 described as district suspense but no further details were availed and no investigations had been made as at 31 March 2018 to establish the details of the same.

Further, the account receivables balance includes outstanding imprests totaling Kshs.16,651,602 issued to staff between 01 July 2012 and 30 June 2017, an indication that some imprests have been outstanding for over 5 years. This is contrary to Regulation 92 (5,6,7) of the Public Financial Management (National Government) Regulations, 2015 which requires a holder of temporary imprest to account/surrender the imprest within 7 working days after returning to duty station.

261. Proceeds from Domestic and Foreign Grants

The statement of receipts and payments for the year ended 30 June 2017 reflects proceeds from domestic and foreign grants amounting to Kshs.200,000,000. Although the trial balance also reflects grants from foreign governments – direct payments treated as AIA amounting to Kshs.200,000,000, the total amount has not been supported.

262. Proceeds from Foreign Borrowing

The statement of receipts and payment for the year ended 30 June 2017 reflects proceeds from foreign borrowing representing direct payment to Nairobi Metropolitan Service program amounting to Kshs.3,864,144,628. However, the audited financial statements for the program reflects Kshs.3,702,677,896 resulting to a variance of Kshs.161,466,732 which has not been explained or reconciled.

Further, the balance of Kshs.3,864,144,628 excludes Foreign Borrowing – Draw-downs through Exchequer amounting to Kshs.3,776,610,350 which is inadvertently included in the Transfers from National Treasury - Exchequer Releases balance of Kshs.10,855,020,511.

263. Kenya Municipal Programme - Special Account Reconciliation

The special account statement prepared by the National Treasury indicates that Kshs.1,455,530,287 ($14,107,348.14) was released for the programme activities during the year under review but the programmes' financial statements under Note 8.9A reflects receipts of Kshs.1,340,283,408. The variance of Kshs.115,246,879 has not been explained or reconciled.

264. Pending Bills

The financial statements under other important disclosures reflect pending accounts payable (pending bills) amounting to Kshs.1,257,844,010 which had not been settled by 30 June 2017. Had the pending bills been paid, the surplus for the year would have been reduced by the same amount.

THE RECEIVER OF REVENUE - STATE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Basis for Qualified Opinion

265. Non Maintainace of Books of Accounts and Revenue Bank Account

During the period ended 30 June 2017, the State Department of Housing and Urban Development did not maintain books of accounts (e.g cash book and ledgers) and a revenue bank account, contrary to Section 83 of the Public Financial Management Act 2012, and Regulation 100 of the Public Finance Management (National Government) Regulations 2015.

In the circumstances, the validity, accuracy and completeness of rent revenue amount of Kshs.249,561,252 reported in the Revenue Statement for the year ended 30 June 2017 could not be confirmed.

266. Rental Income

According to rent analysis provided by the Estate Department for the year ended 30 June 2017, the rent paying Houses totaling 27,547 were expected to generate monthly rent revenue of Kshs.49,131,995. Consequently, expected rental revenue for the year ended 30 June 2017 was Kshs.589,583,940, but only Kshs.249,561,252 was disclosed in the Revenue statement and the under collection of Kshs.340,022,688 was not satisfactory explained. Further, a summary of payroll by products held by the Estate Department shows that total rent revenue deducted from staff amounted to Kshs.407,966,482 during the year while the revenue statements reflect a total of Kshs.249,561,252 resulting to a variance of Kshs.158,405,252 which has not been accounted for.

In the circumstances the management has failed to put in place measures and controls to ensure that all Government Houses are safeguarded and that rent deducted from payroll received, recorded, banked and remitted to Exchequer Accounts as required.

267. Statement of Revenue Arrears

The statement of arrears in revenue as at 30 June 2017 reflects nil balances and no explanation has been provided. This is Contrary to Section 82(2)(b) of the Public Finance Management Act, 2012, Regulation 65 of the Public Finance Management (National Government) Regulations, 2015 and Public Sector Accounting Standards Board (PSASB) Revenue Reporting Standards Guidelines.

CIVIL SERVANTS HOUSING SCHEME FUND

Basis for Qualified Opinion

268. Cash and Cash Equivalents

268.1 Bank Overdraft

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.2,375,548,143 which has been arrived at after netting off cash and cash balances totalling Kshs.2,500,000,000 with an overdraft of –Kshs.124,451,857. No satisfactory explanation has been provided for this treatment.

In addition, the reflected cash book balance of Kshs.-124,451,857 (Overdraft) differs with the audited cash book balance of Kshs.-463,720,505 resulting to a variance of Kshs.339,268,648 which has not been explained and/or reconciled.

268.2 Un-reconciled Cash and Bank Items

Examination of the bank reconciliation statement as at 30 June 2017 revealed long outstanding balances in the bank reconciliation totaling Kshs.184,750,652 as receipts in cash book not in the bank. The receipts in cash book not in the bank includes Kshs.13,347,367 balance relating to the previous financial year and earlier years. The bank reconciliation statement also shows unexplained payments in bank not in cash book amounting to Kshs.10,354,686. These payments have been effected without the necessary payment vouchers being posted to the cash book.

Further, the bank reconciliation statement reflects a balance of Kshs.59,498,951 being payments in cashbook not in bank which includes Kshs.12,741,658.45 relating to the financial year ended 30 June 2016 and earlier years.

In the circumstances, it has not been possible to confirm the accuracy and completeness of cash and cash equivalents balance of Kshs.2,375,548,143 as at 30 June 2017.

STATE OFFICERS HOUSE MORTGAGE SCHEME FUND

Unqualified Opinion

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

DONOR FUNDED PROJECTS

KENYA INFORMAL SETTLEMENT IMPROVEMENT PROJECT CREDIT NO.4873-KE (IDA)

Unqualified Opinion

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

KOROGOCHO SLUM UPGRADING PROJECT (KENYA/ITALY DEBT FOR DEVELOPMENT SWAP PROGRAMME) CREDIT NO.CN/1246

Unqualified Opinion

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

NAIROBI METROPOLITAN SERVICES IMPROVEMENT PROJECT (CREDIT NO. 5102-KE)

Unqualified Opinion

There were no material issued notes during the audit of the financial statements of this Project.

KENYA URBAN SUPPORT PROGRAMME ADVANCE NO.V0360KE

Unqualified Opinion

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

KENYA SLUM UPGRADING LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND (KENSUF)

Unqualified Opinion

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

STATE DEPARTMENT OF PUBLIC WORKS

FINANCIAL STATEMENTS FOR VOTE 1095

Basis for Adverse Opinion

269. Differences Between Financial Statements and Trial Balance

A comparison between the financial statements and the trial balance which was in agreement with IFMIS generated statements revealed a difference of Kshs.120,665,766 under cash and bank balance, and a difference of Kshs.120,882,634 in payables balance as shown in the table below:

Item /Component	Financial Statements (Kshs.)	Trial Balance /IFMIS (Kshs.)	Variance (Kshs.)	Audited Balance (Kshs.)
Cash and Bank				
6530000-Recurrent Account	8,709,590	-672,773,794	681,483,384	8,709,590
6540000-Development Accounts	49,856,493	-1,225,167,892	1,275,024,385	49,856,493
6550000 – Deposit Account	1,011,107,969	1,043,585,583	-32,477,614	1,011,107,969
6580101-Cash	1,614,344	1,804,978,733	-1,803,364,389	1,614,344
Total	**1,071,288,396**	**950,622,630.3**	**-120,665,766**	
Payables				
7310101-General Deposits	0	79,326,058	-79,326,058	0
7320000-Salary Deductions	20,223	-196,576	216,799	20,223
7320200-VAT W/tax	0	-1,838,599	1,838,599	0
7380000 Withholding Taxes	0	-673,198	673,198	0
7390100-System required liabilities	0	-152,797,511	152,797,510	0
7399999-Cash clearing	0	-44,682,517	44,682,517	0
	20,223	**-120,862,342**	**120,882,634**	

In the circumstances, it has not been possible to confirm the accuracy and the completeness of the financial statements for the year ended 30 June 2017.

270. Pending Bills

Note 10 to the financial statements under other important disclosures reflects a figure of Kshs.909,950 for pending accounts payable related to supply of goods and Kshs.10,352,026 related to other pending payables. However, in the course of the audit, management provided a schedule showing total pending bills of Kshs.354,554,474 and Kshs.41,102,635 for construction of buildings and construction of civil works respectively. Although management has explained that the pending bills of Kshs.354,554,474 and Kshs.41,103,635 had no budgetary provision during the year, no satisfactory explanation was provided for failure to include the same in the budget.

271. Cash and Cash Equivalents

Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015 requires the Accounting Officer to ensure that bank reconciliation statements are completed and submitted to the National Treasury with a copy to the Auditor General not later than 10th of the subsequent month for each bank account held by a National Government entity. Further, Regulation 90(3) requires the Accounting Officer to ensure that any discrepancies noted during the bank reconciliation exercise are investigated immediately and appropriate action taken including updating the relevant cashbooks. A review of the bank reconciliation statements in support of cash at bank balance of kshs.1,069,674,052 revealed the following matters:

271.1 Lack of Ownership and Authorization for Bank Reconciliation Statements

The bank reconciliation statements presented for audit for the three bank accounts held by the Department for the period July 2016 to 30 June 2017 did not have the name and the signature of the preparer and the authorizing officer. Further, the date of preparation was not indicated and it was therefore not possible to confirm if the bank reconciliations were prepared within the timelines provided in the Regulations. Further, there was no evidence to show if the statements were submitted to the National Treasury and the Auditor General as required in Regulation 90(1).

271.2 Unresolved Reconciling Items in the Bank Reconciliation Statements

Examination of the bank reconciliation statements presented in support of the Bank balance in the statement of assets and liabilities revealed the following unresolved matters:

271.2.1 Recurrent Bank Account Reconciliation

i. Payments in Cash Book not Recorded in Bank

The reconciliation statement for recurrent bank account for the month of June 2017 reflects an amount of Kshs.57,157,707 as payments in cash book not in bank statements. Included in this balance are entries totaling Kshs.10,850 which had remained outstanding for more than 6 months as shown below:

Date	Ref.	Payee	Amount (Kshs)
17.10.2016	PVNo.00068	Kakamega Welfare	50
17.11.2016	PVNo.00068	Sophia Oyoo-Overcast	600
31.11.2016	FOLIO 32	Closing Bal. Overcast	10,000
30.12.2016	FOLIO 39	Closing Bal. Overcast	200
TOTAL			**10,850**

Further, a review of the above entries showed that entries totaling Kshs.10,000 related to cash book overcasts. It was not clear why cash book overcasts were appearing as reconciling items instead of correcting the closing balance with the same amount.

ii. Receipts in Bank Statement not in the Cash Book

The bank reconciliation statement further shows an amount of Kshs.28,304 as receipts in bank statement not in cash book as analyzed below:

Date	Ref.	Particulars	Amount Kshs.
01.11.2016	RD CHEQUE	Family Bank	18,303.75
17.05.2017	RD CHEQUE	National Bank	10,000.00
TOTAL			**28,303.75**

It was noted that the Refer to Drawer (RD) cheque of Kshs.18,304 above was dated November, 2016 and it had remained outstanding for about eight (8) months. It was not clear what action the management had taken to remedy these returned cheques.

iii. Payments in Bank not in Cash Book

The statement also shows an amount of Kshs.2,714,751 as payments made in the bank but not posted in the cashbook which includes an amount of Kshs.526,835.05 for closing balance under cast. Management did not provide explanation on above payments which appear to have been originated by the bank.

iv. Receipts in Cashbook not in Bank Statement

The reconciliation statement also had an amount of kshs.247,551 for receipts in cash book not in the bank statement. A review of the analysis provided for this balance showed that it comprised of cash book closing balance under cast of Kshs.105,267 and amount of Kshs.142,284 for Ufundi SACCO dated 30 September 2016. Cash book under casts are supposed to be adjusted in the cashbook and should not appear as reconciling item. Also the nature of the receipt from Ufundi Sacco could not be established as it had no support.

271.2.2 Development Bank Account Reconciliation

A review of the bank reconciliation statements for development bank account revealed the following matters:

(i) Receipts in Cash Book not Recorded in Bank Statement

The statement shows a total of Kshs.215,005 as receipts in the cash book not in the bank statement which include an amount of Kshs.200,000 described as opening balance under cast dated 31 March 2017 . It was not explained why the opening under cast appeared as a reconciling item instead of adjusting the cash book accordingly.

(ii) Payments in Bank Statement not Recorded in Cash Book

The statement also includes an amount of Kshs.227,555 for payments in bank statement not in cash book. The entries were not supported and their validity could therefore not be established.

271.2.3 Deposit Bank Account Reconciliation

A review of the bank statements availed in support of the deposit bank account balance of Kshs.1,011,107,969 revealed the following matters:

i. Payment in Cash Book not in Bank Statement

The reconciliation statement reflects an amount of Kshs.21,324,393 as payments in cash book not in bank statement. Included in the figure is closing balance under cast of Kshs.285,000 whose validity could not be confirmed.

ii. Receipt in Cash Book not in Bank Statements

The reconciliation statement reflects a figure of Kshs.9,024,644 for receipts in cash book not in bank statements which includes Kshs.57,284 which amount had remained outstanding since 27 April 2016 and its nature and validity could not be confirmed.

In the circumstances, it has not been possible to confirm the accuracy and correctness of cash and cash equivalents balance of Kshs.1,069,674,052 as at 30 June 2017.

Other Matter

272. Proposed Completion of Lamu Port Police Station and Management Housing

The project commenced on 03 October 2012 and was to be completed by 19 February 2014. The contractor was given an extension of time which revised the completion date to 19 January 2017. A review of the latest progress report dated 14 December, 2017 revealed that only Kshs.267,196,753 representing 46% of the contract sum had been certified. The project is therefore behind schedule and this may lead to cost escalation.

A review of the latest payment voucher showed that an amount of Kshs.12,952,171 had been paid as interest on delayed payment due to failure to pay the contractor within contractual timelines. This amount is nugatory as it has no commensurate value and should have been voided.

273. Construction of Mathare Nyayo Hospital

The project commenced on 27 August 2012 and was to be completed by 27 August 2015. However, the latest project statement showed that by 10 July 2017 which was about two years after expiry of the original contract period, the value of works completed stood at 48% of the contract sum. Subsequently, the management granted the contractor an extension of time by 76 weeks to bring the new completion date to 27th December, 2018. The delay in project implementation may lead to escalation of project costs.

Further, it was noted that project managers expenses had exceeded the contracted bill of quantities (BOQ) by Kshs.8,880,699.

A review of the latest payment certificate for valuation No. 20 dated 11 July, 2017 showed that the contractor had been paid Kshs.46,570,658.19 as interest on delayed payments. This payment has no commensurate value and should have been voided.

274. Motor Vehicles

274.1 Stolen and Unaccounted for Motor Vehicles

A review of motor vehicle records showed that two vehicles were stolen and had not been recovered while another two had not been transferred to the Department after completion of the projects as summarized below:

	Vehicle No	Make	Remarks
1	GKB 933F	Toyota Prado	Case at Kibera CCMC No 5060/2015 but file not availed for verification
2	GK A078Y	Nissan D/Cabin	Case going on with D.C.I.O, Kilimani. but file not availed for verification.
3	KBL 935K	Toyota Hilux	The vehicle was attached to Foot Bridge project Kisumu Work's office.
4	KBP 735Q	Ford Ranger	The vehicle was attached to Foot Bridge project Kisumu Works office.

Evidence available indicates that the Director of Administration wrote to the County Commissioner vide a letter Ref:CR/8/6/VOL.1/32 dated 19 September, 2016 requesting assistance to recover the two vehicles above. i.e. KBL 935K and KBP 735Q which were being used illegally by Chief Officer, Roads Transport and Public Works of the County Government. As at the time of the audit the vehicles had not been recovered from the County Government.

274.2 Unaccounted for Vehicle Purchased During the Year

A review of payment voucher No. 0685 of 20th March 2017 showed that an amount of Kshs.13,825,000 was paid to Toyota Kenya for purchase of motor vehicle. A review of supporting documents revealed the following matters:

i. The local Purchase order No.100 attached to the payment voucher was dated 9 February, 2017 and is for purchase of 6 (six) units of Toyota Prado (Japan made) at a unit price of Kshs.2,304,166.67 all totaling Kshs.13,825,000. The total amount was paid on 07 March, 2017. However, no documents were availed during the audit to confirm that the vehicles were received by the Department.

ii. In a response ref. SDOPW/ACCTS/AUDIT/(21) dated 27 April 2018, management availed work tickets for a vehicle under the State Department of Transport with registration number indicated as GKB 539R. However, the registration number differed from that in the supporting purchase invoice from Toyota Kenya Ltd, dated 24 January 2017, which showed the registration number as GKB 539Q and the delivery note which had registration number of GKB 539Z and therefore it was not possible to confirm which vehicle was actually delivered.

iii. Also, the motor vehicle was not in the list of inventory of Department Vehicles provided for audit.

iv. Further, the vehicle log book and subject file were not availed for audit.

v. In addition, there was no evidence that the vehicle was inspected after delivery by an inspection and acceptance committee as required under Section 48(3) of the Public Procurement and Asset Disposal Act, 2015.

It was therefore not possible to confirm whether the vehicle is in existence and if it is registered in the name of the Department and used for official purposes. In addition, it was not possible to confirm the validity of the total expenditure of Kshs.13,825,000 incurred to purchase the unaccounted for vehicle.

THE RECEIVER OF REVENUE - STATE DEPARTMENT OF PUBLIC WORKS

Unqualified Opinion

There were no material issues noted during the audit of the Public Works.

STORES AND SERVICE FUND

Basis for Disclaimer Opinion

275. Presentation of Financial Statements

Examination of the Fund's financial statements for the year ended 30 June 2017 revealed instances of non-compliance with the reporting template issued by Public Sector Accounting Standards Board (IPSAB) as outlined hereunder:

275.1 Unsigned Pages in the Financial Statements

The statements below were not signed by the Fund's management as required in the template:

i. Statement of Financial Performance
ii. Statement of Changes in Net Assets
iii. Statement of Cash flows

275.2 Missing Financial Statements Header

The financial statements as presented do not indicate the name of the Fund and the reporting year on top of each page as required in the template issued by the Board.

275.3 Wrong Description of Net Operating Results

The statement of financial performance shows the net operating results as 'Deficit for the period'. This description is not spaced and is also incorrect as the operations of the Fund resulted into net surplus.

275.4 Missing Disclosure Note on Bulk Purchases of Stores &Fuel

The statement of financial performance shows an expenditure item described as 'Bulk purchase of stores&fuel' with a balance of Kshs.96,461,850. This item is not properly spaced and also lacks a supporting disclosure notes as required by International Public Sector Accounting Standards (IPSAS) 1.

275.5 Missing Statement of Comparison of Budget and Actual Amount

Template issued by Public Sector Accounting Standards Board (IPSAB) require that financial statements to have statement of comparison budget and actual amount which is also a requirement under paragraph 24 of International Public Sector Accounting Standards (IPSAS) 1. It was however observed that the Funds financial statements as presented do not have this statement and does therefore not comply with the Board's reporting standards.

276. Inaccuracies in the Financial Statements

A review of the Fund's financial statements for the year ended 30 June 2017 revealed several misstatements as outlined below:

Description	2016/17 (Comparatives)	2015/16 (Audited)	Variance
Revenue	**Kshs.**	**Kshs.**	**Kshs.**
Sale of goods	73,273,198.71.00	96,639,911.34	-23,366,712.63
Expenses			
Bulk Purchase of stores &fuel	68,260,372.00	120,017,323.45	-51,756,951.45
Deficit for the Period	5,012,826.71	-23,377,412.11	28,390,238.82
Current Assets			
Cash and Equivalents	147,892,435.00	155,840,625.50	-7,948,190.50
Receivables	65,437,435.69	65,320,195.69	117,240.00
Inventories	131,879,858.35	130,121,256.10	1,758,602.25
Current Liabilities			
Payables	76,302,909.00	52,994,135.00	23,308,774.00
Payment in Advance	151,928,903.39	149,591,532.00	2,337,371.39
Non-Current Liabilities			
Borrowings	844,003,800.00	844,003,247.00	553.00
Financing			
Accumulated surplus	-848,001,253,.55	-816,282,206.91	-31,719,046.64

The above differences were not reconciled or explained.

277. Statement of Financial Performance

A review of the statement of financial performance for the year ended 30 June 2017 revealed several discrepancies as outlined below:

277.1 Undisclosed Fund Operating Expenditure

The statement of financial performance shows sales of goods and services amount of Kshs.100,047,544 and expenditure on Bulk Purchase of stores and fuel of Kshs.96,461,850 and a resultant surplus from operations of Kshs.3,585,694. It was however noted that the statement does not disclose costs related to operations of the Fund such as, staff costs, utilities, motor vehicle running expenses and office running expenses. Consequently, the statement of financial performance does not reflect the correct position on results of the operations of the Fund.

277.2 Sales of Goods

The statement also shows amount of Kshs.100,047,544 as receipts from sale of goods which was not analyzed and did not have supporting documents. It was therefore not possible to confirm the accuracy and completeness of sales of goods amount of Kshs.100,047,544 for the year ended 30 June 2017.

277.3 Bulk Purchases of Stores and Fuel

The statement further shows an amount of Kshs.96,461,850 for bulk purchase of stores and fuel. However, a schedule given in support of this amount did not show details of the payees and the date of payments. Further, management did not avail payment vouchers and the supporting procurement records for audit verification. In the circumstances the propriety, correctness and accuracy of the amount for bulk purchase of store and fuel in the financial statements could not be confirmed.

278. Statement of Financial Position

Examination of balances in the statement of financial position revealed the following discrepancies:

278.1 Receivables

The statement of financial position reflects receivables from exchange transactions balance of Kshs.65,437,436 which was not analyzed. Further, management did not avail a receivables ledger or correspondences with the said debtors for audit verification. It was therefore not possible to confirm the accuracy of receivables balance reflected in the financial statements.

278.2 Trade and Other Payables

The statement of financial position reflects a balance of Kshs.97,278,342 in respect of trade and other payables. Management provided two schedules in support of this of Kshs.79,595,302 and Kshs.17,549,972 for stores and fuel respectively. The combined total from these two schedules was Kshs.97,145,273 which differed from amount in the statement above by Kshs.133,069. Further, the two schedules did not have aging analysis and the creditors' ledger was not availed for audit verification. It was therefore not possible to confirm the accuracy and correctness of the trade and other payables balance as at 30 June 2017.

278.3 Payment Received in Advance

The statement of financial position reflects a balance of Kshs.65,051,145 for payments received in advance which was not analyzed. The accuracy of this amount could therefore not be confirmed.

278.4 Inventories

The statement of financial position reflects a balance of Kshs.137,830,312 for inventories. A schedule provided in support of this amount only showed a breakdown by station with a total of Kshs.105,785,618 resulting to a variance of Kshs.32,044,694. Further, management did not avail a stock taking report or stock sheets in support of inventories balance. In the circumstances, the accuracy of inventories balance in the financial statements could not be confirmed.

278.5 Borrowings

The statement of financial position reflects a borrowings balance of Kshs.844,003,800. However, the document availed in support of this amount is a letter from Central Bank dated 8 September 2008 showing write off of overdrawn Fund's Bank account balances of Kshs.560,408,646. The amount in this supporting document differed from the financial statements balance of Kshs.844,003,800 by Kshs.283,595,154 which was not explained. It was also noted that the description given to this balance is incorrect as overdraft write-off is a funding source since it amounts to settling a liability without a requirement for the Fund to repay this amount.

278.6 Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.79,625,351 representing a bank balance of Kshs.79,326,058 and cash in hand balance of Kshs.299,294. However, examination of the Fund's cash book and the supporting bank reconciliation statements shows bank balance of Kshs.81,319,219 as at 30 June 2017. Further, a cash count certificate from the Board of survey committee showed that the Fund had nil cash in hand balance as at the close of the year. In the circumstances, the accuracy and correctness of cash and cash equivalents of Kshs.79,625,351 could not be confirmed.

279. Statement of Changes in Net Assets

A review of the statement of changes in net assets for the year ended 30 June 2017 revealed the following errors:

- Balance brought forward as at 30 June 2016 description is not aligned to the corresponding amounts.
- The statement also reflects a balance for accumulated 'surplus' brought forward of Kshs.-792,904,795. This description is incorrect as the above 'surplus' is in negative meaning it is a deficit. Further, the audited financial statements for the year ended 30 June 2016 had accumulated balance carried down of Kshs.-816,282,207. The resultant difference of Kshs.-23,377,412 was not reconciled.

280. Statement of Cash Flows

A review of the statement of cash flows for the year as set out in page 15 of the financial statements revealed some misstatements as follows:

280.1 Receipts

The statement of cash flows reflects receipts from sale of goods balance of Kshs.12,497,403 which differed from the statement of financial performance balance of Kshs.100,047,544 resulting to unexplained variance of Kshs.87,550,141.

280.2 Payments

The statement of cash flows reflects payment for goods and services as Kshs.80,764,486 while the statement of financial performance has a balance of Kshs.96,461,850 on the same account. The resultant difference of Kshs.15,697,364 was not explained.

280.3 Net Cash Flows from Operating Activities

The statement of cash flows reflects a balance of Kshs.68,267,083 as net cash flow from operating activities which is supported by note 7 in the financial statements. A review of the above note revealed that change in receivables in the year was shown as negative Kshs.5,950,453 while the statement of financial position shows that there was no change in receivables balance from 2015/16. The balance for net cash flow from operating activities amount is therefore incorrect.

281. Unresolved Prior Year Matters

281.1 Inaccuracies in the Financial Statements

The 2015/2016 financial statements presented for audit review reflected the following inaccuracies:

281.2 Cash and Cash Equivalent

Cash and cash equivalent balance brought forward amounted to Kshs.224,744,758 while the prior year audited financial statements reflect a balance of Kshs.224,741,758 thus resulting to un-reconciled or unexplained variance of Kshs.3,000.

281.3 Inventories

The prior year's inventories balance reflected in the financial statements amounted to Kshs.130,935,583 while the audited closing balance was Kshs.128,342,509 thus resulting to a variance of Kshs.2,593,074 which has not been explained.

281.4 Sale of Goods

The prior year's balance for sale of goods amounts to Kshs.32,321,404 while the audited balance for the account in the year 2014/2015 was Kshs.252,482,245. The resultant difference of Kshs.220,160,841 has not been explained. Further, the statement of financial performance reflects sale of goods balance of Kshs.96,639,911 as at 30 June 2016 while the statement of cash flows reflects Kshs.90,893,143 thus resulting to unexplained variance of Kshs.5,746,769.

281.5 Borrowings

The statement of financial position reflects prior year borrowings totaling to Kshs.844,003,247 while the audited statement of financial position as at 30 June 2016 reflects a balance of Kshs.844,003,247 under the Paymaster General (PMG) Account. It is not clear and the management has not explained the correlation of the two creditors. Further, supporting documentation was not presented for audit review.

281.6 Bulk Purchases of Stores

The statement of financial performance for the year-ended 30 June 2016 reflect payment for bulk purchases of stores and fuel of Kshs.120,017,325 while the statement of cash flows reflects a balance of Kshs.76,186,589. The resultant difference of Kshs.43,830,736 has not been explained or reconciled.

In the circumstances, the validity and accuracy of the financial statements for the year ended 30 June 2016 could not be ascertained.

281.7 Bulk Purchases of Stores and Fuel

Note 8.4 to the financial statements indicate bulk purchases of stores and fuel of Kshs.82,135,913 and Kshs.37,881,410 respectively. However, schedules provided for audit review reflected balances of Kshs.83,572,057 and Kshs.36,445,266 for stores and fuel resulting to difference of Kshs.1,436,144 and Kshs.1,436,144 respectively which however, have not been explained. Further, supporting schedules for purchase of fuel worth Kshs.36,445,226 indicate that the purchase was done in 2014 and therefore does not relate to the year under review. Management has not explained the anomaly. In addition, purchases of fuel during the year amounting to Khs.13,508,501 was excluded from these financial statements.

Under the circumstances, it has not been possible to confirm the accuracy of bulky purchases of stores and fuel balance of Kshs.120,017,323 reflected in the financial statements for the year ended 30 June 2016.

281.8 Cash and Cash Equivalents

The cash and cash equivalent balance of Kshs.155,840,626 reflected in the statement of financial position is at variance with the cashbook balance of Kshs.212,993 resulting to unexplained variance of Kshs.155,627,633.

Further, no evidence was presented for audit review to confirm that the Fund appointed a Board of Survey at the end of the financial year to verify the actual cash balance of Kshs.117,613 reflected in Note 8.5 (b) to the financial statements.The bank reconciliation statement presented for audit review reflected receipts in the bank statement and not in the cash book of Kshs.90,786 and receipts in the cash book and not in the bank statement of Kshs.499,641. In addition, Kshs.5,387,452 described in the bank reconciliation statement as a cashbook under cast could not be confirmed.

In the circumstances, the validity and accuracy of cash and cash equivalent balance of Kshs.155,840,626 as at 30 June 2016 could not be confirmed.

281.9 Trade and Other Payables

Trade and other payables from exchange transactions balance reflected in the statement of financial position as at 30 June 2016 was Kshs.52,994,135. However, supporting schedules reflected a balance of Kshs.51,915,535 thus resulting to a variance of Kshs.1,078,600 which has not been explained or reconciled. Further, records available indicate that other unpaid purchases totalling to Kshs.52,280,900 were excluded from the trade and other payables balance of Kshs.52,994,135 but no reason was given for their omission. Under the circumstances the trade and other payables from the exchange transactions balance of Kshs.52,994,135 included in the statement of financial position as at 30 June 2016 could not be confirmed.

281.10 Inventories

The statement of financial position as at 30 June 2016 reflected inventories totalling to Kshs.130,121,256. However, the balance could not be confirmed since stock sheets for the year were not presented for audit review. Further, the Fund did not hold a stock taking exercise at the end of the financial year as required. Consequently, the accuracy and validity of the inventories balance of Kshs.130,121,256 reflected in the statement of financial position as at 30 June 2016 could not be confirmed.

281.11 Payment Received in Advance

The statement of financial position as at 30 June 2016 reflected payments received advance totaling to Kshs.149,591,532. However, the dates when the payments were received by the Stores and Services Fund were not presented for audit review. Further, the bank statements were not provided to confirm whether they were indeed received. Under the circumstances, the balance of Kshs.149,591,532 denoted as payments received in advance as at 30 June 2016 could not be confirmed.

281.12 Sale of Goods

The statement of financial performance for the year ended 30 June, 2016 reflected a balance of Kshs.96,639,911 while the supporting schedules presented for audit review reflected a balance of Kshs.100,274,267 thus resulting to a difference of Kshs.3,634,356 which has not been explained. In addition, the Fund did not maintain a sales ledger and therefore the source of the sales data could not be confirmed for the year ended 30 June 2016.

281.13 Missing Receipt Books

The statement of financial performance reflected total revenue of Kshs.96,639,911. However, receipt numbers MR 6654401 to 6654450 dated September 2015 to March 2016 and receipt numbers 6654351 to 6654400 dated April 2016 were not availed for audit review. Further, the management has not explained whether revenue collected from May to June 2016 was receipted using official receipts. In the circumstances, the total revenue balance of Kshs.96,639,911 included in the statement of financial performance for the year ended 30 June 2016 could not be confirmed.

STATE DEPARTMENT FOR WATER SERVICES

FINANCIAL STATEMENTS FOR VOTE 1103

Basis for Qualified Opinion

282. Accuracy, Completeness and Presentation of the Financial Statements

The financial statements balances provided for audit for the year ended 30 June 2017 differ with balances in IFMIS. Further, the statement of budget execution by programmes and sub programmes differs with the statement of receipts and payments and the statements of appropriation: recurrent and development. In addition, the financial statements balances differ with the trial balance figures as detailed in the table below:

Differences Between Trial Balance/Ledger and Financial Statement			
Item	**Balance as per Financial Statements (Kshs.)**	**Balance as per Trial Balance (Kshs.)**	**Difference (Kshs.)**
Transfers from National Treasury	22,816,057,602	-	22,816,057,602
Proceeds from Foreign Borrowing	13,249,074,165	-	13,249,074,165
Transfers to National Govt. Agencies	23,780,557,603	-	23,780,557,603
Recurrent Bank Account	17,127,624	218,904,487)	236,032,111
Development Bank Account	100,988,880	9,766,210,656	(9,665,221,776)
Deposits Bank Account	33,969,410	948,275	33,021,135
Cash in hand	45,999	154,542,687	(154,496,688)
Other Debtors and prepayments	-	(69,716,556)	69,716,556
Imprests	-	6,329,677	(6,329,677)
Clearance Accounts	2,542,880	9,239,131	(6,696,251)
Other Liabilities	-	464,356	(464,356)
System Required Liabilities	-	6,634,847,312	(6,634,847,312)
Provisions	-	1,100	(1,100)
Deposits	33,969,410	-	33,969,410
Fund Balance B/f	1,603,540,577	-	1,603,540,577

In view of the foregoing, the accuracy, completeness and presentation of the financial statements for the year ended 30 June 2017 could not be ascertained.

283. Unsupported Cash and Cash Equivalents Balances

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.152,131,913 as at 30 June 2017. However, the following anomalities were noted:

i) The IFMIS Cashbook was not made available for audit verification despite it being in-built in the system.

ii) Bank reconciliation statements for the Deposits Account (Dep-110 A/C No. 1000302127) were not provided for audit verification. The bank balance as per the report of the board of survey was Kshs.33,958,410 while the certificate of bank balance shows Kshs.33,969,410 leading to a difference of Kshs.11,000 as at 30 June 2017. Also, the bank statement was provided in support of the bank balance.

iii) The reported bank balances under cash and cash equivalents in the financial statements for Recurrent and Development bank accounts were not supported by bank reconciliation statements as shown in the table below;

Account	Amount in The Financial Statements Kshs.	Amount as Per Bank Reconciliation Statements Kshs.	Variance Kshs.
Recurrent	17,127,624	132,611,243	(115,483,619)
Development	100,988,880	1,865,677,469	(1,764,688,589)
Deposit	33,969,410	Reconciliation statement was not provided	

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.152,131,913 could not be confirmed.

284. Transfers to Other Government Units

284.1 Unexplained Variance

During the year under review, the State Department of Water Services disbursed as Transfer to Other Government Units Kshs.24,785,802,620. However, the supporting schedule in annex 3 to the financial statements reflect total transfers of Kshs.21,118,936,857, while the ledger reflects a figure of Kshs.24,790,252,105 resulting to unreconciled difference of Kshs.3,666,865,763 and Kshs.4,449,485 respectively between the two sets of figures.

As a result, the accuracy and completeness of the Transfer Other Government Units could not be ascertained.

284.2 Under-Disbursements

A review of the financial statements of some of the entities that received the disbursements reveals discrepancies between the figures received by the entities and those disbursed by the State Department as follows:

Entity	Amount as per Financial Statements Kshs.	Amount as per SDWS Kshs.	Difference Kshs.
Water Services Regulatory Board	90,000,000	75,000,000	15,000,000
Water Resources Management Authority	798,351,621	807,696,901	(9,345,280)
Kenya Water Institute	191,880,000	194,880,000	(3,000,000)
National Water Conservation and Pipeline Corporation	2,583,652,471	2,670,548,271	(86,895,800)
Kenya-Italy Debt for Development Programme	71,000,000	-	71,000,000

No reconciliations have been provided to explain the differences in the figures which normally should be similar. Consequently, the accuracy of disbursements could not be confirmed.

285. Acquisition of Assets

Annex 1 to the financial statements reflects a historical cost fixed assets balance of Kshs.24,403,548,346 as at 30 June 2017. Included in the account of construction and Civil works is an amount of Kshs.12,242,604,424 which was supposed to be charged to transfers and to amounts incurred for other government entities. Also included are amounts with credit balances amounting to Ksh.215,711,545 indicated as an adjustment for errors. These adjustments are not explained and therefore it was not possible to ascertain what they relate to.

Consequently, it was not possible to establish the accuracy of the acquisition of assets figure.

286. Improper Expenditure on Employees Seconded to Nairobi Water Conservation and Pipeline Corporation (NWCPC)

As reported in the previous year's Audit report, the State Department seconded 423 members of staff to National Water Conservation and Pipeline Corporation (NWCPC) in various core operations, which include drilling, electro mechanical, land survey and water technology. Although the State Department has explained that the officers were seconded because the State Department had ceased to implement technical projects attached to Water Boards, it is not clear and the State Department has not explained why it continues to pay officers who are serving in a statutory body or why the officers cannot be officially be absorbed by the institution. This matter is still outstanding in the financial year under review.

In the circumstances, it has not been possible to ascertain the completeness, accuracy and propriety of compensation to employee's expenditure of Kshs.552,983,571.

287. Undisclosed Revenue

The summary statement of appropriation (combined) reflects that out of a budget of Kshs.2,322,088,239 for other revenue against actual collection of Kshs.1,962,500 resulting in an under collection of Kshs.2,320,125,835. The other receipts were budgeted under Appropriation –In- Aid (A-I-A) and were expected to be collected by various semi-autonomous Government institutions affiliated to the State Department for Water Services. These have not been included in the financial report, and the variance appropriately explained.

Consequently, it is not possible to ascertain the accuracy of revenue balances reported in the financial statements.

288. Motor Vehicles Register

The State Department for Water Services does not maintain a register of the motor vehicles. Lists provided for audit verification differed with one list shows 69 motor vehicles while the other indicated 74 vehicles. Review of the schedule provided contained motor vehicles belonging to Other Government Entities such as Ministry of Environment, and, the National Water Conservation and Pipeline Corporation.

In addition, only sixteen (16) motor vehicles log books were availed for ownership verification.

Consequently, the completeness, accuracy, ownership, location, utilization and security of the State Department's motor vehicles could not be confirmed.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
	Use of Goods and Services	
	This component is key for the delivery of the mandate of the State Department. What is achieved by expenditure on goods and services directly affects the key performance indicators of the State Department. Hence the process of incurring expenditure, the items on which the expenditure is incurred and the outcome of the expenditure should be within the budget/plan and in accordance with the laws and regulations.	In order to satisfy myself of the regularity and validity of expenditure on use of goods and services, I performed the following procedures on a sample of payments: • Verified that there was budgetary provision for the item and that a requisition was received/prepared by the user department/stores • Confirmed that suppliers were invited to tender and an appropriate supplier identified as per the Public Procurement and Asset Disposal Act, 2015. • Verified that a purchase order was prepared in accordance with the public procurement regulations and that all relevant supporting documents are attached to the payment voucher. • Trace the items received to the stores records; user sections and cross-checked the expenditure to the cash book and ledger

Other Matter

289. Public Participation in the Budget Preparation

Article 201(a) of The Constitution of Kenya requires that there should be openness and accountability, including public participation in financial matters. Further, Section 36 (3) (d) of the Public Finance Management Act, 2012 provides for public participation in the budget process. The State Department for Water Services has not availed evidence to confirm that the procedures for public participation were undertaken. Even though the State Department for Water Services explained that public participation process is a function of the National Treasury and invitation letters were received. No evidence has been availed to show that the deliberations at the public participation event were noted and included in the budget.

290. Weak Internal Controls

a) The State Department does not have a risk management policy. There was no risk assessment carried out to identify and address key areas of concern and document specific controls in response to identified risks. There is no evidence that management assessed the internal controls applicable to address any material weaknesses that could be inherent in the controls.

b) The State Department has no formal, documented and tested disaster recovery plan/emergency procedure in place and therefore in case of an emergency, the personnel involved might not be aware of what is expected of them. In addition, no evidence was availed of the existence of information back up and retention strategy.

c) There is no IT strategic committee and plan, IT steering committee and security policy in place to guide use of IT in the State Department.

d) There was no audit committee in place as required by regulations

e) The code of conduct for staff has not been developed and implemented

DONOR FUNDED PROJECTS

KENYA WATER SECURITY AND CLIMATE RESILIENCE PROJECT

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this project.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the financial statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
1	**Receipts**	
	Receipts were the inflows for the project which comprised the loan disbursements from IDA. The estimated total project cost is USD 253 million, the whole of which is to be funded by IDA, KfW, Korea- World Bank Group Partnership Facility Single-donor Trust Fund and the beneficiaries. The Government of Kenya is to provide counterpart funds to implement the Resettlement Action Plan (RAP) for the project. A total of Kshs.465,765,334 was received from IDA	The following audit procedures were performed: • Reviewed the budget to establish the provision for both IDA and GOK funds. • Confirmed amounts received to Treasury disbursements and special project account; and the PAD. • Discussion with Project Manager. There was delay in preparation of a budget for the project which has resulted in inability to draw the IDA funds as per the PAD and hence slow disbursement. This may affect

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
		the project implementation timetable. This has been pointed out for action by management.
2	**Payments**	
	This relates to expenditure for actual implementation of project activities as described in the PAD. A total of Kshs.759,525,800 was reported as spent for the year 2016/17	An evaluation was done of the expenditure to establish • The procedures followed to spend. • Classification of the expenditure in relation to the PAD. • Effect on project implementation Absorption of project funds has been slow, attributed to the budget process.

Other Matter

291. Comparative Budget and Actual Information

a) Transfer from Government entities increased by 100% as per the statement of comparative budget and actual amounts. It was explained that the excess funds are for CRWSCRP which were received in Kenya Water Security and Climate Resilience Project account. The funds are for resettlements. However, it is not clear why the amount was received in Kenya Water Security and Climate Resilience Project while CRWSCRP is an independent project. Further, after the amount was received, it has not been transferred to CRWSCRP.

b) Purchase of goods and services overshot the indicated budget by Kshs.218,093,625 or 53% and these was attributed to increased project activities. Identity of the specific activities and their impact on the project implementation process was not disclosed. Further, there were no control measures in place to ensure that this variation positively affected project implementation.

c) Acquisition of financial assets – there is no explanation for underutilization of (Kshs.23,232,825) or 15%.

292. Public Participation in the Project Implementation

There is no evidence of public participation in the budgetary information used to prepare the financial report presented. The requirements of the law have therefore not been complied with.

293. Internal Controls Not Implemented

The following observations were made during a review of the internal control systems of the Kenya Water Security and Climate Resilience Project (KWSCRP):

a) No internal audit reports have been availed for review.

b) No risk assessment was carried out to identify and address key areas of concern and document specific controls in response to identified risks – There is no evidence that management assessed the internal controls applicable to address any material weaknesses that could be inherent in the controls.

c) The project has no formal, documented and tested disaster recovery plan/emergency procedure in place and therefore in case of an emergency, the personnel involved might not be aware of what is expected of them.

294. Accounts Receivables – Long Outstanding Impressts

Imprest amounting to Kshs.1,313,199 have been outstanding for more than six months after the due date for surrender in the records of Kenya Water Security and Climate Resilience Project. No reason has been provided for the failure to surrender or clear the imprests as per the Public Finance Management Regulations, 2015.

In addition, the imprests are recorded in the cashbook as payments to the bank instead of the actual payees and the imprest warrant numbers. Hence it is difficult to follow up on recording of surrenders and accountabilities of the imprests.

295. Accounts Receivables – Amount Paid to National Land Commission

The project has paid a total of Kshs.400,000,000 to the National Land Commission since it started. No report or analysis has been provided on how the National Land Commission has used this money to implement project objectives.

296. Non-financial Assets - Purchased Assets Not Properly Disclosed

The Project purchased the assets tabulated below totaling Kshs.47,901,700 which could not be verified because of lack of evidence about how they were requisitioned, distributed and the activities that they are being utilized for in the project:

Item	Quantity	Value (Kshs)	Remarks
Motor cycles Bicycles	8 80	2,309,900	Distribution list not availed Location, condition and use not ascertained
Projectors Servers-portable Servers-mounted	14 10 10	38,253,700	User requisition not seen Distribution list not availed Location, condition and use not ascertained

Item	Quantity	Value (Kshs)	Remarks
Desktop computers Ultra book laptops Laptops	19 18 25	7,440,000	User requisition not seen Distribution list not availed Location, condition and use not ascertained
Cameras UPS light duty UPS medium duty	2 19 10	2,208,000	User requisition not seen Distribution list not availed Location, condition and use not ascertained
Total		**47,901,700**	

297. Unsupported Expenditure on Printing, Advertising and Information Supplies

The project management prepared financial statements which included an amount of Kshs.20,758,718 for printing, advertising and information supplies. However, schedules provided to support the figure amounted to Kshs.26,351,659. Upon discussion about the variance, the management amended the financial statements to include a figure of Kshs.51,302,670 as the expenditure on the item. The schedules for the amended figure now reflect the Kshs.26,351,659 for advertising; Kshs.17,500,753 for conference expenditure and Kshs.7,450,258 for stationery. It is not clear where the additional figures have come from, neither has the supporting documentation been made available for audit verification. Also the classification of conference expenditure under this item is erroneous.

Further, included in the advertising expenditure is a payment of Kshs.684,028 to The Star for advertisement of requests for expression of interest placed in the paper for positions of Agronomist and Accountant II. The management has not produced the procurement records to ascertain the reasons for the choice of the paper, the necessity to advertise these positions in 3 papers and the process followed in placing the adverts.

The Project paid Kshs.526,176 and Kshs.597,985 to the Standard Group and Nation Media Group respectively for advertisement by NEMA seeking public views on environmental impact assessment done on the proposed Mwache Dam, Fulugani and Miyani areas in Kwale County. The project management have indicated this to be a standard procedure but no basis has been availed to support the arrangement for the advert to be placed by NEMA at the cost of the Project.

298. Inability to Implement the Project Annual Work Plan

The project has timelines within which certain deliverables are to be achieved. Based on the deliverables, a project implementation manual should have been prepared and from which an annual work plan and budget are extracted for implementation. However, the project annual work plan had a budget of Kshs.2,433,837,990 for various activities/outcomes expected of the project in the period under review. Further, the project achieved an expenditure of Kshs.759,525,800 as per the revised statement of receipts and payments presented for audit. This translates to only about 31% of the expected performance detailed in the annual work plan.

In addition, the progress reports produced have not analyzed the project achievements against the outcomes/activities included in the annual work plan, together with the expenditure realized. Hence it is not possible to ascertain what project outcomes have been obtained at the reported expenditure level.

UPPER TANA NATURAL RESOURCES MANAGEMENT PROJECT (UTaNRMP) IFAD LOAN NO. I-867-KE AND SPANISH TRUST FUND LOAN NO.I-E-8-KE

Unqualified Opinion

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

STATE DEPARTMENT FOR IRRIGATION

FINANCIAL STATEMENTS FOR VOTE 1104

Basis for Adverse Opinion

299. Accuracy and Completeness of the Financial Statements

299.1 Unexplained Variances

Examination of the department's financial statements as at 30 June 2017 revealed that figures reported, the ledger balances and the supporting schedules had variances. The variances are as shown below;

Description	Balance as per Ledger (Kshs.)	Financial Statements Figure (Kshs.)	Balance as per Schedules (Kshs.)	Variance (Kshs.)
Acquisition of Assets	1,044,115,440	1,033,601,364	1,072,503,403	(38,902,039)
Transfers to other Entities	7,270,723,146	7,270,646,073	7,185,861,543	(84,784,530)

No explanation or reconciliation has been provided for the variances between the three sets of records which normally have the same figures.

299.2 Wrongly Charged Accounts

The statement of receipts and payments reflects expenditure amounting to Kshs.7,270,646,073 on transfer to Other Government units. Included in this amount is Kshs.922,576,264 for the construction of small dams and water pans which was wrongly charged to current grants to other Government units (2630201) instead of construction and civil works under the acquisition of assets component.

The inconsistencies undermine the accuracy of the financial statements in the presentation of a true and fair view of the State Department of Irrigation operations as well as the purpose of budgeting. It also amounts to unauthorized expenditure and a move to avert the surrender of the unspent balances and/or reporting over-expenditure in the affected particular item

In the circumstances, the accuracy, validity and completeness of the financial statements balances cannot be ascertained.

300. Fixed Assets

The State Department of Irrigation spent Kshs.1,033,601,364 on acquisition of assets as shown in the statement of receipts and payments. However, details of the assets acquired were not disclosed as Note 6 refers to construction and civil works while Annex 4 summary of fixed assets register indicates buildings and structures with a note on construction of pans and dams. Further, a fixed asset register (showing additions/disposals during the year 2016/2017) was not made available for audit review. In addition, fixed assets inherited by the state department are not disclosed in the financial statements.

Consequently, it has not been possible to confirm the accuracy, ownership and completeness of Kshs.1,033,601,364 balance on fixed assets as at 30 June 2017.

301. Cash and Cash Equivalents

301.1 Recurrent account.

The Cash and Cash equivalents balance of Kshs.702,081,595 as at 30 June 2017 includes a recurrent account balance of Kshs.326,936. The recurrent account includes Kshs.1,025,679 reflected as payments in the bank not in the cashbook. Management has not explained how the payments were made in the bank before they were posted in the cashbook.

301.2 Development Account.

The Development account cash book balance of Kshs.595,952,227 (Note 7A) includes an amount of Kshs.978,528,318 shown as payments in the cashbook not in the bank, out of which Kshs.419,800 is shown as a cashbook overcast which could not be traced in the cashbook. Further, Kshs.540,400 is reflected as payments in the bank statement not recorded in the cash book. Management has not explained how the payments were made in the bank before they were posted in the cash book.

301.3 Cash Management and Poor Records

There is no segregation of duties as pertains to cash management. It was not clear how cash is handled and by who. The cash book is also poorly maintained as important details like voucher details are omitted. The closing cash in hand balance as at 30 June 2017 as indicated in the financial statements was Kshs.1,005,100. It was not clear where the cash was kept in the absence of a cash office and/or cashier.

In view of the foregoing, it has not been possible to confirm the custody, accuracy and completeness of cash and cash equivalents balance of Kshs.702,081,595 as at 30 June 2017.

302. Accounts Receivables

Included in the accounts receivables balance of Kshs.34,067,310 as at 30 June 2017 is Kshs.10,968,632 for clearance account and Kshs.23,098,678 outstanding imprests. The amount of Kshs.10,968,632 has not been explained by way of a note to the financial statements nor has a breakdown listing been provided to support the amounts. Further, records maintained by the State Department of Irrigation indicate that imprest amounting to Kshs.23,098,678.00 under Note 8 in the financial statement was outstanding as at 30 June 2017. However, the following anomalies were noted:

I. The Imprest Register is not up to date and thus cannot be relied upon to establish when an Imprest was surrendered and by which payment voucher. It was also noted that officers are issued with more than one imprest at a given time contrary to public finance management regulations, 2015.

II. Officers also take imprests on behalf of other officers instead of paying directly to the concerned officers accounts.

III. A schedule of the outstanding imprest holders availed indicated surrender dates which could not be relied upon as most of them showed imprests were surrendered before 30 June 2017. It was thus not clear how the same could appear as outstanding on 30 June 2017 yet they are purported to have been cleared before the close of the financial year.

Consequently, it has not been possible to confirm the accuracy of the imprest balance of Kshs.23,098,678 as at 30 June 2017.

303. Compensation of Employees.

i. During the year under review, the State Department for Irrigation budgeted to spend Kshs.92, 656,614 on compensation of employees. However, the actual expenditure was Kshs.102,930,735 resulting in an unexplained over expenditure of Kshs.10,274,121. Further, the general Ledger balance of Kshs.111,136,623 is at variance with the schedules provided in support of the compensation of employees figure totaled Kshs.102,930,735

ii. In addition, included in the compensation of employees are commuted leave allowance amounting to Kshs.4,560,135 paid to various officers contrary to Section N of the Government Code of Regulations Revised 2006 and Department of Personnel Management (DPM) Circular number DPM/38/1A/38. Again, the respective officers' personal files sampled, revealed there was no evidence to show they actually applied for leave and were never granted due to exigency of work to warrant the commutation of leave for cash.

Consequently, the validity, completeness and accuracy of the compensation to employees' balance of Kshs.102,930,735 as at 30 June 2017 could not be ascertained.

304. Procurement of Construction and Civil Works-Small Dams and Water Pans.

During the year under review, the State Department spent Kshs.1,033,601,364 on acquisition of assets. Included in this amount is Kshs.865,301,290 on the construction of small dams and water pans. However, the department did not avail an inventory of all the water pans and small dams indicating the physical location, the Contractor and when they were constructed and their status. Further, there were no technical reports like feasibility, hydrological, environmental impact assessment (EAI) that were carried out before commencement of the works. In addition, the contracts entered into were not dated.

There was no evidence of individual evaluation score sheets of each contract for both technical and financial evaluation. Only a summary of the scores was availed nor any evidence to show if a cost benefit analysis was done to show the importance of either constructing new boreholes, water pans and small dams versus rehabilitating the existing ones.

In addition, it was noted that all the purchase orders were raised in the month of June 2017 in a span of eight (8) days as enumerated below;

No.	Date	**Total Value of LPOs (Kshs.)**
1	8/6/2017	48,160,324
2	9/6/2017	195,019,180
3	12/6/2017	303,145,120
4	13/6/2017	155,292,219
5	14/6/2017	38,258,575
6	15/6/2017	34,443,259
7	19/6/2017	9,177,010
8	27/6/2017	81,805,604
		865,301,290

Consequently, it has not been possible to confirm the validity and value for money of the expenditure of Kshs.865,301,290 on water pans and small dams has been released.

305. Unsupported Expenditure

Included in the use of goods and services balance of Kshs.47,631,799 as at 30 June 2017, is payment vouchers totalling Kshs.11,552,043 without sufficient supporting evidence. Further, a total of Kshs.8,196,774 relating to routine maintenance - vehicles and other transport, routine maintenance - other assets, and fuel oil and lubricants which the audit could not confirm the accuracy of the stated amount due to non-provision of the following documents;

- A list showing all the Department's motor vehicles indicating their status that were in use during financial year under review together with original work tickets for each vehicle.

- Contract with National Oil Corporation (2016/2017)

- Supplier statement for 2016/2017 for all bulk fuel purchased and drawn.

- Bulk fuel register for the generator for 2016/2017.

This is in contravention of part IX-Accounting and reporting Section 104(1) of the Public Finance Management Regulations, 2015.

Consequently, it has not been possible to confirm the accuracy, completeness and validity of the use of goods and services expenditure of Kshs.47,631,799 as at 30 June 2017.

Other Matter

306. Delay in Availing Information/Documents

During the audit we requested various information/documents vide a request for documents Ref:AA/SDI/2016/2017(2) dated 8 December, 2017. Some of the documents were availed on 4 January 2018 that is twenty-eight (28) days late. The following documents were never availed.

i Internal audit minutes (hard and soft copy)
ii Internal audits monthly/quarterly reports (hard and soft copy)
iii Internal audit work plans (hard and soft copy)

Consequently, management was in breach of the Public Audit Act, 2015.

307. Budget Analysis

The State Department of Irrigation had budgeted to receive Kshs.8,769,590,276 from National Treasury and Kshs.3,548,150,825 from foreign Borrowings. However, only Kshs.7,477,294,345 and Kshs.1,608,867,199 were received resulting to underfunding of Kshs.1,292,295,931 and Kshs.1,939,283,626 respectively.

In view of the forgoing, the state department did not achieve its planned and budgeted activities and its objectives for the year under review.

308. Lack of Audit Committee

The State Department for Irrigation has not established an audit committee as required under Section 174(1) of the Public Finance Management Act, 2012. This has the effect of constraining on the follow up and implementations of the recommendations of the internal and external auditors.

309. Pending Bills

Pending bills amounting Kshs.47,086,657 chargeable to both recurrent and Development votes for the State Department for Irrigation as at 30 June 2017 were not paid in the year under review but instead were carried forward to 2017/2018. However, no supporting documents were provided to confirm the accuracy, validity and completeness of the pending accounts payables as shown in notes 11.1 and 11.2 read together with Annex 1 and 2. Had those bills been paid and expenditure charged, the statement of receipt and payments will reflect a surplus of Kshs.584,264,916 instead of Kshs.631,351,573 now shown. Failure to settle the bills during the year to which they relate distorts the financial statements for that year and adversely affect the provisions for the subsequent year to which they have to be charged.

In addition, the accounts payable in respect of deposits of Kshs.104,797,332 had no supporting documents to confirm the third parties owed.

As a result, the accuracy, validity and completeness of the pending bills and deposits could not be confirmed.

STATE DEPARTMENT OF ENVIRONMENT

FINANCIAL STATEMENTS FOR VOTE 1105

Basis for Qualified Opinion

310. Accuracy, Completeness and Presentation of Financial Statements

310.1 Comparative Figures

The financial statements of the State Department of Environment as at 30 June 2017 reflect comparative figures that mirror the closing balances of the defunct Ministry of Environment and Natural Resources. However, there was a separation during the year under review separating the State Department of Natural Resources from the State Department of Environment. The effect and impact of the separation of the state departments has not been considered in the comparative figures to comply with IPSAS 1 and 3 requirements. Further, the comparative figures in the financial statements do not tally with the nil comparative balances shown in the IFMIS.

310.2 Undisclosed and Unsupported Transfers to Other Government Entities

Note 7 to the financial statements indicates transfer to other Government entities of Kshs.1,957,181,570 (2016; Kshs.10,731.987,178) as at 30 June 2017. However, the entities provided only received Kshs.65,970,160 and Kshs.786,823,221 for recurrent and development expenditure all totaling Kshs.852,793,381 leaving Kshs.1,104,388,189 undisclosed and unsupported.

310.3 Completeness of the Financial Statements

The financial statements presented for audit do not have a list of pending bills and summary of fixed assets and a progress on implementation of audit recommendations for previous year as required under International Public Sector Accounting Standards (IPSAS 1) under which they were prepared. The financial statements were therefore incomplete.

310.4 Unsupported Prior Year Adjustment

Included in the financial statements under the cash flow statement and Note 15 is Kshs.146,183,034 described as prior year adjustments on receivables which has not been explained or supported contrary to IPSAS 1. The adjustment could therefore not be verified as no information was provided for audit review.

310.5 Unexplained Variances between the Financial Statements and the IFMIS Record Balances

Various account balances in the financial statements differ with respective balances shown in the unsigned IFMIS trial balances and notes attached to the financial statements as shown below;

Account Name	Financial Statement Balance 30/6/17 Kshs.	IFMIS Balance 30/6/17 Kshs.	Variance Kshs.
Bank Balances	54,991,707	(104,718,559)	(49,726,852)
Cash Balances	8,249	1,668,109,022	1,668,100,773
Accounts Receivables – Outstanding Imprest and Clearance Accounts	6,964,157	38,697,848	31,733,691
Accounts Payables-Deposits	53,266,931	1,593,017,629	1,539,750,698
Financial Assets	61,964,113	1,602,088,311	1,540,124,198

In view of the foregoing, the accuracy, completeness and presentation of the 2017 financial statements for the State Department of Environment cannot be ascertained.

311. Cash and Cash Equivalents

The cash and cash equivalents balance of Kshs.54,999,956 as at 30 June 2017 is at variance with the IFMIS balance of Kshs.1,563,390,462 resulting in an unexplained difference of Kshs.1,557,890,506. Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.54,999 954 as at 30 June 2017 cannot be ascertained.

312. Fixed Assests

312.1 Fixed Assets Register

The state department acquired Fixed Assets of Kshs.872,524,939 . However, a summary fixed assets register was not provided for audit review yet the department has various assets including land and buildings across the country as well as vehicles and other equipment of undetermined value. Further, the state department raised Kshs.1,750,000 from sale of unindentified fixed assets. In addition, the fixed assets inherited by the department have not been disclosed in the financial statements.

In the absence of the fixed assets register, it has not been possible to confirm that the fixed assets in the state department’s financial statements are fairly stated and the reason for non-maintenance of a fixed assets register.

312.2 Loss of Government Vehicle

As reported in 2014/2015 and 2015/2016 the state department vehicle registration number GK A 152Q (though assigned civilian number plate KAY953F valued at Kshs.5,460,000 was lost at mlolongo area in Machakos County under unclear circumstances on 24 August 2013 at around 9.00 am and was at the time being driven by an unauthorized person. However, Government regulation on reporting of stolen vehicles were not followed while reporting the matter in the ministry. It therefore seems that there is an intension to conceal the loss. Management has not initiated any measures to recover the loss of Kshs.5,460,000 from the responsible parties.

In consequence, the existence, ownership, security and accuracy of the fixed assets acquired and or inherited by the state department could not be confirmed as at 30 June 2017.

313. Pending Bills

During the year under review, there were no pending bills disclosed in the financial statements except for an amount of Kshs.330,483,375 which was mentioned in an attached correspondence that relates to 2015/2016 for Meterological Department. However, its not clear whether the pending bills were paid or not. Further, IFMIS note 24 indicates accounts payable of Kshs.1,593,017,629 that are not shown in the financial statements nor were supporting documents provided for audit review.

Under the circumstance, it has not been possible to confirm whether, the department had outstanding pending bills as at 30 June 2017.

314. Deposits Account

The State Department of Environment reflects a deposit account of Kshs.53,266,931 as at 30 June 2017 as compared to Kshs.57,084,782 in 2015/2016. The deposits account is build up by retention money for defect liability period of about six (6) Months to one year. However, most of the deposits have been outstanding for over five (5) years. It was therefore not possible to ascertain the validity and genuineness of the deposits balance of Kshs.53,266,931 as at 30 June 2017.

315. Outstanding Imprest

315.1 Imprest Understatement

The outstanding imprest balance of Kshs.6,964,157 as at 30 June 2017 is understated by Kshs.38,764,774 being Government imprest not posted to the ledger. Recoverability of the balance cannot be ascertained.

315.2 Multiple Imprests

It was noted during the audit that fourteen officers had more than one imprest at a time amounting to Kshs.66,747,385 as at 30 June 2017 contrary to Section 94 (4) (a) of the Public Finance Management Act, 2012.

In the circumstances, the accuracy, completeness and recoverability of the outstanding imprest cannot be confirmed.

Emphasis of Matter

Budget Analysis

a. Revenue Shortfall

The aggregate exchequer release of Kshs.4,777,671,490 for the year under review were short of the approved budget figure of Kshs.5,348,274,451 by Kshs.570,602,961 whose variance has not been explained. The department had budgeted to receive Kshs.3,750,000 from the sale of assets whose actual receipt was Kshs.1,750,000 resulting in a shortfall of Kshs.2,000,000.

Further, on other receipts the department had an approved budget of Kshs.815,150,000 whereas the actual realized was Kshs.159,560,430 resulting in a shortfall of Kshs.655,589,570 which has not been explained.

b. Expenditure Budget Analysis

The state department had an approved budget of Kshs.531,138,194 for use of goods and services. The actual expenditure as at 30 June 2017 amounted to Kshs.830,074,824 resulting to over expenditure of Kshs.298,936,630. The authority to incur the excess expenditure of Kshs.298,936,630 was not provided for audit verification. The over expenditure is therefore unauthorized.

The state department had an approved budget of Kshs.3,801,572,286 for transfer to other Government entities. The indicated actual transfer during the year amounted to Kshs.1,957,181,570 resulting to underfunding to those entities by Kshs.1,844,390,716 or 51%. The underfunding may hinder the operations of the institutions concerned.

Further, on acquisition of assets the approved budget was Kshs.1,578,507,293 against the actual assets acquired amounting to Kshs.872,524,940 resulting to underutilization of Kshs.705,982,353.

In view of the forgoing, the state department did not achieve its planned and budgeted activities and its objectives for the year under review.

STATE DEPARTMENT OF NATURAL RESOURCES

FINANCIAL STATEMENTS FOR VOTE 1106

Basis for Qualified Opinion

316. Accuracy, Completeness and Presentation of the Financial Statements

316.1 Transfers to Other Government Units

Note 5 to the financial statements reports a breakdown from self-reporting entities of Kshs.6,475,880,054 while statement of receipts and payments reports a balance of Kshs.6,478,832,768 hence resulting in an unexplained variance of Kshs.2,952,714. No explanation has been provided for the anomaly.

316.2 Comparative Figures

Comparative figures for 2015/2016 for Ministry of Environment and Natural Resources were not separated or restated to reflect what belongs to the State Department of Environment and State Department of Natural Resources. Hence, the State Department of Natural Resources reported nil balances in the comparative year 2015/2016.

In view of the foregoing, the accuracy, completeness and presentation of the financial statements as at 30 June 2017 could not be ascertained.

317. Substandard and Incomplete Works

The State Department awarded a Contract of Kshs.24,956,008.00 on 24 November 2016 for refurbishment of 20th and 21st floors of offices at Block A of NSSF Building. However, a review of the contract, revealed that time period for the execution of the works was not specified, contract terms and conditions were not outlined, defects liability period was not stated. Further, retention amount was not clearly defined in the contract document and no performance bond was provided as required against client non-performance. In addition, as per bills of quantities it was indicated works was supposed to be carried out on 21st floor instead of 15th floor and paid for thereby invalidating the claim. Also, provisional sum of Kshs.5,900,000 paid with respect to contingencies was not authorized nor approved for payment. Again, certified sum of Kshs.11,078,834 equivalent to 48% could not be verified due to lack of breakdown analysis and supporting documents.

In the circumstances, the propriety and value for money for the expenditure of Kshs.16,978,834 could not be confirmed as a proper charge to public funds.

318. Wrong Charge

The statement of receipts and payments reflects expenditure balance of Kshs.402,337,553 for use of goods and services, of which kshs.19,921,114 relates to domestic subsistence allowance which had been charged to the wrong expenditure heads as analyzed in the table below. Further, there was no authority sought from the National Treasury for reallocation.

Financial Statement Component/wrong account charged	**Amount Kshs.**	**Correct Account ought to be charged**
Transfer to other Government units		
Capital grants	7,090,002	2210403-Domestic Subsistence Allowance
Other current transfers, grant and subsidies	7,822,654	2210403-Domestic Subsistence Allowance
Other grants and transfers		
Emergency relief and refugee assistance/Drought Mitigation	5,008,458	2210403-Domestic Subsistence Allowance
TOTAL	**19,921,114**	

Under the circumstance, the posting of Kshs.19,921,114 is misleading and amounts to window dressing of the financial statements.

319. Cash and Cash Equivalents

The statement of assets reflects a cash and cash equivalents balance of Kshs.11,942,275 as at 30 June 2017. However, the bank reconciliation statement for recurrent and development account as at 30 June 2017 reports payments in cashbook not yet recorded in bank statement totaling to Kshs.472,006,470 and Kshs.885,463,907 respectively. Subsequent clearance of the said reconciling items was not provided at the time of audit. Consequently, it has not been possible to confirm the accuracy of cash and cash equivalent balance of Kshs.11,942,275 as at 30 June 2017.

320. Acquisition of Assets

The statement of receipts and payments reflects acquisition of assets of Kshs.282,107,946 as at 30 June 2017. However, the summary of fixed assets in Annex 4 to the financial statements reflects nil values for fixed assets. Further, included in the acquisition of assets figure of Kshs.282,107,946 and as disclosed in Note 7 to the financial statements, is an amount of Kshs.200,000,000 related to construction and civil works. This amount relates to construction of a wildlife security fence in Laikipia and was to be undertaken by the Kenya Wildlife Service(KWS). However, this amount was supported by payment voucher number 00449 which indicated disbursements of development grants to KWS. It is not clear how transfers to other government units of Kshs.200,000,000 was recorded as construction and civil works in the state department of Natural Resources financial statements.

Consequently, the accuracy and valuation of the acquisition of assets figure of Kshs.282,107,946 as at 30 June 2017 could not be ascertained.

321. Unbudgeted Expenditures

The State Department of Natural Resources did not include the estimates on wildlife compensation in Vote R1106 revised recurrent expenditure estimates for the year 2016/2017. Further, no information was made available for audit review to confirm whether the amount of Kshs.230,000,000 was included in the development or recurrent estimates due to Kenya Wildlife Service transferable by the State Department of Natural Resources. Further, it was not clear how the funds for wildlife compensation were sourced neither was there any explanation or reallocation warrants or authority sought or given was made available for audit scrutiny.

In view of the inconsistencies, the accuracy of the financial statements could be undermined thereby affecting presentation of a true and fair view of the state departments operations as well as the purpose of budgeting. In consequence, the expenditure of Kshs.230,000,000 amounts to unauthorized excess vote.

322. Outstanding Imprests

The State Department of Natural Resources financial statements indicate outstanding imprest (Note 9) of Kshs.1,958,192 as at 30 June 2017. However, the imprest register was not up to date resulting in the risk of non-recovery of imprests issued and loss of funds through improperly supported imprest surrenders.

Consequently, it has not been possible to confirm the accuracy, completeness and recovery of the outstanding imprest balance of kshs.1,958,192 as at 30 June 2017.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor’s Responsibilities for the Audit of the financial statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
1.	**Grants and Other Transfers**	
	The mandate of the Department includes conservation and management of forests, wildlife and biodiversity resources. The Department has four semi-autonomous government institutions that further government policy and the Department's objectives. The Department also uses other government departments to undertake its mandate. The statement of receipts and payments reflects grants and transfers totaling 7,026,080, 026 consisting of transfers to other government units and other grants and transfers of Kshs.6,478,832,768 and Kshs.547,247,258 respectively for the year ended 30 June 2017. We considered this to be a key audit matter due to the accountability framework and timing of such transfers. The effectiveness of the transfers payments can be, or can appear to be, more difficult to substantiate, since they usually do not involve receipt of specific goods or services. There is also the risk that the amounts may not be used for the agreed purposes and not contribute to the mandate of the department. Further, un-approved transfers may be made to the entities or transfers made are not linked to Department's mandate and strategic objectives. In addition, some of the transfers and grants are contributions to programs amounting to Kshs.547,247,258 which involve multi-agency interventions. For instance, grants and transfers for drought preparedness has encountered increasing support from governments in recent years at various	• Reviewed the mandate and the strategic plan of the Department. • Reviewed the objectives of the various programs where transfers were made • Obtained and reviewed the approved estimates of the department to identify amounts budgeted. • Confirmed from the financial statements of the semi-autonomous Government Agencies, the amounts reported as grants received from the State Department. • Confirmed from the vote-book the amount recorded under Recurrent and Development vote as transfers and grants by the State Department. • Examined eligibility of expenditure reported grants and transfers expenditure and whether the expenditure complied with relevant GOK regulations and law. • Audit marked drought contingency expenditure and wildlife security fence project for further review in subsequent audits.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
	levels (national and county) because of escalating impacts and the ineffectiveness and costs of emergency assistance programs that have little noticeable return. As such, there is a risk of supporting programs that are already funded by other government agencies or levels.	
2.	**Green schools and commercial tree growing programme (2016-17 financial year)**	
	One of the principal mandate of the State Department is to protect Kenya's remaining forests and increase forest cover to 10% over the next 20 years though a national planting scheme and by providing alternative to over intensive farming and ending clearances for luxury development and industrial projects. As such, a School Greening Programme was rolled out under Ministry of Environment and Natural resources in the financial year 2015-16 and was to be implemented in three phases. The objectives of the programme were to promote green initiatives (tree planting) in schools (public primary) and to set up infrastructure for schools (water tanks and roof water harvesting) for supporting school greening activities. As at 30 June 2017, a total of Kshs.494,567,159 had been spent on the programme. We considered this as a key audit area because of the impact the project has on the public. The programme targeted a total of 931 schools (841 from the high potential counties and 90 from ASAL counties). However, as at 30 June 2017, only 258 schools had been covered under the programme that is 53 schools in 2015/2016 and 205 school in the year under consideration. There is a risk that the program's intended objectives may not be	• Checked objectives of green schools and commercial tree growing programme. • Analyzed the master list on schools selected • Checked if the schools targeted fall within the Eastern regime rainfall, normally during the months of October to December or Western regime rainfall that is experienced within the months of March to June • Verified price for seedlings with majority being purchased are within market rate in the local area. • Obtained a report on how the management have identified the specific forest and public schools to be a beneficiary of the programme. • Obtained copies of professional opinion approved by accounting officer green school programme. • Audit marked green schools and commercial tree growing programme as a keep in view (KIV) item in 2017/2018 audit.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
	achieved despite the amount of money spent. The programme is also rain dependent. Therefore, there is a risk of loss of tree seedlings and funds due to lack of rains. The seedlings are purchased from the local areas hence there are no structured market prices for seedlings.	
3.	**Fixed Assets Management**	
	The statement of receipts and payments reflects acquisition of assets figure of Kshs.282,107,946 for the year ended 30 June 2017. Due to the use of cash basis of accounting, the management control of these assets presents a great challenge and risk to the State Department management. We considered this to be a key audit matter since there is a risk that assets acquired are not recorded in the fixed asset register. This also increases the risk of loss of fixed assets. There is also a risk that the assets may not be insured thereby posing challenges in replacing the assets. In addition, there is a risk that such assets may not be used for the activities of the State Department. As reflected in Annex 2 to the financial statements, the Department did not disclose any information on the assets acquired over time.	• Verified that assets are managed in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets. • Confirmed preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse; • Verified movement and that conditions of assets can be tracked. • Confirmed that processes and procedures both electronic and manual are in place for the effective, efficient, economical and transparent use of the government entity's assets.

Other Matter

323. Public Participation in the State Department Budget Implementation

Article 201(a) of The Constitution of Kenya requires that there should be openness and accountability, including public participation in financial matters. Further, Section 36 (3) (d) of the Public Finance Management Act, 2012 provides for public participation in the budget process. There is no evidence of public participation in the budgetary information used to prepare the financial report presented.

324. Internal Controls Not Implemented

The following observations were made during a review of the internal control systems of the State Department:

a) No risk assessment was carried out to identify and address key areas of concern and document specific controls in response to identified risks – there is no evidence that management assessed the internal controls applicable to address any material weaknesses that could be inherent in the controls.

b) The State Department has no formal, documented and tested disaster recovery plan/emergency procedure in place and therefore in case of an emergency, the personnel involved might not be aware of what is expected of them.

325. Financial Statements and IFMIS

325.1 Notes to the financial statements and IFMIS Notes

Inconsistencies on numbering notes to financial statements and notes to financial statements as per IFMIS system were noted and not rectified by management.

325.2 Variance between Notes to the Financial Statements and Notes as per IFMIS Reports

It is a requirement that all the figures in the financial statement be expounded in a way of note. Notes in support of the figures in the financial statement were presented together by 30 September 2017. However, we noted two sets of notes in support of financial statements had variances as analyzed below:

	Note as Financial Statements/ Statements	Notes as IFMIS /IFMIS Statements	Amounts per Notes in the Financial Statements Kshs.	Amount as per IFMIS Notes Attached in the Financial Statements Kshs.	Variance Kshs.
Other Revenue	2	11	500,000	-	500,000
Use of goods and Services	4	13	402,337,553	404,416,175	(2,078,622)
Accounts Receivable-Outstanding Imprests	9	23	2,000,800	2,998,045	(997,245)
Accounts Payable	10	24	1,497,888	3,996,960,185	(3,995,462,297)

	Note as Financial Statements/ Statements	Notes as IFMIS /IFMIS Statements	Amounts per Notes in the Financial Statements Kshs.	Amount as per IFMIS Notes Attached in the Financial Statements Kshs.	Variance Kshs.
Bank Balances	8A	22A	11,926,625	3,973,398,962	(3,961,472,337)
Cash in Hand	8B	22B	15,650	7,821,008,767.1	(7,820,993,117)
Surplus for the Year			12,445,186	10,366,565	2,078,621

In addition, the State Department relied on manual accounting to prepare the financial statements hence the above variances with IFMIS information have not been reconciled or explained.

326. Pending Bills

Pending Bills amounting to Kshs.52,689,629 chargeable to recurrent and development account and relating to financial year 2016/2017 were not paid during the year but were instead carried forward 2017/2018. Had these bills been paid and expenditure charged to the accounts for 2016/2017 the statement of receipts and payments would have recorded a deficit of Kshs.40,224,443 instead of a surplus of Kshs.12,445,186 now shown.

DONOR FUNDED PROJECTS

INSTITUTIONAL STRENGTHENING OF THE OZONE DEPLETING SUBSTANCES PROJECT (UNEP PROJECT ACCOUNT NO. UNEP/KEN/SEV/62/INS)

Unqualified Opinion

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

LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT PHASE II (IDA CREDIT NO. 4532-KE AND IDA CREDIT NO. 5634-KE)

Basis for Qualified Opinion

327. Special Account Statement - Amounts Withdrawn and Not Claimed

The special account statement reflects amounts withdrawn and not claimed as at 30 June 2017 as US Dollars 533,760 (Kshs.55,302,882). This amount is eligible for refinancing but documentation to claim the amount had not been provided as at 30 June 2017.

Consequently, the validity of amounts not claimed could not be confirmed.

328. Budget Execution

The project had budgeted Kshs.273,440,114 for other grants and transfers payments. However, only Kshs.77,811,681 (28%) was utilized. Consequently, and due to this low absorption rate, the project may not realize its objectives within the set timelines.

KIMIRA OLUCH SMALLHOLDER FARM IMPROVEMENT PROJECT (ADF LOAN NO. 2100150012296)

Basis for Qualified Opinion

329. Inaccuracies in the Financial Statements

329.1 Under Statement of Receipts and Payments

Note 1.7 to the financial statements relating to funding summary, reflected total amount received as Kshs.5,954,223,123 while in the statement of receipts and payments, the total cumulative loan and counterpart receipts is captured as Kshs.2,654,310,486 resulting to an unreconciled and unexplained difference of Kshs.3,299,912,637.

329.2 Statement of Cash flows

The following differences were noted between the certified financial statements of 2015/2016 and the comparative balance brought forward and presented in the financial statements of 30 June 2017.

	Certified financial Statements 30. June.2016 Kshs.	Comparative Balance 30. June.2017 Kshs.	Difference Kshs.
Net cash flow from financial activities	77,882,203	234,205,120	(156,322,917)
Net increase (decrease) in cash and cash equivalent	(53,698,859)	52,936,028	(106,634,887)
Cash and cash equivalent at the beginning of the year	84,370,848	31,434,820	52,936,028
Cash and cash equivalent at the end of the year	30,671,989	84,370,848	(53,698,859)

Consequently, the accuracy and validity of the statement of cash flows as presented cannot be confirmed.

330. Pending Accounts Payable (Bills)

Included in note 7.10 to the financial statements is an amount of Kshs.1,180,492,625 in respect of pending bills. However, the funding summary under note 1.7 to the financial statements reflected undrawn balance to date of Kshs.811,458,898 while note 7.9A relating to bank accounts reflected Kshs.38,474,878 both totalling to Kshs.849,933,776 which is not enough to clear the pending bills thus resulting to a short fall of Kshs.330,558,849.

Consequently, the accuracy of the pending bills could not be ascertained.

331. Under Funding

During the year under review, the project was allocated a sum of Kshs.1,671,118,900 to finance pending bills and meet other operating expenditure. However, only Kshs.187,000,000 was made available to the entity representing a shortfall of Kshs.1,484,118,900.

Consequently, the completion of the Project has been delayed by underfunding and at the same time increasing the cost of the Project.

332. Disbursements not Supported by Authority to Incur Expenditure (AIEs)

Included in the statement of receipts and payments is an amount of Kshs.187,000,000 received during the year from the Ministry of Devolution and Planning that has not been supported by authority to incur expenditure as required by Regulation 52(1) of the Public Finance Management (National Government) Regulations, 2015.

It is not clear how the Project would use the funds without authority.

333. Long Over Due Advances

Included in the cash and cash equivalent balance of Kshs.44,562,586 is an imprest and advances amount of Kshs.5,629,581 which relates to salaries for the period July 2014 to June 2015 paid by the Project for fifteen staff contracted by the parent ministry and which the ministry was required to refund to the Project account with effect from 1st July 2015. This balance has remained outstanding in the project books for over two years.

Consequently, the reasons for non-refund of imprest and advances amount of Kshs.5,629,581 could not be confirmed.

334. Stalled Minor Works

The Ministry of Environment, Water and Natural Resources entered into nine (9) contracts with five (5) contractors on 20th December 2013 for the construction of in-block irrigation infrastructure in the two schemes at a combined cost of Kshs.1,543,034,317. As at 30 June 2017, the project consulting engineer had certified works worth Kshs.1,092,362,399 out of which unpaid certificates amounted to Kshs.345,820,688. However, the contractors abandoned the sites and therefore no additional construction works were carried out during the year ended 30 June 2017. Consequently, the residents of Oluch and Kimira have not received value for money yet the Project is almost coming to an end.

335. Non-Submission of Special Account No.01257485050 Statements

During the year under review, the project did not avail statements for special account for the financial year 2016/2017. It was therefore not possible to determine how the transactions for the Special Account No.01251485050 were accounted for.

Consequently, the propriety of the transactions in the Special Account for the year ended 30 June 2017 could not be confirmed.

Other Matter

336. Project Implementation Progress

According to the Project implementation progress report dated July 2017, out of the targeted 5,382 farmers only 565 farmers were benefiting from the scheme representing only 10.5% and yet the project end date is 30 June 2018.

Consequently, the Project may not reach all the intended beneficiaries.

337. Project Governance System

It was further noted that the internal audit was reporting to the Project Manager directly instead of Project Steering Committee, contrary to paragraph 1.8 of the financial statements.

As a result, the Project in the year 2016-2017 had no proper governance system in place and thus resulting to delay in delivery of services and benefits to farmers.

WATER AND SANITATION SERVICE IMPROVEMENT PROJECT-ADDITIONAL FINANCE IDA CREDIT NO. 5103-KE

Unqualified Opinion

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

NAIROBI RIVERS BASIN REHABILITATION AND RESTORATION PROGRAM: SEWERAGE IMPROVEMENT PROJECT

Unqualified Opinion

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

Other Matter

338. Transfer of Assets

Section 5.2(1) of the other conditions under the agreement between the Republic of Kenya and African Development Fund states that, 'the borrower will provide evidence in form and substance acceptable to the Fund that by 31 December 2013 the transfer of assets from Urban Water Supply and Sewerage and City Council of Nairobi to Athi Water Service Board has taken place. By the time of the audit, however, the scheduled transfer had not taken place. Consequently, this was in contravention of the loan Agreement

MINISTRY OF LANDS AND PHYSICAL PLANNING

FINANCIAL STATEMENTS FOR VOTE 1112

Basis for Qualified Opinion

339. Fixed Assets

339.1 Summary of Fixed Assets

As previously reported, the financial statements for the year ended 30 June 2017 does not include a summary of fixed assets as an annex contrary to the prescribed reporting template as issued by Public Sector Accounting Standards Board of the National Treasury. In the current year, assets amounting to Kshs.1,420,287,680 were procured by the Ministry but assets register was not maintained as required by Regulation 143 of Public Finance Management (National Government) Regulations 2015.

Consequently, the management failed to comply with Regulation 143 of Public Finance Management (National Government) Regulation 2015 which requires maintenance of fixed assets register.

339.2 Construction of Buildings

Included in the statement of receipts and payments for the year ended 30 June 2017 is acquisition of assets amounting to Kshs.1,420,287,681. Included in this figure is construction of buildings of Kshs.77,233,293 as per Note 10 to the financial statements. This figure could however, not be confirmed since installation of access control and biometric equipment at Ardhi House and Survey of Kenya amounting to Kshs.58,811,632 was irregularly charged to the item/account for construction of buildings and no such authority had been obtained from the National Treasury.

339.3 Purchase of Specialized Plant, Equipment and Machinery

Included in the statement of receipts and payments for the year ended 30 June 2017 is acquisition of assets amounting to Kshs.1,420,287,681 out of which Kshs.152,265,644 was used for purchase of specialized plant, equipment and machinery during the year. However, an amount of Kshs17,865,000 had no supporting documents such as payment vouchers.

Consequently, it has not been possible to confirm the validity and accuracy of fixed assets worth Kshs.76,676,632.

340. Use of Goods and Services

340.1 Foreign Travel and Subsistence

Included in foreign travel and subsistence amount as disclosed in Note 6 to the financial statements is local travel and subsistence amount of Kshs.500,632 and standing imprest reimbursement of Kshs.221,484 paid, which had not been accounted for by 30 June 2017 contrary to the requirements of Regulation 93(5) and (11) of Public Finance Management (National Government) Regulations, 2015.

Consequently, it has not been possible to confirm the accuracy of Kshs.722,116 included in the financial statements.

340.2 Fuel, Oils and Lubricants

Included in fuels, oils and lubricant amount of Kshs.8,530,800 in Note 6 to the financial statements is an amount of Kshs.6,529,120 which was posted to a wrong item/account – other operating expenses and which could therefore not be confirmed.

Consequently, it has not been possible to confirm the accuracy and validity of Kshs.6,529,120 included in the financial statements.

341. Cash and Cash Equivalents

341.1 Bank Reconciliations

The statement of assets and liabilities as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.331,667,785 and which varies with the reconciled cash book balances of Kshs.332,202,938. The resultant variance of Kshs.535,153 has not been explained or reconciled.

Consequently, it has not been possible to confirm the accuracy of Kshs.535,153 included in the financial statements.

341.2 2015/2016 Deposits Account

As previously reported, the deposit account balance amounted to Kshs.331,416,703 as per Note 11 to the financial statements. The deposit account's bank reconciliation statement consisted of the following outstanding effects which have been outstanding since 2013/2014 financial year and for which no explanation was given by the management.

Item	Amount 2015/2016 (Kshs.)	Amount 2016/2017 (Kshs.)	Movement Kshs.
Receipts in bank statement not in cashbook	1,015,410,406	185,400	1,015,225,006
Payments in bank statement no in cash book	220,854,334	276,000	220,578,334
Receipts in cashbook not in Bank statement	43,232,134	38,310	43,193,824
Total	**1,279,496,874**	**499,710**	**1,278,997,164**

The balances significantly reduced by Kshs.1,278,997,164 in the current financial year without the Ministry explaining how the figures were cleared.

Further, included in the deposit account bank reconciliation statement are receipts in cashbook not yet recorded in bank statement amounting to Kshs.38,310 dated 30 June 2017 and payments in bank statement not recorded in cashbook amounting to Kshs.276,000 dated between 24 April, 2017 and 06 June 2017 respectively. Further, receipts in bank statement not in cashbook amounted to Kshs.185,400. The bank balance as per bank statement of Kshs.331,416,703 differs from the bank certificate balance of Kshs.338,672,195 by Kshs.7,255,492. The Ministry has not explained nor sought explanation from the bank for the variance between the two balances.

In addition, in 2016/2017 financial year, the Ministry opened a new deposit cashbook without indicating opening balances as was carried forward from 2015/2016 financial year. The deposit cashbook for the year ended 30 June 2016 was not availed for audit review.

341.3 Development Account – Uncleared Effects

Included in the Development account as per note 11 to the financial statements are bank reconciliation statements in which payments in cashbook not recorded in bank statement amounts to Kshs.4,611,523 some of which have been outstanding since 24 November 2016. Further, there were receipts in cashbook not in bank statement totalling to Kshs.3,814,980 dated from19 May 2017 to 28 June 2017. Payments in bank statement not recorded in cashbook amounted to Kshs.3,637,149 and were dated between 23 December 2016 and 06 July 2017 and receipts in bank statement not in cashbook amounting to Kshs.2,240,874 dated between 05 January 2017 to 05 July 2017 which remained uncleared by June 2017. The Ministry has not given reasons as to why the reconciliation items have not been cleared.

341.4 Recurrent Account – Bank Reconciliation

Included in Note 11 to the financial statement is Central Bank recurrent balance of Kshs.40,152 which differs from the bank certificate of balance of Kshs.32,375,186 by Kshs.32,335,034. The difference has not been explained.

In the circumstance, it has not been possible to determine the accuracy of cash and cash equivalent balance of Kshs.331,667,785 included in the statement of financial assets and liabilities as at 30 June 2017.

342. Accounts Receivables-Outstanding Imprest and Clearance Accounts

Note 13 to the financial statements reflects accounts receivables amounting to Kshs.52,649,071 as at 30 June 2017. Included in this amount is outstanding imprest totalling Kshs.50,016,332. Included in the balance of Kshs.50,016,332 are long outstanding imprests totaling Kshs.20,308,890 or (31%) for previous years for which no action has been taken. Further, the balance of Kshs.50,016,332 for outstanding imprest was understated by Kshs.16,186,642 since the schedules availed for audit review amounted to Kshs.66,202,974. In addition, officers were issued with more than one imprest before surrendering the previous ones contrary to Section 93(5) of the Public Finance Management (National Government) Regulations 2015.

In the circumstance, the accuracy of the balance for accounts receivable of Kshs.52,649,071 included in the statement of financial assets and liabilities could not be confirmed.

Other Matter

342.1 Budget and Budgetary Control

The ministry of land and physical planning had a total budget of Kshs.5,627,216,094 voted for the financial year 2016/2017 as detailed here below:-

Item	**Approved Budget** Kshs.	**Actual Payments** Kshs.	**Under Expenditure** Kshs.	**Over Expenditure** Kshs.
Compensation of Employees	1,901,822,872	1,908,315,507	-	6,492,635
Use of good & services	2,159,338,494	1,503,868,174	655,470,320	-
Transfer to Other Government Units	6,000,000	3,400,000	2,600,000	-
Other grants & Transfers	10,000,000	5,087,130	4,912,870	-
Social Security Benefits	9,400,000	6,811,488	2,588,512	
Acquisition of Assets	1,540,654,728	1,420,287,680	120,367,048	-
Total Kshs.	**5,627,216,094**	**4,847,769,979**	**785,938,750**	**6,492,635**

Overall the Ministry did not utilize a total of Kshs.785,938,750 representing 14% of the approved budget. The Ministry has not explained why more than 14% of the approved budget was not utilized. Consequently, the Ministry may therefore have failed to implement/achieve its planned development/operational targets.

342.2 Pending Bills

As disclosed in Annex 1 to the financial statements, the ministry of land and physical planning had pending bills of Kshs.363,922,056 and which were not settled as at 30 June 2017 but were carried forward to 2017/2018.

Had the bills been paid and the expenditure charged to the account for 2016/2017, the statement of receipts and payments for the year would have reflected a deficit of Kshs.331,853,412 instead of the reflected surplus of Kshs.32,068,644 for the year ended 30 June 2017.

THE REVENUE STATEMENTS OF THE MINISTRY OF LAND AND PHYSICAL PLANNING

Basis for Disclaimer of Opinion

343. Land Rent Collected by KRA on behalf of the Ministry

Note 3 to the revenue statements for the year ended 30 June, 2017 under property income of Kshs.902,364,582 includes Kshs.880,104,997 collected by Kenya Revenue Authority and remitted to the National Treasury as at 30 June 2017. However, as reported previously, the Agency Agreement between the Ministry of Land and Physical Planning was not availed for audit review for confirmation of specific terms and conditions of the agreement.

In the circumstance, it has not been possible to confirm the accuracy and validity of the property income of Kshs.902,364,582 included in the statement of revenues and transfers.

344. Other Land Revenue

Note 4 to the revenue statement for the year ending 30 June, 2017 reflects other land revenue amounting to Kshs.685,791,538. The full breakdown/analysis of this figure was not provided for audit review. Further, the figure was supported with a schedule of banking supposedly made from various land registries across the country. The schedule was obtained purely from the bank and did not include all the revenues collected by the registries during the year under review. In the circumstance, it has not been possible to determine the accuracy and validity of the figure for other land revenue of Kshs.685,791,538 included in the statement of revenues and transfers.

345. Budgeted and Actual Collection of Revenue

The Ministry of Land and Physical Planning had projected to collect revenue amounting to Kshs.2,950,779,981. However, the Ministry was only able to realize Kshs.1,710,533,970 resulting to a variance of Kshs.1,240,246,011 or 42%.

Therefore, the Ministry failed to collect revenue to the tune of 42% of the budgeted revenue. This may have impacted negatively on the country's budgeted development projects.

346. Land Rent Revenue Collected at Headquarters

As previously reported, Note 3 to the revenue statements reflect that Kshs.22,259,585 in respects of land rent revenue was collected at the Ministry's head office. The Ministry uses e-citizen software to collect land rent revenue.

The source documents such as copy of title deed/lease certificate, demand notice generated by the system indicating the amount of land rent payable and bank deposit slip or proof of payment are not maintained by the department making it difficult to ascertain whether the correct amount was billed or received.

Further, the users are able to edit existing data about revenue in the system such as date of latest clearance which may affect the amount payable. This compromises the quality and reliability of the revenue records available.

In the circumstance, it has not been possible to confirm the validity, accuracy and completeness of the land rent revenue of Kshs.22,259,585 included under property income in the statement of revenue and transfers.

347. Unexplained Variance between the Ministry and Treasury Records

The Ministry transferred Kshs.830,429,072 to the Exchequer. However, as similarly reported in prior years, records maintained by the National Treasury indicated total receipts of Kshs.920,172,684 from the Ministry resulting in a variance of Kshs.89,743,612 which has not been explained or reconciled. Further, the statement of revenue and transfers indicates that Kenya Revenue Authority collected on behalf of the Ministry and remitted to the Exchequer Kshs.880,104,997 as at 30 June 2017. However, Treasury records indicate the amount received from KRA on account of the Ministry to be Kshs.919,345,537 resulting to additional variance of Kshs.39,240,541 which has not been reconciled or explained.

In the circumstance, the accuracy and validity of the total revenue collected of Kshs.1,710,534,069 included in the statement of revenue and transfers could not be confirmed.

LAND SETTLEMENT FUND TRUSTEES

Basis for Disclaimer of Opinion

348. Property, Plant and Equipment

As previously reported, the Fund's statement of financial position as at 30 June, 2017 reflects a balance of Kshs.7,432,839,874 for Non-current Assets. However, schedules for land and buildings and fixed and loose assets accounting for the full value of the property, plant and equipment of Kshs.7,432,839,874 were not availed for audit review. Further, the Fund did not maintain a fixed/non – current assets register during the year under review thereby making it difficult to determine whether all non-current assets were accounted for. In the circumstance, it has not been possible to confirm whether the balance for property, plant and equipment of Kshs.7,432,839,874 included in the statement of financial position as at 30 June, 2017 is fairly stated.

349. Current Assets

349.1 Receivables from Non-Exchange Transactions

Note 10 to the financial statements reflects receivables from non-exchange transactions balance of Kshs.1,226,926,406. The balance has been arrived at after setting off a total credit balance of Kshs.2,966,132,339 as summarized below:-

Item	Kshs.
Land Loans Principal Billed	610,055,404
Development Loans Principal Billed	189,149,529
Rescue Loans Principal Billed	240,198
Cane Development Costs-Suspense	5,139,967
Loan Repayment-Collection	2,161,547,241
Total	**2,966,132,339**

However, no supporting schedules were availed for audit review in support of these credit balances as was the case in the previous years.

349.2 Unsupported Debit Balances

As reported in the previous year, the statement of financial position as at 30 June 2017 under note 10 (receivables from non-exchange contracts) – current receivables reflected the following balances totalling Kshs.4,182,651,766 and which had no supporting schedules as summarized below:-

Item	Amount (Kshs.
Land Loans Issued	278,975,885
Development Loan Issued	231,832,877
Rescue Loans Issued	550,019
Other Recoverable Expenses	9,820,460
Billed amount Settlers	3,494,524,091
Other Debtors	32,353,374
Trade Investment	59,263,387
Advances	10,567,668
Suspense Debit Items	64,507,005
Agency Accounts (Debits)	257,000
Total	**4,182,651,766**

In the circumstance, it has not been possible to determine the validity, accuracy and propriety of the receivables from non-exchange transactions balance of Kshs.4,182,651,766 included in the statement of financial position as at 30 June 2017.

350. Trade and Other Payables from Exchange Transactions – Unsupported Balance

The statement of financial position as at 30 June 2017 includes trade and other payables from exchange transactions of Kshs.14,118,127. Note 12 to the financial statements reflects trade and other payables from exchange transactions with the following balances and which had no supporting schedules:-

Item	**Amount (Kshs.)**
Refundable Deposits from customers	93,343,385
Other Creditors	3,150,139
Accrued Interest on Loan	301,500
Reserve for Bad Debts	6,602,797
Suspense Credit Items	(122,806,862)
Fund Drawn from Treasury	5,153,814
Total	**(14,255,227)**

In the absence of supporting schedules and analysis, it has not been possible to ascertain the existence, accuracy and validity of these balances for trade and other payables from exchange transactions included in the statement of financial position as at 30 June 2017with a net balance of Kshs.14,118,127.

351. Temporary Imprest - Outstanding Imprest

Included in the statement of financial position as at 30 June, 2017 is receivables from non-exchange transactions amounting to Kshs.1,226,926,406. This balance includes an imprest of Kshs.10,406,980. Out of this amount, Kshs.2,805,150 are long outstanding imprests and which the Fund has not recovered contrary to the Public Finance Management (National Government) Regulations 2015, Section 93(5) which require a holder of temporary imprest to account for or surrender the imprest within seven (7) working days after returning to the duty station.

352. Statement of Comparison of Budget and Actual Amounts

International Public Sector Accounting Standards (IPSAS) 24 – Presentation of budget Information in financial statements-requires a comparison of budget and actual amounts arising from execution of the budget to be included in the financial statements of entities which are publicly held accountable for their budget. The Fund did not comply with this requirement and therefore did not include the statement of comparison of Budget and actual amounts in its financial statements. The omission not only failed to comply with the International Public Sector Accounting Standards but also denied the users of the financial statements the information on the extent to which the Fund achieved its budgetary provisions for the year.

353. Budget and Budgetary Control and Performance

In 2016/2017 financial year, the Fund had projected to spend Kshs.943,960,500 comprising of recurrent expenditure of Kshs.268,760,500 and capital expenditure of Kshs.675,000,000 as detailed here below:-

Items	Approved Budget	Actual Expenditure	Under Expenditure
	Kshs.	**Kshs.**	**Kshs.**
Recurrent Expenditure	268,760,500	214,881,941	53,878,559
Capital Expenditure	675,000,000	-	675,000,000
Total	**943,760,500**	**214,881,941**	**728,878,559**

Although the Fund spent 78% of its budgeted recurrent expenditure, the Fund never spent any portion of its budgeted capital expenditure of Kshs.675,000,000. The Fund, therefore, did not accomplish its planned development projects/targets.

STATE DEPARTMENT FOR INFORMATION, COMMUNICATION, TECHNOLOGY AND INNOVATION

FINANCIAL STATEMENTS FOR VOTE 1122

Basis for Qualified Opinion

354. Acquisition of Assets

Included in the acquisition of assets figure of Kshs.2,904,012,001 under note 6 to the financial statements is a figure of kshs.2,873,149,809 in respect of financial assets described as domestic public non-financial enterprises NOFBI (ERD) whose nature breakdown was not availed for audit verification. Further, State department did not avail assets register for the assets acquired. Although the state department has explained that invoices, certificate of acceptance and payment notification from external resource department (ERD) have been attached, no analysis was availed for audit review.

In the circumstances it has not been possible to confirm the propriety of expenditure on financial assets totalling Kshs.2,873,149,809 for the year ended 30 June 2017.

355. Transfers to other Government Units

Included in grants and transfers to other government entities figure of Kshs.22,950,890,772 under note 5 to the financial statements is an amount of Kshs.3,109,834,436 in respect of External Resource Department (ERD) direct payments whose nature and supporting analysis was not availed for audit review.

In the circumstances, it has not been possible to confirm the propriety of ERD payment totalling Kshs.3,109,834,436 for the year ended 30 June 2017.

356. Withholding Tax on Payments

Included in the use of goods and services figure of Kshs.277,099,982 under note 4 to the financial statements is an amount of Kshs.25,360,446 in respect of other operating expenses. The figure of Kshs.25,360,446 also includes an amount of Kshs.12,790,977 paid to a clearing firm being customs clearance fees for contract No.00Y40413100020 and whose supporting documents were not availed for audit review.

In the circumstances, it has not been possible to confirm the authenticity of the payment of Kshs.12,790,980 for the year ended 30 June 2017.

357. The Year's Adjustment

The statement of assets and liabilities as at 30 June 2017 reflects the year's adjustment balance of Kshs.2,666,805 whose nature and analysis was not availed for audit review. In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of the state department financial statements for the year ended 30 June 2017.

Other Matter

358. Budgetary Control and Performance

The state department of information communication and technology and innovation had a total of budget Kshs.28,380,839,291 voted for the financial year 2016/2017 comprising of Kshs.27,234,916,269 for development and Kshs.1,145,923,022 for recurrent votes respectively. The budget absorption in the department was as follows: -

	Revised printed Budgeted Allocation 2016/2017	Actual Expenditure 2016/2017	Under Absorption	Absorption in %
	Kshs	**Kshs**	**Kshs**	**%**
Recurrent	1,145,923,022	965,846,991	180,076,031	84%
Development	27,234,916,269	25,288,289,604	1,946,626,665	93%
Total	**28,380,839,291**	**26,254,136,595**	**2,126,702,696**	

It has not been explained why the state department did not fully utilize the budget allocation as at 30 June 2017. This is an indication of lack of adequate planning in budget making process to prioritize goods and services for efficient and effective delivery to citizens.

359. Recurrent Vote

The budget performance analysis for the recurrent budget totalling Kshs.1,145,923,022 is as detailed below:

Item	Budget 2016-2017 Kshs	Actuals 2016-2017 Kshs	Under Expenditure Kshs	% Absorption
Compensation of Employees	122,213,513	122,133,841	79,671	99.9%
Use of Goods and Services	438,220,449	260,975,957	177,244,492	59.6%
Transfers to Other Government Units	565,700,000	565,700,000	0	100%
Other Grants and Transfers	525,000	0	525,000	0%
Acquisition of Assets	19,264,060	17,037,192	2,226,868	88%
Grand Total	**1,145,923,022**	**965,846,991**	**180,076,030.80**	**84%**

From the above analysis, the state department underutilized the budget under use of goods and services by 55% and acquisition of assets by 88%. The under absorption of the approved budget is an indication of activities not implemented by the state department which implies non delivery of planned goods and services to the Kenyan citizens for the year ended 30 June 2017. Therefore, the stakeholders did not obtain value for their resources.

360. Development Vote

The budget performance analysis for development vote budget totalling Kshs.27,234,916,269 was as detailed below:

Item	Budget 2016-2017 Kshs	Actuals 2016-2017 Kshs	Under Expenditure Kshs	% Absorption
Use of Goods and Services	50,000,000	16,124,023	33,875,977	32%
Transfers to Other Government Units	24,257,916,269	22,385,190,772	1,872,725,497	92%
Acquisition of Assets	2,927,000,000	2,886,974,809	40,025,191	98.6%
Total	**27,234,916,269**	**25,288,289,604**	**1,946,626,665**	**93%**

From the above analysis, the state department underutilized the budget under use of goods and services by 32%. The under absorption of the approved budget is an indication of infrastructures projects not implemented by the Ministry which implies non delivery of planned goods and services to the Kenyan citizens for the year 30 June 2017. Therefore, the stakeholders did not obtain the value of their resources.

STATE DEPARTMENT FOR BROADCASTING AND TELECOMMUNICATIONS

FINANCIAL STATEMENTS FOR VOTE 1123

Basis for Qualified Opinion

361. Accounts Receivables - District Suspense and Outstanding Imprest

As disclosed in note 15 to the financial statements, the accounts receivable balance of Kshs.60,107,859 includes a district suspense figure of Kshs.56,970,810 whose nature and purpose has not been explained or accounted for. Further, the account receivables balance also includes outstanding temporary imprest of Kshs.2,575,971 out of which imprest amounting to Kshs.2,561,471 was due from various officers some of which date back to August 2015. This is contrary to Regulation 93(5) of the Public Finance Management Regulations which requires that a holder of temporary imprest shall account or surrender the imprest within seven (7) working days after returning to the duty station. In the circumstances, it has not been possible to confirm the propriety of accounts receivables balance of Kshs.60,107,859 as at 30 June 2017.

362. Pending bills

Included in the pending bills figure of Kshs.1,123,808,354 under Note 20 to the financial statement are bills totaling Kshs.102,945,386 relating to 2015/2016 financial year which have been carried forward to 2017/2018 financial year instead of being cleared on the release/receipt of the first exchequer. This is contrary to the National Treasury circular Ref. No.DGIPE/A/1/10 dated 18 December 2015 which states that all disbursements from the exchequer ought to prioritize clearing bills as per National Treasury regulations on budget implementation on pending bills. The State Department did not clear the prior year pending bills in line with the Treasury circular and the pending bills had accumulated over the two years to Kshs.1,123,808,583 as at 30 June 2017. No satisfactory explanations was given as to why the pending bills for prior years were not cleared from the first release of the exchequer. The State Department of Broadcasting and Telecommunication was therefore in breach of the law.

363. Summary of Fixed Assets

A summary of fixed assets under Annex 4 to the financial statements reflects total assets figure of Kshs.374,598,535 as at 30 June 2017. The assets totaling Kshs.374,598,535 could not be verified since no assets register or breakdown for each category of assets was availed for audit review as required by Section 143 of the Public Finance Management Act, 2012 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession. Also, under Section 139 of the Public Finance Management Act Accounting officers of a

National Government entity are supposed to take full responsibility and ensure that proper control systems exist for assets. The summary of fixed assets is as detailed below:

Asset class	Historical Cost b/f (Kshs) 2016/2017	Additions during the year (Kshs)	Disposals during the year (Kshs)	Historical Cost c/f (Kshs) 2016/2017
Land				
Buildings and structures				
Transport equipment	290,218,193	14,453,757		304,043,193
Office equipment, furniture and fittings	32,531,683	2,639,135		33,519,923
ICT Equipment, Software and Other ICT Assets	33,732,887	716,000		36,142,787
Other Machinery and Equipment				257,000
Heritage and cultural assets				
Intangible assets		306,880		488,856
Total	**356,482,763**	**18,115,772**		**374,598,535**

In the absence of the fixed assets register, it may not be possible to follow the audit trial of the public resources totaling Kshs.374,598,535 for the year ended 30 June 2017 and the management is in breach of the law.

364. Unresolved Prior Year Matters

364.1 Repetitive Employment and Retention of Casuals

As previously reported and disclosed in Note 8 to the financial statements, the compensation of employees figure of Kshs.434,092,363 includes an amount of Kshs.7,335,791 relating to basic wages of temporary employees. However examination of supporting documents indicate that the Ministry hired and retained the same casual workers in 2015/2016 and earlier years contrary to Section E21 (1) of the laid down labor laws and code of regulations, which states that an Authorized Officer or Principal Secretary will be responsible for approving of the hiring of casual workers after ascertaining there is need to hire them and that funds are available within their budgetary provision. Further, Section E23(2) of the Code of Regulations states that the casual workers should be hired on piece/time rated jobs and should be paid in accordance with minimum wage guidelines issued by the Government from time to time.

In addition, the Ministry did not maintain a muster roll or a register to record attendance of the casual workers and therefore it was not possible to ascertain whether those who were paid did the jobs they were assigned.

Further, available information indicates that the casuals were assigned with Integrated Financial Management Information Systems (IFMIS) numbers and paid through the G-Pay system. It is not clear and management has not explained the circumstances under which casuals were given IFMIS numbers and under which authority this was done.

In the circumstances, it has not been possible to confirm the propriety of expenditure totaling Kshs.7,335,790 for the year ended 30 June 2017.

364.2 Partitioning and Refurbishment work on 9th and 11th floors Teleposta Towers

As previously reported, the Ministry through restricted tendering awarded a tender for partitioning and refurbishment of 9th and 10th floors of Teleposta Towers to the lowest bidder at a contract sum of Kshs.12,720,769. The tender was however awarded contrary to Section 29(3) of the Public Procurement and Assets Disposal Act, 2015 on use of restricted tendering which requires the entity to:-

i. Obtain written approval of its tender committee and

ii. Record in writing the reasons for using the alternative procurement procedure.

Further, Section 73(2) of the Public Procurement and Assets Disposal Act 2015 provides that a procurement entity may use restricted tendering if the following conditions are satisfied: -

- Competition for contract, because of the complex or specialized nature of the goods, works or services is limited to prequalified contractors;

- The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured; and

- There is only a few known suppliers of the goods, works or services as may be prescribed in the regulation.

In addition, the contract price was varied by Kshs.2,819,786 representing 22.16% of the contract sum which is over 15% allowable by the procurement laws. Further, the contract duration was varied from sixteen (16) weeks to twenty two (22) weeks with completion date being 13 August 2015. However, available information indicate that the project was completed and handed over on 7 January 2017 seventy seven (77) weeks later. This was done in breach of Regulation 31 of the Public Procurement and Disposal Regulations 2006 which provides that for the purposes of Section 47(b) of the Act, any variation of a contract shall be effective only if the price or quantity variation is to be executed within the period of the contract.

Perusal of the Bill of quantities indicated that the following was included of which no documentary evidence was provided for audit verification to show how the amounts were spent:-

	Kshs
Provide for project management expenses	200,000
Provide for contingencies	500,000
Preliminary expenses	400,000
TOTAL	**1,100,000**

The Ministry was therefore in breach of the public procurement law and regulations thereby casting doubts as to whether the citizens obtained value for money.

364.3 Tender for Renovation and Refurbishment Works on the Ministry's Stand-Nairobi Show Ground

As previously reported, the Ministry through restricted tendering awarded the tender to renovate and refurbish its stand at the Nairobi show ground to the lowest bidder at a cost of Kshs.5,472,730. The tender was however awarded contrary to Section 29(3) of the Public Procurement and Disposal Act 2005 on use of restricted tendering which requires the entity to obtain the written approval of its tender committee and record in writing the reasons for using the alternative procurement procedure.

Further, Section 73(2) of the Public procurement and Disposal Act 2005 provide that a procurement entity may use restricted tendering if the following conditions are satisfied: - Competition for contract, because of the complex or specialized nature of the goods, works or services is limited to prequalified contractors; the time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured and that there is only a few known suppliers of the goods, works or services as may be prescribed in the regulations.

In addition, examination of the bill of quantities indicates that the following items were included in the bill of quantities but no supporting documents were provided for audit verification;

	Kshs
Project management stationery and expenses	250,000
Allow for contractor's profits and overheads 10%	25,000
Insurance for employees'	50,000
Allow for electrical works	500,000
Allow for drainage and Mechanical works	800,000
Allow for landscaping	500,000
Allow for contingencies	300,000
TOTAL	**2,425,000**

Although the contract was to be for a duration of six (6) weeks, no minutes were availed for audit to show the date when the contractor took possession of the site, the commencement and completion dates and whether site inspections were being carried.

In the circumstances, it has not been possible to ascertain if the work was completed within the contract period and the validity of expenditure totaling Kshs.5,472,730 for the year ended 30 June 2016 could not be confirmed.

364.4 Tender for Tilling Works to the Department of Information at Uchumi House

As previously reported, the Ministry through restricted tendering awarded a contract for tilling works at the Department of Information at Uchumi House 5th floor to the lowest bidder at a cost of Kshs.4,850,204. The contract was however awarded contrary to Section 29 (3) of the Public Procurement and Disposal Act 2005 on use of restricted tendering which requires the entity to obtain written approval of its tender committee and record in writing the reasons for using the alternative procurement procedure.

Further, Section 73(2) of the Public Procurement and Disposal Act 2005 provides that a procurement entity may use restricted tendering if the following conditions are satisfied: -

Competition for contract, because of the complex or specialized nature of the goods, works or services is limited to prequalified contractors; the time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured, and if there is only a few known suppliers of the goods, works or services as may be prescribed in the regulation.

In view of the above, the Ministry was in breach of the law and it is doubtful if the stakeholders got value for their resources.

364.5 Legal fees

As previously reported, information available at the Ministry indicated that on 18 September 2006 the Government of Kenya was sued in the High Court of Justice (Queens Bench Division) England on Anglo leasing related contracts. The Ministry of Information, Communications and Technology with the authority of the Attorney General single sourced and appointed a law firm to represent the Ministry in the High Court of Justice (Queens Bench Division London). The appointment of the Law firm was done on the understanding that the Ministry would be responsible for ensuring that reasonable professional fees were agreed upon, taxed and paid. The Ministry deposited Kshs.4,000,000 in the Advocates account in respect of legal fees. Thereafter the Legal firm with the authority of the Ministry engaged the services of another Law firm in England for the purpose of defending the Government of Kenya. Documents available indicate that the Kenyan Law firm filed a bill of costs before the Commercial Court at Mililani on 22 December 2009 against the Attorney General on behalf of the Ministry of Information, Communications and Technology. The Ministry filed its submission on 14 November 2011 opposing the said bill of costs. The matter was heard and a ruling delivered on 13 February 2013 dismissing the bill of costs and awarded the applicant the Kenyan Law firm Kshs.4,000,000 that was earlier deposited in their account as sufficient for the advisory work done for the Ministry on Anglo Leasing related contracts.

The law firm which was aggrieved by the Commercial Court's decision, filed an appeal in the High Court on 7 March 2013 and judgement was made on 31 October 2013 stating that the award of the Commercial Court of Kshs.4,000,000 was inordinately low and subsequently awarded the law firm Kshs.25,000,000 as reasonable instructions fees for the legal services rendered by the Kenyan Law Firm. Although the Ministry paid Kshs.25,000,000 to the Attorney General for onward transmission to the Law firm, no evidence of any contractual agreement between the Ministry and the law firm was availed for audit review. In the absence of the contractual agreement, it has not been possible to establish how the fees of Kshs.25,000,000 was arrived at. In the circumstance, the propriety of expenditure of Kshs.25,000,000 paid to the law firm could not be ascertained to date .

364.6 Transfers to Other Government Units

364.6.1 Transfer of Grants to Kenya Yearbook Editorial Board

As previously reported, examination of available records in the Ministry indicates that a total of Kshs.83,198,400 was paid to Kenya Yearbook Editorial Board as grants for the financial year ended 30 June 2015. However examination of payment vouchers indicates that additional amount of Kshs.34,800,000 was paid as assistance to undertake various activities by the Kenya Yearbook Editorial Board vide payment vouchers No 419 and 501 for Kshs.27,000,000 and Kshs.7,800,000 respectively. The payments were done contrary to the Regulation 71(5) of the Public Finance Management (National Government) Regulations 2015 which provide that a National government entity is not allowed to give another National government entity cash donations to augment the budgetary resources of a designated department.

In addition, funds appropriated and approved for specific programs by the Ministry of Information, Communications and Technology were paid to Kenya Yearbook Editorial Board contrary to Regulation 54 of the Public Finance Management (National Government) Regulation 2015 which states that except as provided for in the Act and these Regulations, an accounting officer of an entity may not authorize payment to be made out of funds earmarked for specific activities for the purpose other than those activities. Further, review of records at the Kenya Year Book Editorial Board indicates that the funds were not in the approved budget for the year ended 30 June, 2015 and the procurement plan for the year did not include the goods and services procured.

The Ministry was therefore in breach of the law and no satisfactory explanations have been provided on how the amount of Kshs.34,800,000 was utilized as at the date of this report.

364.6.2 Unclear Transfer of Grants to Ministry Departments

As previously reported, the statement of receipts and payments for the year ended 30 June 2015 reflects Kshs.2,435,625,509 under grants and transfers to other Government Units. Included in the figure of Kshs.2,435,625,509 are grants totaling Kshs.110,000,000 transferred to two (2) Ministry Departments - Government Advertising Agency (GAA) Kshs.83,000,000 and Kenya Institute of Mass Communication (KIMC) Kshs.27,000,000 without budgetary provisions and approval contrary to Regulation 31 (1) of the Public Finance Management (National Government) Regulations 2015 which states that the accounting officer shall ensure that the draft estimates relating to her/his department are prepared in conformity with the Constitution and the Public Finance Management Act, 2012 and its Regulations. It was however observed that the two (2) Departments; Government Advertising Agency and Kenya Institute of Mass Communications were still Departments operating under the Ministry of Information, Communications and Technology and therefore do not qualify for grants.

It is not clear and the Ministry has not explained the circumstances under which Kshs.110,000,000 was transferred to its two (2) internal departments and how the monies were utilized. In the circumstances, it has not been possible to confirm the propriety, regularity and validity of Kshs.110,000,000 transferred to the two (2) Ministry's internal departments .

364.7 Acquisition of Assets

364.7.1 Un-authorized Expenditure on Purchase of Motor Vehicles

As previously reported, records available at the Ministry indicates that a total of Kshs.104,335,548 was spent on Purchase of Motor vehicles during the year under review against a budgetary provision of Kshs.91,200,000 resulting in unauthorized expenditure of Kshs.13,135,548. The Ministry through letter ref. No. RES112/14/01/28 dated 23 January 2015 obtained authority from the Principal Secretary, National Treasury for purchase of 12 four wheel drive vehicles at a total cost of Kshs.70,695,190 to be distributed as follows:-

i) 4 (four) vehicles to National Optic Fiber backbone Infrastructure (NOFBI),

ii) 4 (four) for county connectivity project and

iii) 4 (four) for Kenya Transparency Communication Infrastructure Project (KTCIP).

However, the Ministry disregarded the National Treasury authority to purchase twelve (12) vehicles and instead without authority procured twenty three (23) vehicles at a total cost of Kshs.104,335,548 resulting into an additional and unapproved expenditure of Kshs.13,135,548, as at 30 June 2015.

Further a review of the matter during the year under review revealed that the State Department of Broadcasting and Telecommunication procured a Toyota Prado motor vehicle valued at Kshs.13,825,000.00 through unclear procurement procedures. There was no contract agreement between Toyota Kenya and the State Department of Broadcasting and Telecommunication. However, the State Department relied on a contract between the seller and the Ministry of Transport, Infrastructure, Housing and Urban Development Contract number SB/012/2017 to procure the motor vehicle in total disregard of Regulation 56(1) of the Public Procurement and Asset Disposal Act 2015 which provides that a State organ or public entity may seek in writing to use another State organ's, public entity's or regulated professionals body's registration list of all registered persons in the category provided that the list is valid and developed competitively. In the circumstances, the state department was in breach of the law and the propriety of the over expenditure totaling Kshs.13,135,548 in the year 2016 and current year's expenditure of

Kshs.13,825,000.00 on purchase of motor vehicles has not been ascertained as the date of this report

364.7.2 Agency and Disbursement Fees to Huawei Technologies Ltd

As reported in the previous year, examination of payment vouchers revealed that the Ministry paid Kshs.28,218,313 to Huawei Technologies Limited in 2014/2015 financial year in respect of agency fees. A review of the matter during the year 2015/2016 revealed that the Ministry made a further payment of Kshs.6,716,103 to the firm all totaling Kshs.34,934,416 as at 30 June 2016. Although Huawei Tech. (K) Limited were contracted to provide project management services on behalf of the Government through the Ministry Contract No. 00Y404131300200 of 7 July 2010, no documentary evidence was availed to show how the firm was identified and awarded the contract and how the contract price was arrived at. Scrutiny of Ministry records also indicates that the goods were cleared on 28 December 2013, while reimbursement and claim documents were presented in March 2015.

No explanation has been provided as to why the documents took over a year before the same were lodged with the Ministry for payment. Further, no documentary evidence indicating that the goods and services were verified and inspected by an independent inspection team was availed for audit review.

In the circumstances, it has not been possible to confirm the propriety of expenditure totaling Kshs.34,934,416 as at the date of this report.

364.8 Kenya Institute of Mass Communications (KIMC)

364.8.1 Construction of Men's Hostel at KIMC

As previously reported, examination of the Ministry records indicates that a Contract No. D32/01/2012-2013 for the proposed erection and completion of Men's hostels at the Kenya Institute of Mass Communication was awarded to a Construction Company at a contract sum of Kshs.188,858,602. However, scrutiny of the contract documents revealed that the contractor did not provide the following goods and services worth Kshs.3,511,300 which were included in the bill of quantities:

		Kshs.
1.	2 No. Laptop Computers-Toshiba or other Equal and approved	250,000
2.	Project Management expenses:	
	-Technical training of the MoPW	206,000
	-Project management expenses	1,030,000
	-Clerk of works allowances	154,500
	-Airtime KES.5000×1person×6×12months	370,800
3.	Performance bond	1,000,000
4.	Provision of site office for project manager	500,000
	TOTAL	**Kshs. 3,511,300**

Further, it was noted that although the Contractor was required to provide a performance bond of 5% of the contract sum or Kshs.1,000,000, the amount was irregularly provided for in the bill of Quantities and charged to the Ministry contrary to the contract agreement. No satisfactory explanation has been provided as to why the contractor failed to provide for the performance bond as required and it is doubtful if public resources totaling Kshs.4,511,300 may not have gone into waste.

364.8.2 Failure to Deduct Withholding Tax on Payments to Contractor

As previously reported, examination of Ministry records revealed that the Ministry failed to deduct and remit to Kenya Revenue Authority withholding tax totaling Kshs.5,665,758 upon payment to the contractor contrary to the REQUIREMENT OF Section 35(3) (f) of the Income Tax Act CAP 470 Section 35 (3) (f) which provides for deduction of withholding tax from resident Companies at the rate of 3% of the contract fees. No satisfactory explanation has been provided for the above anomaly and the Ministry was therefore in breach of Income Tax Laws.

Other Matter

365. Budgetary Controls and Performance

The State Department of Broadcasting and Telecommunication had a total budget of Kshs.3,634,431,277 voted for the financial year 2016/2017 comprising of Kshs.3,305,431,277 for Recurrent Vote and Kshs.329,000,000 for Development Vote respectively. The budget absorption in the Ministry was as follows:

	Budgeted Allocation 2016/2017	Actual Expenditure 2016/2017	Under Absorption	Absorption in %
	Kshs.	**Kshs.**	**Kshs.**	
Recurrent	3,305,431,277	2,505,045,290	800,385,987	75%
Development	329,000,000	319,000,000	10,000,000	97%
TOTAL	**3,634,431,277**	**2,824,045,290**	**810,385,987**	

No explanation has been provided why the Ministry did not fully utilize the budget allocation as at June 30 June 2017. This is an indication of lack of adequate planning in the budget making process to prioritize goods and services for efficient and effective delivery to citizens.

365.1 Recurrent Vote

The budget performance analysis for recurrent budget totaling Kshs.3,305,431,277 is as detailed below:

RECURRENT VOTE				
Revenue/Expense Item	**Final Budget**	**Actual expenditure**	**Budget Utilisation Difference**	**% utilization**
	Kshs	Kshs	Kshs	
RECEIPTS				
Tax Receipts	4,000,000	4,000,000	-	100%
Exchequer releases	3,085,431,277	2,365,300,000	-720,131,277	77%
Proceeds from Sale of Assets	204,000,000	120,036,736	-83,963,264	59%
Administrative Fees and Charges	12,000,000	11,983,500	- 16,500	99.86%
Other Receipts	-	19,142,000	-19,142,000	0%
Total Receipts	**3,305,431,277**	**2,520,462,236**	**-784,969,041**	**76%**
PAYMENTS				
Compensation of Employees	347,384,812	340,092,220	(7,292,592)	98%
Use of goods and services	2,113,857,737	1,372,186,819	(741,670,918)	65%
Transfers to Other Government Units	813,600,000	773,583,500	(40,016,500)	95%
Other grants and transfers	1,225,000	1,066,979	(158,021)	87%
Acquisition of Assets	29,363,728	18,115,772	(11,247,956)	61%
Grand Total	**3,305,431,277**	**2,505,045,290**	**800,385,987**	**75%**

The management has explained that under- utilization of exchequer arose from delays and frequent interruptions of the IFMS system particularly in the month of June which slowed down processing of payments and as a result request for exchequer to fund expenditure were not received on time. Under collection of AIA by Government Advertising Agency arose due to non-collection by the Agency. In addition, records availed for audit review indicate that Kshs.2,113,857,737 under Recurrent Vote was for use of goods and services. However, as at the end of the financial year under review only Kshs.1,372,186,819 had been spent representing 65% absorption. It is not clear why the Ministry did not spend Kshs.741,670,918 allocated for goods and services. Further, it was also noted that Kshs.813,600,000 and Kshs.29,363,728 were allocated under transfer to other Government units and acquisition of assets respectively out of which Kshs.773,583,500 and Kshs.18,115,772 equivalent to 95% and 61% respectively had been spent as at 30 June 2017. The under absorption of the approved budget is an indication of activities not implemented by the Ministry which implies non delivery of planned goods and services to the Kenyan citizens for the year ended 30 June 2017.

365.2 Development vote

The State Department of Broadcasting and Telecommunication had a budget allocation of Kshs.329,000,000 under the Development Vote for the year 2016/2017. However ,as at 30 June 2017 ,only Kshs.319,000,000 had been spent representing 97% of the budget allocation as shown below;

Receipt/Expense Item	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	c=a+b	d	e=c-d	f=d/c %
RECEIPTS				
Exchequer releases	329,000,000	319,000,000	(10,000,000)	97%
Other Receipts				
	329,000,000	**319,000,000**	**(10,000,000)**	97%
PAYMENTS				
Use of goods and services	10,000,000	-	(10,000,000)	0%
Transfers to Other Government Units	319,000,000	319,000,000		100%
Other Payments				
Totals	**329,000,000**	**319,000,000**	**(10,000,000)**	**97%**

The under absorption of the development budget is an indication that planned development activities were not fully realized thereby affecting delivery of goods and services to the citizens.

REVENUE STATEMENT-STATE DEPARTMENT FOR BROADCASTING AND TELECOMMUNICATIONS

Unqualified opinion

There were no material issued noted during the audit of the financial statements of the Broadcasting and Telecommunications.

Emphasis of Matter

As disclosed in note VII (1) to the revenue statement although, the Principal Secretary, State Department for Broadcasting and Telecommunications was appointed as a receiver of revenue. The department did not receive any revenue and the revenue budget did not provide an item for revenue. These matters were addressed in the context of the audit of the revenue statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

DONOR FUNDED PROJECTS

TRANSPARENCY COMMUNICATION AND INFRASTRUCTURE PROJECT (TCIP) FOR THE SIX (6) MONTHS PERIOD ENDED 31 DECEMBER 2016

Basis for Adverse Opinion

366. Late Submission of the Financial Statement

The financial statements for Transparency Communications and Infrastructure Project which were supposed to be submitted to the Office of the Auditor-General on or before 30 September 2017, were received on 18 October 2017. No explanation was given as to why the financial statements were not submitted on time. In the circumstances, the project management was in breach of the Constitution, Section 47(1) of the Public Audit Act, of 2015 and the Public Finance Management Act, 2012.

367. Procurement of Goods and Services - Telcom Services

The statement of receipts and payments for the year ended 30 June 2017 reflects Kshs.3,133,384,811 in respect of telecom services. However, examination of telecom services revealed that the Project Management awarded several contracts in six months from July to December 2016 as highlighted below:

367.1 Provision of Dedicated Hosted Hardware Infrastructure Tender No. ICTA/KTCIP/DP/03/2016-2017

On 9 December 2016, the Authority management through direct procurement method awarded a contract for provision of dedicated hosted hardware infrastructure at a contract price of USD 664,667.00 (equivalent to Kshs.68,460,701) for a duration of 18 months. The contract was however not included in the Project's annual procurement plan and thus was not budgeted for contrary to Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015 which states that an accounting officer shall prepare an annual procurement plan which is realistic in a format set out in the Regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

The direct procurement method was also contrary to Section 91(1) of the Public Procurement and Assets Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services of such magnitude. Further, no tender evaluation and inspection and acceptance committees' minutes were availed for audit review in violation of the public procurement and disposal regulations. The Authority is therefore in breach of the Public Procurement and Asset Disposal Act and regulations and World Bank procurement procedures.

In the circumstances, it has not been possible to confirm, the validity of expenditure totalling Kshs.68,460,701 on provision of dedicated hosted hardware infrastructure for the period to 31 December 2016.

367.2 Implementation of Framework Contracts and Shared Services Platform Tender No. ICTA/KTCIP/ICB/DC/2/2016

On 30 June 2016 the Authority awarded a contract for supply of 16,000 licenses under phase I (one) to provide communication and collaboration between the various government ministries to a firm at a contract price of USD 5,974,204.81 equivalent to Kshs.615,343,095. It was however noted that the contract was not included in the annual procurement plan and was therefore not budgeted for contrary to Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015 which states that, an accounting officer shall prepare an annual procurement plan which is realistic in a format set out in the regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process. The contract was awarded through direct procurement method as opposed to open tendering as required by Section 91 (1) of Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services of such magnitude. In addition, no tender evaluation and inspection and acceptance committees' minutes and evidence of tender security was availed for audit review. Further, no evidence to show that the services were requisitioned for as required by the Public Procurement and Disposal regulation 2006. The Authority is therefore in breach of the law and World Bank procurement procedures.

In the circumstances, it has not been possible to confirm, the validity of expenditure totalling Kshs.615,343,095 on the shared services platform for the six months' period to 31 December 2016.

367.3 Provision of Hardware Licenses – Shared Services Platform – Tender No.ICTA/KTCIP/DC/1/2016

Included in the cost of telecom services figure of Kshs.3,133,384,811 is an amount of Kshs.834,829,652 (USD. 8,105,142.26) in respect of a contract awarded to a firm on 23 November 2016 to provide hardware for licenses for the phase I of the shared services platform which was to provide communication and collaboration between the various government ministries. This project was however not included in the project annual procurement plan and was therefore not budgeted for in contravention of Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015. In addition, direct procurement method was used instead of open tendering method for a project of this magnitude as required by Section 91 (1) of the Public Procurement and Asset Disposal Act, 2015. In addition, no tender evaluation and inspection and acceptance committees' minutes and tender security for the entire procurement process was availed for audit review. The Authority is in breach of the law and World Bank procurement procedures.

In the circumstances, it has not been possible to confirm, the validity of expenditure totalling Kshs.834,829,692 on hardware licenses for the six months' period ended 31 December 2016.

367.4 Supply of Geographical Information System and Cloud Hosting for ICTA Tender No. ICTA/KTCIP/DC/03/2016-2017

Included in the cost of Telecom services figure of Kshs.3,133,384,811 is an amount of Kshs.178,880,067 (USD 173,670.56) in respect of a contract awarded to a firm on 14 November 2016. The contract was not in the project annual procurement plan and therefore was not budgeted for in contravention of Section 53 (2) the Public Procurement and Asset Disposal Act, 2015. Further, procurement method was used contrary to Section 91 (1) of Public Procurement and Assets Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services of such magnitude. In addition, no tender evaluation and inspection and acceptance committees' minutes were availed for audit review. The project management is in breach of the law and World Bank procurement procedures.

In the circumstances, it has not been possible to confirm, the validity of expenditure totalling Kshs.178,880,067 on supply of geographical system and cloud hosting for the six month period ended 31 December 2016.

367.5 Procurement of Consultancy Services - Tender No. ICTA/ TCIP/RFP/28/2015-2016

On 15 May 2016, the Project management entered into a contract with a firm for provision of consultancy services on monitoring and evaluation review of the project at a contract price of Kshs.69,795,413. Examination of the contract documents revealed that one of the objectives of the consultant was to provide recommendations to improve the design and performance of the implementation of the project which was coming to an end on 31 December 2016. It was however noted that this contract was not in the Project annual procurement plan contrary to Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015 which requires that an accounting officer shall prepare an annual procurement plan which is realistic in a format set out in the regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

Consequently, it has not been possible to confirm the validity of expenditure of Kshs.69,795,413 and whether the stakeholders received value for money on procurement of the consultancy services.

368. Failure to Use Enterprise Resource Planning System (ERP)

During the 2015/2016 financial year the Authority procured an Enterprise Resource Planning Software (ERP) from a firm at a cost of Kshs.62,952,452 through tender No. ICTA/KTCIP/ICB/32/2015-2016 for supply, delivery, installation and commissioning of the system. The ERP system was to integrate the activities of all departments including procurement, human resource and finance. A review of the system during the time of audit revealed that it was not operational. Available information indicate that no deadline for final changeover and commissioning of the new system was mentioned in the contract document. It is not clear and management has not explained why the supplier was paid the full contract sum of Kshs.62,952,452 while the system is not operational contrary to the terms and conditions of the contract agreement. In the circumstances, it has not been possible to ascertain if the ministry obtained value for money from the Enterprise Resource Planning Software worth Kshs.62,952,452 procured during the six months period ended 31 December 2016.

369. Lack of Support Documentation

The statement of receipts and payments for the 6 months period ended 31 December 2016 reflects total receipts of Kshs.3,993,111,915 which includes amounts utilized at the National Treasury for direct payments totalling Kshs.3,003,608,153. This amount was directly paid to various contractors for contracts entered into by project management instead of remitting the funds to the project Bank accounts as required under schedule 2 (c) of the financing agreement. It is not clear and management has not explained why payments vouchers for the project activities were forwarded to the National Treasury for payment instead of paying directly from the project account.

Further, the amount of Kshs.3,993,111,915 includes an amount of Kshs.3,369,725 under proceeds from domestic and foreign grants whose supporting documents or analysis were not availed for audit review. In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of total receipts figure of Kshs.3,993,111,915 reflected in the project financial statements for the six (6) month period ended 31 December 2016.

370. Failure to Withhold and Remit VAT and Unclear Refund of PAYE

370.1 During the period under review the project management deducted withholding VAT at the rate of 6% from its suppliers amounting to Kshs.202,708,480. However, no documentary evidence in form of withholding tax certificates from Kenya Revenue Authority (KRA) were availed for audit review. Failure to remit withholding tax to KRA may attract penalties which could have been avoided. Consequently, the management is in breach of the law.

In addition, it was observed that a consultant was refunded a total amount of Kshs.1,190,326 in respect of Pay As You Earn (PAYE) deducted in prior years. No satisfactory explanation was provided as to why the consultant was refunded the amount and the source of funding. It was also not clear if the money deducted as PAYE had been remitted to KRA and if so whether a refund of the same from KRA had been received in the Authority. In the circumstances, it has not been possible to confirm the propriety of the refund of Kshs.1,190,326 made to the consultant and the Project management is in breach of Tax laws.

371. Unsupported Expenditure

The statement of receipts and payments for the six months period ended 31 December 2016 reflects training cost of Kshs.156,098,775 which includes an amount of

Kshs.24,862,703 being training expenditure for Integrated Financial Information Management System (IFMIS) held in Arusha Tanzania on diverse dates during the period under review. However, no information supporting this expenditure such as list of participants and the cost for each participant were availed for audit review. In the circumstances, it has not been possible to confirm the validity of expenditure totalling Kshs.24,862,703 reflected on project financial statement for the six months period ended 31 December 2016.

372. Unclear Cash Transactions

Examination of the Project bank account revealed that on 18 July 2016, an amount of Kshs.1,778,875,000 was withdrawn from the project bank account no 0300085005 at Citibank upper Hill, branch. Further, on 22 December 2016 Kshs.1,540,500,000 was deposited into the same account. No explanation has been provided for the nature and source of these funds and no evidence of any authority to use the project funds on unrelated activities was availed for audit review. Further, on 28 April 2017 an amount of Kshs.85,904,541 was transferred from the Project Citi Bank account No.0300085005 to Kenya Information Communication Technology Authority (ICTA) Bank account No.0300085016 at Citi Bank upper Hill branch. It is not clear and management has not explained why the amount was transferred to the Authority account at the time when the project was about to come to a closure.

In addition, it was noted that the project management opened and operated a bank account No.0300084007 designated as MOICT-TCIP at Citibank Upper hill Branch, without authority from the National Treasury as required by Section 28 (1) of the Public Finance Management Act, 2012 which states that the National Treasury shall authorize opening, operating and closing of the bank account and sub accounts for all National Government entities.

Also, the project management transferred Kshs.6,892,088.00 to the project account on 24 April 2017 when the project was under the grace period. No evidence on how these funds were utilized was availed for audit review as this transaction was done after the closure of the project. In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of the project transactions for the six (6) months period ended 31 December 2016.

373. Digital Village Fund Surrender Value and Accrued Interest

The Project received a grant of Kshs.108,495,790 received from World Bank/IDA for onward lending to digital village entrepreneurs to establish information hub that offer ICT services. The entrepreneurs are supposed to pay back the loans for future lending to other entrepreneurs. On 3 November 2010, the Authority entered into a contract with Family Bank to operationalize the disbursement of loans to entrepreneurs for a period of 24 months. Available records indicate that as at 30 June 2016 Family Bank had disbursed loans totalling Kshs.75,844,647 out of which Kshs.45,193,389 had fallen in arrears representing 60% of the total loans disbursed. The balance of Kshs.30,651,258 remained with the bank even though Family bank was supposed to disburse the whole amount. In addition, a report by Deloitte and Touché who were engaged by the Authority to conduct a comprehensive monitoring and evaluation assessment on Pasha Digital Village fund project, revealed that the Pasha projects had been facing challenges and lacks efficiency, inflexibility of the loan repayment and weak relationship of the Authority with the Family Bank. Due to closure of the project, the Kenya Information Communication Technology Authority vide its letter ref no. ICTA/FIN/001 dated 26 April 2017 instructed family bank to reconcile the final fund balance and transfer the amount to ICTA account No.030085016 at Citibank upper Hill. The final fund balance as at that time was Kshs.82,884,004 including interest earned over time of approximately Kshs.19,581,602. The total amount of Kshs.82,884,004 was transferred to the ICTA account by Family bank as per the instruction. It is however not clear and the management has not explained how the amount of Kshs.82,884,004 transferred to the Authority was utilized. Further, the interest earned of Kshs.19,581,602 has not been disclosed in either the project or Authority financial statements and if the loan arrears totalling Kshs.45,193,389 will ever be fully recovered. In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of the project financial statements for the six months period ended 31 December 2016.

STATE DEPARTMENT OF SPORTS DEVELOPMENT

FINANCIAL STATEMENTS FOR VOTE 1132

Basis of Qualified Opinion

374. Unaccounted for Fixed Assets

The State Department of Sports Development - Summary of Fixed Assets Register reflects Kshs.2,192,785,665 in of respect fixed assets as at 30 June 2017 which included additions of Kshs.9,489,194 during the year under review. However, the fixed assets register was not updated to include assets worth Kshs.67,584,884 acquired for use during the IAAF World Under 18 Championships Nairobi 2017 by the Ministry of Sports, Culture and The Arts through the Local Organizing Committee. The assets consisted of laptops, furniture, printers, television sets, air conditioners, and bedside cabinets among others.

In the circumstances, it has not been possible to confirm the ownership, location, existence and security of the assets worth Kshs.67,584,884 as at 30 June 2017.

375. Improper Use of Motor Vehicle

The State Department of Sports Development took possession of a Toyota Prado purchased by National Sports Fund at a cost of Kshs.7,828,350 in the year 2015. The vehicle is still being used by the State Department while the National Sports Fund continues to suffer from acute shortage of motor vehicles for their operations. Further, the National Sports Fund continued to incur insurance and depreciation expenses without benefiting from its use.

In the circumstance, the motor vehicle valued at Kshs.7,828,350 has not been used for the intended purposes and the Fund has not obtained value for money since purchase of the vehicle in 2015.

376. Outstanding Accounts Receivable Balances

376.1 District Suspense

As previously reported, the statement of assets and liabilities for the year ended 30 June 2017, reflects accounts receivable balance of Kshs.21,631,123. Included in this balance is a district suspense balance of Kshs.20,756,326 in respect of disbursements to the districts to support their operations. However, the respective districts have not accounted for the amounts disbursed.

In the circumstance, it has not been possible to confirm recoverability of long outstanding disbursements totalling Kshs.20,756,326 shown as district suspense as at 30 June 2017.

376.2 Salary Advances

As previously reported, the accounts receivables balance of Kshs.21,631,123 as at 30 June 2017 includes salary advances balance of Kshs.417,961. Out of the amount of Kshs.417,961 are salary advances of Kshs.340,943 which have been outstanding since 2015/2016 and earlier years.

No reasons have been given for the non-recovery of these long outstanding salary advances.

377. IAAF World Youth Championships - Nairobi 2017

During the period under review, the State Department of Sports Development **-** Ministry of Sports Culture and The Arts allocated Kshs**.**3,501,135,612 for the purposes of preparing for the IAAF World Youth Championships 2017 held In Nairobi from 12 July to 16 July 2017.

A Local Organizing Committee (LOC) comprising of the State Department, government sports organizations, security departments and other sports stakeholders involved in the championships was formed. Authority to Incur Expenditures (AIEs) were allocated by the State Department for Sports Development.

Audit of the expenditure incurred under the State Department of Sports Development amounting to Kshs.1,712,918,380 revealed the following:

377.1 Single Sourcing of Goods and Services

The Ministry of Sports Culture and the Arts through the Local Organizing Committee of the IAAF World Under 18 Championships Nairobi 2017 spent Kshs.1,712,918,380 to prepare for the championships. Included in Kshs.1,712,918,380 expenditure was Kshs.349,633,321 which was incurred through direct procurement without meeting the conditions set out in Section 103 (2) of the Public Procurement and Asset Disposal Act, 2015.

377.2 Procurement of Transport Services

Further, included in the figure of Kshs.349,633,321 was Kshs.66,005,000 relating to procurement of taxi services from a company at a cost of Kshs.23,825,000 above the market rate. It was noted that this company was also given another contract for the dry cleaning and laundry services worth Kshs.30,820,762 under Sports Kenya by the Local organizing Committee.

In the absence of a competitive procurement process, it has not been possible to confirm the validity of the direct procurements totalling Kshs.349,633,321 as at 30 June 2017.

377.3 Unsupported Expenditure

The Local Organizing Committee through the Ministry of Sports Culture and the Arts incurred expenditures totaling Kshs.204,077,129 which were not supported with relevant supporting documents.

In the circumstances, and validity of the Kshs.204,077,128.85 expenditure could not be ascertained.

377.4 Advance Payment Above Allowed Threshold of 20% of the Contract Sum

The Local Organizing Committee entered in several contracts during the preparation for IAAF World Under 18 Championships - Nairobi 2017. Advance payments of the contract prices totaling Kshs.19,540,982 were made in excess of 20% contrary to Section 147 (1) of the Public Procurement and Assets Disposal Act, 2015.

Further, all the advance payments were not supported by a bank guarantee as required. No plausible reasons have been provided for the excess advance payments totaling Kshs.19,540,982.

377.5 Procurements from Non-Tax Compliant Suppliers

The Local Organizing Committee entered in several contracts in their preparation for IAAF world under18 championship Nairobi 2017 with entities that were not tax compliant contravening Section 55(1) of the Public Procurement and Assets Disposal Act, 2015.

It is therefore evident that due diligence was not done in the identification of suppliers for goods worth Kshs.73,400,108.

377.5.1 Unaccounted for Medical Supplies

An amount of Kshs.5,477,035 was paid by the Ministry for the supply of medicine and medical equipment. However, no inspection and acceptance report and counter receipt voucher (S13) were availed for audit verification to confirm that that the medicine and medical equipment were received and taken on charge.

377.5.2 Purchase of Mobile Phones

An amount of Kshs.3,363,951 was paid to a company for the supply of mobile phones. However, the expenditure was not supported with a list of the officials supplied with the phones and the phones were also not availed for audit verification.

In view of the foregoing, it has not been possible to confirm receipt and distribution of the mobile phones worth Kshs.3,363,951 and thus the authenticity of the procurement.

377.6 Supply and Delivery of Petroleum Products in Bulk

The Local Organizing Committee adopted a contract between the State Department of Public Works-Supplies Branch and a company for the supply and delivery of petroleum products in bulk totaling Kshs.11,123,960.

According to the adopted contract, a discount of Kshs.4.25 on the Energy Regulatory Commission unit prices was to be offered for every litre of diesel or petrol supplied. A review of the fuel analysis indicate the Local Organizing Committee was not availed thus discount, and yet it was in the contract. It is not clear why the LOC procured fuel in bulk yet it had hired Buses, Minibuses, Vans, Saloon Cars and Luxury Cars which drew fuel.

The validity of this expenditure could not be ascertained in the foregoing circumstances.

377.7 Delayed Completion of Refurbishment of Stadion Hotel

On 29 May 2017, the Ministry of Sports Culture and The Arts through the Local Organizing Committee signed a contract with a company for the refurbishment of Stadion Hotel. The works were to take 24 weeks from the date of signing the contract.

An audit review of the project expenditure revealed that a total of Kshs.58,578,486.41 had been paid representing 32% of the total Contract sum of Kshs.185,165,000. Further, the project was yet to be completed 42 weeks after the agreement date.

The continued delay in completing the works costed Sports Kenya, the manager of the facility, loss of revenues and further denying the public usage of the facility.

377.8 Procurement of Motor Vehicles

The IAAF World Under 18 Championships Local Organizing Committee paid Kshs.13,825,000 to a company for the purchase of a Toyota Prado, and Kshs.19,603,071 for the supply of three Nissan Urvans. The vehicles were purchased following the adoption of the supply contracts between the government Supplies Branch and the two firms. However, vehicles logbooks and inspection certificates from the Chief Mechanical and Transport Engineer were not availed for audit verification. The Vehicles were also not availed for physical verification.

In absence of the vehicles logbooks and inspection certificates from the Chief Mechanical and Transport Engineer, it has not been possible to ascertain the existence, ownership and soundness of the motor vehicles.

377.9 Refurbished Works – Parking Lights Theft

The Local Organizing Committee carried out refurbishments of the Kasarani Stadium in preparation of hosting the IAAF World Under 18 Championships Nairobi 2017. The refurbishment consisted of painting, electrical fittings and installations, landscaping, mechanical works among others. Physical inspection of the refurbished works revealed that one hundred and thirty (130) parking lights installed at the Stadium with an estimated value of Kshs.3,615,950 were stolen.

Correspondences available indicate that theft was reported to Kasarani Stadium Police Station vide OB 19/19/1/2018 and subsequently, the security firm requested to replace the security lights in manageable phases after getting the samples.

No evidence has been given to confirm the lights have been replaced or restored.

377.10 Irregular Pending Bills

Bills amounting to Kshs.138,152,157 chargeable to both the recurrent and development Vote 1132 were not settled during the year but were instead carried forward to 2017/2018 financial year. Had these bills been cleared and charged to the Vote, the statement of receipts and payments for 2016/2017 would have reflected a deficit of Kshs.130,654,829 instead of a net surplus of Kshs.7,497,328 now shown. Further, the pending bills were not supported with documents such as delivery notes, invoices, contracts and local service/purchase orders as required.

Consequently, the validity and value for money of the expenditure on pending bills cannot be confirmed.

Other Matter

Budget and Budgetary Performance

378. Receipts

Analysis of actual receipts against the budgeted amounts revealed that the State Department received Kshs.5,489,570,500 against the budgeted receipts of Kshs.5,528,131,688 resulting in a shortfall of Kshs.38,561,188 as tabulated below.

Receipts	Budget (Kshs.)	Actual (Kshs.)	Excess/(shortfall) (Kshs.)	Variance %
Transfers from National Treasury	5,527,731,688	5,489,364,000	(38,367,688)	0.7%
Other Receipts	400,000	206,500	(193,500)	49%
Total	**5,528,131,688**	**5,489,570,500**	**(38,561,188)**	**0.7%**

However, no explanatory note to the financial statements was provided for the shortfall of Kshs.193,500 or 49% under other receipts as required.

379. Expenditure

Analysis of actual expenditure against the budgeted amount revealed that the State Department spent Kshs.5,482,073,173 against the budgeted amount of Kshs.5,528,131,688 resulting in an under expenditure of Kshs.46,058,515 or 0.83%

Expenditure	Budget (Kshs.)	Actual (Kshs.)	Over/(Under) (Kshs.)	Variances %
Compensation of Employees	276,598,418	276,353,702	(244,716)	0.09%
Use of Goods and Services	1,433,856,332	1,409,811,805	(24,044,527)	1.68%

Expenditure	Budget (Kshs.)	Actual (Kshs.)	Over/(Under) (Kshs.)	Variances %
Transfers to other government units	3,782,694,880	3,772,293,495	(10,401,385)	0.27%
Other grants and Transfers	10,380,558	10,322,897	(57,661)	0.56%
Social Security and Benefits	3,802,114	3,802,080	(34)	0.00%
Acquisition of Assets	20,799,386	9,489,194	(11,310,192)	54.38%
Total	**5,528,131,688**	**5,482,073,173**	**(46,058,515)**	**0.83%**

Under use of goods and services, the Department had huge increase in expenditure from Kshs.140,023,680 in 2015/2016 to Kshs.408,931,765 in 2016/2017 for hospitality an increase of 192% increase. Further, foreign travel and subsistence increased from Kshs.478,142,061 in 2015/2016 to Kshs.698,341,636 in 2016/2017 an increase of 46%. The huge increases remain unexplained.

The failure to spend Kshs.46,058,515 or 1% on some budgeted expenditure items implies that some planned activities were not realized.

NATIONAL SPORTS FUND

Basis for Qualified Opinion

380. Delayed Completion of Office Partitioning Works

The National Sports Fund on 01 November 2016 awarded a contract for the partitioning of their new offices at Flamingo Towers at a total contract sum of Kshs.19,974,881. According to the contract, the partitioning was to commence on 01 November 2016 with a completion date set on 27 December 2016 a duration of eight weeks. However, an audit inspection carried out on 9 October 2017 revealed that the project was still incomplete nine (9) months after expiry of the contract period and payment of Kshs.7,091,718 or 36% of the contract sum made to the contractor.

No reasons have been given for the delay in project completion and no approval for extension of time has been seen.

381. Failure by the State Department of Sports and Development to Refund Office Rent Paid on their Behalf by National Sports Fund

The statement of financial performance for the year ended 30 June 2017 reflects under expenses a figure of Kshs.19,121,080 in respect of office rent. Included in the figure is Kshs.11,975,480 being office rent and car park paid by the fund on behalf of the State Department of Sports and Development on the promise that the amount would be reimbursed when funds became available.

However, the State Department had as at 30 June 2017 not refunded the amount paid by the fund. It is also not clear why the amount due of Kshs.11,975,480 was expensed in the financial statements for the year ended 30 June 2017.

No reasons have been provided for the failure by the State Department to refund the amount paid on their behalf.

In the circumstances, it has not been possible to confirm the propriety of the rent payment transactions totaling Kshs.11,975,480 for the year ended 30 June 2017.

382. Improper use of Motor Vehicle

Examination of the Fund's assets register and logbooks disclosed that the Fund owns three motor vehicles as detailed below:

MAKE	REGISTRATION NO.	COST ' KSHS'
TOYOTA PRADO	KCE 902D	7,828,350.48
TOYOTA HILUX DOUBLE CABIN	KCE 855D	4,593,275.20
TOYOTA FORTUNER	KCE 903D	6,788,122.80

However, one vehicle - Toyota Prado registration number KCE 902D purchased at a cost of Kshs.7,828,350 in 2015 was reported to have been taken by the parent State Department of Sports and Development for their own use. As at the time of the audit exercise carried in October 2017, the vehicle was still being used by State Department while the Fund continued to suffer from an acute shortage of motor vehicles for their operations. The vehicle was also not made available for physical verification. Further, the National Sports Fund incurred insurance and depreciation expenses without benefiting from it's use.

In the circumstances, the motor vehicle valued at Kshs.7,828,350 has not been used for the intended purposes and the fund has not obtained value for money since purchase of the vehicle in 2015.

Other Matter

Budget and Budgetary Performance

383. Revenue

An analysis of the National Sports Fund actual revenue against the budgeted amount revealed that the fund had a shortfall of Kshs.235,213,948 or 48% as shown below:

Description	Budget Kshs.	Actual Kshs.	Excess/ (shortfall) Kshs.	Excess/ (shortfall) %
Transfer from other governments	489,500,000	254,286,052	(235,213,948)	(48%)

The failure to receive budgeted amount of Kshs.235,213,948 or 48% of the budgeted receipt implies that the Fund's goals and objectives could not be achieved as planned.

384. Expenditure

An analysis of the National Sports Fund actual expenditure against the budgeted amount revealed that the fund under spent Kshs.320,846,965or 73% of their budget as shown below:

Description	Budget Kshs.	Actual Kshs.	(Over)/ Under Kshs.	Over)/ Under %
Compensation of employees	97,139,025	40,697,564	56,441,461	58%
Remuneration for Board of Trustees	40,000,000	23,831,821	16,168,179	40%
General Expenses	142,730,975	38,159,555	104,571,420	81%
Goods and Services	38,800,000	3,929,863	34,870,137	90%
Acquisition of assets	113,830,000	15,034,232	98,795,768	87%
Contracted Services	10,000,000	-	10,000,000	100%
Total	**442,500,000**	**121,653,035**	**320,846,965**	**73%**

The failure to spend Kshs.320,846,965 or 73% of the budgeted expenditure implies that the Fund's goals and objectives were not achieved as planned.

STATE DEPARTMENT OF CULTURE AND ARTS

FINANCIAL STATEMENTS FOR VOTE 1133

Basis for Qualified Opinion

385. Variances between the Statement of Assets and Liabilities and the Trial Balance

The financial statements as at 30 June 2017 reflect net assets balance of Kshs.9,466,970. However, a comparison of the IFMIS generated trial balance and the statement of assets and liabilities as at 30 June 2017 revealed the following variances:

Item	Trial Balance (Kshs.)	Statement of Assets & Liabilities (Kshs.)	Variance (Kshs.)
Development Bank	82,100,595	2,188,808	79,911,787
Cash on Hand	14,700,000	311,570	14,388,430
Other Debtors	-	-	-
Imprests	2,056,805	2,056,805	-
Deposits	14,975,016	14,975,016	-
Totals	**113,132,416**	**19,532,199**	**94,300,217**

The variances totalling Kshs.94,300,217 have not been reconciled or explained.

In the circumstances, the accuracy and completeness of the total net assets balance of Kshs.9,466,970 reflected in the statement of assets and liabilities as at 30 June 2017 could not be confirmed.

386. Fixed Assets Acquisition

Note 8 reflects acquired fixed assets balance of Kshs.135,805,512 as at 30 June 2017. The assets include construction and civil works of Kshs.31,783,335; purchase of specialized plant, equipment, and machinery of Kshs.74,174,834 and purchase of vehicles, and other transport equipment – Kshs.15,990,630. However, no details of the fixed assets were provided in Annex 4 – summary fixed assets. In addition, the fixed assets register is not complete with the necessary information.

In consequence, the existence, ownership, validity and value for money for the expenditure on fixed assets acquisition of Kshs.135,805,512 cannot be ascertained.

387. Uzalendo Festival and Renovation of Three (3) Monuments

During the year under review, an amount of Kshs.28 Million was disbursed to the National Museums of Kenya (NMK) by the State Department of Culture and Arts to finance Uzalendo Festival which was to be held at Uhuru Gardens for three (3) days from 10 December, 2016 at a cost of Kshs.20 Million while the balance of Kshs.8million was to cater for the renovation of monuments. Available information revealed that National Museums of Kenya contracted a company as event organizers for Uzalendo Festival at a cost of Kshs.20 million. However, the respective payment vouchers totalling Kshs.20 million were not adequately supported by expenditure receipts and invoices as required under clause four (4) of the contract agreement. Further, no documents have been provided for audit review on the renovation of monuments of Kshs.8,000,000.

In the circumstances, it has not been possible to confirm the validity and value for money of the Kshs.28 million expenditure.

Further, Kshs.8 million meant for the renovation of monuments was utilized for the rehabilitation of Ainsworth House at Kshs.1,530,711 and rehabilitation of Directors Office at Kshs.1,663,315, building of boundary wall at National Museums of Kenya (NMK) at Kshs.4,193,300 and payment for construction permit to the County Government of Mombasa at Kshs.653,131. No explanation has been given for utilization of funds meant for rehabilitation of monuments for other activities.

388. Unsupported Pending Bill

An amount of Kshs.6,782,758 was on 27 June 2017 paid being balance for advertisement of the Smithsonian Kenya Mambo Poa Festival and hosting Radio Talk Shows held in May and June 2014. It was noted that the invoices worth Kshs.7,868,000 attached to the payment voucher dated back to the year 2014/2015 and had not been appearing in the list of Pending Bills under the Ministry of Sports Culture and The Arts for the subsequent years 2014/2015 and 2015/2016. Further, the payment was not supported with a local service order to show that the services were properly ordered and received by the state department of Culture and The Arts. No justification has been provided for the delay in the payment or for omission of the balance due from the list of pending bills in 2014/2015 and 2015/2016 financial years.

Consequently, the validity of the expenditure of Kshs.6,782,758 cannot be confirmed.

389. Prior Year's Unresolved Issue

389.1 Grounded Motor Vehicles

As previously reported, four (4) Motor vehicles of undetermined value have been lying at the parking yard of Permanent Presidential Music Commission (PPMC) for the last five years (5). The value of the four vehicles continue to depreciate with no indication of whether those vehicles would be repaired or disposed off.

Other Matter

390. Budget and Budgetary Performance

390.1 Revenue

The State Department had budgeted for revenue totalling Kshs.3,463,773,019 against actual receipts of Kshs.3,417,083,742 resulting in a shortfall of Kshs.46,689,277 or 1% as follows:

Revenue Head	Budget Kshs.	Actual Kshs.	Excess (+) Shortfall (-) Kshs.	Shortfall %
Tax Receipts	8,600,000	8,600,000	-	-
Exchequer Releases	3,453,173,019	3,407,000,000	-38,064,942	-1
Other Receipts	2,000,000	1,483,742	-516,258	-26
TOTAL	**3,463,773,019**	**3,417,083,742**	**- 46,689,277**	**-1**

390.2 Expenditure

Actual expenditure amounted to Kshs.3,407,616,774 against the approved budget of Kshs.3,463,773,019 resulting in an under-expenditure of Kshs.56,156,245 or 2% as follows:

Expenditure Head	Budget Kshs.	Actual Kshs.	Shortfall Kshs.	Shortfall %
Compensation of Employees	159,404,360	150,508,146	8,896,214	6
Use of Goods and Services	663,152,758	624,253,493	38,899,265	6
Transfer to Other Government Units	2,499,857,350	2,496,004,623	3,852,727	-
Other Grants and Transfers	1,045,000	1,045,000	-	-
Acquisition of Assets	140,313,551	135,805,512	4,508,039	3
TOTAL	**3,463,773,019**	**3,407,616,774**	**56,156,245**	**2**

Failure to spend in accordance with the budget implies the organization's goals and objectives were not achieved as planned.

391. Prior Year's Unresolved Issue

391.1 Grounded Motor Vehicles

As previously reported, four (4) Motor vehicles of undetermined value have been lying at the parking yard of Permanent Presidential Music Commission (PPMC) for the last five years (5). The value of the four vehicles continue to depreciate with no indication of whether those vehicles would be repaired or disposed off.

STATE DEPARTMENT FOR ENERGY

FINANCIAL STATEMENTS FOR VOTE 1152

Basis for Qualified Opinion

392. Land without Title Deeds

As reported in 2015/16, the State Department for Energy does not have title deeds for eight (8) parcels of land it occupies totaling 40.11 hectares valued at approximately Kshs.336,549,200.

Information available indicate that the process of acquiring titles for some of the land parcels has been underway for significantly long duration. From the foregoing, it has not been possible to confirm the rightful ownership of these parcels as well as the risk exposure of being encroached upon by squatters and land grabbers.

Other Matter

393. Twin Biogas Digesters Plant - Narok County, Siana Primary School

The State Department entered into a local contract on 29 June 2016, for an amount of Kshs.7,923,405 for the supply, construction, testing and commissioning of twin biogas digesters plant in Narok County-Siana Primary School. The objective of the digester was to generate biogas for use by the school using cow dung and sewage. The contract provided for twenty (20) and eight (8) weeks for the construction and testing to its functional use respectively. Available records at the State Department indicate that the contractor had been paid Kshs.5,351,300 as at 30 June 2017, based on engineer's assessment with the balance being payable upon testing of the system.

Although the biogas construction and installation was completed in January 2017, it was yet to be tested the delay in testing resulted from inability of the system to generate biogas as a result of inadequate cow dung supply. According to the project management, the school had at the project design stage undertaken to maintain sufficient herd of cattle to adequately supply the digester. Consequently, it has not been possible to confirm whether value for money will be realized from the expenditure of Kshs.7,923,405 on the biogas project.

394. Utilization of Training Facility at Mirangiine - Nyandarua County

During the 2013/2014 financial year, the Ministry of Energy and Petroleum commenced the development of a modern office complex and training Centre in Nyandarua County at Mirangiine Energy Centre. The Centre has since been completed but is yet to be utilized due for lack of furniture and fittings. Although, management has indicated having budgeted for it in the 2017/18 and 2018/19 financial year, no documentary evidence was made available for audit review.

Under the circumstances, it has not been possible to ascertain whether the State Department received or will receive value for money on the investment on Mirangiine Energy Centre.

395. Budget Control and Performance

395.1 Budgetary Absorption

The State Department's total approved budget for the year ended 30 June 2017 amounted to Kshs.111,425,574,252, as disclosed in the summary statement of appropriation: recurrent and development combined. Of the amount, recurrent and development expenditures amounted to Kshs.2,083,052,046 and Kshs.109,342,522,206 representing 2% and 98% of the total budget respectively. However, the total actual expenditure during the period amounted to Kshs.85,626,375,038 representing under absorption of Kshs.25,799,199,214 or 23% of the total budget.

The under-absorption of Kshs.25,799,199,214 may have resulted into slowed down implementation of activities and projects in the Department's annual work-plan, for which the funds were budgeted. This may have impacted negatively on service delivery to the people of Kenya.

Consequently, it has not been possible to confirm if the Department's objectives for the year ended 30 June 2017 were achieved.

395.2 Development Budget

The State Department's development budget for the year amounted to Kshs.109,342,522,206, as disclosed in the summary statement of appropriation: development. This differs with actual expenditure of Kshs.83,611,805,951, resulting into an under-absorption of Kshs.25,730,716,255, representing 24% of the development budget.

The under-absorption of Kshs.25,730,716,255 may have resulted into slowed down implementation of activities and projects in the Department's annual work-plans for which the funds were budgeted. This may have impacted negatively on service delivery to the people of Kenya. Consequently, it has not been possible to confirm if the Department's objectives for the year ended 30 June 2017 were achieved.

396. Pending Accounts Payable

The statement of receipts and payments reflects payments totalling to Kshs.85,626,375,038 for the year ended 30 June 2017. This amount excludes pending accounts payables of Kshs.40,171,588 disclosed under Note 19.1 to the financial statements which have been carried forward to 2017/2018 financial year. Had the pending accounts payables been settled in the year under review, the statement would have reflected a deficit of Kshs.39,374,902 instead of the reported surplus of Kshs.796,686. This is indicative of the State Department failure to adhere to Public Financial Management guidelines on budgeting by incurring expenditure in excess of the approved budget. In addition, failure to settle accounts payables in the year to which they relate adversely affects the following year's budget provision to which they have to be charged.

DONOR FUNDED PROJECTS

KENYA ENERGY-SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND

Unqualified Opinion

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

Emphasis of Matter

a. Interest on Bank Deposits

Included in the other receipts amount of Kshs.15,179,115 reflected in the statement of receipts and payments for the year under review is a receipt of Kshs.13,459,115 which according to note 2 to the financial statements, relate to interest income. Available information indicates that the management of the Fund and Kenya Commercial Bank (KCB) limited agreed on 14 November 2007 that deposits in bank accounts held at KCB Kipande House Branch shall earn interest at the rate of 4% p.a. effective from 15 November 2007. According to the agreement, the accrued interest is payable by the bank annually by 31 December. Examination of bank statements relating to the calendar years 2007 to 2016 revealed that the Fund received interest totaling Kshs.92,623,311 during that period. However, management has not provided evidence of how the bank computed the interest amount of Kshs.92,623,311. A re-calculation performed on the account indicates that interest income due to the Fund from 15 November 2007 to 30 June 2017 should have been Kshs.134,502,815 thus resulting to underpayment of Kshs.41,879,504. Consequently, the accuracy of interest income of Kshs.13,459,115 reflected in the financial statements for the year ended 30 June 2017 and Kshs.79,164,196 received in prior years could not be confirmed.

b. Outstanding Contributions to the Fund

As reported in my 2015/2016 Section 3(2)(b) of the Government Financial Management Regulations under the Kenya Energy Sector Environment and Social Responsibility Programme (KEEP) Fund of 2007) and its ten-year action plan (2008-2018) provides for annual contributions by state corporations and agencies under the Ministry of Energy and Petroleum into the Fund. The annual contributions receivable from Kenya Petroleum Refineries Ltd, Kenya Electricity Generating Company Limited, Kenya Pipeline Company Limited, National Oil Corporation of Kenya, Limited, Kenya Power and Lighting Company Limited and Energy Regulatory Commission (ERC) amounts to Kshs.2 Million, Kshs.100 Million, Kshs.51 Million, Kshs.5 Million, Kshs.90 Million and Kshs.2 Million respectively, all totalling Kshs.250 Million. However, during the year under review, only ERC made its contribution. Available information also indicates that the total contribution outstanding from the state agencies and corporations amounted to Kshs.2,372,500,000 as at 30 June 2017. Management has not explained why the agencies and corporations have not complied with the KEEP Fund regulations by submitting their annual contributions

PETROLEUM DEVELOPMENT LEVY FUND – STATE DEPARTMENT FOR ENERGY

Unqualified Opinion

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

KENYA ELECTRICITY EXPANSION PROJECT (IDA CR. NO. 4743-KE)

Unqualified Opinion

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

Other Matter

397. Special Account - Amount Withdrawn and not Claimed

The statement of special account reconciliation reflects amount withdrawn and not claimed as at 30 June 2017 of USD.150,780 (equivalent to Kshs.15,616,285) . This amount, is eligible for refinancing but documentation for its claim had not been submitted as at 30 June 2017. Consequently, it was not possible to confirm the validity of the amount withdrawn but not claimed amounting to Kshs.15,616,285.

STATE DEPARTMENT FOR PETROLEUM

FINANCIAL STATEMENTS FOR VOTE 1153

Unqualified Opinion

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

Other Matter

398. Budgetary Control and Performance

398.1. Budgetary Absorption

The State Department's total approved budget for the financial year ended 30 June 2017 amounted to Kshs.3,073,101,598 as disclosed in the summary statement of appropriation: recurrent and development combined. Of the amount, recurrent and development expenditures amounted to Kshs.202,851,598 and Kshs.2,870,250,000 representing 6.6% and 93.4% of the total budget respectively. However, the total actual expenditure during the year amounted to Kshs.1,601,596,539 representing under-absorption of Kshs.1,471,505,059 or 48% of the total budget.

The under-absorption of Kshs.1,471,505,059 slowed down implementation of activities and projects in the Department's annual work-plan that the funds were budgeted to finance and thus constrained delivery of the Department's services to the public.

Consequently, all the Department's objectives for the year ended 30 June 2017 were not achieved.

398.2. Development Vote

The State Department's development vote budget for the year amounted to Kshs.2,870,250,000 as disclosed in the summary statement of appropriation: development. However, actual expenditure was Kshs.1,426,275,377, resulting in under-absorption of Kshs.1,443,974,623 equivalent to 50% of the budget.

Further, included in the budget amount was an allocation for acquisition of assets amounting to Kshs.2,149,500,000 against which actual expenditure incurred amounted to Kshs.729,788,671 resulting in under-absorption of Kshs.1,419,711,329 or 66% of the budget. Management attributed a significant portion of the under-absorption (Kshs.1,398,782,790 representing 98.5% of the shortfall) to failure to procure Liquefied Petroleum Gas (LPG) cylinders because of delay in budgetary allocation by the National Treasury. Failure by the Department to procure the LPG cylinders for citizens as planned impeded attainment of its the Department's objectives for the year under review.

PETROLEUM DEVELOPMENT LEVY FUND

Unqualified Opinion

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

PETROLEUM TRAINING LEVY FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statement of this Fund.

DONOR FUNDED PROJECTS

KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CREDIT NO. 55260-KE)

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this project.

Emphasis of Matter

Budget Control and Performance

The statement of comparative budget and actual amounts reveals that the project had received budgeted loan receipts of Kshs.81,000,000 from external development partners but only Kshs.50,501,410 were retained resulting in an unrealized receipts of Kshs.30,498,590 or 38%. Similarly, out of the budgeted expenditure of Kshs.81,000,000, actual expenditure amounted to Kshs.48,349,905 resulting to an under expenditure of Kshs.32,650,095 or under receipts of 40%.

Consequently, the project did not implement all its activities approved in the budget thus delayed provision of services to the citizens.

STATE DEPARTMENT OF AGRICULTURE

FINANCIAL STATEMENTS FOR VOTE 1161

Basis for Qualified Opinion

399. Receipts

The statement of receipts and payments reflects amounts of Kshs.477,770,032, Kshs.145,968,360 and Kshs.4,729,258 under proceeds from domestic and foreign grants; proceeds from foreign borrowings; and proceeds from sale of assets respectively. However, these receipts have not been supported with authentic documents, including cash book, bank statement or any other verifiable documentation. No explanation has been provided for failure to support these receipts. Consequently, the accuracy and completeness of the total receipts figure of Kshs.20,957,938,004 cannot be confirmed.

400. Procurement of Subsidized Fertilizer

The statement of receipts and payments reflects an amount of Kshs.5,878,925,563 under use of goods and services, which includes, as disclosed under Note 7 to the financial statements an amount of Kshs.4,998,996,937 described as other operating expenses. This amount includes expenditure on the procurement of subsidized fertilizer.

A review of records availed for audit revealed that a company contracted to deliver 182,000 bags of various types of fertilizer each weighing 50 kilos during the short rains, at a total cost of US$4,434,733.50 (Kshs.456,777,550.50), did not deliver 17,060 bags costing US$441,001 (Kshs.45,423,103), in the period under review. The firm was, however, paid for the full amount of the contract. No reason has been given for the failure by the contracted company to deliver the consignment in full.

401. Outstanding Imprests

The statement of assets and liabilities reflects a balance of Kshs.24,329,660 under accounts receivable – outstanding imprests as at 30 June 2017. No satisfactory explanation has been provided for failure to have the imprests accounted for or surrendered on or before 30 June 2017.

402. Pending Bills

As disclosed in Annex 1 to the financial statements, the State Department of Agriculture had pending bills totalling Kshs.419,043,819 that were not settled during the year 2016/2017 but were instead carried forward to 2017/2018. Had the bills been paid and expenditure charged to the accounts for 2016/2017, the statement of receipts and payments for the year then ended would have reflected a deficit of Kshs.174,568,683 instead of the surplus of Kshs.244,475,136 now shown.

Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions for the subsequent year to which they have to be charged.

403. Prior Year Matter

403.1. Voidable Expenditure – Procurement of Subsidized Fertilizer

In the audit report for 2015/2016, it was indicated that the expenditure of Kshs.5,691,502,730 shown in that year's statement of receipts and payments under use of goods and services included, expenditure of Kshs.5,368,529 relating to other operating expenses, out of which, payments totalling Kshs.4,189,820,270 were made to National Cereals and Produce Board (NCPB) to meet expenses in respect of procurement, handling, storage, transportation, commissions and other charges for subsidized fertilizer. However, included in the payments of Kshs.4,189,820,270 made to NCPB was Kshs.147,574,229 relating to interest on Post Import Facility which arose from a 2013/2014 contractual obligation which the Department failed to honor.

The Department in 2013/2014 had contracted a company to supply and deliver 102,550 metric tons of various types of fertilizer, at an equivalent cost of Kshs.3,782,845,939. The Department subsequently assigned the contract to National Cereals and Produce Board (NCPB), who in turn entered into a Letter of Credit (LC) arrangement with a commercial bank. Upon delivery of the fertilizer and subsequent expiry of the 180 days of the LC, NCPB failed to pay up and the bank converted the LC into a loan chargeable at 14.78% per annum. No satisfactory explanation has been provided to date on why the Department paid interest on a loan arising from a contract that it had assigned fully to NCPB.

403.2. Unsupported Expenditure

(i) Procurement of Seed Potato

As reported in 2015/2016, the State Department paid an amount of Kshs.25,000,000 to a firm to import seed potato from Netherlands in the financial year 2014/2015. However, the supplier appears to have been single sourced as no evidence was provided to confirm that any competitive procurement procedure was followed as required under the then applicable Section 29 of the Public Procurement and Assets Disposal Act, 2015. Further, no invoice, delivery note or any other documentary evidence was provided to support the payment of Kshs.25,000,000 and to confirm that the seeds were indeed received. A review of the position during the audit of 2016/2017 indicates that the issue has not been resolved.

(ii) Procurement of Certified Seeds, Breeding Stock and Live Animals

As reported in 2015/2016, the expenditure of Kshs.700,718,840 for purchase of certified seeds, breeding stock and live animals incurred during the year 2014/2015 included an amount of Kshs.300,000,000 that was not supported with payment vouchers and related documents. A review of the position in 2016/2017 revealed that the expenditure has not been supported to date.

(iii) Purchase and Transportation of Subsidized Fertilizer

As reported in 2015/2016, the State Department disbursed an amount of Kshs.2,129,128,558 to National Cereals and Produce Board (NCPB) as subsidy for purchase of fertilizer to be sold to farmers in the year 2014/2015. However, apart from an invoice and a schedule raised by NCPB, no other verifiable document was produced for audit to confirm the actual quantity of fertilizer bought by NCPB, the quantity sold to the farmers and purchase and selling prices. Consequently, the validity of the expenditure of Kshs.2,129,128,558 on subsidized fertilizer could not be ascertained. A review of the position in 2016/2017 revealed that the expenditure is yet to be supported.

(iv) Bulking of Traditional High Value (Orphaned) Crops

In 2015/2016, it was reported that the State Department entered into a Kshs.30,095,000 Memorandum of Understanding (MOU) with Kenya Agricultural and Livestock Research Organization (KALRO) in which KALRO was to undertake a multiplication of various traditional high value (orphaned) crops including; cassava, sweet potatoes, cow peas, sorghum, finger millet and beans with an objective of promoting their consumption and reducing over-reliance on maize. The crops were to be distributed for cultivation in Arid and Semi-Arid Lands (ASAL) of Baringo, Makueni, Machakos, Tharaka Nithi, Kirinyaga, Kisumu, Homa Bay, Busia, Kwale and Taita Taveta Counties. Although the amount of Kshs.30,095,000 was released in 2014/2015 to KALRO to undertake the project, no evidence was produced to show that the project was carried out, completed and distribution done to the intended areas. A review of the matter in 2016/2017 revealed that the position still remains the same.

(v) Purchase of Tablet Gadgets

As reported in 2015/2016, the Department incurred an expenditure of Kshs.5,584,025 in purchasing 413 tablet gadgets in the financial year 2014/2015. However, no evidence was produced to confirm the requisition for the tablets; whether the gadgets were delivered, received and taken on charge in the stores; and to whom they were distributed. A review of the matter in 2016/2017 revealed that the position remained the same.

403.3. Procurement of Fertilizer

(As reported in 2015/2016 that the Department advertised Tender No. MOALF/SCMD/AGRIB/12/2014-2015, for supply and delivery of 54,950 metric tons of 8 lots - equivalent to 1,042,730 (50kg) bags of fertilizer in the financial year 2014/2015. Out of the 21 firms that responded, 7 were found to be responsive and awarded contracts to supply the fertilizer at different prices per 50 Kg bag, depending on the region or point of delivery.

Lot 1 was won by bidder No.4 to supply fertilizer at a price of Kshs.2,655 per 50 Kg bag being the lowest evaluated bidder at a total of Kshs.265,500,000. Lot 2 was also won by bidder No. 4 at a price of Kshs.2,430 per 50 Kg bag being a total price of Kshs.364,500,000. Information available indicated that bidder No.4 declined to sign a contract agreement even after delivering their acceptance letter. The Ministerial Tender Committee then made a decision to disqualify the bidder and award the tender to the second lowest bidder, bidder No. 6, at total cost of Kshs.320,000,000 and Kshs.436,850,000 for lots 1 and 2 respectively. Further, and despite our request to the management to produce tender documents and correspondences relating to the disqualified bidder, no documents and records have been provided to date for audit verification.

In awarding the contract to the second lowest bidder without giving justifiable reasons why the lowest bidder declined to sign a contract, the State Department lost an amount of Kshs.126,850,000, being the difference between the amount paid to the second lowest bidder and the amount that would have been paid to the lowest bidder, as shown below:

Lot No.	Bidder No. 4	Bidder No.6	Difference
1	265,500,000.00	320,000,000.00	54,500,000.00
2	364,500,000.00	436,850,000.00	72,350,000.00
	630,000,000.00	**756,850,000.00**	**126,850,000.00**

A review of the position in 2016/2017 revealed that the matter has not been addressed.

403.4. Funds Disbursed to Establish Revolving Funds

As was reported in 2015/2016, the State Department had entered into two separate Memoranda of Understanding (MOUs) in 2014/2015 with Kenya Agricultural and Livestock Research Organization (KALRO) and Agricultural Development Corporation (ADC) under which the Department was to disburse Kshs.200,789,325 to the two organizations to carry out Potato Seed Multiplication (Bulking). ADC received Kshs.117,500,000 to produce 30,000 (50 Kg) bags of basic seeds, 3,000,000 invitro plantlets and 3,000,000 potato mini-tubers while KALRO received Kshs.27,889,325 to produce 34,000 invitro plantlets, 472,220 mini tubers, 12,400 (50 Kg) bags of basic seeds. The amounts were charged under the item of transfers to other Government Units.

The Department also disbursed another Kshs.55,400,000 to the same institutions: Kshs.50,400,000 to ADC and Kshs.5,000,000 to KALRO for the same purpose but charged the expenditure under the item of specialized materials and services.

Further, the MOUs provided that once the seed bulking was completed, the seeds would be sold to farmers and the proceeds be used to create two Revolving Funds to sustain a continued increase in production of basic seeds and certified seed potato. However, despite the Department having disbursed the total amount of Kshs.200,789,325 and the seed bulking project completed, the two Revolving Funds had not been established as at the end of the financial year 2016/2017.

403.5. Non-Submission of Financial Statements and Failure to Account for Funds by Agricultural Sector Coordination Unit (ASCU)

Agricultural Sector Coordination Unit (ASCU) is an Inter-Ministerial Secretariat established in 2005, under the Ministry of Agriculture, Livestock and Fisheries to facilitate implementation and coordination of agricultural sector strategies in line with Vision 2030. The Unit receives funding from the Government and other development partners and its activities traverse several Ministries.

Since its inception in 2005, the Unit, through the parent Ministry, has not submitted financial statements to the Auditor-General for audit as required by Section 47 of the Public Audit Act, 2015. Although the Ministry had indicated previously that financial statements were prepared for the year ended 30 June 2013, the statements have not been submitted to the Auditor-General for audit.

Further, as reported in 2015/2016, the Unit appointed M/s Deloitte & Touche as its auditors in previous years. However, no explanation has been provided for appointing private auditors without the knowledge, consent and approval of the Auditor-General as required by Section 23 of the Public Audit Act, 2015. Consequently, the amount of Kshs.3,131,420 paid to the firm as audit fees (Kshs.1,610,892 for 2012/2013 and Kshs.1,520,528 for 2011/2012) constitutes an irregular expenditure.

Although the management of the Secretariat has already been summoned and appeared before the Public Accounts Committee of the National Assembly over this matter, and the Committee directed the management to comply with the law and submit all records, documents and information together with financial statements for all the years since inception, the management has not heeded the directive, and the matter remains unresolved.

REVENUE STATEMENTS - STATE DEPARTMENT OF AGRICULTURE

Basis for Qualified Opinion

404. Under-Declaration of Revenue

Records maintained at the National Cereals and Produce Board (NCPB), the agency taxed with the responsibility of selling subsidized fertilizer on behalf of the State Department of Agriculture, indicate that a total of Kshs.605,508,562 was collected on sale of the subsidized fertilizer during the year under review. However, only an amount of Kshs.439,300,200 was remitted to the State Department of Agriculture as disclosed in the revenue statements for the year ended 30 June 2017. No reconciliation or explanation has been provided for the difference of Kshs.166,208,362. In addition, no reason has been given for failure to remit to the State Department of Agriculture the balance of Kshs.166,208,362.

405. Under-Collection of Revenue

The statement of comparison of budget and actual amounts indicates that the State Department budgeted to raise Kshs.1,840,725,000 as revenue from sale of subsidized fertilizer in 2016/2017 financial year. However, out of the estimated receipts of Kshs.1,840,725,000, an amount of Kshs.439,300,000 (or about 24%) only was collected. No explanation has been given in the notes to the financial statements for failure to collect the entire estimated amount. In addition, no evidence has been provided to show that the State Department informed the Cabinet Secretary in charge of Finance as required under Regulation 64 (2) of the Public Finance Management (National Government) Regulations, 2015 that, it was experiencing difficulty in collecting revenues due to the National Government.

406. Presentation of the Revenue Statements

The revenue statements pages do not flow sequentially while others have either been repeated or skipped contrary to the guidelines issued by the Public Sector Accounting Standards Board. No explanation has been provided for this omission.

STRATEGIC GRAIN RESERVE FUND

Basis for Disclaimer of Opinion

407. Gunny Bags

The statement of financial performance for the year ended 30 June 2017 reflects cost of sales figure of Kshs.11,672,958,682 and other expenditure figure of Kshs.1,849,608,068 respectively, and as disclosed under Notes 6 and 7 to the financial statements, these expenditure items include amounts of Kshs.446,651,961 and Kshs.394,907,461 respectively totalling Kshs.841,559,422, relating to purchase of gunny bags. However, an audit review of procurement records revealed that an expenditure of Kshs.401,460,400 was incurred on procurement of gunny bags during the year 2016/2017. The difference of Kshs.440,099,022 between the figures disclosed in the financial statements and amounts supported with documentary evidence has not been reconciled or explained.

In addition, documents provided for audit indicated that two firms were awarded contracts during the year 2016/2017 to supply gunny bags, where each was to supply 2,700,000 and 525,000 bags, respectively. However, it is not clear how the two firms were identified as no documentary evidence was provided to show the procurement method and procedures followed.

Further, no documents were made available to confirm the agreed pricing or the process followed in arriving at the given price. In addition, no documents have been provided to confirm that proper contracts were entered into between the Fund/State Department of Agriculture and the suppliers. It is also not clear whether the bags were delivered as no delivery notes and related documents had been made available for audit verification.

408. Financial Performance

The statement of financial performance reflects a deficit of Kshs.3,748,576,470 for the year ended 30 June 2017. The continued loss-making trend has been attributed to the multiplicity of expenses including costs of acquisition of maize, acquisition of gunny bags, storage, fumigation, handling costs, transport costs, agency fees and commissions charged by National Cereals and Produce Board (NCPB). The persistent financial loss is an indication of existence of a material uncertainty that casts significant doubts about the ability of the Fund to continue as a going concern. Further, no evidence has been provided to show any efforts being taken by management to address the problem.

409. Inaccuracy of the Financial Statements

(i). Trial Balance

The balances and other figures reflected in the financial statements for the year ended 30 June 2017 have not been supported by a trial balance. The basis of the balances and figures reflected is therefore not clear.

(ii). Revenue

The statement of financial performance reflects an amount of Kshs.9,773,990,280 in respect of revenue from sale of maize. However, sales records maintained by National Cereals and Produce Board (NCPB) reflect sales revenue of Kshs.10,159,520,003, resulting in an unexplained and unreconciled difference of Kshs.385,529,723.

(ii). Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.4,729,514,568 as at 30 June 2017 which, although it agrees with the bank reconciliation statement, differs with the balance of Kshs.4,633,633,398 shown in the cash book. The cash and cash equivalents balance is, therefore, overstated by an amount of Kshs.95,881,170 in the financial statements.

(iii). Cost of Sales – Purchases

In the statement of financial performance cost of sales figure of Kshs.11,672,958,682 comprises among other figures as disclosed under Note 6 to the financial statements, purchases amounting to Kshs.8,344,961,256. However, records maintained at National Cereals and Produce Board reflect purchases amounting to Kshs.9,951,110,016, resulting to an unexplained and unreconciled difference of Kshs.1,606,148,760.

(iv). Trade and Other Payables

The statement of financial position reflects an amount of Kshs.2,060,694,268 under trade and other payables which, however, differs by Kshs.301,510,867 from the amount of Kshs.2,362,205,135 shown in the records maintained at National Cereals and Produce Board. The completeness and accuracy of the trade and other payables figure of Kshs.2,060,694,268 cannot therefore be confirmed.

(v). Handling Costs on Sales and Commission on Sales

The statement of financial performance reflects an amount of Kshs.1,849,608,068 under other expenditure which includes, as disclosed in Note 7 to the financial statements, an amount of Kshs.944,007,268 relating to handling costs on sales and commission on sales. This amount differs with the amount of Kshs.1,149,921,718 reflected in supporting documents by an amount of Kshs.205,914,450 that has not been reconciled or explained.

(vi). Transport and Handling Costs to Other Depots

Further, the figure of Kshs.1,849,608,068 reflected in the statement of financial performance under other expenditure includes an amount of Kshs.192,372,613 relating to transport and handling costs to other depots, which differs from the amount of Kshs.533,527,249 reflected in supporting documents which results to unexplained and unreconciled amount of Kshs.341,154,636.

410. Unsupported Balances

(i). Inventories

The statement of financial position reflects an amount of Kshs.3,561,708,813 under inventories, which includes an amount of Kshs.500,000,000 relating to powdered milk at New Kenya Co-operative Creameries (NKCC). However, no documentary evidence has been provided to support the balance of Kshs.500,000,000 as at 30 June 2017. Consequently, the existence of such stock cannot be confirmed.

(ii). Receivables

The statement of financial position reflects an amount of Kshs.5,849,677,056 under receivables. However, no documentary evidence has been provided to support the amount. Consequently, the completeness and accuracy of the receivables balance cannot be ascertained.

(iii). Cost of Sales

The statement of financial performance reflects an amount of Kshs.11,672,958,682 under cost of sales. However, payment vouchers supporting the expenditure totalling Kshs.4,494,724,000 relating to importation of maize, have not been provided for audit verification.

Consequently, the validity of the expenditure totalling Kshs.4,494,724,000 cannot be ascertained.

411. Obsolete and Unfit Stock of Maize

As reported in 2015/2016, a review of quality assurance reports for that year maintained by National Cereals and Produce Board indicated that Celphos, the Board's preferred fumigation chemical had failed to kill weevils. Information available further indicated that although most stations (depots) had requested for a change of the chemical, the Board had not come up with an alternative. Consequently, 754,015 bags of maize valued at Kshs.1,772,055,670 were found to have been damaged beyond the 2.5% acceptable limit and were not fit for human consumption. No evidence has been produced during the audit to show whether the situation has been addressed 2016/2017.

Further, and as reported in 2015/2016, no adjustments have been made in these financial statements to account for the obsolete stock.

AGRICULTURAL INFORMATION RESOURCE CENTRE REVOLVING FUND ACCOUNT

Basis for Disclaimer of Opinion

412. Long Outstanding Receivables

The statement of financial position as at 30 June 2017 shows a balance of Kshs.15,091,667 for receivables from non-exchange transactions, which includes an amount of Kshs.1,654,439, relating to the period from November 1993 to June 2016. No steps appear to have been taken to recover these long outstanding debts. In addition, no provision has been made in these financial statements for the long outstanding amount. The receivables balance of Kshs.15,091,667 is therefore, not fairly stated.

413. Inventories

The statement of financial position also reflects a balance of Kshs.3,940,750 under inventories, which differs with the amount of Kshs.2,230,750 reflected in the schedules provided for audit. The difference of Kshs.1,710,000 between the two sets of records has not been reconciled or explained. Consequently, the completeness and accuracy of the inventories balance of Kshs.3,940,750 as at 30 June 2017 cannot be confirmed.

414. Reserves

The statement of financial position reflects a balance of Kshs.10,794,558 under reserves as at 30 June 2017 (2016 – Kshs.10,094,144). The increase in reserves of Kshs.700,414 has not been supported with any records, movement schedule or any other documentary evidence. In addition, the figure of Kshs.10,794,558 has not been supported with either explanatory note or analysis. Consequently, the validity and accuracy of the reserves balance of Kshs.10,794,558 cannot be confirmed.

415. Accumulated Surplus

The statement of financial position further reflects an amount of Kshs.18,003,893 under accumulated surplus as at 30 June 2017 (2016 – Kshs.31,385,587). The significant decrease in accumulated surplus by Kshs.13,381,694 has not been supported with a movement schedule or any other documentary evidence. Consequently, the validity, completeness and accuracy of the accumulated surplus as at 30 June 2017 cannot be confirmed.

416. Statement of Changes in Net Assets

The statement of changes in net assets reflects total net assets balance of Kshs.56,736,337 as at 30 June 2017 which, however, differs with the balance of Kshs.28,798,451 shown in the statement of financial position by Kshs.27,937,886. In addition, the statement of changes in net assets reflects under capital replacement development reserve balances of Kshs.12,750,868, Kshs.2,423,078, and Kshs.3,203,589 relating to depreciation reserve, surplus for the period and transfers to accumulated reserves respectively, which have not been supported by any documentation, analysis or explanatory notes. The statement also reflects an amount of Kshs.13,831,694 under accumulated surplus relating to amounts transferred from accumulated surplus that has not been supported with any analysis or any other supporting documentation.

Consequently, the validity, completeness and accuracy of the total net assets balance of Kshs.56,736,337 cannot be confirmed.

DONOR FUNDED PROJECTS

KENYA CEREAL ENHANCEMENT PROGRAMME (IFAD GRANT NO.2000000623, IFAD LOAN NO.2000001121, ASAP TRUST GRANT NO.2000001122)

Unqualified Opinion

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

Emphasis of Matter

Contributions in Kind from Other Financiers

Part I, Clause 2 of the Financing Agreement between IFAD and the Republic of Kenya stipulates the method of counterpart financing for the project and amongst others, requires the recipient to ensure that Programme beneficiaries provide financing for the programme in the approximate amount of Euro 3,563,400. Note 8.6 (B) to the financial statements discloses an amount of Kshs.107,811,460 as having been contributed in kind by Equity Bank Limited (Kshs.58,103,988) and beneficiary farmers (Kshs.49,707,472), respectively. Although all necessary supporting documents were provided to the Fund management, this amount was not included as part of receipts and payments for the year under review in the Project`s financial statements. The amount is not under the control of the Project management and would not have an effect on the bottom line as it affects both receipts and payments. My opinion is not qualified in respect of this matter.

KENYA AGRICULTURAL PRODUCTIVITY AND SUSTAINABLE LAND MANAGEMENT PROJECT (IBRD GEF GRANT NO. TF 091616)

Unqualified Opinion

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

AGRICULTURAL SECTOR DEVELOPMENT SUPPORT PROGRAMME (GRANT NO. 31100071)

Basis for Qualified Opinion

417. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a balance of Kshs.59,572,578 in respect of total cash and cash equivalents as at 30 June 2017. However, bank balance of Kshs.44,279,718 reflected in the financial statements and disclosed under Note 11.A. comprise Kshs.42,117,159 attributed to the Donor Account and an amount of Kshs.2,162,559 relating to GOK Account. However, these balances differ with the balances indicated in a Board of Survey Report, which shows a total amount of Kshs.63,890,509 comprising Kshs.59,495,350 for the Donor Account and an amount of Kshs.4,395,159 for the GOK Account. No reconciliation or explanation has been provided for these variances, consequently the accuracy of the bank balance cannot be confirmed.

KENYA ADAPTATION TO CLIMATE CHANGE IN ARID AND SEMI ARID LANDS PROJECT (GEF GRANT NO. TF 096908)

Unqualified Opinion

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

DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOOD PROGRAMME (ADF LOAN NO. 2100150028345)

Basis for Adverse Opinion

418. Accuracy of the Financial Statements

418.1. Trial Balance

The balances reflected in the financial statements are not supported by a trial balance. Consequently, the completeness and accuracy of the financial statements can not be confirmed.

418.2. Variances Between Figures in the Financial Statements and Figures in Supporting Schedules

(i) Domestic Travel and Services

The statement of receipts and payments reflects expenditure totalling Kshs.66,843,704 in respect of purchase of goods and services that include an amount of Kshs.41,732,349 relating to domestic travel and subsistence. The latter amount, however, differs by Kshs.8,859,013 from the amount of Kshs.32,873,336 shown in the supporting schedules.

(ii) Printing, Advertising and Information Supplies and Services

The expenditure shown under purchase of goods and services of Kshs.66,843,704 includes expenditure of Kshs.4,069,896 relating to printing, advertising and information supplies and services, which differs by Kshs.3,696,896 from the amount of Kshs.373,000 shown in the supporting schedules.

(iii) Specialized Materials and Services

The expenditure shown under purchase of goods and services of Kshs.66,843,704 includes expenditure of Kshs.1,557,330 relating to specialized materials and services which differs by Kshs.1,143,530 from an amount of Kshs.2,700,860 shown in the supporting schedules.

(iv) Routine Maintenance –Vehicles and Other Transport Equipment

The expenditure on purchase of goods and services of Kshs.66,843,704, includes expenditure of Kshs.2,573,308 relating to routine maintenance, vehicles and other transport equipment which differs by Kshs.785,078 from the amount of Kshs.3,358,386 shown in the supporting schedules.

(v) Office Supplies

The expenditure on purchase of goods and services includes expenditure of Kshs.1,761,540 relating to office supplies which differs by Kshs.58,232 from the amount of Kshs.1,819,772 shown in the supporting schedules.

(vi) Purchase of Vehicles and Other Transport Equipment

The statement of receipts and payments reflects an expenditure of Kshs.350,855,239 under acquisition of non-financial assets, which includes, an expenditure of Kshs.6,032,870 relating to purchase of vehicles and other transport equipment. However, the supporting documents for the acquisition of motor vehicles indicates an amount of Kshs.1,535,100. The resulting difference of Kshs.4,497,770 has not been supported.

418.3. Variances Between Figures in the Financial Statements and Figures Disclosed in the Notes to the Financial Statements

(i) Purchase of Goods and Services

The statement of receipts and payments reflects a total expenditure of Kshs.66,843,704 under purchase of goods and services while Note 8.8 shows a corresponding total expenditure of Kshs.55,127,772 hence an unexplained variance of Kshs.11,715,932.

(ii) Acquisition of Non-Financial Assets

The statement of receipts and payments reflects total expenditure of Kshs.350,855,239 under acquisition of non-financial assets while Note 8.10 reflects a corresponding total expenditure of Kshs.350,856,239 hence an unexplained variance of Kshs.1,000.

(iii) Accounts Receivable – GOK Balance

The statement of financial assets and liabilities reflects a balance of Kshs.18,897,993 under accounts receivable – GOK balance while the corresponding Note 8.14 reflects a nil balance relating to outstanding imprests and advances. No reconciliation or explanation has been provided for the variance.

(iv) Fund Balance Brought Forward

The statement of financial assets and liabilities further reflects a Fund balance brought forward of Kshs.54,403,152, which differs from the comparative closing balance of Kshs.64,405,575 shown under 2015/2016 and related figure of Kshs.10,584,682 disclosed under Note 8.15.

No explanation has been provided for these variances.

419. Unsupported Balances

(i) Cash and Cash Equivalents

The cash and cash equivalents balance of Kshs.60,391,944 was not supported by bank reconciliation statements, bank statements and board of survey reports. As result, the existence, completeness and accuracy of the balance as at 30 June, 2017 can not be confirmed.

(ii) Accounts Receivable – GOK Balance

The statement of financial assets and liabilities reflects a balance of Kshs.18,897,993 under accounts receivable – GOK balance which, however, has not been explained or supported by a schedule/analysis or any other documentation. The validity, completeness and accuracy of the receivables can not be ascertained in the circumstances.

RICE BASED MARKET ORIENTED AGRICULTURE PROMOTION PROJECT

Basis for Disclaimer of Opinion

420. Failure to Provide Accounting and Other Records

The Project's financial statements for the year ended 30 June 2017 have not been supported by necessary records required for audit including the financing agreement, approved budget, approved work plans, cash books, bank reconciliation statements, bank statements, payment vouchers, supporting schedules and trial balance.

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

421. Accuracy of the Financial Statements

421.1 Comparative Figures and Cumulative Balances

The financial statements for the year ended 30 June 2017 reflects comparative figures for 2015/2016 and cumulative balances of which financial statements for the past years have never been prepared and submitted for audit since the inception of the Project in February 2012.

421.2 Receipts

The total receipts of Kshs.28,250,000 comprising of Kshs.2,250,000 being transfers from Government entities and Kshs.26,000,000 relating to proceeds from domestic and foreign grants reflected in the statement of receipts and payments for the year ended 30 June 2017 have not been supported by any documentation.

421.3 Purchase of Goods and Services

The statement of receipts and payments reflects a total expenditure of Kshs.2,249,931 in respect of purchase of goods and services which, as disclosed under Note 8.8, was incurred on several items. However, payment vouchers and related underlying documents have not been provided to support the expenditure.

421.4 Surplus for the Year

Although the statement of receipts and payments reflects total receipts of Kshs.28,250,000 and total payments of Kshs.2,249,931, surplus for the year ended 30 June 2017 has been shown as Kshs.69.20 instead of Kshs.26,000,069. This anomaly has not been explained nor rectified.

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

STATE DEPARTMENT OF LIVESTOCK

FINANCIAL STATEMENTS FOR VOTE 1162

Basis for Adverse Opinion

422. Inaccuracies of the Financial Statements

(i). Proceeds from Domestic and Foreign Grants

The summary statement of appropriation for development reflects an actual expenditure figure of Kshs.139,696,624 under proceeds from domestic and foreign grants, which differs from the corresponding figure of Kshs.136,696,624 shown in the combined summary statement of appropriation, hence an unexplained and unreconciled difference of Kshs.3,000,000.

Further, disclosed under Note 1 to the financial statements is an amount of Kshs.139,696,624 in respect of Standards and Market Access Programme (SMAP) project, which differs from the corresponding amount of Kshs.107,742,397 shown in the financial statements of the Project for the year ended 30 June 2017 by unexplained and unreconciled amount of Kshs.31,954,227.

(ii). Proceeds from Foreign Borrowing

Note 3 to the financial statements reflects an amount of Kshs.675,965,191 under proceeds from foreign borrowings while a footnote under the same Note shows a figure of Kshs.672,965,191 hence an unexplained and unreconciled difference of Kshs.3,000,000.

(iii). Transfers to other Government Units

Disclosed in Note 7 to the financial statements is a transfer of Kshs.27,478,019 to Mainstreaming Sustainable Land Management in Agro-Pastoral Production Systems of Kenya (SLM) project, while the financial statements of the project for the year ended 30 June 2017 shows receipts of Kshs.35,000,000 from the Government. The difference of Kshs.7,521,981 has not been explained or reconciled.

Further, Note 7 to the financial statements shows an amount of Kshs.586,047,632 as having been transferred to Agricultural Development Corporation (ADC). In addition, an amount of Kshs.153,952,368 was paid on behalf of ADC in respect of loan principal and interest repayment as disclosed in Note 10 to the financial statements, resulting to total transfers of Kshs.740,000,000. However, the ADC's financial statements reflect capital grants totaling Kshs.990,000,000 for the year ended 30 June 2017. No reconciliation has been provided for the different balances reflected in these two sets of records.

(iv). Other grants and Transfers

The statement of receipts and payments reflects an amount of Kshs.114,319,136 under other grants and transfers while Note 8 to the financial statements shows a corresponding amount of Kshs.114,396,136, hence an unexplained and unreconciled difference of Kshs.77,000.

(v). Comparative Figures

The statement of receipts and payments for the year ended 30 June 2016 reflects an amount of 187,606,317 under proceeds from domestic and foreign grants while the statement of receipts and payments for the year ended 30 June 2017 shows a nil comparative (2015/2016) figure.

(vi). Total financial Assets

The statement of financial position shows a balance of Kshs.67,314,680 as the total financial assets instead of the correctly casted balance of Kshs.87,131,979 leading to unreconciled difference of Kshs.19,817,299.

(vii). Statement of Cash Flows

The statement of cash flows reflects an incorrectly casted balance of Kshs.7,960,573,580 as an aggregate of receipts from operating income instead of the correctly casted balance of Kshs.7,957,573,580, leading to unreconciled difference of Kshs.3,000,000.

(viii). Variances Between Figures in Financial Statements and Trial Balance

Variances were also noted between figures reflected in the financial statements and the trial balance as detailed below:

Expenditure Item	Amount as per the Financial Statements	Amount as Per the Trial Balance	Variance
Audited Component	**Kshs**	**Kshs**	**Kshs.**
Basic Salaries- Permanent Employees	759,772,284	762,031,606	2,259,322
Basic Wages- Temporary Employees	136,120,667	134,460,191	1,660,476
Personal allowances paid as part of salary	402,913,464	402,258,798	654,666
Utilities, supplies and services	35,369,463	35,184,393	185,070
Communication, supplies and services	22,590,894	22,674,815	83,921
Domestic travel and subsistence	107,519,835	107,694,530	174,695
Printing, advertising and information supplies & services	2,119,344	2,107,226	12,118
Training expenses	12,111,898	12,208,557	96,659
Hospitality supplies and services	12,447,756	12,015,144	432,612
Fuel Oil and Lubricants	37,999,269	38,261,519	262,250

Expenditure Item	Amount as per the Financial Statements	Amount as Per the Trial Balance	Variance
Audited Component	**Kshs**	**Kshs**	**Kshs.**
Specialized materials and services	831,756,090	830,945,854	810,236
Office and general supplies and services	13,843,780	13,808,120	35,660
Other operating expenses	85,835,321	83,342,216	2,493,105
Routine maintenance – vehicles & other transport equipment	17,764,214	17,777,773	13,559
Routine maintenance – other assets	4,324,629	4,246,899	77,730
Rehabilitation and Renovation of Plant, Machinery and Equip.	632,520	407,520	225,000
Grants and Transfers to Other Government Units	5,488,307,649	5,434,651,215	53,656,434
Other Transfers and Grants	114,396,136	115,326,436	930,300
Refurbishment of Buildings	47,385,340	46,869,740	515,600
Purchase of Specialised Plant, Equipment and machinery	141,859,293	144,468,228	2,608,935
Purchase of Certified seeds, Breeding stocks and Live animals.	4,249,979	1,840,302	2,409,677
Government Imprests	28,923,073	14,494,165	14,428,908
Total	8,308,242,898	8,237,075,248	71,167,650

No explanation or reconciliation has been provided for the above differences and consequently, the accuracy of the financial statements cannot be confirmed.

423. Unsupported Receipts, Expenditure and Balances

(i). Purchase of Vehicles and other Transport Equipment

The statement of receipts and payments reflects an expenditure of Kshs.276,805,121 relating to acquisition of assets, which, as disclosed in Note 9 to the financial statements, includes Kshs.1,422,500 on purchase of vehicles and other transport equipment. However, no documentary evidence has been provided to support the expenditure of Kshs.1,422,500 and as a result, its validity cannot be confirmed.

(ii). Construction of Buildings

The expenditure of Kshs.276,805,121 on acquisition of assets include, an expenditure of Kshs.65,000,000 on construction of buildings. However, no documentary evidence has been provided to support the expenditure of Kshs.65,000,000. Consequently the validity of the expenditure cannot be confirmed.

(iii). Prior Year Adjustment

The statement of financial position reflects a prior adjustment of Kshs.72,604,112 in 2016/2017 that has not been analyzed or supported. Therefore, the validity of the adjustment cannot be confirmed under the circumstances.

(iv). District Suspense

The statement of financial position reflects a district suspense balance of Kshs.38,391,607 which has not been supported with documentation and analyses. Consequently, the completeness and accuracy of the balance cannot be confirmed.

(v). Accounts Payable – Deposits and Retentions

The statement of financial position reflects a balance of Kshs.17,707,534 under accounts payable – deposits and retentions, which has also not been supported with any documentation. Under the circumstances, the validity of the deposits and retentions and any obligations relating to the balance cannot be confirmed.

(vi). Receipts

The statement of receipts and payments reflects total receipts of Kshs.8,646,765,985, which includes, among others, Kshs.139,696,624 and Kshs.675,965,191 relating to proceeds from domestic and foreign grants and proceeds from foreign borrowings respectively, which have also not been supported with any documentary evidence.

424. Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.19,817,299, comprising of Kshs.19,473,596 and Kshs.343,702 relating to bank and cash balances respectively. However, the State Department did not provide bank statements, certificates of bank balances, bank reconciliation statements, cash books and board of survey reports to support the balances. Consequently, the completeness and accuracy of the cash and cash equivalents balance of Kshs.19,817,299 as at 30 June 2017, cannot be confirmed.

425. Outstanding Imprests

The statement of financial position reflects a balance of Kshs.28,923,073 against account receivables – outstanding imprests which, had not been surrendered or accounted for as at 30 June 2017. Further, out of the outstanding cases, some seven (7) officers had multiple outstanding imprests totalling to Kshs.1,938,100. In addition, in several cases it was noted that the designations of imprest holders were not disclosed. No explanations have been provided for these anomalies.

426. Pending Bills

As disclosed in Note 17.1 and Annex 1 to the financial statements, the State Department of Livestock had pending bills totalling Kshs.1,084,210,383 that were not settled during the year 2016/2017 but were instead carried forward to 2017/2018. Had the bills been paid and expenditure charged to the accounts for 2016/2017, the statement of receipts and payments for the year would have reflected a deficit of Kshs.1,027,000,393 instead of the surplus of Kshs.57,209,990 now shown. 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.

Other Matter

427. Land

As reported in 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. Information and documents available indicate that the land measures 1,500 acres.

Further, information and records at the Ministry of Agriculture, Livestock and Fisheries and Ministry of Land and Physical Planning indicate that some Government agencies and private organizations have irregularly taken possession of 509 acres of land. The State Department has to-date not obtained title of ownership of the land from the Ministry of Lands and Physical Planning. In the circumstances, the ownership and actual size of the land cannot be confirmed.

428. Budget Performance

The summary statements of appropriation for recurrent and development combined reflect several items with huge variances between the budgeted and actual amounts representing under-performance of the budget.

The total budget performance was 56%. The recurrent budget performance was 87%, while development budget realized a success rate of 36% only. Such a performance implies that the State Department did not execute most of its intended activities in the year, which in turn implies that citizens were denied services. Alternatively, the earlier budget as presented may have been too ambitious and unattainable. No reasons have been provided for the failure by the State Department to implement the budget as approved by the National Assembly.

VETERINARY SERVICES DEVELOPMENT FUND

Basis for Qualified Opinion

429. Variance Between Miscellaneous Receipts and Supporting Schedule

The total revenue of Kshs.47,885,109 for 2016/2017 shown in the statement of financial performance includes several individual receipts totalling Kshs.1,347,392 according to miscellaneous receipts which differs with the corresponding amounts of Kshs.882,150 shown in the supporting schedule.

No reconciliation or explanation has been provided for the difference of Kshs.465,242 between the two sets of records.

430. Reserves

The statement of financial position reflects a balance of Kshs.79,192,576 under reserves as at 30 June 2017, which has not been supported by any documentation. The balance also differs with the nil balance shown against reserves in the statement of changes in net assets.

No explanations or reconciliations have been provided for these differences and consequently the accuracy of the reserves balance cannot be confirmed.

Other Matter

431. Underperformance of Budget

An analysis of the statement of comparison of budget and actual amounts for the year ended 30 June 2017 shown under Section XI of the financial statements, together with the statement of financial performance shows that although the Fund had an approved and final revenue budget of Kshs.100,000,000, it only to raise a total of Kshs.47,885,109 (about 48%). Similarly, although the Fund had an approved and final expenditure budget of Kshs.100,000,000, it only managed to absorb/utilize a total of Kshs.57,089,898 (about 57%). The underperformance of the budget implies that targets and service delivery were not achieved.

DONOR FUNDED PROJECTS

REGIONAL PASTORAL LIVELIHOOD RESILIENCE PROJECT (IDA CREDIT NO. KE 5388)

Basis for Qualified Opinion

432. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a cash and cash equivalents balance of Kshs.63,768,674 as at 30 June, 2017. The balance has, however, not been supported with a cash book, bank reconciliation statement, bank statements, and a board of survey report. Further, the balance of Kshs.63,768,674 also differs by an amount of Kshs.39,200 from the balance of Kshs.63,807,874 shown under Notes 8.13 and 8.13 A to the financial statements. As a result, the completeness and accuracy of the balance cannot be confirmed.

433. Account Receivables

The statement of financial assets and liabilities also reflects a balance of Kshs.273,105 under accounts receivables – imprest and advances, which has however not been supported with a schedule and analysis. The validity and accuracy of the balance cannot be confirmed.

434. Misallocation of Expenditure

The statement of receipts and payments for the year ended 30 June,2017 reflects expenditure totalling Kshs.670,947,488 under acquisition of non-financial assets, which erroneously include an expenditure of Kshs.19,938,517 incurred on insurance of motor vehicles. The expenditure on motor vehicles insurance ought to have been charged to purchase of goods and services. No satisfactory explanation has been provided for this anomaly.

435. Unsupported Expenditure

435.1. Transfers to Other Government Entities

The statement of receipts and payments reflects an expenditure of Kshs.3,396,000 in respect of transfers to other government entities which, as disclosed under Note 8.11 to the financial statements represents funds transferred to East African Agricultural Productivity Project. However, no documentary evidence has been provided to support the transfer. Consequently, the validity of the transfer cannot be confirmed.

435.2. Purchase of Goods and Services

The statement of receipts and payments reflects total expenditure of Kshs.614,647,264 relating to purchase of goods and services and as itemised under Note 8.8 to the financial statement. However, expenditure on the following items totalling Kshs.71,564,032 was not supported with detailed schedules and verifiable documents:

Item of Expenditure	Amount Kshs
Communication Supplies and Services	24,162,517
Printing, Advertising and Information Supplies and Services	26,933,910
Training Expenses	19,308,260
Specialized Materials and Services	1,159,345
Total	**71,564,032**

As a result, the propriety of expenditure totalling Kshs.71,564,032 cannot be ascertained.

436. Receipts from the Development Partner

The statement of receipts and payments reflects loan receipts from the development partner (IDA) totalling Kshs.1,197,045,712 received during the year under review. As disclosed under Note 8.5 to the financial statements, the amount includes loans totalling Kshs.667,472,937 received in cash which balance however, differs with the amount of Kshs.785,166,526 (USD 7,675,666.98) reflected in the special account statement as having been withdrawn during the year under review. The difference of Kshs.117,693,589 between the two records has not been reconciled or explained.

STATE DEPARTMENT OF FISHERIES AND THE BLUE ECONOMY

FINANCIAL STATEMENTS FOR VOTE 1164

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the State Department of Fisheries and the Blue Economy.

STATE DEPARTMENT FOR INVESTMENT AND INDUSTRY

FINANCIAL STATEMENTS FOR VOTE 1172

Basis for Qualified Opinion

437. Unsupported Expenditure Figures

During the year under review, custody of payment vouchers at the Ministry was not effective and as a result, vouchers for various payments made for use of goods and services and acquisition of assets were misplaced, as summarized below:

437.1 Use of Goods and Services

Included in the balance of Kshs.596,288,158 reflected in the statement of receipts and payments in relation to use of goods and services expenditure incurred during the year under review are payments for utilities, supplies and services totaling Kshs.23,804,042 and payments for specialized materials and services totaling to Kshs.67,461,567 whose payment vouchers and other supporting documents were, however, not made available for audit review.

As a result, it has not been possible to confirm the occurrence and validity of the payments made during the year under review for utilities and supplies at Kshs.23,804,042 and specialized materials at Kshs.67,461,567.

437.2 Acquisition of Assets

As, reflected in the Statement of receipts and payments is an aggregate expenditure balance of Kshs.239,702,126 incurred on acquisition of assets during for the year under review. The balance includes Kshs.157,972,498 incurred on purchase of specialized plant, equipment and machinery. However the later balance has not been supported with payment vouchers and other supporting documents and as a result, it has not been possible to confirm that the purchases occurred

Under the circumstances, it has not been possible to confirm the validity, accuracy and completeness of the aggregate use of goods and services balance of Kshs.596,288,158 and acquisition of assets balance of Kshs.239,702,126 reflected in the statement of receipts and payments for the year under review.

438. Cash and Cash Equivalents

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.2,991,694 which is comprised of cash held at the Central Bank of Kenya under the recurrent, development, deposits and project accounts. However, the closing balance reflected in the Department's manual cashbooks do not tally with the balances disclosed in the financial statements as at 30 June 2017:

	Financial Statements Balance Kshs.	Cash book Balance Kshs.	Variance Kshs.
Recurrent	64,211	600,558	(536,347)
Development	714,784	807,572	(92,788)
Deposits	1,599,194	1,599,194	-
Project	613,505	100,432	513,073
Total	2,991,694	3,107,756	(116,062)

No reasons have been provided for the variances between the two sets of records, neither has reconciliation been done.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.2,991,694 as at 30 June 2017 cannot be confirmed.

439. Restatement of Opening Balances - Construction and Civil Works and Rehabilitation of Civil Works

Note 10 to the financial statements reflects an opening balance of Kshs.175,750,000 under construction and civil works and Kshs.42,499,998 under rehabilitation of civil works. However, the audited financial statements for the year ended 30 June 2016 reflected nil balance under construction and civil works and Kshs.29,471,569 under rehabilitation of civil works. Journal entries passed to approve the restatement of the opening balances have not been availed for audit verification and as a result, the accuracy and validity of balances amounting to Kshs.175,750,000 for construction and civil works and Kshs.42,499,998 for Rehabilitation of Civil Works cannot be confirmed. Further, the accuracy of the aggregate acquisition of assets balance of Kshs.239,702,126 for the year under review cannot be confirmed.

440. Pending Bills

Bills totaling to Kshs.115,863,748 relating to the year under review (2016/2017) were not settled during the year but were instead carried forward to 2017/2018 financial year. Failure to settle the bills in the year to which they relate adversely affects the provisions for the year to which they have to be charged. Had the bills been paid and the expenditure charged to the accounts for 2016/2017, the carried forward bills would not have caused budgetary strain to 2017/2018 financial year given that there was budgetary provision for the year under review.

Further, and as reported in the previous year, excluded from the balance of Kshs.115,863,748 as at 30 June 2017 was a debt of Kshs.29,147,652 due to a local law firm which has been outstanding since 2014/2015 and an additional Kshs.48,611,450 owed to various creditors by Kenya Industrial Training Institute as at 30 June 2016.

In absence of any reconciliation, it has not been possible to ascertain the accuracy and validity of pending bills balance of Kshs.115,863,748 outstanding as at 30 June 2017.

441. Unresolved Matters in the Report for 2015/2016

441.1 Unexplained Transfers of Coffee Debt Waivers

As reported in the previous year, the statement of receipts and payments for the year ended 30 June 2016 reflected a payment of Kshs.501,474,509 under grants and other transfers which included Kshs.500 million paid to 27 Co-operative Societies being part-clearance of debt under the Coffee Debts Waiver Programme. Included in the payments of other grants and transfers of Kshs.501,474,509 was an amount of Kshs.1,474,509 that has not been supported and whose propriety could not therefore, be confirmed. In the circumstances, it was not possible to ascertain the validity of this payment and whether funds were channeled to the intended beneficiaries and utilized for the intended purposes.

441.2 Irregular Payment for Goods and Services Not Delivered

As previously reported, during the year 2015/2016, the Ministry procured and paid for goods and services valued at Kshs.4,252,291 which were however not delivered by the suppliers contrary to the Public Procurement and Assets Disposal Act 2015 and Procurement Regulations 2013, as tabulated below:

Although a review of the position in 2016/2017 indicates that goods valued at Kshs.1,550,500 were eventually delivered The public may have lost Kshs.2,701,791 paid to suppliers who did not deliver the goods and services contrary to the Public Procurement and Assets Disposal Act 2015 and the Public Finance Management Act 2012.

Other Matter

442. Other Unresolved Matters in the Report for 2015/2016

442.1 Irregular Procurement Practices

(i) Procurement of Consultancy Services

As previously reported, the Ministry awarded consultancy services for provision of technical support to the Business Environment Delivery Unit to a Business School/University at a cost of Kshs.5,940,000 during the year ended 30 June 2015. The Ministry had invited bidders but only one application was received and considered responsive. The tender committee went ahead and awarded the tender to the only responsive bidder and in effect, used direct procurement method to procure the services. The invoice was issued before the LPO was raised. Further, whereas the contract agreement had indicated that the exercise was to be completed in three months, the service was delivered in less than a week and the consultant paid the contact sum of Kshs.5,940,000. No evidence was availed to explain why the consultant commenced work before the contract was awarded and signed or reasons for use of direct procurement method which t defeated fair competition and pricing of the tender award.

(ii) Ease of Doing Business Improvement Programme – Phase II

The Business School/University, was awarded the contract for provision of consultancy services for Ease of Doing Business Improvement Programme – Phase II at a cost of Kshs.5,127,200. The invoice from the consultant was raised before the two parties signed the contract. Whereas the contract had stated under the special conditions that the duration of the contract would be four (4) months from the date of the contract, the service was completed in less than three weeks casting doubt as to whether the contract was mooted earlier and the tender committee only used as a rubberstamp to ratify a consummated transaction. Further, it has not been possible to confirm whether the relevant stakeholders were consulted about the service as there is no record of their participation.

(iii) Irregular Consultancy Service Contract

As previously reported, the Ministry procured consultancy services from a consultancy firm in the year ended 30 June 2015 for support of delivery of Kenya's Industrial Program. The contract was signed between the two parties on 18 November 2014 at a contract sum of Kshs.348,000,000. Clause 2 of the contract agreement under sub-section 2.1 and 2.2 had indicated that the contract was to come into effect on the date it was signed by both parties and that the consultant would begin carrying out the services upon signing of the contract or at such other date as may be specified in the service contract.

Review of the process revealed that the consultant raised an invoice of Kshs.69,827,963 on 11 November 2014 for Milestone 1(inception) even before the contract was signed between the two parties contrary to provisions of the Public Procurement & Disposal Act 2005. The signing of the contract was only intended to rectify the irregularity.

Under the circumstances, the validity of the expenditure of Kshs.69,827,963 incurred on the contract in the year under review cannot be confirmed.

443. Irregular Reallocation of Development Grants to Recurrent Expenditure

As previously reported during the year ended 30 June 2015, the Ministry had sought and was given authority by the National Treasury to transfer Kshs.200million for the implementation of textile development through the Micro and Small Enterprise Authority (MSEA). Available records however revealed that the Ministry instead instructed MSEA to utilise Kshs.50 million to pay outstanding bills to various security firms which the Ministry had contracted to offer security services during and after the construction of the Constituency Industrial Development Centres (CIDCs) between 2012 and 2014. No evidence was availed to show whether approval by of the National Treasury was sought and obtained to allow MSEA to divert Kshs.50 million meant for the textile programme towards payment of security services. Utilization of the Funds resulted to diversion of development funds to recurrent expenditure without Treasury approval and thus contravened the Public Finance Management Act, 2012.

444. Loss of Cash

As was reported during the previous year, the Ministry lost Kshs.6,403,200 reported to have been paid wrongly to a merchant during the 2011/2012 financial year. Although, Kshs.3,500,000 of the payment has since been recovered, the balance of Kshs.2,903,200 is still outstanding over five (5) years since payment. The Ministry does not appear keen to recover of the balance and has not held any one culpable for occasioning loss of the funds.

Consequently, recovery of the balance of Kshs.2,903,200 is in doubt.

445. Loss of CIDC Equipment and Tools at Kenya Industrial Training Institute

As was reported in the previous year's audit report, the Ministry lost industrial equipment stored at the Kenya Industrial Training Institute (KIRDI) through theft and pilferage. Some of the equipment were sold in various markets. An audit inspection at the Ministry's stores revealed continuing pilferage of the equipment and tools with the store left almost bare holding low value items such as fire extinguishers, and machinery with major parts missing.

Whereas several items were issued to some of the completed Constituency Industrial Development Centre (CIDCs), comparison of the original stocktake with the situation at the time of the audit revealed that equipment and tools valued over Kshs.60,000,000 may have been stolen. This is despite the stores being located inside a fenced and guarded compound of the Institute that is secured through 24-hour surveillance and there being no sign of the stores having been broken into. Although the Ministry has indicated that the matter is in Court, no tangible efforts have been taken by management to recover the stolen equipment or hold any one culpable for occasioning the losses.

Consequently, the Ministry has not obtained value for the money spent in procuring the tools.

446. Textile and Leather Working Machinery and Equipment

As previously reported, the Ministry procured textile and leather workshop machinery and equipment for Kenya Industrial Training Institute in Nakuru worth Kshs.214,899,000 during the year ended 30 June 2015. Although the inspection and acceptance certificate confirmed the goods to be of the right quantity and specification, the Ministry did not avail the commissioning certificate for audit to confirm that the machines and equipment were installed and put for use as planned.

Review of the position during the year under review indicated that the machinery and other equipment have since been installed but are yet to be commissioned for operations.

In the circumstances, it has not been possible to confirm that value-for-money has been obtained on expenditure of Kshs.214,899,000 incurred by the Ministry on purchase of these industrial assets.

STATE DEPARTMENT FOR COOPERATIVES

FINANCIAL STATEMENTS FOR VOTE 1173

Unqualified Opinion

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

Other Matter

447. Non-compliance with Public Finance Management Act, 2012 – Management Supervision and Liquidation Fund

Section 84 of the Public Finance Management Act, 2012 requires the Accounting Officer administering a national public fund to prepare financial statements of the fund at the end of each fiscal period and submit these to the Auditor-General for audit. Further, Rule 18 and 49 of the Cooperative Societies Rules, 2004 under Legal Notice No. 123, established the Management and Supervision Fund and the Cooperative Liquidation Account respectively and entrusts the Commissioner of Cooperatives with their management and administration. As observed in the previous year, the Department has not prepared and submitted for audit, separate financial statements of the Management and Supervision Fund as well as the Liquidation Account for the four financial years ended 30 June 2013 to 30 June 2017 to enable the Auditor-General provide an opinion on the Fund's operations for the period and its financial position at the close of each financial year. In the circumstance, the Department has therefore breached the law.

STATE DEPARTMENT FOR TRADE

FINANCIAL STATEMENTS FOR VOTE 1174

Basis for Adverse Opinion

448. Un-supported Figures

The statement of receipts and payments reflects figures of Kshs.7,834,705 and Kshs.57,296,134 under other receipts and acquisition of assets respectively, which were not supported with requisite schedules. Further, under the statement of assets and liabilities the accounts payables figure of Kshs.29,441,942 was also not supported with necessary schedules and documents.

Under the circumstances, it has not been possible to ascertain the validity, accuracy and completeness of the financial statements.

449. Use of Goods and Services

During the year under review, a total of Kshs.1,187,753,239 was spent on use of goods and services against the approved budget provision of Kshs.1,270,429,636 resulting in under-expenditure of Kshs.82,676,397. However, details of the approved budget provision of Kshs.1,270,429,636 were not provided for audit review. Further, examination of payment vouchers revealed that a total of Kshs.16,285,374 was charged against wrong account codes. The inconsistency in charging the expenditures to wrong account class undermines the accuracy of the financial statements and renders budgeting meaningless. In addition, an amount of Kshs.11,491,302 in respect of fuel, oil and lubricants is at variance with the ledger figure of Kshs.11,476,302 resulting to an unexplained difference of Kshs.15,000.

450. Unsupported Expenditure- Foreign Missions

Included in the total expenditure of Kshs.3,445,034,343 are Authority to Incur Expenditure (AIEs) issued to commercial attaches in foreign missions amounting to Kshs.89,244,859 that were charged under various account items instead of being reported as accounts receivables until they are accounted for by the missions. Although, management has explained that the amount has been captured as an expenditure in the financial statements because lack of capturing would have understated the department's expenditure for the year, accuracy and completeness of the AIEs issued of Kshs.89,244,859 could not be confirmed in the absence of necessary supporting documentation.

451. Outstanding Temporary Imprests

The statement of assets and liabilities reflects an accounts receivable balance of Kshs.1,131,477 being outstanding imprests which ought to have been surrendered or accounted for on or before 30 June 2017. A review of the position as at 28 February 2018 showed that the entire amount had still not been accounted for or recovered and no reasons have been provided for failure to adhere to Section 93 of Public Finance Management Act, 2012 on issuance of imprests.

452. Acquisition of assets

Note 7 to the financial statements and the summary of the fixed assets register reflects a balance of Kshs.57,296,134 under acquisition of assets representing payments made to acquire property, plant and equipment during the year. However, the Department's list of assets availed for audit did not comprehensively reflect the location and condition of assets. It was also not clear whether assets that belonged to the former mother Ministry (presently Tourism) have been properly identified and only the relevant assets were included in the list. In the absence of a comprehensive fixed assets register, proper accountability of assets purchased, handed over and disposed off could not be confirmed.

453. Accounts Payables

During the year under review, the Department received a total of Kshs.30,352,834 in respect of Regional Integration Implementation Programme (RIIP) against a total budget of Kshs.53,717,850 as per the 2016/2017 work plan. A scrutiny of documents availed for audit indicate that the Department spent only Kshs.3,247,604 in the 2016/2017 financial year thus resulting in unspent balance of Kshs.27,105,229. However, the reports and expenditure returns for the activities that had been implemented during the year were not availed for audit verification.

Consequently, the propriety of the amount of Kshs.3,247,604 spent on the programme could not be ascertained.

454. Pending Bills

Bills amounting to Kshs.42,326,875 relating to 2016/2017 were not settled during the year but were instead carried forward to 2017/2018 financial year. However, the validity, completeness and accuracy of the pending bills balance of Kshs.42,326,875 could not be ascertained because supporting payment vouchers for bills amounting to Kshs.18,950,298 were not availed for audit verification.

Further, failure to settle the bills in the year to which they relate adversely affects the following year's provision to which they have to be charged. Had the bills been paid and the expenditure charged to the account for 2016/2017, the statement of receipts and payments for the year would have reflected a deficit of Kshs.37,066,513 instead of the surplus of Kshs.5,260,362 now shown.

455. Budget and Budgetary Performance

During the financial year ended 30 June 2017, the State Department of Trade received a total of Kshs.3,450,294,705 against estimated receipts of Kshs.3,621,839,747 resulting in a shortfall of Kshs.171,545,042 or 5% as shown below.

Description	Budget	Actual	Short fall	Short fall
	Kshs	Kshs	Kshs	%
Exchequer Releases	3,594,079,747	3,442,460,000	151,619,747	4%
Other Receipts	27,760,000	7,834,705	19,925,295	72%
Total	**3,621,839,747**	**3,450,294,705**	**171,545,042**	**5%**

Failure by National Government to release all the provisions budgeted for, may impact negatively on service delivery by the State Department. On the other hand, under other receipts where the budget was for Kshs.27,760,000, the Department collected Kshs.7,834,705 which occasioned a Kshs.19,925,295 shortfall or 72%. The under collection of revenue was attributed to lack of disposal of bonded items during the year because the State Department did not complete the process of bonding the items as per law.

STATE DEPARTMENT FOR EAST AFRICAN COMMUNITY INTEGRATION

FINANCIAL STATEMENTS FOR VOTE 1183

Basis for Qualified Opinion

456. Arrears of Subscriptions to Inter University Council for East Africa

Information available indicate that initially the contributions to Inter University Council for East Africa was effected through the Ministry of Education. However, the Ministry failed to remit contributions dating back from financial years 1980/1981 up to 2003/2004, resulting to accumulated arrears totalling USD 6,186,908 or Kshs.643,438,432 at an exchange rate of Kshs.104 to the dollar.

As at 30 June 2017 the State Department of East African Community Integration had paid arrears totalling Kshs.562,997,968 or USD 5,413,442 leaving a balance of Kshs.80,440,464 or USD 773,466 outstanding. However, evidence of receipt by the Inter University Council for East Africa was not made available for audit review.

Consequently, the accuracy, completeness and acknowledgement of the contribution arrears of Kshs.643,438,432 could not be ascertained as at 30 June 2017.

457. Pending Bills

Audit of pending bills records indicate that the State Department had unpaid bills totalling Kshs.6,246,965 for the financial year 2015/2016 which were carried forward to 2016/2017. A review of the position at the time of audit in January 2018 disclosed that out of the total pending bills amounting to Kshs.6,246,965, so far Kshs.5,323,465 had been paid leaving a balance of Kshs.923,500. However, had the bills been paid in the year under review, the statement of receipts and payments would have reflected a surplus of Kshs.2,636,214 instead of the surplus of Kshs.3,610,750 as at 30 June 2017.

No reason has been given for carrying over pending bills from year to year.

458. Somali IGAD Peace Talks Pending Claim

In October 2002, a local hotel was requested by Government to offer accommodation to delegates attending the Somali IGAD Peace talks in Eldoret Town. Upon conclusion of the talks, the government delayed in settling the principal amount for the services rendered and the matter was lodged in court to recover the agreed amount of Kshs.65,000,000.

In the ruling of Civil Case. No.194 of 2009, the then Ministry of East African Community was ordered to pay the hotel a sum of Kshs.65,000,000 within sixty (60) days failing to which it would attract interest at 12% from the date of default until payment in full.

However, there was a delay of 28 months by Ministry in paying the hotel following the lapse of judgement decree within 60 days and the costs of the suit awarded by the Court. The decretal amount of Kshs.65,000,000 was finally settled on 19 April 2013 upon which it had attracted interest totalling Kshs.20,991,905. Various correspondences from the Attorney General urged the State Department to settle the interest accrued of Kshs.20,991,905 after the settlement of the Kshs.65 Million principal amount.

A review of the position of the claim as at the time of audit in January 2018 indicates that the interest accrued claim totalling Kshs.20,991,905 had not been settled.

In the circumstances, the unpaid claim is likely to attract further legal actions on interest claims leading to voidable loss of public funds.

459. Outstanding Imprests

The statement of assets reflects an amount of Kshs.1,752,766 relating to outstanding temporary imprests which was due for surrender by 30 June 2017. A review of the position as at the time of audit in January 2018 indicated that imprests totalling Kshs.698,542 were still outstanding beyond the due dates.

No satisfactory explanation was provided for the failure to recover the outstanding imprests in full from defaulting officers' salaries as required.

Other Matter

460. Budget and Budgetary Performance

460.1 Revenue

The actual receipts amounted to Kshs.1, 507,383,312 against the budgeted amount of Kshs.1,606,515,038 resulting in a shortfall of Kshs.99,131,726 or 6% as tabulated below:

Revenue Head	Budget Kshs.	Actual Kshs.	Excess (shortfall) Kshs.	Excess (shortfall) %
Recurrent Exchequer	1,566,515,038	1,487,060,000	(79,455,038)	(5)
Proceeds from Domestic and Foreign Grants	40,000,000	20,323,312	(19,676,688)	(49)
Total	**1,606,515,038**	**1,507,383,312**	**(99,131,726)**	**(6)**

No explanation has been provided for the failure to absorb Kshs.19,676,68 in the form of Aid for Trade from Trade Mark East Africa (TIMEA).

460.2 Expenditure

Overall, the State Department under spent its budgeted amount by Kshs.48,042,449 or 3.1%. The under expenditure mainly occurred under use of goods and services, transfers to other government entities and acquisition of assets at Kshs.39,916,010 or 11%, Kshs.4,627,187 or 18% and Kshs.2,932,436 or 31% respectively as shown below;

Expenditure	Budget Kshs.	Actual Kshs.	Over/(under) Kshs.	Over/(Under) %
Compensation of Employees	182,300,000	181,733,184	(566,816)	(0.3)
Use of goods and Services	357,884,187	317,968,177	(39,916,010)	(11)
Transfers to other Government	25,600,000	20,972,813	(4,627,187)	(18)
Other grants and transfers	976,650,000	976,650,000	0	0
Acquisition of Assets	9,380,823	6,448,387	(2,932,436)	(31)
Total	**1,551,815,010**	**1,503,772,561**	(48,042,449)	(3.1)

The failure to absorb Kshs.48,042,499 mainly under use of goods and services and transfer to East African Legislative Assembly (EALA) implies that the State Department's goals and objectives were not achieved as planned.

STATE DEPARTMENT OF LABOUR

FINANCIAL STATEMENTS FOR VOTE 1184

Basis of Adverse Opinion

461. Accuracy, Completeness and Presentation of Financial Statements

461.1 Lack of Comparative Balances

The reporting template provided by the Public Accounting Standards Board (PASB) requires the National Government entities to include comparative figures for all items indicated therein. However, upon review of the financial statements provided, it was observed that comparative balances were not included in the current year under review. The reasons given for the above scenario was that the National Treasury failed to give guidance on how the balances were to be shared by the newly created State Departments curved out of the former Ministry of Labour, Social Security and Services which was split into two State Departments and allocated new votes (Vote 1184 - State Department of Labour and Vote 1185 – State Department for Social Protection).

In addition, it was noted that the State Department was not an entirely new entity as it inherited current and fixed assets from the parent Ministry. Consequently, traceability of these assets may become difficult and some of the assets could be lost in the process.

Further, the absence of comparative balances, the financial statements as presented are not in compliance with the approved reporting template and do not therefore provide relevant, reliable and comparable information.

In the circumstances, the accuracy, completeness and presentation of the financial statements could not be confirmed as at 30 June 2017.

462. Irregular and Concealed Auction of Boarded Motor Vehicles

Seventeen (17) GK. Vehicles were disposed off through auction as listed below:

S/No.	Registration No.	Make	Model	Reserve Price (Kshs.)	Bid Prices at Auction (Kshs.)	Amount Paid (Kshs.)
1	GK A 039D	Musso	S/Wagon	50,000		55,000
2	GK A 990T	V/W Passat	Passat 1.8	30,000	100,000	32,000
3	GK A 864S	Toyota	Micro Bus	20,000	-	140,000
4	GK A 610M	Toyota	RAV 4	30,000	-	70,000
5	GK X 618	Toyota M/Bus	RZH104	95,000	-	125,000
6	GK A 135L	Nissan M/Bus	Urvan - E24	120,000	-	150,000

S/No.	Registration No.	Make	Model	Reserve Price (Kshs.)	Bid Prices at Auction (Kshs.)	Amount Paid (Kshs.)
7	GK 710G	Toyota Corolla	Saloon	50,000	85,000	60,000
8	GK 184U	Volkswagon	Passat 1.8	80,000	-	83,000
9	GK A 709Q	Nissan Patrol	Patrol Y61	120,000	180,000	150,000
10	GK A 599C	Yamaha	Motor Cycle	10,000	-	15,000
11	GK A 284M	Nissan M/Bus	Urvan -E24	130,000	-	150,000
12	GKA 396L	Tornado	Motor Cycle	15,000	-	30,000
13	GKA 038E	Nissan S/Wagon	Terrano	80,000	-	120,000
14	GK A 488P	Nissan Patrol	Patrol Y61	131,000	1,300,000	250,000
15	GK T 868	Peugeot 504	S/Wagon	10,000	-	12,000
16	GK A 692Y	Nissan Patrol	Patrol Y61	131,000	2,100,000	145,000
17	GK 253E	Nissan Patrol	Patrol Y61	100,00	1,800,000	130,000
	Total			**1,102,100**	**3,900,000**	**1,717,000**

However, the following anomalies were noted:

i) The advertisement for sale of the vehicles on 7 April 2017 was done in The People Daily Newspaper instead of at least two daily newspapers of nationwide circulation contrary to Section 96(2) of the Public Procurement and Asset Disposal Act, 2015.

ii) It was not clear how the auctioneer was procured and awarded due to various discrepancies in correspondences between the auctioneer and the head of procurement. In consequent, proper procurement procedures were not followed in the identification and award of the auction services.

iii) Although the vehicles were valued and reserve prices set by the Ministry of Transport and Infrastructure, the vehicles disposed were grossly undervalued with some being sold below the bid prices and some attracting extraordinary bids. Some top of the range vehicles were sold for as low as Kshs.32,000. For example:

- GK A 990T a VW Passat with no visible damage had a reserve price of Kshs.30,000 and attracted bid price of Kshs.100,000 but only Kshs.32,000 was received and from a different bidder;

- GK A 488P a Nissan Patrol had a reserve price of Kshs.131,000 and attracted a bid price of Kshs.1.3 million but only Kshs.250,000 was receipted;

- GK A 692Y a Nissan Patrol had a reserve price of Kshs.131,000 and attracted a bid price of Kshs.2.1 million but only Kshs.145,000 was receipted;

- GK A 253E a Nissan Patrol had a reserve price of Kshs.100,000 and attracted a bid price of Kshs.1.8 million but only Kshs.130,000 was receipted.

Further, details of the auction were also not produced for audit verification which could have enabled identification of unpaid and unsold motor vehicles, bid prices and the binders present among others.

The winning bidders at the auction dated 12 April 2015 were required to pay 25% deposit at the fall of the hummer but none paid since all the miscellaneous receipts are dated 13 April 2016.

In addition, fairly new vehicles were disposed off leaving eight (8) old vehicles grounded in the various State Department yards as listed below:

	REG. NO.	MAKE /MODEL	YARD	REMARKS
1.	GKA 764 N	Nissan XTrail	NITA	Grounded for over 4 years
2.	GKA 763 A	Peugeot 504	NITA	"
3.	GKA 893 Q	Peugeot 406	NITA	"
4.	GKA548 F	Mitsubishi Pajero	NITA	"
5.	GKA 736 A	Volvo	NITA	"
6.	GKA 292 U	Toyota Mini Bus	NITA	"
7.	GKA 541 B	Suzuki	KABETE	"
8.	GKA 351 E	Mazda	KABETE	"

In view of the foregoing, the regularity of the auction could not be confirmed and action should be taken against the Government Officers, auctioneering firm and other parties who colluded leading to loss of public funds and assets.

463. Pending Bills

Note 28.1 to the financial statements reflects pending bills totalling Kshs.36,493,295 as at 30 June 2017. A review of the position during the audit in March 2018 disclosed that bills amounting to Kshs.10,410,092 had been paid leaving an outstanding balance of Kshs.26,083,203.

Had the bills been cleared by 30 June 2017, the statement of receipts and payments would have reflected a deficit of Kshs.17,947,746 instead of a surplus of Kshs.18,545,549 now shown.

464. Stalled Construction Projects

a) Construction of the National Employment Promotion Centre Kabete

A contract for the construction of the proposed National Employment Promotion Centre Kabete was advertised on 15 February 2015 and awarded on 15 May 2015 at a contract sum of Kshs.442,723,947.

Although the contract period was for 78 weeks after commencement, a visit to the project site on 2 March 2018 revealed that work had stalled and the contractor was not on site. Examination of available payment records disclosed that the contractor was paid a pending bill of Kshs.32,595,663 during 2016/2017 bringing the total payments since inception to Kshs.117,998,228.

Further, the project file, status reports and the Bills of Quantities (BQs) were not made available for audit review.

In addition, ownership documents for the land (L/R No.22355) on which the Project had been constructed were also not availed and the land appeared to have been encroached on by private developers. A dispute had also been registered by a person claiming ownership of the land.

In view of the foregoing, it has not been possible to confirm if and when the project will be completed and no action appears to have been taken to safeguard public land and assets.

b) Construction of Labour Office - Eldoret

Included in the list of pending bills as at 30 June 2017 is an amount of Kshs.4,064,500 due to a construction company for the construction of Labour Office in Eldoret. However, no documents were availed for audit review to show how the tender was sourced, awarded, the contract sum, Bills of Quantities (BQs), payment certificates and the project status.

Correspondences seen between the Accounting Officer and the implementing team indicated that a total of Kshs.25,252,818 had so far been paid without indicating the contract sum.

In view of the foregoing, it has not been possible to confirm the validity of the amount paid of Kshs.25,252,818 and pending bill of Kshs.4,064,500 or the total expenditure and completion status of the entire project.

Other Matter

465. Budget and Budgetary Performance

465.1 Receipts

The State Department had budgeted for receipts totalling Kshs.1,947,304,230 but realized actual receipts of Kshs.1,792,677,824 as shown bellow:

Description	Budget Kshs.	Actual Kshs.	Excess (+)/ Shortfall (-) Kshs.	Variance %
Exchequer releases	1,938,304,230	1,781,122,824	-157,181,406	8%
Proceeds from Sale of Assets	8,000,000	8,000,000	0	0%
Other Receipts	1,000,000	3,555,000	+2,555,000	56%
Total	**1,947,304,230**	**1,792,677,824**	**-154,626,406**	**8%**

The shortfall of Kshs.154,626,406 was largely attributed to non-release of exchequer issues by the National Treasury.

466. Expenditure

An analysis of the actual expenditure against the budgeted amounts revealed the following variances:

Description	Budget Kshs.	Actual Kshs.	Over (+)/ Under (-) Kshs.	Variance %
Compensation of Employees	592,071,674	562,492,412	-29,579,262	5%
Use of goods and services	750,110,800	679,174,473	-70,936,327	9%
Transfers to Other Government Units	434,000,000	393,525,306	- 40,474,694	9%
Other Grants And Transfers	8,812,933	5,987,911	-2,825,022	32%
Subsidies- Other Grants and Relief	2,000,000	2,000,000	0	0%
Social Security Benefits	1,740,179	1,740,179	0	0%
Acquisition of Assets	158,568,644	129,211,995	-29,356,649	19%
Total	**1,947,304,230**	**1,774,132,276**	**-173,171,954**	**9%**

The overall under absorption of Kshs.173,171,954 or 9% of the budget was partly attributed to late receipt of supplementary budget allocation and partly to late implementation of the budgeted project.

467. Prior Years Unresolved Issues

467.1 Incomplete Summary of Fixed Asset Register

As previously reported, the financial statements for the year ended 30 June 2016 did not include the list and value of assets as required. In the circumstance, it was not possible to confirm the total value of the fixed assets in the Ministry.

467.2 Unreconciled Lease Payments

As previously reported, lease payments totalling Kshs.102,785,801 did not tally with the signed lease agreements. No reconciliation statements in support of the lease payments have so far been provided for audit review. Further, leases for payments totaling Kshs.66,545,107 were not produced for audit review. Consequently, it was not possible to confirm the accuracy and validity of the lease payments totalling Kshs.169,330,908 as at 30 June 2016.

467.3 Irregular Payment for Manpower Consultancy Services

As previously reported, a consultant contracted for a sum of Kshs.4,988,000 in May 2013 to produce a National Manpower Survey Report appeared to have been single sourced. During 2015/2016 the contractor received a pending bill payment of Kshs.2,244,600 which had not been included in the list of pending bills audited. The pending bill payment could not therefore be confirmed as a proper charge to the public funds.

467.4 Unsupported Bursary Payments

As previously reported, records maintained at the Ministry headquarters revealed a total of Kshs.9,007,260 was paid as bursaries to needy students whose residence was within the Nairobi County Constituencies. However, no selection criteria or receipts and acknowledgement letters from the beneficiary schools in support of the payments were produced for audit review. Consequently, the regularity of the expenditure of Kshs.9,007,260 could therefore not be confirmed.

467.5 General and District Suspense

As previously reported, the statement of assets as at 30 June 2016 reflected a general and district suspense balance of Kshs.3,271,890,830. However, no schedules have so far been provided in support of the long outstanding balances. Management has not explained the challenges faced in resolving this matter. In the circumstances, the completeness, accuracy and validity of these significant balances of Kshs.3,271,890,830 could not be confirmed.

DONOR FUNDED PROJECTS

KENYA YOUTH EMPLOYMENT AND OPPORTUNITY PROJECT CREDIT NO. 58120KE

Unqualified Opinion

There were no material issued noted during the audit of the financial statements of this Project.

Other Matter

468. Budget and Budgetary Performance

The Project had budgeted for Kshs.50,010,000 but actual receipts amounted to Kshs.41,406,521 resulting to a shortfall of Kshs.8,603,479. The shortfall was attributed to the Ministry's failure to release the full budgeted amount to the Project. Out of the Kshs.41,406,521 received, only Kshs.19,962,819 or 48% was spent leaving a balance of Kshs.21,443,702.

The low absorption of funds was mainly due to late release of first funding towards the end of the financial year on 18 April 2017.

STATE DEPARTMENT FOR SOCIAL PROTECTION

FINANCIAL STATEMENTS FOR VOTE 1185

Basis of Adverse Opinion

469. Accuracy, Completeness and Presentation of Financial Statements

469.1 Lack of Comparative Balances

The reporting template provided by the Public Sector Accounting Standards Board (PASB) requires the National Government entities to include comparative figures for all items indicated therein. However, the State Department for Social Protection did not include comparative balances in the current year under audit review. The reasons given for the above scenario was that the National Treasury failed to give guidance on how the balances were to be shared by the newly created State Departments curved out of the former Ministry of Labour, Social Security and Services which was split into two State Departments and allocated new votes (vote 1184 - State Department of Labour and Vote 1185 – State Department for Social Protection).

It is noted that this State Department was not an entirely new entity as it inherited current and fixed assets from the parent Ministry. Consequently, traceability of these assets may become difficult and some of the assets could be lost in the process.

In the absence of comparative balances, the financial statements as presented are not in compliance with the approved reporting template and do not therefore provide relevant, reliable and comparable information.

469.2 Fixed Assets Register

Note 7 to the financial statements reflects acquisition of non-financial assets balance of Kshs.379,568,322. However, a fixed assets register was not availed for audit review. Further, ownership documents for land located in 28 institutions across the country, motor vehicle logbooks and equipment were also not produced for audit review.

In, the circumstances, it has not been possible to confirm the total assets acquired by the state department.

469.3 Kabete / Getathuru Land - Directorate of Children Services Department

Nairobi Children's Remand Home, formerly known as Nairobi Juvenile Remand Home, was established in 1957 as an institution under the Children's Department in the Office of the Vice President and Ministry of Home Affairs. An Allotment letter Ref: No. 209163/F/136 dated 19 July 2012 indicate the size of the Land as 28.6 HA.

However, no ownership documents were availed for audit review despite the fact that the institution has existed since 1957. Further, information available indicate that part of the land measuring 4.579HA was being claimed by a private entity which was in possession of a title deed Ref: L.R No. 22355 dated 31/12/2002. It was not clear how the land was annexed from the main allotment of the Remand Home.

An audit inspection of the home conducted in March 2018 revealed that there were several other claimants to the land and part of it had been leased to other two companies while the Kenya Power and Lighting Company had also occupied a portion of the land. It was not clear how individuals and these companies and acquired Government Land or whether any payments had been made.

In view of the foregoing, the accuracy, completeness and presentation of the financial statements as at 30 June 2017 cannot be ascertained.

470. Cash Transfer Agreements with Payment Service Providers (PSP)

470.1 Unfavorable Agency Agreements

During the year under review the State Department for Social Protection transferred to the Kenya Commercial Bank (KCB) a total of Kshs.6,597,592,650 for onward payment to beneficiaries under the three cash transfer programs out of which a commission of Kshs.128,180,384.00 was paid to the KCB Bank. A further, Kshs.2,624,352,209.00 was transmitted through Equity Bank Limited for onward payment to beneficiaries and a commission of Kshs.80,296,209 paid to Equity Bank.

However, it was noted that the Agency Agreements did not contain a clause for payment of interest for substantial unpaid balances held by the Agents. For instance, KCB had unpaid balance of Kshs.861,316,000 while Equity Bank had a balance of Kshs.27,244,000.00 at the close of the year. The unpaid amounts were not refunded within the stipulated period i.e. 14 days after each payment cycle and no interest was paid into the account The state department was therefore deprived off interest which could have been earned.

470.2 Low Absorption Rate of Cash Transfers by Beneficiaries

Available data shows that in two transaction cycles for March, 2017 to June, 2017, a total of Kshs.2,944,072,000 was transmitted through KCB agent with Kshs.2,082,784,000 paid out leaving a balance of Kshs.861,316,000 not paid translating to an absorption rate of 70% while in the same period, Kshs.233,888,000 was transmitted through Equity bank with Kshs.206,644,000.00 paid out leaving a balance of Kshs.27,244,000.00 translating to an absorption rate of 90% of the total funds disbursed.

The main reason for this could have been attributed to the fact that KCB is paid commission upfront while Equity is paid per transaction.

No reasons were given for the low absorption rate by KCB.

470.3 Unpaid Cash Transfers Balances still held by Service provider- Postal Corporation of Kenya

The statement of receipts and payments reflects a figure of Kshs.18,014,360,263 under use of goods and services out of which Kshs.12,027,528,771 is reflected as capital transfers to service providers for onward transfer to individual beneficiaries.

Available information disclosed that the Department had previously contracted the Postal Corporation of Kenya (PCK) as an Agent to deliver cash to the vulnerable beneficiaries throughout the country. However, after the expiry of the contract between the State Department and the agent PCK, a balance of Kshs.169,300,000 remained unpaid. As at 30 June 2017, the agent had not refunded the unpaid balances. Correspondences, seen between the State Department and the Accounting Officer State Department for Broadcasting and Telecommunication Ref: ML&EAA 9/45 dated 12th July 2016 and which was also copied to the National Treasury, requested the Agent to refund the funds but to date no action has been taken.

It is not clear why the State Department has not taken legal action against the Postal Corporation of Kenya to have the Kshs.169,300,000 which has been outstanding since 2015 without earning any interest refunded.

471. Pending Bills

Examination of the pending bills records availed for audit revealed that the State Department had pending bills totalling totaling Kshs.45,798,210 while the list of pending bills annexed to the financial statement reflects pending bills totalling Kshs.53,230,730 as at 30 June 2017. The figure of pending bills was therefore understated by Kshs.7,432,520. Further, the pending bills have no details or supporting documents as required. In addition, as at the time of the audit in March 2018, bills totaling Kshs.29,336,545 had been cleared leaving a balance of Kshs.23,894,185.

Had the bills been cleared by 30 June 2017, the statement of receipts and would have reflected a surplus of Kshs.247,101,205 instead of a surplus of Kshs.300,331,935 now shown.

Consequently, the accuracy, validity and completeness of the pending bills of Kshs.53,230,730 cannot be confirmed.

472. Stalled Project

472.1 Proposed Dormitory for Dagoretti Rehabilitation Girls School

A contract for the construction for the Proposed Dormitory for Dagoretti Rehabilitation School - Tender No. CWO/NRB/D15/16/2015-2016 was awarded at a contract sum of Kshs.21,370,279.80. The contract commenced on 2 August 2016 with an expected completion date of 2 February 2017 a period of 29 weeks.

According to a site minutes dated 18 January 2017, the project had stalled with only 20% of the work done. Information available indicate that the contractor had written to the State Department seeking for an extension period of 32 weeks which had not been granted. Audit inspection carried out in September 2017 revealed that the construction works had stalled at the upper slab level. The contractor was yet to start roofing the building and there was no activity on site during the time of visit.

As at the time the project stalled, the contractor had received payments totalling Kshs.9,731,997 or 45% despite completion of only 20%.

In view of the foregoing, it has not been possible to confirm project completion and value for money for amounts paid of Kshs.9,731,997 as at 30 June 2017.

Other Matter

473. Budget and Budgetary Performance

473.1 Receipts

Analysis of the actual receipts against the budgeted amounts revealed the following variances:

Receipts	**Budget Kshs.**	**Actual Kshs.**	**Excess (+)/ Shortfall (-) Kshs.**	**Variance %**
Exchequer releases	22,424,255,811	22,346,997,040	-77,258,771	1
Other Receipts	43,765,000	30,594,990	-13,170,010	30
Total Receipts	**22,468,020,811**	**22,377,592,030**	**-90,428781**	**0.4**

473.2 Expenditure

Analysis of the actual expenditure against the budgeted amounts revealed the following variances:

Payments	**Budget Kshs.**	**Actual Kshs.**	**Over (+)/ Under (-) Kshs.**	**Variance %**
Compensation of Employees	1,133,409,158	1,074,059,631	-59,349,527	5
Use of goods and services	18,300,066,605	18,015,689,376	-284,377,229	2
Transfers to Other Government Units	2,608,940,847	2,607,942,766	-998,081	0
Acquisition of Assets	425,604,201	379,568,322	-46,035,879	11
Other Payments				
Total	**22,468,020,811**	**22,077,260,094.57**	**-390,760,716**	**2**

The overall under absorption of Kshs.390,760,716 or 2% was attributed to change between the original and final approved budget as a result of supplementary budget and receipt of suppliers invoices after closure of the financial year.

DONOR FUNDED PROJECTS

NATIONAL SAFETY NET PROGRAMME

Basis for Qualified Opinion

474. Uncollected Cash Transfer Funds GOK – Equity Bank (Component)

Cash Transfer funds totalling Kshs.837,575,734 as at 30 June 2017 had not been paid to the beneficiaries and were still held by Equity Bank - the service provider contrary to the Agency Agreement which requires unpaid funds to be paid to an account designated by the Principal and held with the Agent within 14 days after the last disbursement.

No reasons have been provided for the failure to pay the Kshs.837,575,734 to beneficiaries or for the failure to refund uncollected amounts to the Principal Secretary - State Department for Social Protection as stipulated in the contract agreement.

The service provider was therefore, in breach of the Section 4 (e) of the Special Obligations of the Agency Agreement dated 23 October 2014.

475. Uncollected Cash Transfer Funds GOK- Kenya Commercial Bank (component)

Cash Transfer funds totalling Kshs.3,155,391,087 had as 30 June 2017 not been paid to beneficiaries and were still held by the agent Kenya Commercial Bank (KCB) the service provider contrary to the Agency Agreement which requires unpaid funds to be paid to an account designated by the Principal Secretary - State Department for Social Protection and held with the Agent within 14 days after the last disbursement.

No reasons have been provided for the failure to pay Kshs.3,155,391,087 to beneficiaries or for the failure to refund uncollected amounts to the Principal.

The service provider was therefore, in breach of the Section 4 (e) of the Special Obligations of the Agency agreement dated 23 October 2014.

Other Matter

476. Budget and Budgetary Performance

476.1 Receipts Shortfall

The statements of comparison of budget and actual for the year revealed that KShs.24,013.081,201 was budgeted for while Kshs.14,417,569,960 was actually received.

No explanation has been provided in the financial statement for the difference between the actual and the budgeted amounts totalling Kshs.9,595,511,241 or 40%.

476.2 Under/Over Expenditure

An analysis of the project actual expenditure against the budgeted amount revealed that Kshs.17,667,754,473 was budgeted for while Kshs.17,530,351,521 was actually expended.

No explanation has been provided in the financial statements for the over expenditure of Kshs.447,035,730 or 37% under Persons with Severe Disability and under expenditure of Kshs.136,497,720 by the Social Protection Secretariat.

477. Unresolved Previous Years Issues

As reported in the previous year, the project management has not resolved the previous year's issues as raised in the Auditor-Generals' report for the financial year 2015/2016 including; inclusion of income not related to cash transfers; unsupported cash disbursements and payments to beneficiaries; and unreconciled social security benefits. No reason has been provided for failure to resolve the issues.

CASH TRANSFER FOR ORPHANS AND VULNERABLE CHILDREN (CT-OVC) PROGRAMME - CREDIT NO. 4553-KE

Basis for Qualified Opinion

478. Failure to Maintain Proper Assets Register

The Project ended on 31 December 2016. However, the inventory register maintained did not include values for: Ninety seven (97) motor vehicles, thirty three (33) desktop computers, Nineteen (19) laptops/ipads, Twelve (12) photocopiers/printers/scanners, Eighty one (81) office furniture and equipment.

In the circumstances, it has not been possible to confirm the existence, value and effective utilization of the assets or confirm the security of assets acquired during the lifetime of the project.

479. Unverified Sub-County Treasuries Expenditures

The statement of receipts and payments reflects a total expenditure of Kshs.140,483,992 for the year under review out of which Kshs.5,306,320 was supported with documentary evidence while the balance of Kshs.135,177,672 relates to Sub County Treasuries operational expenditures which were only supported with returns from the Sub-County Treasuries but the original documents were retained in various districts spread across the Country.

In the circumstances, it has not been possible to verify and confirm the accuracy of expenditures totalling Kshs.135,177,672 spent in the Sub-County Treasuries as at 31 December 2016.

Other Matter

Budget and Budgetary Performance

480. Receipts

The Project had budgeted for receipts totalling Kshs.324,000,000 but only Kshs.91,080,000 was received leading to a shortfall of Kshs.232,920,000 or 72% of budgeted receipts.

No explanation has been provided for the difference between the actual and the budgeted Proceeds from Domestic and Foreign Loan as required.

481. Expenditure

An analysis of the Projects' actual expenditure against the budgeted amount revealed that Kshs.324,000,000 was budgeted for, while Kshs.294,086,465 was actually spent leading to a variance of Kshs.29,913,535 or 9%.

No reasons have been provided in the financial statements for the failure to spend Kshs.29,913,535 or 9% of the budgeted expenditure. In the circumstances, the goals and objectives of the Cash Transfer Programme may not have been achieved as planned.

CASH TRANSFER FOR ORPHANS AND VULNERABLE CHILDREN PROJECT – GRANT NO. TF097272

Basis for Qualified Opinion

482. Unverified Sub-County Treasuries Expenditures

The statement of receipts and payments for the year ended 30 June 2017 reflects an amount of Kshs.304,770,157 in respect of purchase of goods and services. However, only an amount of Kshs.113,351,729.65 was supported by schedules leaving a balance of Kshs.191,418,427.35 unsupported. The unsupported balance of Kshs.191,418,427 relates to District operational expenditures which were only supported with returns from the Districts but the original documents were retained in various Sub-County Treasuries across the Country.

In the circumstances, it has not been possible to verify and confirm the accuracy of expenditures totalling Kshs.191,418,427.35 spent in the district.

Emphasis of Matter

Undisclosed Assets

The financial statements for the year ended 30 June 2017 include cash receipts amounting to Kshs.66,969,173 transferred from the closed IDA counterpart Credit No.4553. However, the Grant's financial statements did not include or disclose assets and their values procured during the lifetime of the closed project.

In consequence, the existence, ownership, location, safety and valuation of the assets could not be ascertained as at 30 June 2017.

Other Matter

483. Budget and Budgetary Performance

483.1 Receipts

The Project had budgeted for Kshs.1,576,698,000 but actual receipts amounted to Kshs.838,758,520 resulting to a shortfall of Kshs.737,939,480 or 47.%. The shortfall was attributed to the Ministry's failure to release the full budgeted amount to the project. Further, Transfers from IDA amounting to Kshs.66,969,173 were also not factored in the budget as follows: No notes were provided in the financial statements to explain the differences as required by IPSAS 24.

483.2 Expenditures

An analysis of the projects' actual expenditure of Kshs.1,441,440,025 against the budgeted amount of Kshs.1, 576,998,000 revealed an under expenditure totalling Kshs.135,557,975. No notes were provided in the financial statements to explain the differences as required by IPSAS 24.

MINISTRY OF MINING

FINANCIAL STATEMENTS FOR VOTE 1191

Basis for Qualified Opinion

484. Unsupported Donor Funded Expenditure

The statement of receipts and payments reflect proceeds from domestic and foreign grants amount of Kshs.10,000,000 (2016-Kshs.43,673,906) as disclosed under Note 1 to the financial statements. This amount is in respect of United Nations Development Programme (UNDP) funded project pass-through income for expenditure incurred and settled directly by the donor on behalf of the Ministry. However, the expenditure has not been supported by the requisite payment vouchers, expenditure returns and schedules indicating reporting currency conversion rates. Available information, indicate that the payments were made to the advisors to the Cabinet Secretary during the year. However, the basis and nature of the services rendered to the Cabinet Secretary could not be established.

In the absence of documentary evidence in support of the expenditure, it has not been possible to confirm the probity and validity of the foreign grants amount of Kshs.10,000,000.

485. Pending Accounts Payable

Note 17.1 to the financial statements discloses pending accounts payable of Kshs.51,484,152 (2016 - Nil). Had the pending accounts payable been paid during the current year, the financial statements would have reflected a deficit of Kshs.22,099,001 instead of the surplus of Kshs.29,385,151 reported. This is indicative of the Ministry failure to adhere to Public Financial Management guidelines on budgeting by incurring expenditure in excess of the approved budget.

486. Verification and Ownership of Motor Vehicles

The summary of fixed asset register under Annex 3 discloses non-current assets balance of Kshs.1,388,393,358 (2016 - Kshs.355,047,038) as of 30 June 2017. Included in the balance is transport equipment with historical cost of Kshs.5,245,495. As reported in 2015/16 the transport equipment includes motor vehicle registration number GKB 433D, whose physical existence could not be verified as it is not in use at the Ministry. According to management, the vehicle has not been returned by the then Cabinet Secretary upon transfer. Also included in the balance is a drilling rig, whose ownership could not be established for lack of log book. Although, according to management, a request has been made to the National Transport and Safety Authority (NTSA) for issuance of the log book, it is yet to be issued. Consequently, it was not possible to confirm the existence and ownership of fixed assets balance of Kshs.1,388,393,358 as at 30 June 2017.

REVENUE STATEMENTS – MINISTRY OF MINING

Basis for Qualified Opinion

487. Cement Levy

The statement of receipts and transfers reflects cement levy totaling to Kshs.503,400,309. However, records in support of the levy indicates that the Ministry did not verify the production levels reported by the various cement companies. Consequently, the Ministry relied solely on self-declared production figures of the cement companies. Although, according to management, the Ministry's inspection capacity has been enhanced through recruitment of Inspectors of Mines, verification of production is yet to be done. It was further observed that three (3) cement companies had not paid levies relating to both the current and previous years attributing this to challenges related to business decline. According to management levy collection enforcement measures applied have not yielded any collections because cement production and business is currently regulated under Industrialization and not Petroleum and Mining sector. Further, and although according to management, the Ministry has entered into a memorandum of understanding (MOU) with the Kenya Revenue Authority (KRA) to collect the levy on its behalf, the memorandum is yet to be actualized. Under the circumstances it has not been possible to confirm the accuracy and completeness of the reported cement levy of Kshs.503,400,309.

488. Mining Royalties

The statement of receipts and transfers reflects mining royalties totaling to Kshs.107,179,357. These amounts exclude royalties of unknown value due from one firm on account of carbon dioxide. Although, verification of the company's production and sales returns as well as negotiation for payment of the outstanding levies for the year 2017 is ongoing between the two parties, the cement levy is yet to be collected. In the circumstances, it has not been possible to confirm the accuracy and completeness of mining royalties totaling to Kshs.107,179,357.

489. Royalties from a Titanium Company

The statement of receipts and transfers reflect receipts from a titanium company totaling to Kshs.404,220,727. However, as reported in the 2015/2016 report, records in support of these royalty receipts indicates that the Ministry did not verify the export quantities and prices reported by the Company, which form the basis for computation of royalties. Consequently, the Ministry relied solely on the Company's self-declared export quantities and prices. Although, according to management, the Ministry was in the process of engaging an expert for the purpose of verification of export details, the exercise of verification had not been done for the year ended 30 June 2017. Under the circumstances, it was not possible to confirm the accuracy and completeness of the royalties totaling to Kshs.404,220,727.

Emphasis of Matter

Shortfall in Revenue Collection

I draw your attention to the statement of comparison of budget and actual amounts which reflects actual revenue received from two revenue streams and the budgeted amounts, resulting to shortfall in revenue collection, as detailed in the table below:

	Company	**Budget (Kshs)**	**Actual (Kshs)**	**Variance (Kshs)**	**Variance (%)**
1	Magadi Soda	86,764,751	50,620,761	36,143,990	41
2	Cement Levy	613,312,555	503,400,309	109,912,246	18

According to management, this had resulted from non-payment by some companies and delay of entry of data into the cadaster system, for Cement Levy and Magadi Soda revenue, respectively. Consequently, the revenue collection targets for the Ministry were not achieved.

My report is not qualified with respect to the above matter.

Other Matter

490. Irregular Export Permits

As reported in the 2014/2015 and 2015/2016 reports, information available indicated that export permits with a value of US$ 18,619,645 (approximately Kshs.1.9 billion) were issued during 2014/2015 financial year, by an unauthorized officer whose employment contract expired on 19 April 2014. This was contrary to the then Mining Act, according to which, exports permits were to be signed by the Commissioner of Mines or an authorized officer whose authority had been delegated in writing. Consequently, the validity of the revenue collections on the export permits issued by the unauthorized officer could not be confirmed.

MINISTRY OF TOURISM

FINANCIAL STATEMENTS FOR VOTE 1201

Basis for Qualified Opinion

491. Cash and Cash Equivalents

The cash and cash equivalents balance comprises of cash held at the Central Bank of Kenya under the recurrent, development and deposits accounts all amounting to Kshs.45,101,844 as at 30 June 2017. However, the reconciled closing balances as per the financial statements and the manual cashbook that was availed for audit review did not agree with the balances disclosed in the IFMIS system generated cashbook as tabulated below;

Account	Manual Cashbook/ Financial Statements Balance Kshs.	IFMIS Cashbook Balance Kshs.	Variance Kshs.
Recurrent	13,008,083	30,350,000	(17,341,917)
Development	266,871	3,209,372,249	(3,209,105,378)
Deposits	31,826,889	1,676,872	30,150,017

In the circumstances, the two sets of accounting records were not reconciled and the accuracy and completeness of cash and cash equivalents balance of Kshs.45,101,844 as at 30 June 2017 could not be ascertained.

492. Acquisition of Assets – Tourism Recovery

During the year under review, the Ministry spent an amount of Kshs.1,042,214,337 under expenditure Item acquisition of assets (tourism recovery) sub- item; research, studies, project preparation, design and supervision. A scrutiny of the expenditure revealed that an amount of Kshs.206,569,933 was incurred on items not related to tourism recovery. Further most of the expenditure were recurrent in nature rather than development (acquisition of assets) as ought to have been the case. Consequently, it is not possible to confirm validity of funds amounting to Kshs.206,569,933.

493. Wasteful Expenditure on Payment of a Pending Bill

The Ministry made a payment of Kshs.150 million to a local law firm in respect of pending bill from the former Ministry of Trade. Available information indicates that the payment was in respect of an initial bill of Kshs.12 million payable to Tele News Africa and Atlantic Region but which was in contention as the contract for advertising services by the firm had expired in June in 2004 but the firm continued to render the service. 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 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, Attorney General advised that the Ministry of Trade and Industry to pay the contractual amount but negotiate on 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 was made in July 2013 of Kshs.65 million 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 service without a valid contract. There was also further negligence on part of the officials 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 interest accumulated of Kshs.198 million.

Consequently, there is risk of further loss of public funds through continued accumulated interest and penalties occasioned by the Ministry's officials. Further the Ministry should fast track on settlement of this issue to avoid further interest and penalties.

Other Matter

494. Pending Bills

Bills amounting to Kshs.24,162,162 relating to 2016/2017 were not settled during the year but were instead carried forward to 2017/2018 financial year. Failure to settle the bills in the year to which they relate adversely affects the following year's provision to which they have to be charged. Had the bills been paid and the expenditure charged to the financial statements of 2016/2017, the carried forward bills would not have caused budgetary strain to 2017/2018 financial year given that there was budgetary provision for the year under review.

495. Budget Under-Absorption

During the year under review, the following expense items were noted to have been underspent;

Item	Final Budget Kshs	Actual Expense Kshs	Under-utilization Kshs	% Under-utilization
Use of Goods and Services	123,688,649	102,666,515	21,021,954	**17%**
Subsidies	200,000,000	0	200,000,000	**100%**
Transfers to Other Government Units	4,245,575,000	3,997,132,313	248,442,688	**6%**
Acquisition of Assets	1,222,439,250	1,042,700,957	179,738,293	**29%**

Failure to fully utilize the budgeted provisions is likely to lead to negative impact on the service delivery and achievement of the overall objectives of the Ministry.

STATE DEPARTMENT FOR PUBLIC SERVICE AND YOUTH

FINANCIAL STATEMENTS FOR VOTE 1211

Basis for Qualified Opinion

496. Mis-allocation of Expenditure

The statement of receipts and payments reflects expenditure of Kshs.7,628,895,236 under use of goods and services. The amount includes Kshs.723,975,418 relating to rentals of produced assets which includes an amount of Kshs.76,873,868 which ought to have been charged to the following expenditure items of the account:

S/No.	Correct Account	Amounts (Kshs)
1.	Purchase of equipment	46,831,830
2.	Accommodation and travel	2,510,590
3.	Repairs and maintenance	27,531,448
	Total	**76,873,868**

No satisfactory explanation has been provided for the mis-allocation of the above expenditure items.

497. NYS Huduma Cohorts Account – National Bank

The bank balance of Kshs.885,060,181 as at 30 June 2017 reflected in the financial statements includes NYS Huduma Cohorts Bank Account held at National Bank of Kenya with a bank balance of Kshs.442,890,677. This balance represents the savings by youths who were working on the Youth Empowerment Programme. Although the cash book, bank balance certificate, bank reconciliation statements and board of survey report were provided for audit verification, it has not been possible to confirm adequacy of the balance to cover liability as declared in Note 11 to the financial statements as no detailed listings were provided in support of the balance of Kshs.442,890,666.

498. Other Grants and Transfers

The statement of receipts and payments reflects an amount of Kshs.69,698,661 in respect of other grants and transfers which include Kshs.26,669,673 and Kshs.43,028,988 relating to membership dues and subscriptions to international organizations and scholarships and other educational benefits, respectively. However, payments amounting to Kshs.1,162,282 and Kshs.4,589,758 for membership dues and scholarships and other educational benefits, respectively were not supported with the necessary documentation including demand notes, analyses of beneficiaries, rate and nature of the expenditure. The validity of the expenditure of Kshs.1,162,282 and Kshs.4,589,758 cannot be confirmed under the circumstances.

499. Accounts payables

The statement of assets and liabilities reflects a balance of Kshs.789,066,011 against accounts payables. Included in the balance are outstanding payables for deposits, NYS - Service men and women savings and allowances, and NYS – Huduma Cohorts totalling Kshs.231,544,785, Kshs.114,630,549 and Kshs.442,890,667, respectively.

However, the listings in support of amounts owing to NYS - Service men and women savings and allowances of Kshs.114,630,549 and NYS Huduma Cohorts of Kshs.442,590,667 were not provided for audit verification. Further, the deposits balance of Kshs.231,544,785 includes an amount of Kshs.189,510,151 in respect of NYS Savings and Welfare which was not adequately supported. Consequently, the completeness and accuracy of the account payables balance of Kshs.789,066,011 cannot be confirmed.

500. Use of Goods and Services – Specialized Materials and Services

The total expenditure of Kshs.7,628,895,236 on use of goods and services includes an amount of Kshs.2,820,467,149 incurred on procurement of specialized material and services. Audit verification of records and documents in respect of purchase of food and rations procured at a total cost of Kshs.54,848,750 and charged to the specialized material and services expenditure item revealed the following anomalies:

(i) The procurements were made on the strength of a contract from Supplies Branch, Ministry of Lands Housing and Urban Development dated 20 August 2014 and 16 December 2014.

(ii) The procurement contracts included a firm that was registered on 16 June 2015 which was more than six months after the above contract was issued by the Supplies Branch.

(iii) The suppliers were awarded contracts to supply the goods before the firms were registered with the State Department relying purely on the Supplies Branch Contract and without verification of the firms` details.

No satisfactory explanations have been provided for the above anomalies.

501. Acquisition of Assets - Construction of Buildings

Disclosed under Note 8 to the financial statements is expenditure of Kshs.616,376,731 on construction of buildings which, includes a payment of Kshs.25,572,858 or sixty percent

(60%) of the contract sum Kshs.42,621,430 made to a contractor as a down payment, in respect of construction of Huduma Centre in Mandera.

Examination of the respective records revealed the following anomalies in respect of this payment:

(i) On 13 October 2016, the Director-Operations at the Huduma Kenya Secretariat wrote a Memo to the Secretary/Chief Executive Officer of Huduma Secretariat requesting for approval to establish six (6) Huduma Centres among them in Mandera. The Director had requested an approval from the Secretary Huduma Kenya to procure contractors for building works and to establish the six (6) Huduma Centres as directed by the evaluation Committee.

(ii) Approximately four (4) months later, on 3 March 2017, the Head Supply Chain Management Unit wrote a memo to the Principal Secretary through the Secretary, Huduma Secretariat requesting to use restricted tendering to procure qualified building contractors for the construction of the Huduma Centres.

(iii) Although the management requested for restrictive tendering citing section 102(1)(b) of the Public Procurement and Asset Disposal Act 2015, no evidence has been provided to show that there was time pressure or that the costs would be disproportionate.

502. Acquisition of Assets – Construction of Buildings

The expenditure of Kshs.616,376,731 on construction of buildings also include an amount of Kshs.6,398,170 paid to a sub-contractor for supply and installation of fittings at Kibra Huduma Centre. The following anomalies were similarly noted:

(i) The Head of Supply Chain Management wrote a professional opinion Ref: NYS/CONF/E&S/4/34 advising the Accounting Officer to approve payment for services rendered by the sub-contractor even though there was no existing contract between the State Department of Public Service and Youth (SDPSY) and the sub-contractor. The request was approved and formed an integral basis for the payment.

(ii) A Local Purchase Orders (LSO) was raised on 26 May 2017 while the authority for payment by the Accounting Officer was given on 16 May 2017.

(iii) There was no documentary evidence of certification of works done before the payment to warrant a charge on public funds.

(iv) Although the payment was made on 28 July 2017 (in 2017/2018 financial year) the expenditure was captured in the financial statements for 2016/2017.

503. Acquisition of Assets – Purchase of Specialized Plant, Equipment and Machinery/ Rehabilitation of Civil Works

The financial statements disclose under Note 8 expenditure of Kshs.1,536,686,813 and Kshs.2,531,054,565 for purchase of specialized plant, equipment and machinery and rehabilitation of civil works, respectively. Payments totalling Kshs.139,890,886 charged to the two expenditure items and made to various suppliers were in respect of procurements processed under the contracts from the Supplies Branch, Ministry of Lands, Housing and Urban Development. However, the payments were found to have anomalies as detailed below.

S/No.	PV. No	LPO date	Contract Period	Amounts-Kshs	Anomaly Observed
1.	696	8/2/2015	21/12/2015 - 22/8/2016	6,904,008	Outside contract period
2.	399	4/8/2015	23/12/2013 – 23/4/2014	17,150,000	Expired contract
3.	761	18/8/2015	21/12/2015 – 22/8/2016	7,383,453	Outside contract period
4.	396	Not dated	9/1/2014 – 30/11/2014	11,202,750	Unable to determine contractual obligation
5.	375	2/3/2015	9/1/2014 – 30/11/2014	5,890,000	Expired contract
6.	377	2/3/2015	9/1/2014 – 30/11/2014	7,628,000	Expired contract
7.	383	23/5/2015	9/1/2014 – 30/11/2014	6,860,000	Expired contract
8.	382	23/9/2015	9/1/2014 – 30/11/2014	6,593,125	Expired contract
9.	2219	17/8/2015	21/12/2015 – 22/8/2016	24,010,000	Outside contract duration
10.	206	LPO Not dated	1/8/2014 – 30/11/2014	5,309,550	Unable to determine contractual obligation
11.	659	30/7/2015	21/12/2015 – 22/08/2016	23,320,000	Outside contract period
12.	895	30/7/2015	21/12/2015 – 22/8/2016	17,640,000	Outside contract period

No explanations have been provided for the above omissions.

504. Acquisition of Assets – Rehabilitation of Civil Works

Rehabilitation of Civil Works expenditure of Kshs.2,531,054,565 include an amount of Kshs.264,280,805 incurred in respect of construction of eight (8) Huduma Centres. The procurement of the contractors was done under restricted tendering whilst the procurement did not meet the criteria set for use of this method.

The facts surrounding this procurement are as detailed below:

(i) The requisition to establish the Huduma Centres was issued on 13/10/2016 and approved the same day.

(ii) The request for procurement of building and refurbishment works was issued on 1/9/2016 and approved on 7/9/2016.

(iii) The request to use restricted tendering to the Secretary – Huduma was issued on 3/3/2017 and from the Secretary - Huduma to the Principal Secretary on 6/3/2017 which was approved on 7/3/2017.

(iv) The main reason given for using restricted tendering is Section 102(1)(b) of the Public Procurement and Disposal Act, 2015 which refers to time constraint.

Further, the State Department of Public Service and Youth procured the services of private consultants at a fee of Kshs.5,899,175 for design of buildings, preparation of bills of quantities, preparation and evaluation of tender documents, tendering process, supervision and approval of work programs which ordinarily is the responsibility of the Ministry of Lands, Housing and Urban Development for all government projects. No satisfactory explanation has been provided for use of private consultants.

505. Stalled Construction Projects

(i) The acquisition of assets expenditure of Kshs.5,134,698,150 as disclosed in Note 8 to the financial statement includes an amount of Kshs.616,376,731 under construction of buildings. The amount includes a payment of Kshs.25,912,277.45 for construction of classrooms and workshop at National Youth Service Ruaraka which has been going on for over seven years. The project was started in the year 2011 with a contract duration of 52 weeks but is yet to be completed with the latest extended completion period to 28 April 2017 after total payments of Kshs.75,073,833, approximately 85% of the contract sum.

(ii) The amount of Kshs.616,376,731 also includes payments amounting to Kshs.8,910,576.32 for construction of double span kitchen, dining and barracks at National Youth Service Ruaraka all for a contract sum of Kshs.192,000,000.

The project started on 18 May 2011 with a contract duration of 80 weeks. The contractor was granted extension period up to 13 March 2017 after total payments of Kshs.175,061,742 approximately 92% of the contract sum.

Physical inspection of the projects in 2016/2017 revealed that the contractors had abandoned the site and the projects were yet to be completed. Further, there were visible huge cracks on the walls and the buildings appeared to be dilapidated and in deplorable state.

No documentary evidence has been provided to confirm that the State Department had invoked relevant clauses of the contracts to surcharge the contractors because of the delayed completion and neither has there been any effort to invoke the exit clauses of the contracts.

506. Replacement of Parts for thirteen (13) Huduma Centres QMS

The State Department paid Kshs.56,123,772 to a firm for replacement of parts in thirteen (13) Huduma Centres for the Queue Management System(QMS) through payment voucher number 628 dated 22/06/2017. The supporting requisition attached to the payment voucher shows that the Program Officer raised a requisition on 15 October 2015 and approval was granted the same day.

Whereas the requisition was for replacement of faulty parts, a schedule of services provided in support of the payment shows that Kshs.26,851,682 was paid for training and other support services which were not part of what was requisitioned and contracted initially. Further, it is not possible to match the replaced parts with the procured items in the original contract for which the State Department paid an additional Kshs.29,272,090.

In addition, the contract document did not provide for future parts replacement as it is practically impossible to quantify the need, however, the State Department made an advance payment of Kshs.26,851,682 for parts replacement and training without any form of analysis showing the expected duration of utilization as defined by the manufacturer or market survey to inform costing of the orders.

The propriety of the expenditure cannot be confirmed under the circumstances.

507. Pending Bills

The State Department reported pending bills totalling Kshs.2,964,606,488 as at 30 June 2017 as detailed in Annex II to the financial statements. Had the bills been paid and the expenditure charged to the accounts for 2016/2017, the statement of receipts and payments would have reflected a deficit of Kshs.2,866,729,587 instead of the surplus of Kshs.97,876,901 now shown for the year ended 30 June 2017.

STATE DEPARTMENT FOR GENDER AFFAIRS

FINANCIAL STATEMENTS FOR VOTE 1212

Basis for Qualified Opinion

508. Mis-allocation of Expenditure

The following expenditure items were charged to the wrong accounts for the period under review:

Item Charged	Particulars	Amount-Kshs	Item Ought to Have Been Charged	Particulars
2110100	Basic salaries	275,000	2110200	Temporary wages
2210200	Domestic travel and subsistence	1,695,000	3111100	Purchase of specialised plant, equipment and machinery
2210300	Domestic travel and subsistence	299,910	2210400	Foreign travel and subsistence
2210300	Domestic Travel and subsistence	6,464,450	2210800	Hospitality supplies and services
2210600	Rentals of produced assets	480,000	2210300	Domestic travel and subsistence
2210800	Hospitality supplies and services	1,478,224	2211000	Purchase of specialized materials and services
2210800	Hospitality supplies and services	333,000	2210200	Communication supplies and services
2211000	Specialised materials and services	356,400	2210500	Printing advertising and information supplies and service
2211100	Office and General supplies and services	1,527,960	2210200	Communication supplies and services
2211100	Office and General supplies and services	1,334,700	2210500	Printing advertising & information supplies and service
2211100	Office and General supplies and services	11,600,000	3110700	Purchases of motor vehicles

Item Charged	Particulars	Amount-Kshs	Item Ought to Have Been Charged	Particulars
2211100	Office and General supplies and services	1,388,126	3111100	Specialised plant, equipment and machinery
3111100	Specialised plant, equipment and machinery	4,870,000	2211100	Office and General supplies and services
Total		**32,102,770**		

However, had the expenditure items been charged to the correct accounts, this would have resulted to over expenditure amounting to Kshs.32,102,770 under the correct items of the account.

509. Second High-Level Meeting (HLM2) Expenditure

The State Department of Gender Affairs received an amount of Kshs.29,059,003, in the form of Authority to Incur Expenditure during the year under review from the National Treasury, to fund Plenary 5 on Economic Empowerment of Women at the Second-High Level Meeting (HLM2) of the Global Partnership for Effective Cooperation (GPEC) held in Nairobi. Although the activity was included in the State Department`s amended annual work plan it was not factored in the budget. Out of the monies received, an amount of Kshs.9,132,600 was used for transport refunds and daily subsistence allowance for county delegates, youth and gender officers while Kshs.12,136,674 was spent on delegates accommodation. However, no documentation was provided to support the basis of identification and selection of the delegates, exhibitors, entertainer and moderators. Further, the rates of compensation for delegates, exhibitors and entertainers were not supported in any way.

510. Domestic Travel and Subsistence

Domestic travel and subsistence expenditure of Kshs.28,242,898 disclosed under Note 13 to the financial statements includes an amount of Kshs.966,160 in respect of air tickets which was not supported by procurement documents. Further, the expenditure of Kshs.28,242,892 includes an amount of Kshs.4,000,000 described as reimbursement to National Government Affirmative Action Fund. However, the expenditure was similarly not supported by any documentation.

The validity of the expenditure on air tickets and reimbursement cannot confirmed in the circumstances**.**

511. Routine Maintenance - Motor Vehicles & Other Transport Equipment

The State Department procured motor vehicle spare parts, tyres, periodic services, repairs and maintenance amounting to Kshs.3,630,828 against routine maintenance- motor vehicles and other transport equipment. However, there was no of pre and post inspections by relevant officers on work done or services carried out on these vehicles before effecting the payments. Consequently, the validity of the expenditure could not be confirmed.

512. Routine Maintenance – Other Assets

The financial statements at Note 13 also discloses a total of Kshs.7,134,150 in respect of routine maintenance - other assets. This expenditure includes an amount of Kshs.2,638,000 in respect of refurbishment of the office of Principal Secretary which was procured through use of restrictive tendering method. However, project status report to support the extent of work done was not provided for audit review. Information provided by the project manager indicated that the refurbishment works carried out by the contractor were less than those specified in the bills of quantities even though the contractor had been paid in full. The validity of the expenditure of Kshs.2,638,000 cannot be confirmed.

513. Acquisition of Assets

The expenditure of Kshs.548,467,992 on acquisition of assets includes an amount of Kshs.12,034,480 in respect of purchase of office furniture and general equipment. However, the details of furniture and equipment procured, their current location and the custodians were not provided for audit verification.

Further, the expenditure of Kshs.548,467,992 includes an amount of Kshs.477,000,000 described as domestic lending and on lending in respect of a transfer to Women Enterprises Fund for onward lending to borrowers and does not constitute acquisition of assets.

In addition, the expenditure of Kshs.548,467,992 includes an amount of Kshs.38,663,262 in respect of research, studies, project preparation, design and supervision. The expenditure relates to implementation of enhancing gender directorate role in gender mainstreaming and women empowerment project undertaken in partnership with UN Women. Even though accountability for the funds is the responsibility of State Department of Gender Affairs, procurement and payment for goods and services for the project are outside the control of the State Department and so is the monitoring and evaluation of the project's progress. It is, therefore, not possible to ascertain value for money for the expenditure of 38,663,262 and the impact of the project.

514. Hospitality Supplies and Services

The expenditure of Kshs.17,576,823 on hospitality supplies and services includes an amount of Kshs.1,489,316 relating to provision of conference facilities for hosting of seven meetings at a hotel in Nairobi. However, no documents or records were provided for audit review to support how the service provider was identified and awarded the contract, to explain the nature of the conference, to identify the participants and to prove that the conference took place. Besides, an amount of Kshs.54,000 for accommodation charges had no detail of the participant accommodated at the hotel while expenditure amounting to Kshs.728,665 had no supporting documents at all.

515. Pending Bills

The State Department of Gender Affairs reported pending bills amounting to Kshs.12,737,993 as at 30 June 2017. However, bills amounting to Kshs.11,519,228 were not supported with any relevant documentation including contract documents, purchase/service orders, invoices and delivery notes. Consequently, the pending bills of Kshs.12,737,993 cannot, therefore, be confirmed as all valid and fairly stated.

Had, the pending bills of Kshs.12,737,993 been paid and the expenditure charged to the accounts for 2016/2017 financial year, the statement of receipts and payments would have reflected a deficit of Kshs.12,203,015 instead of the surplus of Kshs.534,978 now shown for the year ended 30 June, 2017.

516. Fixed Assets

(i) Fixed Assets Register

The State Department did not maintain fixed assets register during the year under review. Consequently, the completeness and accuracy of the fixed assets balances totalling Kshs.32,804,730 as 30 June 2017 as summarized in Annex 3 to the financial statements cannot be confirmed.

(ii) Ownership of Motor Vehicles

Records available indicate that the State Department has seven vehicles without logbooks. Physical verification revealed that two of the seven vehicles are currently not in the custody of the Statement Department. In the circumstances, the ownership of the vehicles cannot be confirmed.

Other Matter

517. Procurement of Goods and Services

(i) Direct Procurement and Request for Quotations

During the year under review, the State Department procured goods and services worth Kshs.15,135,031 as indicated below using direct procurement and request for quotations method of procurement:

Description	Amount (Kshs)	Particulars
Foreign travel	2,106,800	Air ticket (Direct procurement)
Printing and advertising	2,881,085	Branded Lessos & T-Shirts (Quotations)
Office & general supplies	4,587,876	Computers (Quotations)
Office furniture	2,055,670	Chairs & Condom Dispensers (Quotations)
Office furniture	3,503,600	Office furniture (Quotations)
Total	**15,135,031**	

However, contrary to Section 91 (2) of the Public Procurement and Asset Disposal Act, 2015 and the applicable regulations, the values of each of these procurements were above the prescribed threshold of Kshs.2 million for the applied procurement method. No explanation has been provided for this anomaly.

(ii) Cash Procurements

Goods and services worth Kshs.1,832,316 and whose individual expenditure were above the prescribed threshold of Kshs.30,000 were procured directly using cash as shown below:

Particulars	**Amount (Kshs)**
Routine maintenance – motor vehicles	465,266
Communication supplies and services	82,300
Domestic travel costs and subsistence	683,950
Hospitality supplies and services	175,000
Office and general supplies and services	425,800
Total	**1,832,316**

This was contrary to the requirement of the Public Procurement and Assets Disposal Act, 2015.

STATE LAW OFFICE AND DEPARTMENT OF JUSTICE

FINANCIAL STATEMENTS FOR VOTE 1252

Basis for Qualified Opinion

518. Accuracy and Completeness of the Financial Statements

518.1 Discrepancy between the IFMIS Financial Statements and the Presented Financial Statements

As reported in the 2015/2016 audit report, similarly the figures reported in the financial statements for 2016/2017 submitted for audit review differ with IFMIS produced schedules. The statement was prepared outside IFMIS and the discrepancies have neither been explained nor reconciled. As a result, it has not been possible to confirm the accuracy and completeness of the financial statements.

518.2. Suspense Account

As reported in the 2015/2016 audit report, the matter of unanalysed suspense account balance of Kshs.82,485,174 is still pending and no proper explanation nor reconciliation has been given for it.

519. Pending Bills

The Accounting Officer disclosed pending bills amounting to Kshs.74,283,875 being bills that were not paid in the financial year 2016/2017 but were instead carried forward to 2017/2018. Failure to settle bills during the year which they relate distort the financial statement for that year and adversely affects the provisions of the subsequent year to which they have been charged. In addition, supporting documents for all the pending bills were not provided for audit review.

The accounting officer should explain why the expenditure was incurred without commitment in the IFMIS system. The Accounting Officer should ensure that adequate planning is done so that all activities are undertaken within the financial year to which the voted provisions relate.

520. Cash and Cash Equivalents

As reported in the year 2015/2016, the cash and cash equivalents balance of Kshs.390,684,826 as at 30 June 2017 are not supported or analyzed as detailed below:

520.1 Non-submission of the Recurrent Account Bank Reconciliation Statements for the Financial Year 2016/2017

The financial statements as at 30 June 2017 reflects a balance of Kshs.390,667,616 for cash and bank balances for the recurrent, development and deposits accounts; recurrent having a balance of Kshs.140,089,488. However, the bank reconciliation statements for the recurrent account were not made available for audit scrutiny despite numerous requests. This is contrary to Section 9(1)(e) of the Public Audit Act, 2015 that empowers the Auditor- General access to all information and documents. The state department was therefore in breach of law.

520.2. Un-Supported Payments in Bank Statement not in Cash Book

The deposits bank reconciliation statement shows an amount of Kshs.71,565,424.50 being payments in bank statement but not in the cash book. There was no analysis to clarify what kind of payments were paid directly from the bank. Further, the authority for the payments was not available for audit verification. As a result, the accuracy and completeness of the deposit cashbook balances as fairly stated could not be confirmed.

520.3. Receipts in Bank Statement not yet Recorded in the Cash Book

An amount of Kshs.78,339,170 is indicated as receipts in bank and not yet recorded in the cash book. No details of the receipts were provided for audit review

520.4. Unsupported Payments

The deposit account is used for the purpose of paying out compensation after the completion of court cases to plaintiffs. The government entities who are the paying agents normally deposit money to be paid out to Third Parties, the Solicitor General processes payments to such parties based on court proceedings outcomes presented to them. The analysis of all recipients should be prepared by Solicitor General.

The Accounting Officer only produced a schedule of receipts from the various Government Institutions but did not present to us the payment schedule for the recipients / plaintiffs. Further, the Ministry did not analyze how funds brought forward from previous year were paid out and why there was an unpaid bank balance of Kshs.234,006,128 by the closure of the financial year under review.

520.5. Unsupported Receipts

It was observed that by the closure of the financial year 2016/2017, the accounting officer had received Kshs.165,765,256 from unknown sources and the amount thus remained unpaid by the end of that period. Further, no efforts were seen geared towards identifying the paying agents and the plaintiffs for onward transmission.

In view of the foregoing, the accuracy and completeness of the cash and cash equivalents could not be confirmed.

521. Human Resource Management

521.1 Failure to Bond Trainees

The Human Resource Policies and Procedures Manual for the Public Service May 2016 section H.13 provides that "(1) The Government shall bond serving officers proceeding on approved courses of training locally or abroad lasting six (6) months and above to enable the government to benefit adequately from its investment in training. (2) Where a State Department considers the value/cost of a course lasting less than six (6) months to be high and constraining the organization's training budget, the officers will be bonded for a minimum period of one year but not exceeding five (5) years (3) The bond period will be determined by the duration of the course as follows:-

Training Bond Period (i) Six months up to one year – (One year) (ii) More than one year up to two years- (Two years) (iii) Between two and three years-(Three years)(iv) More than three years as per the duration of the course but not exceeding five (5) years. Section 129 (3) states that the bond amount will be the total cost of the training. (4) In case of default, the bondee and/or surety will be required to redeem the bond amount on prorata basis. (5) Details on the administration and implementation of the training bond are contained in the Public Service Training Bond Guidelines".

The training department spent Kshs.58,848,271.50 being Kshs.51,793,466 under Office of the Attorney General and Department of Justice and Kshs.7,054,805.50 under account 2630101 during the financial year 2016/2017 to train and develop the Office of the Attorney General and Department of Justice staff.

Contained in the expenditure are courses whose durations were beyond 6 months and thus the beneficiaries ought to have been given a training bond. A scrutiny of the documents availed did not reveal any evidence of bonding. Further, no evidence was availed to show that the Office of the Attorney General and Department of Justice had any training needs analysis to guide the office on planning the expenditure on the item.

This is contrary to Human Resource Policies and Procedures Manual for the Public Service, section H1 (5).

521.2 Unsupported Stipend Payment

During the year under review, the Accounting officer paid stipend allowances amounting to Kshs.9,333,272. However, there was no supporting documentation to show how the payees were recruited and the circular determining the amount of the stipend to be paid. Further, there is no description of work being done by the payees despite the payments made on a monthly basis.

522. Irregular Payments

522.1 Leases

During the financial year, Attorney General and department of Justice spent Kshs.96,541,610 on rental payments for various leases across the country. However, the payments were not well supported since some leases were expired or paid using scanned invoices. Further, there were cases of rent and service charge over payment. In addition, some of the leases are not registered. In the circumstance, it was not possible to confirm the accuracy of the payment of Kshs.96,541,610.

522.2 Payment of Un-taxed Airtime Allowances Instead of Issuing Scratch Cards and Payment of Un-analyzed Telephone Bills

Contrary to the Office of the President circular OP/Cab /15 of 5 March 2010 on Economic Utilization and efficient delivery of telephone services in the public sector and the letter 1005/2 from Commissioner of Domestic taxes Kenya Revenue Authority of 22 August 2012, the accounting officer paid untaxed allowances to the staff amounting to Kshs.40,498,026 during the financial year 2016/2017 instead of procuring the cards and issuing out. Further, there was no list prepared showing how the allowances were paid per officer in accordance with the ceilings set by the circular. It was not possible to confirm whether all intended recipients received the cash since much of it was paid in bulk to one officer to pay the others. No list of recipients was attached. In the circumstances, it was not possible to confirm the accuracy of the telephones bills payment of Kshs.40,498,026 as at 30 June 2017.

In addition, the accounting officer spent Kshs.6,165,315 to pay office telephone bills for the senior officers and the switchboard during the financial year. There is no list availed to show how many office lines were allocated to the officers and whether the expenditure ceilings were observed.

522.3 Payment of Cleaning Services Using Expired Contract

Under operating expenses is payment of cleaning services. It was observed during the year under review between July 2016 to March 2017 a local cleaning firm provided cleaning services to Office of the Attorney General without a valid contract. The earlier contract expired on June 2016 but they were allowed to continue giving services without a contract and were paid Kshs.639,117. The payment was therefore made irregularly.

522.4 Use of Expired Contract and Irregular Renewal of Cleaning and Security Contracts

The contract for cleaning services and security services were awarded by the Ministerial Tender Committee at its meeting OAG & DOJ/003/001/2016/2017 held on 23 September 2014 for a period of two years. The contracts commenced on 1 November 2014 and was to expire on 30 October 2016. However, by the time of the expiry, the Ministry had not procured fresh services. The contracts through approval by Solicitor General was extended for a period of 3 months (November-December 2016 and January 2017) irregularly since the evaluation committee was not involved as required by the Act.

The new contract for cleaning eventually commenced on 1 April 2017. Thus, for two months i.e February and March 2017 there was no biding contracts yet the two companies continued providing services. The procurement documents for the new contract were not availed for review and it's not clear how the same security firm won the tender.

In the circumstances, it was not possible to confirm whether the office got value for the money paid.

522.5 Non-Procedural Procurement of Fuel

The government gave a directive that all fuel should be procured form National Oil Corporation which is a government corporation. During the 2016/2017 financial year, the Ministry procured all fuel consumed from a local petroleum dealer contrary to the Government directive. It is not clear why government regulations were not followed.

Under the circumstances, the propriety and value for money for the expenditure of Kshs.143,844,069 could not be ascertained.

523. Failure to Maintain a Fixed Asset Register

As reported in the previous year (2015/2016), the Ministry had not yet updated its summary fixed assets register.

The Ministry has acquired fixed assets of Kshs.51,316,035 as at 30 June 2017. However, there are no proper records in terms of an asset register listing all those assets, location and the core details regarding them. Only a listing containing a few block class items was made available for audit review. Further, the summary of fixed assets indicate Kshs.59,921,641 accumulated despite the Ministry acquiring and owning fixed assets worth Kshs.59,921,641 as at 30 June 2016 in different offices. The accounting officer has not implemented a physical identification system by tagging/coding the assets except for some project assets. This would result to loss of the assets through theft and misplacement.

In consequence, the existence, custody, security and valuation of the fixed assets of the ministry could not be confirmed as at 30 June 2017.

524. Outstanding Imprest

The financial statements reflect an outstanding imprests of Kshs.1,489,476 as at 30 June 2017. The office has not explained why the imprests were not surrendered as required by regulations. Further, there was no evidence of efforts made towards recovering the imprest from the officers' salaries.

As a result, accuracy and recovery of the outstanding imprest of Kshs.1,489,476 could not be confirmed.

Other Matter

525. Operating With Old and Unserviceable Motor Vehicles

For effective operations and service delivery, the transport department should have an efficient, effective and serviceable fleet of vehicles to serve other departments. Out of the total fleet of 80 motor vehicles as per the list availed to us, 23 vehicles were found to be un-serviceable (29%) which affected the department from discharging its mandate effectively. Further there was no evidence availed to show any disposal and replacement plans.

526. Lack of a Written Anti-virus Policy

It was observed that the IT department has not developed a written anti-virus policy that details the responsibility of management and staff, how anti-virus is to be maintained and specific instructions of what to do in an emergency. Lack of the policy exposed the office to various IT risks.

527. Non-Operationalization of the Audit Committee

The Ministry did not have a functional audit committee, thereby affecting the functioning of internal audit and the entire functions that ought to have been carried out by the Audit Committee, which would affect the independence of the internal auditors.

528. Excess Service Charge-Rentals of Produced Assets

As reported in the year of 2015/2016, the payment of Kshs.2,651,745 as service charge to Co-operative Bank House is yet to be explained as the basis for payments were not clear. Management has not acted on the audit recommendations made during the audit of 2015/2016.

REVENUE STATEMENT - STATE LAW OFFICE AND DEPARTMENT OF JUSTICE

Basis for Qualified Opinion

529. Non-provision of Contracts

Office of the Attorney General and Department of Justice – Revenue Statement contracted service providers to collect revenue on their behalf. These service providers are Safaricom, E-citizen and Huduma Centre (Postal Corporation of Kenya). However, the contracts between service providers and Office of the Attorney General and Department of Justice - Revenue Statement were not provided for audit. It was not possible to establish whether the contract terms were biding and adhered to.

530. Prior Years Balances

Section 64 of Public Finance Management Act, 2012 requires Accounting Officer to ensure that adequate safeguards exist and are applied for prompt collection and accounting for all National Government Revenue and other public moneys relating to their departments. It was observed that in 2015/2016 year audit, an amount of Kshs.164,322,122 was reflected as revenue balance that was not transferred to Treasury. This amount included revenue amounts from Huduma Centre of Kshs.138,683,190, Kenya Commercial Bank Kshs.8,412,009, Deposits amounts Kshs.1,099,057, Safaricom Kshs.1,538,316 among others. No analysis of the above amount was brought forward to the current year of 2016/2017 indicating clearly the current status of the unremitted funds. Further, Revenue collected from Public Trustee amount to Kshs.1,099,057 was transferred to State Law deposit account on August 2015 but no evidence was provided to confirm that these funds were transferred to Exchequer by 30 June 2017.

Similarly, Huduma Centre was contracted by Office of the Attorney General and Department of Justice to collect revenue on behalf of Office of the Attorney General. All revenue collected by Huduma Centre was to be remitted to National Treasury. It was however observed that as at 30 June 2016, Postal Corporation of Kenya had not remitted Kshs.138,683,190 to the Central Bank Revenue account. This balance was carried forward to 2016/2017 and by end of 2016/2017 no evidence was provided to support the remittance. It is therefore not clear the whereabouts of the funds and why it has remained unaccounted for to date.

531. Revenue Regional Offices

Section 82(1) of the Public Finance Management Act 2012 requires that at the end of each financial year, Solicitor General prepares an account of the revenue received and collected by the Receiver. It was observed that a summary of returns of the revenue collected from the regions/districts have not been availed for audit verifications. It was not possible to confirm the total revenue collected in the regions and how this was remitted to National Treasury. No analysis of revenue collected from regions/districts was availed.

In the circumstances, the revenue collected balance indicated in the statement could not be ascertained, and how the figure was arrived at.

OFFICIAL RECEIVER

Basis for Qualified Opinion

532. Accuracy, Completeness and Presentation of Financial Statements

532.1 Receivables

The statements of financial position indicates receivables of Kshs.125,426,843 as at 30 June 2017. However, no supporting documents were provided for audit review. Further, Note 11 to the financial statements reflects a block figure.

533. Un-supported Cash and Cash Equivalents

533.1 Cash and Bank Balances

The statements of financial position and note 9 to the financial statements reflect bank account balance of Kshs.27,264,340 as at 30 June 2017. A scrutiny of the documents provided for audit review show that there was an overstatement of Kshs.1,064,753 under various bank accounts. In the circumstances, the cash and bank balance as at 30 June 2017 cannot be confirmed.

533.2 Short-term Deposits

The financial statements under note 10 short-term deposited reflects a balance of Kshs.114,403,802 and treasury bills of Kshs.160,000,000 all totaling Kshs.274,403,802 indicated as cash equivalents in the statements of financial position. A scrutiny of the documents provided for audit review show that there was an overstatement of Kshs.9,650,000, which was neither explained nor reconciled.

In view of the foregoing, the cash and cash equivalents balance Kshs.427,094,985 could not be confirmed as at 30 June 2017.

PUBLIC TRUSTEE OF KENYA

Basis for Qualified Opinion

534. Deposits – Imperial Bank

Included in the deposits balance of Kshs.135,400,000 as reflected in Note 13 to the financial statements is Investment Income account balance of Kshs.95,000,000 which in turn includes Kshs.75,000,000 which was held in Imperial Bank before it went under. To date, the deposits have not been recovered although Public Trustee has written to Central Bank (Kenya Deposits Insurance Corporation) and the Liquidator of the former bank requesting for the recovery of their deposits, through letters dated 20 June 2017 and 28 June 2017.

In the circumstances, the recoverability of the deposits of Kshs.75,000,000 could not be ascertained.

535. Unsupported Investment

The statement of financial position reflects investments of Kshs.253,131,000 as at 30 June 2017 out of which investments worth 53,322,218 were not supported. Further, an amount of Kshs.164,730,000 was indicated as dormant deposits with the Deposit Protection Fund. No reason was provided for not seeking refund of the dormant deposits.

Consequently, the accuracy and completeness of the investment balance of Kshs.251,131,000 could not be ascertained as at 30 June 2017.

THE JUDICIARY

FINANCIAL STATEMENTS FOR VOTE 1261

Basis for Adverse Opinion

536. Accuracy and Completeness of the Financial Statements

Expenditure schedules provided in support of several financial statement balances differed with the respective accounts' ledger records as follows:

Expenditure	Financial Statement Balances (Kshs)	Ledger balances (Kshs)	Differences (Kshs)
Transfer to Other Government Units	743,357,339	544,884,783	198,472,556
Use of Goods and Services	2,763,619,488	2,820,255,899	(56,636,411)
Purchase of office Furniture and General Equipment	25,466,830	25,520,430	(53,600)
Purchase of Specialized Plant Equipment and	69,023,410	70,501,250	(1,477,840)
Social Security Benefits	649,422,790	709,151,879	(59,729,089)
Total	**4,250,889,857**	**4,170,314,241**	**80,575,616**

The aggregate variance of Kshs.80,575,616 between the two sets of records that are otherwise expected to tally has not been explained.

In addition, casting of the ledger account balance for refurbishment and buildings reflected a balance of Kshs.69,019,435 that differed with the ledger balance of Kshs.59,319,463 shown in the financial statements. No explanation has been given for the difference of Kshs.9,699,972 between the cast account totals and the ledger balance figure.

In view of the foregoing, the accuracy and completeness of the financial statements cannot be confirmed.

537. Accuracy and Completeness of Cash and Cash Equivalents

537.1 Use of Bank Balance in the Financial Statements

The statement of assets reflects a bank balance of Kshs.5,064,703,729 in respect of accounts held by the Judiciary in various banks. However the respective cashbook reflects an aggregate difference of Kshs.356,437,590 between the cash book and the bank balances as shown below:

Bank	A/C No.	Bank Balance Kshs.	Cashbook Balance Kshs.	Difference between Cashbook and Bank Balance Kshs.
Central Bank of Kenya	1000181915	471,977,794	312,228,819	159,748,975
Central Bank of Kenya	1000182048	343,680,031	88,116,727	255,563,303
Central Bank of Kenya	1000187441	5,736,728	4, 771,341	965,387
Central Bank of Kenya	1000182342	560,345,879	620,185,953	(59,840,074.57)
Various Commercial Banks		3,682,963,297	Not Provided	-
	Total	**5,064,703,729**	**1,020,531,500**	**356,437,590**

No explanation has been provided by management for the overstatement of the statement of assets by Kshs.356,437,591 through the bank balance instead of the cashbook balance.

537.2 Non-maintenance of Cashbooks

The aggregate bank balance of Kshs.3,682,963,297 relating to various commercial banks is not supported by cashbook entries and bank statements and certificates.

As a result, the accuracy and validity of the balance cannot be confirmed.

537.3 Long Outstanding Bank Reconciliation Items

The bank reconciliation statements as at 30 June 2017 presented for audit reflect outstanding reconciling items in respect of payments totaling Kshs.70,806,300 and receipts totaling Kshs.1,665,255 which have not been cleared for a long period of time.

Bank	A/C No.	Receipts in the Bank Statement not in Cashbook Kshs.	Payment in the Bank Statement not in Cashbook Kshs.
Central Bank of Kenya	1000181915	118,781.85	7,973,214
Central Bank of Kenya	1000182048	1,279,431.20	
Central Bank of Kenya	1000182342	267,041.95	62, 833,086
	Total	**1,665,255**	**70,806,300**

Management have not provided a plausible explanation for the failure to clear the long standing balances.

537.4 Unsigned IFMIS Bank Reconciliation Statement

The manual bank reconciliation statement as at 30 June 2017 differs with the unsigned electronic (IFMIS) reconciliation statement attached to the financial statements. No explanation has been provided for the variance.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.5,064,703,729 as at 30 June 2017 cannot be confirmed.

538. Accounts Payables (Deposits)

The statement of assets and liabilities as at 30 June 2017 reflects accounts payables - deposits of Kshs.4,367,834,191 in respect of deposits held by the Judiciary in various bank accounts. However, Note 8A to the financial statements provided to support the deposit account balances reflects a total of Kshs.4,243,309,176. No explanation has been provided for the difference of Kshs.124,525,015 between the deposit account and the accounts payable balances otherwise expected to tally under normal circumstances. Further, the Judiciary has indicated that the balances relate to unreconciled third party deposits and retentions as at 30 June 2017. However, details of the deposits and retentions have not been provided for audit review and as a result it has not been possible to confirm the nature of the balances. In view of these anomalies, the accuracy and validity of the accounts payable balance of Kshs.4,367,834,191 as at 30 June 2017 cannot be confirmed.

539. Budgetary Control and Performance

539.1 Receipts

The actual exchequer release balance for the year under review totalled to Kshs.14,871,001,247 being 13% less than the budgeted amount of Kshs.17,109,160,378 as shown in the table below:

Description	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Excess/(Shortfall) %
Transfers from National Treasury	17,109,160,378	14,871,001,247	2,238,159,131	13.08%
Total	**17,109,160,378**	**14,871,001,247**	**2,238,159,131**	**13.08%**

No explanation has been provided by management for the shortfall in the balance.

539.2 Expenditure

An analysis of various actual expenditures against the respective budgeted amounts revealed the following variances as tabulated below:

Description	Budget Kshs.	Actual Kshs.	(Excess)/Shortfall Kshs.	(Excess)/Shortfall %
Compensation of Employees	7,409,187,900	7,266,140,916	143,046,984	1.93%
Use of Goods and Services	3,368,302,604	2,763,619,487	604,683,117	17.95%
Transfers to Other Government Units	819,144,890	743,357,339	75,787,551	9.25%
Other Grants and Transfers	167,000,000	-	167,000,000	100%
Social Security Benefits	708,248,253	649,422,790	58,825,463	8.31%
Acquisition of Assets	4,689,850,548	461,459,838	4,228,390,710	90.16%
Other Expenses		2,518,017,027	(2,518,017,027)	
Total	**17,161,734,195**	**14,402,017,397**	**2,759,716,798**	**16.08%**

The budgeted expenditure of Kshs.17,161,734,195 was Kshs.52,573,817 higher than the budgeted exchequer releases of Kshs.17,109,160,378 receivable during the year under review. Management has not explained how the excess expenditure of Kshs.52,573,817 was funded.

In addition, the summary statement of Appropriation for both recurrent and development account, as presented in the financial statements, does not include a budget for Other Expenses, incurred during the year of Kshs.2,518,017,027.

Overall, the total expenditure incurred was Kshs.2,759,716,798 or 16.08% less than the budgeted expenditure of Kshs.17,161,734,195. The shortfall was mainly attributed to the closure of the Integrated Financial Management System (IFMIS) system and delayed exchequer releases.

No explanation has been provided by management for the low absorption rate of 10% recorded against acquisition of assets and nil expenditure on other grants and transfers against a budget of Kshs.167,000,000. Also, other expenses expenditure of Kshs.2,518,017,027 reported in the financial statements had not been budgeted for. Included in the Judiciary budget for compensation of employees was Kshs.121,844,683 relating to the Judicial Service Commission staff contrary to Article 171 of the Constitution that designates the Judicial Service Commission as an independent body.

Further, Judicial Services budgeted Kshs.962,432,234 for construction projects but only managed to spend Kshs.231,570,494 of the budget. As a result, the Judiciary was not able to achieve its objectives on expansion of infrastructure for better service delivery.

In addition, the financial statements do not comply with International Public Sector Reporting Standards (IPSAS) reporting template because they do not include a footnote showing variances between actual and the budgeted expenditures.

540. Pending Bills

Pending Bills amounting to Kshs.655,263,852 chargeable to both the recurrent and development Vote were not settled during the year under review but were instead carried forward to 2017/2018 financial year. However, Annex 1 to the financial statements provides a list of the bills without supporting details such as contracts, certificates of works done and certified, invoices and delivery notes as appropriate. Further, had these bills been cleared and charged to the vote, the statement of receipts and payments for the year 2016/2017 would have reflected a net deficit of Kshs.186,280,002 instead of the net surplus of Kshs.468,983,850 now shown. No explanation was provided for failure to pay the pending bills as they fell due.

In addition, a claim of Kshs.6,056,511 for payment of work certified as having been completed in Narok County was issued in June 2016. Although the payment was not included in the pending bills balance as at 30 June 2016 and 30 June 2017 reportedly because the respective contract had expired, management have not provided any explanation for the payment.

As a result of these discrepancies, the accuracy, completeness and validity of the pending bills balance of Kshs.655,263,852 cannot be confirmed.

541. Transfer to other Government Units

The Statement of Receipts and Payments reflects a balance of Kshs.698, 357,339 being transfers to other Government Units. However, the amount differs with the ledger balance figure of Kshs.545,406,634 by Kshs.152,950,705 that represents un-surrendered Authority to Incur Expenditure (AIE's) issued to the Political Parties Tribunal, National Council for Law Reporting, Auctioneers Licensing Board and State Corporations Appeals Tribunal. The balance further differs with the sum of Kshs.423,357,338 shown in the analyses provided for audit review.

No explanation or reconciliation has been provided by management for the difference in the amounts reflected in the two sets of records otherwise expected to tally.

542. Unvouched Expenditure

During the year under review, supporting documents for various expenditures totaling Kshs.961,369,702 charged against the Judiciary vote were not provided for audit review. The expenditures related to the following items:

Item	Amount Kshs.
Purchase of Furniture and Equipment	8,861,110
Purchase of Vehicles & Transport Equipment	8,514,880
Group Personal Insurance	943,698,070
Nakuru AIE (Kshs.11,451,432-11,155,790)	295,642
	961,369,702

Management explained that documents relating to Group Personal Insurance were taken by the Ethics and Anti-corruption Commission (EACC) for investigation. As a result, only photocopies of the documents were presented for audit but these could not be reviewed and confirmed in absence of the originals.

Consequently, the validity of the expenditure totaling Kshs.961,369,702 cannot be confirmed.

543. Accounts Receivable Balance

The statement of assets and liabilities reflects accounts receivable balance of Kshs.159,213,919 as at 30 June 2017. Included in the balance is Kshs.150,531,206 that relates to a clearance account. No explanation or analysis has been provided for audit review to validate the clearance account balance of Kshs.150,531,206.

As a result, the completeness and accuracy of the accounts receivable balance of Kshs.159,213,919 as at 30 June 2017 cannot be confirmed.

544. Unremitted Tax

The Kenya Revenue Authority (KRA) carried out a compliance audit at the judiciary covering the period July 2013 to June 2016 and issued its conclusions on 13 October 2016. The report concluded that the Judiciary failed to recover withholding tax and tax on employer pension contributions in excess of Kshs.20,000 per month per employee contrary to Section 5(4) (C) of the Income Tax Act, Cap.470. The omission resulted in a tax assessment bill (including penalties and interest) of Kshs.306,575,269.

During the year under review, the Judiciary paid Kshs.181,400,212 of principal tax due on excess pension, and charged the cost to compensation of employees and hence overstated the compensation of employees expenditure balance by Kshs.181,400,212. No explanation has been provided why an expenditure that was not budgeted for under compensation of employees was charged to the item. Further, the tax due had not been included among pending bills in the year ending 30 June 2016.

In addition, the Judiciary failed to remit the outstanding tax of Kshs.125,175,057 which included withholding tax of Kshs.28,930,496 and accrued penalties and interest of Kshs.96,244,561. The outstanding tax was not included among pending bills in the year ending 30 June 2017. Management have not explained failure to remit the withheld taxes recovered from suppliers, or account for the taxes withheld.

Also, outstanding tax for the period ending 30 June 2017 calculated as tax due from the employer contributions was not recovered and remitted to the Kenya Revenue Authority as required.

Consequently, the Judiciary risks paying further interest and penalties on the unpaid tax of Kshs.125,175,057 recovered from suppliers, and the unrecovered tax on employee contributions even as it recorded an excess vote of Kshs.181,400,212 incurred on compensation of employees during the year under review.

545. Fixed Asset Register

The statement of receipts and payments for the judiciary for the year ended 30 June 2017 reflects Kshs.461,459,838 under acquisition of assets. However, the Judiciary did not provide its fixed asset register for audit review to confirm that the acquired assets were taken on-charge and recorded in the register. Further, the financial statements do not include a summary of the fixed assets register as stipulated in the International Public Sector Accounting Standards (IPSAS) reporting template prescribed by the National Treasury.

In addition, vehicles used by the Judicial Service Commission, were not included in the fixed asset register maintained by the Commission but were instead controlled and managed by the Judiciary. This contravened Section 13(1)(a) of the Judicial Service Act that requires the Commission, to account for all vehicles purchased or acquired. However, it was not possible to confirm the inclusion of the vehicles in the Judiciary records as no fixed asset register was provided for audit review.

Also, the Judiciary incurred a total of Kshs.76,079,641 for purchase of vehicles and other transport equipment for the year ending 30 June 2017 but no ownership documents for the purchase of two Toyota Prados and one Subaru Outback worth Kshs.27,535,000 in aggregate were provided for audit verification. As a result, the ownership and valuation of the vehicles cannot be confirmed.

As reported previously, construction of Embu High Court at a cost of Kshs.320,153,007 is ongoing on a plot that the Judiciary has no ownership documents.In view of the foregoing, the ownership, and accuracy of the acquired fixed assets of Kshs.461,459,838 as at 30 June 2017 cannot be confirmed.

546. Stalled Projects

During the year under review, the department of Judicial Services budgeted Kshs.962,432,234 for construction projects but only managed to spend Kshs.231,570,494 of the budget.

The Judiciary had on its roll a total of fifty five (55) construction projects valued at Kshs.6,661,092,518.90 across the country as at 30 June 2017. These comprised twenty eight (28) projects with total estimated cost of Kshs.5,307,191,144 funded by the World Bank and twenty seven (27) projects estimated to cost Kshs.1,353,901,374.90 funded by the Government of Kenya.

An audit of a sample of six of the construction projects revealed that all of the sampled projects had stalled despite payments made to the respective contractors as detailed below:

546.1 Hamisi Law Courts

The contract was awarded on 4 December 2014 for a sum of Kshs.44,241,130 and construction work was to end on 13 October 2015. After the end of the contract period, the contractor was given four extensions, two of which were not approved by the tender committee as required under Section 139 (2) of the Public Procurement and Asset Disposal Act, 2015.

Physical verification of the project during the audit revealed that the project was 85% complete but had stalled even though total payments made to the contractor amounted to Kshs.52,500,000. No explanation was provided by the management or the contactor on why the payments made were more than the works done and why the project had stalled.

Management did not explain why it contravened Section 139 (2) of the Public Procurement and Asset Disposal Act, 2015 by extending the contract without approval of the tender committee. Further, the performance security bond for the contract expired on 23 July 2015, but no evidence has been presented to show that the bond was renewed as required under Section 142(1) (2) of the Public Procurement and Asset Disposal Act, 2015.

No explanation has been provided by management for failure to prioritize completion of the project. In view of the anomalies highlighted, value for money on the expenditure totaling Kshs.52,500,000 incurred on the project as at 30 June 2017 cannot be confirmed.

546.2 Siaya Law courts

The contract was awarded on 22 January 2016 for a sum of Kshs.342,751,951 with a project completion date of 21 September 2017. However, physical verification of the project revealed that the project was 55% complete but had stalled, although payments totaling Kshs.184,810,821 had been made to the contractor being 54% of the cost of the project.

No justification has been provided by management for failure to complete the project despite the project's completion period having expired on 21 September 2017.

546.3 Nakuru Law Courts

Management awarded the contract for construction of Nakuru Law Courts on 3 February 2016 for a sum of Kshs.347,765,950. Construction was expected to end on 18 August 2017. However, physical verification of the project indicated that it was 65% complete although Kshs.274,402,054 had been paid being 79% of the cost of the project. It was not clear why payments made exceeded the value of work done. No explanation was provided as to why the project had stalled, the contract completion period having expired on 18 August 2017.

Management has not provided for audit review, evidence of the project period having been extended. Therefore, the management may have contravened Section 139 (2) of the Public Procurement and Asset Disposal Act, 2015 by allowing the contractor to remain on site without an approved contract extension period.

546.4 Eldama Ravine Law Courts

The contract for construction of Eldama Ravine Law Courts was awarded on 4 February 2015 for a sum of Kshs.65,505,815 and project completion date of 4 April 2016. The cost of the project was later on varied by 25% to Kshs.81,882,270. However, physical verification of the project revealed that it was 65% complete but had stalled with no workers were on site. Total payments for the project as at 30 June 2017 were Kshs.68,123,124 equivalent to 83.2% of the cost of the project. No explanation has been provided by management why payments to the contractor exceeded the value of work done by 18.3%. The contractor was granted two extensions that were approved by the evaluation committee and which are due to expire on the 30 June 2018.

Further, examination of the payment vouchers revealed that the district accountant at Eldama Ravine overpaid the contractor by Kshs.4,370,819 which amount should have been withheld as tax as required under government procedures for processing such payments. The district accountant did not present for audit review Authority to Incur Expenditure (AIE), documents used in support of the payment vouchers. Management has not explained the overpayment of Kshs.4,370,819 or failure to avail the (Authority to Incur Expenditure (AIE) documents for audit review.

In the circumstances, the validity and value-for-money for the payments totaling Kshs.72,493,943 made to the contractor cannot be confirmed.

546.5 Eldoret Law Courts

The construction contract for Eldoret Law Courts was awarded on 15 January 2015 for a sum of Kshs.38,095,640 and the works were to end on 10 December 2015. However, after the end of the contract period, the contractor was granted two extensions, the second to expire on 30 June 2017. No further extensions have been approved for the project to date. Hence, management have contravened the Public Procurement and Disposal Act, 2015 by keeping the contractor on site without an approved extension.

Physical verification confirmed the project stalled at 80% level of completion and total payments at Kshs.30,678,895 equivalent to 80% of the cost of the project. Review of the project documents revealed that the performance security for the contract expired on 10 December 2015. No evidence showing its renewal as required under Section 142(1) (2) of the Public Procurement and Asset Disposal Act, 2015 was provided for audit review. The Judiciary was in breach of law.

Under the circumstances, delay in project completion indicates the Judiciary may not obtain value for money from the project.

546.6 Narok Law Courts

The construction contract for Narok Law Courts was awarded on 7 September 2015 for a sum of Kshs.65,194,539. The project cost was later varied by 13.5% to Kshs.74,022,709 with the completion date set for 26 July 2016. Total payments made for the project as at the time of the audit totaled Kshs.15,111,599 being 20.4% of the cost of the project. The contractor was given two extensions which had however not been approved by the evaluation committee as required under Section 139 (2) of the Public Procurement and Asset Disposal Act, 2015. Physical verification of the works revealed that the project was 70% complete but stalled after management failed to approve sub-contracting works for mechanical and electrical works. Examination of site meeting minutes revealed that the request for the works was done on 17 December 2015 which was two years before the audit. Management have not explained why approval for the sub-contract was not granted.

In addition, a claim of Kshs.6,056, 511 was issued by the contractor for works certified in June 2016. However, the payment voucher for the works was not made available for audit review and further, the payment was not included among pending bills as at 30 June 2016.

In view of the foregoing, the projects may not be completed in time even after extension of the respective contract periods. This could cause project costs to escalate and impede attainment of value-for-money on the investments made.

RECEIVER OF REVENUE - THE JUDICIARY

Basis for Qualified Opinion

547. Accuracy, Completeness and Presentation of the Revenue Statement

547.1 Inaccuracies in the Revenue Statement

The opening balance for fines, penalties and forfeitures was indicated as Kshs.1,470,152,225 whereas the 2015/2016 audited closing balance was Kshs.1,470,054,680 resulting in an unexplained difference of Kshs.97,545. The revenue statement reflects an unanalyzed fines, penalty and forfeiture balance of Kshs.1,083,409,439 as at 30 June 2017. Further, during the year, Judiciary disbursed funds to various Tribunals for the operations. However, no records were provided for audit review to show how much was budgeted for collection and the actual fees collected by the Tribunals.

Consequently, it was not possible to ascertain the accuracy and completeness of revenue collected from tribunals.

547.2 Un- reconciled Variances -Fines, Penalties and Forfeitures

The statement receipts and transfers reflects an amount of Kshs.1,083,409,439 as fines, penalties and forfeitures while the revenue collection summary shows an amount of Kshs.1, 125,429,137 resulting in a variance of Kshs.42,019,698 that was determined to be irregular transfer of funds from revenue account no.117161749 at Kenya Commercial Bank Moi Avenue to deposit account no.1000182342 at Central Bank of Kenya without Treasury Authority. It was further noted that the supporting payment vouchers made available for audit to support the refund were paid during 2014/2015 financial year hence it could not have affected collections of the year under review.

In addition, an amount of Kshs.470,931,785 as balance carried forward and yet to be transferred could not be verified due to lack of certificate of bank balance, and bank reconciliation statement as at 30 June 2017.

547.3 Mombasa Law Courts- Revenue from Fines

The revenue schedule from Judiciary Headquarters shows an amount of Kshs.66,205,557 while the analysis of revenue receipts from the station shows an amount of Kshs.62,669,659 resulting into a variance of Kshs.3,535,898 which had not been explained or reconciled.

547.4 Erroneously Written off Negative Balance in the Revenue Cash Book – Malindi Law Courts

The cash book at Malindi Law Courts reflects a Nil balance as at 30 June 2017. However, no explanation was given as to why an amount of Kshs.531,866 was removed from cash book without any authority or supporting document casting doubt on the nil closing balance in the cashbook.

547.5 Fees on Use of Good/Services

The statement of receipts and transfers reflects the figure for Fees on use of goods and services amounting to Kshs.847,031,435 as at 30 June 2017. However, the supporting schedule from the Headquarters shows an amount of Kshs.846,724,458 resulting into a variance of Kshs.306,977. No reconciliation or explanation has been given for the variance.

547.6 Unreconciled Balance Shown as Surrender to Exchequer Account

The statement of receipts and transfers reflects an amount of Kshs.1,677,279,261 as transfer to exchequer account. However, the analysis of Central Bank revenue statements shows an amount of Kshs.1,268,734,712. The resultant variance of Kshs.408, 544,712 has not been reconciled or explained. Further, the audit review revealed that there is no bank reconciliation statement prepared for the judiciary revenue main account No. 1117161749 and the cash book for revenue account no. 111761811 was also not maintained.

In view of the foregoing, the accuracy, completeness and presentation of the revenue statement balance for the year ended 30 June 2017 could not be ascertained.

548. Unrecorded and Unaccounted For Revenue

548.1 Revenue Warrants Unaccounted For

The warrant of commitment for sentence requires that it be prepared in triplicate and scaled. However, in a number of case files examined following six warrants were not sealed.

Date	Case No.	Fine (Kshs.)
11/1/2017	TR 19/17	22,000
3/1/2017	TR 2/17	7,000
6/1/2017	TR11/17	12,000
19/4/2017	TR 287/17	10,000
15/6/2017	TR 346/17	4,000
18/11/2016	TR 964/17	11,000

548.2 Cash Book not Maintained – Milimani Commercial Courts

During the year under review, no cash book was maintained at Milimani Commercial Courts hence no bank reconciliation statement was done and the accuracy of the bank balance could not be ascertained.

548.3 Long Outstanding Un-surrendered Receipt Books – Mombasa Law Courts

As at the time of audit in February 2018, it was observed that the following receipt books had not been surrendered and have been out for a long period of time.

Receipt Book No.	Date Issued
3672301 – 3672300	19/10/2016
3720551 – 3720600	19/10/2016
3720951 – 3721000	19/9/2016
3738451 – 3738500	26/9/2016
3702351 – 3702400	23/9/2016

3655351 – 3655400	19/10/2016
3667551 – 3667600	19/10/2016
3667601 – 3667650	19/10/2016
3667751 – 3667800	19/10/2016
3667801 – 3667850	19/10/2016
3667851- 3667900	19/10/2016
3667901 – 3667950	19/10/2016
3667951 – 3668000	19/10/2016
3632601 – 3632650	19/10/2016
3632701 – 3632750	19/10/2016
3632751 – 3632800	19/10/2016

The revenue collected by use of the above receipts has neither been recorded nor accounted for as at 30 June 2017.

548.4 Unaccounted for Deposits Converted to Fines

During the year under review, it was noted that deposits were converted into fines as per court orders and an MR receipt issued covering amounts and extra cash payable. The receipt is then used to surrender revenue to headquarters however no evidence is attached during surrender to support that the converted amount was transferred from deposits to revenue account.

Further, no supporting evidence was provided during surrender in respect to deposits which have been forfeited.

Under the circumstances, it has not been possible to confirm the accuracy and completeness of the expected revenue collected and accounted for as at 30 June 2017.

549. Prior Year Issues

549.1 Financial anomalies at Kericho Courts

Examination of financial records maintained at the Kericho Law Courts disclosed the following unsatisfactory matters:

549.1.1 Unaccounted for Court Deposits

Examination of the deposit ledger and other court records indicated that deposits and bonds paid to the court by convicts totaling Kshs.13,579,539 had not been refunded as at 30 June 2015. However, an examination of bank statement for deposit account revealed a balance of Kshs.5,478,737 as at the same date. The resulting difference of Kshs.8,100,802 represents unaccounted for convicts deposits and bonds.

549.1.2 Irregular Expenditure

The Chief Magistrate's office procured general office supplies worth Kshs.833,677 during the period under review. However, the following unsatisfactory matters were noted.

i. There were no requisitions initiated by the user departments detailing the quality and quantity of the stationery required.

ii. No approvals were made of the requisitions made for the stationery purchased.

iii. No procurement plan was produced for audit.

iv. The stores purchased were not entered in record contrary to section 18.2 of the Government Financial Regulations and Procedures and it was therefore not possible to confirm receipt and subsequent usage.

In the circumstances, it was not possible to confirm the propriety of the expenditure of Kshs.833,677.

549.1.3 Bank Reconciliations

The Kericho Law Courts did not prepare bank reconciliation statements for the deposit and revenue cash books as at 30 June 2015. Although it was indicated monthly bank reconciliation statements had been prepared, none was provided for audit verifications.

In the circumstances, it was not possible to confirm the completeness of cash balances for the deposits and revenue cash books.

550. Fraud at Baricho Law Courts

An audit inspection done during the year under review revealed that the Judiciary had lost a total of Kshs.984,080 due to falsification of documents and fraud by the staff based at Baricho Law Courts and no recoveries had been made at the time of audit. Further, a review of the accountable documents maintained at the Baricho Law Courts confirmed that Twelve (12) receipt books , thirty (30) traffic case files and the personal file of the suspect accountants were missing at the District Treasury at Baricho.

Baricho Law courts did not maintain a deposit cash book. Monthly reconciliations statements were not prepared. No explanation was provided as to why Judiciary did not adhere to Section 64 of the Public Finance Management Act, 2015 on revenue collection, management and accountability.Further it is not clear why no recoveries had been initiated by Judiciary contrary to Section D of Judiciary's Human Resource Policies and Procedures manual September 2014.

551. Discrepancies in Revenue Records

551.1 Naivasha Law Courts

Records maintained at the station reflects the amounts of surrender to the Headquarters for court fines and court fees as Kshs.100,923,964 and Kshs.11,612,408 respectively.

However, records maintained at the Headquarters had surrenders amounting to Kshs.110,192,341 and Kshs.10,583,445 for court fines and fees respectively and hence a difference of Kshs.9,268,377 for court fines and Kshs.1,028,963 for court fees. The difference between the two sets of records has not been explained or reconciled.

In the circumstances, the accuracy and completeness of the revenue collected and surrendered from Naivasha Law Courts could not be confirmed.

551.2 Eldoret Law Courts

An audit inspection at Eldoret Law Court indicated that fines collected in the financial year 2016/2017 were Kshs.51,984,727. However, the amount of fines surrendered at Headquarters totalled Kshs.38,070,330 resulting to an unexplained difference of Kshs.13,914,397. Further, the revenue collection control sheet number 0192365 was used to collect two different amounts of Kshs.522,360 and Kshs.1,537,475. In addition, the amount of fees collected could not be confirmed as revenue collection control sheets and surrenders were not made available for audit.

Consequently, the amount of fines and fees collected and surrendered from Eldoret Law Courts could not be ascertained.

Other Matter

552. Unrealistic Budget on Fees from Use of Goods and Services

The current year Budget was Kshs.1,610,597,206 compared to last year's budget of Kshs.5,466,132,027. During the budgeting process only Kshs.24,925 was projected as revenue on fees. This is despite the fact that in 2015/2016 the actual revenue on fees was Kshs.838,002,748. This shows that the budgeting process was erroneous leading to an huge under-estimation of the revenue projected. The over-collection of Kshs.847,006,509 representing 3 million % over-collection is misleading.

As a result, the true position of revenue target could not be verified and cut-off procedures in relation to revenue collected were not observed as partial income of one year was reported as income in the subsequent year.

553. Weak Internal Control

It was observed that the court stations did not maintain a list of authorized staff to collect accountable documents including case files for the station that there is no segregation of duties.

DONOR FUNDED PROJECT

JUDICIAL PERFOMANCE IMPROVEMENT PROJECT (IDA CREDIT No.5181-KE)

Basis for Qualified Opinion

554. Budget Analysis

554.1 Receipts

The project received exchequer receipts totaling Kshs.1,688,646,238 during the year under review and as a result incurred a shortfall of Kshs.911,353,762 or 35 % of the budgeted amount.

The shortfall was attributed to lengthy procurement processes that led to delayed approval and start of the works mainly occasioned by inadequate staffing at the Directorate of Building Services. Also, delays in remittance of exchequer releases by The National Treasury resulted in delayed implementation of activities and payment of contractors.

554.2 Payments

The project incurred total expenditure of Kshs.1,845,086,895 against a total budget amount of Kshs.2,600,000,000 thus resulting to under expenditure of Kshs.754,913,105 or 29% as shown below.

Item	Budget Kshs.	Actual Kshs.	Excess/ (Shortfall) Kshs.	Excess/ (Shortfall) %
Purchase of Goods and Services	659,250,529	711,559,314	52,308,785	8%
Acquisition of Non-Financial Assets	1,940,749,471	1,133,527,581	(807,221,890)	(42%)
Total Payments	**2,600,000,000**	**1,845,086,895**	**(754,913,105)**	**(29%)**

The annual work plan presented for audit reflected a budget of Kshs.5,841,550,000 that however differed with the approved budget of Kshs.2,600,000,000. The shortfall was attributed to timing differences between the date of approval of the workplan by the World Bank before 30 March, as is required of Part B (2) of the financial agreement, and the date the National Treasury allocated the project the budget of Kshs.2,600,000,000. Therefore adjustment of the budget and workplan by National Treasury was contrary to Part B (2)(d) that states that the recipient shall not make or allow to be made any change to the approved annual work plan and budget without prior approval in writing by the Association.

Further, under-expenditure in acquisition of non-financial assets of Kshs.754,913,105 or 29% of the budgeted amount of Kshs.2,600,000,000 was attributed to the lengthy procurement process. However, a total of eight (8) projects with a total contract sum of Kshs.752,134,528 that were to be completed by 30 June 2017 had not been completed by that date although a total of Kshs.640,723,074 had been paid on the projects. Had the projects been completed as scheduled, the expenditure shortfall of Kshs.807,221,890 under acquisition of non-financial assets would have reduced to Kshs.695,810,436.

In addition, the project management did not provide explanations for the differences between actual and budgeted expenditure balances reflected in the financial statements as is required by the IPSAS reporting template and Part B (2) of the financing agreement. In consequence, services budgeted for at Kshs.754,913,105 were not delivered.

555. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June 2017 reflects a bank balance of Kshs.4,771,341 in respect of accounts held at the Central Bank of Kenya. However, the Integrated Financial Management System (IFMIS) cash-book that would reconcile transactions with the manual cashbook was not provided for audit review. No explanation was provided for the failure to present the IFMIS cash-book for audit review.

In the circumstance, the bank balance of Kshs.4,771,341 reflected in the financial statements for the year ended 30 June 2017 cannot be confirmed.

556. Delayed Projects

During the financial year ending 30 June 2017, the project had a total of twenty-eight construction projects that had been awarded through the tendering process. Two of the projects had been completed, eighteen were ongoing while eight had not yet started. Review of a sample of this projects revealed that no evaluation minutes as required of Section 139(2) of the Public Procurement and Asset Disposal Act, 2015 were provided for extension of construction contracts relating to the following projects:

Further, the projects were incomplete despite of contract extensions awarded. Also, construction of Garissa Law Courts was only 45% complete even though the completion period had expired.

Explanations provided that the delays were due to adverse weather conditions during the rainy seasons, unsuitable ground conditions at Nakuru and Garissa, time lost during mobilization period, delays in grant of approvals by the National Environmental Management Agency and stoppage of works by County Officers.

In the circumstances, the objectives of the project may not have been attained and value-for-money may not be realized due to the implementation delays.

557. Irregular Contract Awards

Included in the statement of receipts and payments for the year ended 30 June 2017 under purchase of goods and services, is an amount of Kshs.47,838,619 relating to consultancy costs. The consultants were engaged by the Project as provided for in Schedule II Section 1(4) of the Financing Agreement that allows the recipient to appoint staff (including inter alia, a project coordinator, a construction/civil engineer specialist, a communications specialist and a monitoring and evaluation specialist) all with experience and terms of reference acceptable to the International Development Association.

However, recruitment of the consultants by the project management did not comply with Section 45(2) (d) and (e) of the Public Service Commission Act, 2017 that states that a person may be engaged on a contract if there is no other public officer performing the function; and that the person does not qualify to be employed under any other terms of service.

A review of the contract documents revealed that five of the contracts that had expired were renewed as follows:

Function	Contract Period	Extension Period	Total Period	Contract Amount (Kshs)
Program Officer Camps	1-Aug-16 - 31-Jul-17	1- Aug17 - 30 Jun 18	2 Years	5,280,000
Programme Officer Camps	1-Aug-16 - 31-Jul-17	1-Aug 17 - 30 Jun 18	2 Years	6,000,000
Project Co-Coordinator	31-Mar-14 - 31-Mar-15	1-Apr-15 -30-Apr-15, 1-May-15 - 30-Aug-15, 31-Aug-15 - 30-Sep-15 1-Oct-15 - 31-Dec-15 1-Jan-16 - 31-Dec-18	4 Years 9 Months	21,060,000
M&E Specialist	1-Jul-13 - 30-Jun-15	4-Jan-16 -31-Mar-16 1-Jul-15 - 30-Aug-15 31-Aug-15 -30-Sep-15 2-Oct-15 - 31-Dec-15 1-Jan-16 - 31-Dec-18	5 Years 6 Months	16,920,000

Function	Contract Period	Extension Period	Total Period	Contract Amount (Kshs)
Communication Specialist	1-Aug-13 - 30-Jul-15	1-Aug-15 - 31-Aug-15 31-Aug-15 - 30-Sep-15 1-Oct-15 - 31-Dec-15 1-Jan-16 - 31-Dec-18	5 Years 5 months	16,920,000

Contracts awarded to the M&E specialist and communication specialist were beyond five-years in duration contrary to Section 45 (1) of the Public Service Commission Act, 2017 that requires contracts not to exceed a period of five years.

In addition, the vacancies for Program Officer Camps were not advertised before award of the contracts as is required of Section 37 (1) of the Public Service Commission Act 2017.

Under the circumstances, project management breached the Public Service Commission Act, 2017 and as a result it is not possible to confirm that recruitment of the consultants was valid.

558. Imprest Reimbursement

A review of the Imprest records revealed that the Project incurred a total of Kshs.40,080,170 on domestic travel and subsistence allowance and training without the issuance of imprest to the respective staff. The money was reportedly spent by the staff from their own resources with intention of seeking reimbursement on completion of the assignment. This is against the Public Finance Management (National Government Regulation 2015 that require a cash advance to be made to a government officer for payments made in the course of an officers duties and not for reimbursement.

In the circumstances, it was not possible to confirm the authenticity of the imprest reimbursement claims of Kshs.40,080,170.

ETHICS AND ANTI-CORRUPTION COMMISSION

FINANCIAL STATEMENTS FOR VOTE 1271

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the Ethics and Anti-Corruption Commission.

Emphasis of Matter

I draw attention to Note 20 to the financial statements which reflects an amount of Kshs.28,513,500 held in an idle account that is not earning interest.

Other Matter

559. Information Technology Systems

During the year under review, it was noted that the Commission's back-ups were not kept off-site as required. There was also no formally documented and approved user management standards and procedures. Further, there was no formal process to review user access rights.

NATIONAL INTELLIGENCE SERVICE

FINANCIAL STATEMENTS FOR VOTE 1281

Unqualified

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

INTELLIGENCE SERVICE DEVELOPMENT FUND

Unqualified Opinion

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

OFFICE OF DIRECTOR OF PUBLIC PROSECUTIONS

FINANCIAL STATEMENTS FOR VOTE 1291

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the Office of Director of Public Prosecutions.

OFFICE OF THE REGISTRAR OF POLITICAL PARTIES

FINANCIAL STATEMENTS FOR VOTE 1311

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the Office of the Registrar of public Parties.

Other Matter

560. Information Technology Governance

During the year under review, the Office of the Registrar of Political Parties Information Technology conformity and disaster recovery plan and back-ups were not kept off-site as required. Further, there was no IT Strategic or Steering Committee and no formally documented and approved use of management standards and procedures. In addition, no formal process to review user access rights.

POLITICAL PARTIES FUND

Other Matter

561. Information Technology Systems

During the year under review, it was noted that the Office of Political Parties Fund Information Technology (IT) conformity, disaster recovery plan and back-ups were not kept off-site as required. Further, no IT Strategic or Steering Committee and no formally documented and approved use of management standards and procedures. In addition, there was no formal process to review user access rights.

WITNESS PROTECTION AGENCY

FINANCIAL STATEMENTS FOR VOTE 1321

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the Witness Protection Agency.

KENYA NATIONAL COMMISSION ON HUMAN RIGHTS

FINANCIAL STATEMENTS FOR VOTE 2011

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the Kenya National Commission on Human Rights.

NATIONAL LAND COMMISSION

FINANCIAL REPORT FOR VOTE 2021

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the National Land Commission.

Other Matter

562. Special Audit

The Public Accounts Committee requested the Auditor-General vide letter of ref: NA/DCS/PAC/2018/011 dated 19 March 2018 to carry out a special audit and submit a special report on the affairs of the National Land Commission. As at the time of this report, the special audit was still in progress and the report had, therefore, not been finalized. The special audit report when completed may bring to light issues not captured in the course of this audit report.

INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2031

Basis for Qualified Opinion

563. Inaccuracies in the Financial Statements

563.1 Variances between the Financial Statements and the Ledger

Account balances reflected in the financial statements for the year ended 30 June, 2017 differs with the ledger balances. As a result variances totalling Kshs.631,972,981 have been noted on various Heads. The Commission has not carried out reconciliation or given any explanation for this material anomaly.

564.2 Understatement of Cash and Cash Equivalents

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.4,499,870,000. However, the accuracy of the balance could not be confirmed due to difference of Kshs.72,385,205 (over) and Kshs.241,257,652 (under) in the balances reflected in the financial statements and the reconciled Cash Book. No reconciliation or explanation has been provided for the difference between the two sets of records.

564.3 Understatement of Appropriations-in-Aid (A-I-A)

The Statement of comparison of budget and actual amounts reflects A-I-A totaling Kshs.142,773,000 while the statement of financial performance reflects an amount of Kshs.131,179,000 against the same account item resulting to a difference Kshs.11,594,000 which has not been reconciled or explained.

Further, examination of records revealed that the Commission received Kshs.16,408,399 from United Nation Development Program on 13 September 2016 which was posted in the Cash Book on 20 September 2016. However, the receipt has not been disclosed in the statement of financial performance for 2016/2017.

In addition, the Commission received interest from the Kenya Commercial Bank call account no.1138835137 amounting Kshs.2,314,024 (USD.21,960.94 @105.37) which has equally not been disclosed in the financial statements.

564.4 Unsupported Account Payables

The statement of financial position and Note 17 to the accounts as at 30 June, 2017 reflects a balance of Kshs.6,077,358,000 against accounts payables. However, the schedules provided for audit review reflects an amount of Kshs.3,354,467,114 resulting to unsupported difference of Kshs.2,722,890,885 which has not been analyzed. Further, the Commission amended Financial Statement in which Note 18 now reflects a balance of

Kshs.2,680,742,000 against Pending Bills which were not supported with Payment Vouchers.

564.5 Outstanding Imprests

The financial statements for the year ended 30 June, 2017 reflects under Note 12 temporary Imprests totaling to Kshs.24,171,000 which ought to have been surrendered on or before 30 June, 2017 but was still outstanding as at that date. No reasons have, however, been provided for failure to surrender or account for the imprests.

Further, Examination of the Imprest registers revealed variations between the balance of Kshs.24,171,000 reflected in the financial statements and the amount of Kshs.12,395,874 reflected in the imprest register**,** resulting in a variance of Kshs.11,775,126 which has not been reconciled or explained.

Other matters

565. Purchase of Kenya Integrated Election Management Systems (KIEMS) Kit

Records at Independent Electoral Boundaries Commission show that the contract for supply of 45,000 KIEMS Kits was awarded on 31 March 2017 at a contract sum of Kshs.4,196,300,000 through direct procurement method for the supply, installation, configuration, testing and commissioning of the Kenya Integrated Election Management Systems (KIEMS) Kits, software licenses and royalties, and training technical support.

The Kenya Integrated Election Management Systems (KIEMs) Kits; Power Banks; Protective Cases and Storage Disk Cards were procured for General Election and Fresh Presidential Election totalling Kshs.856,254,499 relating to Fresh Presidential Election as tabulated below:

Description	**Quantity**	**Unit price ($)**	**Total ($)**
Morpho tablets	1500	542.66	813,990
Rugged rubber protection	2000	13.41	26,820
Protective carrying casing	3000	15.57	46,710
Power banks	5000	29.76	148,800
Training	1	2,494,639	2,494,639
Election day technical support	1	4,187,040	4,187,040

Description	Quantity	Unit price ($)	Total ($)
Logistics, storage, warehousing	1	508,205	508,205
Ten TB of data consumption on public portal	10	2535	25,350
Backup infrastructure (cloud service)	1	776,857	776,857
Total in $			**9,028,411**
Total in Kshs. (at rate of 94.84)			**856,254,499**

However, the Commission has not justified the reason for incurring additional cost.

566. Supply, Delivery, Implementation, and Commissioning of Network Transmission

566.1 The Commission contracted three (3) major mobile network operators to transmit election results through their networks for the General Election and Fresh Presidential Election at Kshs.1,047,826,338 and Kshs.297,688,852, respectively, totalling Kshs.1,345,515,190.

In an effort to achieve the objective, the Commission segmented the country into three (3) zones and tasked each mobile subscriber with the responsibility of connecting KIEMS kits at polling stations to Independent Electoral Boundaries Commission National Tallying Centre.

However, audit has revealed that out of the total contract sum of Kshs.1,345,515,190 for purchase of goods and services relating to result transmission, an amount of Kshs.555,424,638 was not effectively utilized due to late delivery of goods and services or non-delivery and non-provision of the same as follows:

(i) Excess Purchase of Data Bundle

149,640.5 GB of data bundle valued at Kshs.127,625,926 were procured from the three (3) service providers. However, analysis of actual SIM cards' data usage revealed that 605.3 GB valued at Kshs.515,269 were utilized, resulting in unutilized, expired and wastage of 149,035 GB of data bundles valued at Kshs.127,109,656.

(ii) Examination of Payment Vouchers

Examination of payment vouchers relating to purchase of Thuraya IP+ SIM loaded with unlimited data bundles for five (5) days and others supplied has revealed the following information:

PV No.	PV Date	Delivery No.	Delivery Date	Qty	Amount (Kshs.)
266	25.09.17	142940	2. 08.17	700	
		8832	22.07.17	300	639,028,488.00
1502	26.01.18	144444	24.08.17	553	273,869,352.07
1118	8.12.17	Sim cards		1000	167,681,672.00
Total				**2553**	**1,080,579,512.07**

An audit review of records revealed anomalies as follows:

(a) Mismanagement of 553 Thuraya Modems and SIM Cards Loaded with Data

Delivery Note Number 144444 attached to Payment Voucher No. 1502 indicate that 553 Thuraya Modems and SIM Cards loaded with data were delivered on 24 August 2017. However, records maintained on Stores Ledger Card S3 Number 427532 and Counter Receipt Voucher S 13 Number 5939334 show that these goods were received on 5 October 2017 and 17 January 2018 respectively. These goods with a value of Kshs.303,822,247 included in one (1) invoice paid through payment voucher Nos. 266 and 1502 were therefore, not used for the intended purposes.

(b) Procurement of Additional 1,000 Thuraya SIM Cards Loaded with Data

Records further show that the Commission purchased additional 1,000 Thuraya SIM Cards loaded with Data valued at Kshs.119,663,280 for use during Fresh Presidential Election and the amount was included in payment voucher Number 1118.

However, the audit has revealed that these SIM Cards were not delivered, and therefore, on 17 October 2017, the Commission re-activated and re-used 1553 SIM Cards earlier purchased for the General Elections.

In the circumstances, the lawfulness, authorization and value for money of the expenditure totalling Kshs.119,663,280 cannot be confirmed as required under Section 68 (1) (a) and (b) of the Public Finance Management Act, 2012.

(c) Undelivered SIM Cards

The Commission further purchased 31,928 other additional SIM Cards for use on 26 October 2017. However, records show that 23,261 SIM Cards were received and distributed to constituencies, leaving a balance of 8,667 SIM Cards whose unit price is Kshs.515 that were purchased at Kshs.4,463,505 but were not delivered.

(d) Undelivered SIM Cards from Another Firm

The Commission also purchased other 27,237 SIM Cards from another firm for use on 8 August 2017. However, records show that 26,674 SIM Cards were received and distributed to constituencies, leaving a balance of 563 SIM Cards whose unit price is Kshs.650 that were purchased at Kshs.365,950 but were not delivered.

567. Management of 1,000 Thuraya Modems and SIM Cards Loaded with Data

Audit has revealed that the first batch of 700 and 300 Thuraya Satellite Data Modems and Sim Cards with unlimited data bundle were delivered and distributed to the constituencies before the General Election. However, records show that only 339 modems and Sim Cards with data usage of only 4 GB were used.

Indications are that the Commission did not evaluate the actual data required, which would have been the basis for determination of actual cost. Further, the Commission has not clarified why it was not necessary to negotiate for post payment arrangements that would have guaranteed payment for actual data utilized.

568. Failure to Provide Payment Vouchers and other Documents

In addition, the Commission has not provided for audit review payment voucher and other supporting documents used to pay M/s Telkom for 16,825 SIM Cards claimed to have been used for the Fresh Presidential Election. The Commission is, therefore, in breach of Section 9 (1) (e) of Public Audit Act, 2015.

569. Procurement of Data Centres and Back Up Infracture (Cloud Services)

A letter Ref No. GIS/BUMEA/LL/2017-0000027822 dated 28 June 2017 and IEBC's response Ref No. IEBC/ADM/5/17 dated 30 June 2017 confirms installation of database on the NTT Cloud based platform in London UK from 29 June to 30 September 2017. According to the addendum to the evaluation report dated 28 September 2017, the supplier had admitted inability to install Result Transmission Systems (RTS) in the local environment due to time and technical constraints.

Indications under Paragraph 6 of the scope of work contained in the Terms of Engagement for Safran Identity and Security Limited dated 17 October 2017 are that, the supplier was contracted by the Commission to install and configure backup and backend infrastructure (Cloud Service) which included installation of RTS application; Data Base and System Security and monitoring access as may be requested.

In all, IEBC, spent on Back Up Infrastructure (Cloud Services) for Supply and implementation of Independent Electoral Boundaries Commission primary and secondary data centres for General Election and Fresh Presidential Election respectively Kshs.249,128,934 and Kshs.73,677,118. The Commission was to build a new converged server for primary data center and disaster recovery site to support its electoral technology requirements and other Commission IT operations. The data centres were to provide a seamless access and high availability to comply with provision of all election laws. The tender was evaluated and awarded to a contractor at a tender sum of Kshs.249,128,934 on 21 March 2017.

Examination of records revealed that the contractor has been paid the entire contract amount of Kshs.249,128,934 for delivery of hardware. However, the Commission paid the vendor before testing and commissioning of the equipment.

Other related expenditure were the following:

Services	Contract Value Kshs.
Provision of IBM server infrastructure and KIEMs security monitoring solution	452,006,0037
Provision of oracle database and security solution	273,643,447
Provision of co-location services for data centre and disaster recovery site	28,035,283
Total	753,684,734

Contract for Biometric Voter Registration (BVR) IBM server infrastructure maintenance and Kenya Integrated Election Management Systems infrastructure security monitoring solution was awarded through direct procurement method to a firm at Kshs.452,006,003 on 17 July, 2017 for a period of one (1) year ending in June 2018. The Commission has explained that Kshs.83,094,240 has so far been paid out of Kshs.452,006,003 and the contract has been terminated.

These expenditures unless implemented judiciously for on-going back up and data centre infrastructure, could lead to nugatory investment.

570. Change of Mode of Result Transmission Infrastructure

Although it has been explained that the technical specifications for new converged primary and secondary data centers was to support its electoral technology requirements and other Commission's Information Technology (IT)operations, whose primary purpose was to aid transmission of election results among other functions, the Commission changed result transmission system to what is casually referred to as "cloud services".

In the circumstances, it is not possible to confirm the lawfulness and value for money for the expenditure totaling Kshs.249,128,933 relating to primary and secondary data centers as required under Section 68(1)(a) and (b) of the Public Finance Management Act, 2012.

571. Purchase of Oracle Database and Security Solution

Examination of records show that a vendor was instructed through unreferenced letter dated 13 April, 2017 to offer review and assessment of election technology. The vendor submitted a report on 3 May, 2017 and on 23 May, 2017 the Commission developed Terms of Reference based on the vendor's recommendations.

The contract for supply and provision of the database and security solution was awarded through direct procurement to the same vendor at a contract sum of Kshs.273,643,457 within three (3) days starting with tender opening on 29 May, 2017, evaluated and negotiated on 30 May, 2017 and awarded on 31 May, 2017.

Although the Commission procured these licenses at Kshs.273,643,457, examination of records shows that the Information Communication Technology (ICT) department at IEBC requisitioned the purchase of Database Solutions and Licenses at a cost of Kshs.80,000,000. There appears to have been an excess expenditure of Kshs.193,643,457.

An audit verification revealed that the database had been installed at IEBC but another contractor had not installed the Results Transmission System (RTS) application and the vendor had not implemented the Real Application Cluster (RAC) for the Results Transmission System and Database Vault.

572. Procurement of Co-Location Services for Data Centre and Disaster Recovery Site

Audit of contract of procurement of co-location services for data centre and disaster recovery site revealed unsatisfactory matters as follows:

The Commission through letters Ref IEBC/ADM/5/18 dated 22 August 2016 and Ref. No. IEBC/ADM/5/18 dated 22 August 2016 addressed to Kenya Revenue Authority and Capital Markets Authority respectively requested for names and contacts of various service providers who positively responded to their tender for provision of data center co-location services.

In response, the two (2) agencies provided the required information through letters Reference No. CMA/PROC/1/063 dated 29 August 2016 and Ref No. KRA/5/1003/44 dated 7 September 2016.

However, in unclear circumstances, the tender evaluation committee recommended the award of the contract to a firm which was not listed in responses, therefore, could not provide service for co-location services for data centre and disaster recovery site at a tender sum of Kshs.23,111,084.

Further, the contract was varied by Kshs.4,924,200 and awarded to the firm at Kshs.28,035,284 for which no explanation has been provided.

These expenditures unless implemented judiciously for on-going back up data centre infrastructure, could lead to nugatory investment.

573. Supply and Delivery of Ballot Papers for Elections, Statutory Declaration Forms and The Register of Voters

Although records show that the contract was awarded through open tender, restricted tendering and later direct procurement, the Commission has not provided letters of notification and contract documents for all the three (3) different methods of procurement awarding the same contract.

Further, records show double payment of Kshs.20,484,474 through invoice No.2017/1024 and No. 2017/10245 dated 23 October 2017 and 24 October 2017 respectively were issued by the supplier for the same service of printing of ballot papers, election forms and poll registers for use during the General Election and Fresh Presidential Election. The Commission explains that Kshs.15,500,000 has so far been recovered, leaving a balance of Kshs.4,981,474.

574. Supply and Delivery of Ballot Boxes for the General Elections

Examination of records shows that the Commission awarded the lowest evaluated contract for the supply and delivery of 106,000 ballot boxes for the general elections to an engineering works contractor at a contract sum of Kshs.196,100,000 (or Kshs.1,850 per unit). Records show that the Commission procured additional 42,927 ballot boxes for Fresh Presidential election at a unit rate of Kshs.2,500 instead of Kshs.2,250 offered by the supplier resulting in irregular payment of Kshs.10,731,750.

Further, the commission has not justified change of unit cost from the initial amount of Kshs.1,850 to Kshs.2,500 from the firm without a validly executed contract. Indications are that there was an attempt to vary the contract which has resulted in total excess payment of Kshs.27,902,550.

In addition, a verification undertaken in twenty-eight (28) sampled counties across the country revealed that there were inconsistencies on issued ballot boxes maintained at IEBC warehouse in Nairobi compared with actual receipts in the field resulting in a variance of 9,101 ballot boxes which have not been adequately accounted for.

575. Supply and Delivery of Badges

Examination of records show that the Commission awarded a contract for the supply and delivery of 550,381 badges on 20 March, 2017 at a contract sum of Kshs.44,030,480. Examination of the form of tender revealed interlineations on quantity, unit cost and the total price figures show that the initial contract amount was Kshs.9,554,370 however, it was later cancelled and changed to Kshs.44,030,480 for the supply of 550,381 badges. No satisfactory explanation was provided for change resulting in excess payment of Kshs.34,476,110 whose value and authorization cannot be confirmed in accordance with Section 68(1)(a) and (b) of the Public Finance Management Act, 2012.

Further, the Commission varied quantities of badges and procured 712,997 additional badges from the same supplier at Kshs.57,038,160 resulting in variation of contract price by 130% contrary to Section 139 (6) of the Public Procurement and Asset Disposal Act, 2015. Although records show that the cost for delivery of 550,381 badges to seventeen (17) Regional offices across the country was included in initial contract sum of Kshs.44,030,480, these badges were delivered in Nairobi through Counter Receipt Number 5982572 on 30 June, 2017.

An audit verification undertaken in thirty (30) sampled counties across the country revealed that there were inconsistencies issued badges maintained at Independent Electoral Boundaries Commission warehouse in Nairobi compared with actual receipts in the field resulting in a variance of 170,298 badges which have not been accounted for.

In this circumstance, it is not possible to confirm that Independent Electoral Boundaries Commission procured badges whose total cost is Kshs.101,068,640 using a system that is fair, equitable, transparent, competitive and cost effective as required under Article 227 (1) of the Constitution of Kenya, 2010.

576. Supply of Gas Lamp Mantles

Examination of Paragraph 2.24 of Appendix to Instructions to Tenders MR 9 of the tender documents required that each bidder was expected to submit a sample in a sealed envelope. The purported winning bidder did not submit a sample, therefore, was non-responsive. Records also show that the Commission did not eliminate the firm from the process, instead awarded the contract for supplying gas lamp mantles to the same firm at Kshs.5,489,000 contrary to Section 86(1) of the Public Procurement and Asset Disposal Act, 2015.

Examination of documents has further revealed that the Commission ordered additional mantles at Kshs.10,710,336 through direct procurement. An audit verification undertaken in twenty-nine (29) sampled counties across the country revealed that there were inconsistencies on issued gas lamp mantles maintained at Independent Electoral Boundaries Commission warehouse in Nairobi compared with actual receipts in the field resulting in a variance of 66,540 gas lamp mantles which have not been adequately accounted for.

577. Supply and Delivery of Security Seals

Examination of records revealed that tender for supplying 3,696,000 security seals was awarded to a contractor at Kshs.19,588,800 (or Kshs.5.30 per unit cost) and contract signed on 22 March 2017. Examination of invoices and delivery notes revealed that the contractor supplied 2,001,600 security seals valued at Kshs.10,608,480 on 22 July, 2017 leaving a balance of 1,694,400 valued at Kshs.8,980,320.

On 4 August, 2017, the Commission ordered 500,000 additional security seals valued at Kshs.24,500,000 (or Kshs.49 per unit cost) from another contractor through direct procurement. Although the Commission has explained that the unit prices of seals differ due to the metallic nature of the latter, audit verification did not observe any metallic seals as they were of similar quality.

In unclear circumstances, the Commission did not cancel the contract for undelivered security seals numbering 1,694,400 and the supplier went ahead to deliver these seals on 19 October, 2017 and therefore, they were not used for the intended purposes.

An audit verification undertaken in thirty-two (32) sampled counties across the country reveals that there were inconsistencies on issued security seals maintained at Independent Electoral Boundaries Commission warehouse in Nairobi compared with actual receipts in the field resulting in a variance of 579,169 seals which have not been accounted for.

In the circumstance, it is not possible to confirm that Kshs.44,088,800 was incurred lawfully and effectively as required under Article 229(6) of the Constitution.

578. Supply, Delivery, Installation, Implementation and Commissioning of Wide Area Network in Two Hundred and Ninety (290) New Locations, Eighteen (18) Existing Sites and Provision of Dedicated Internet Services

The tender for supply, delivery, installation, implementation and commissioning of Wide Area Network (WAN) in two hundred and ninety (290) new locations, eighteen (18) existing sites and provision of dedicated internet services was advertised in the three local dailies and the Commission's website on 16 January, 2017. Bids appear to have been evaluated and the contract was awarded to a firm at Kshs.128,472,393 on 10 April 2017 for a three-year contract period.

Although Paragraph 6.5.1 of the contract document requires that the Commission shall inspect and/or test the services to confirm their conformity to the contract specification, records appear to indicate that internet services were never tested despite the fact that the Commission has paid Kshs.117,965,958 (or 90% of the contract price) through payment voucher number 1832 and 4098 both dated 30 June 2017.

Verification of internet networks in thirty-five (35) counties indicates that Wide Area Network (WAN) which was supposed to be installed in constituency offices were not working. It appears that Independent Electoral Boundaries Commission did not take adequate measures to ensure the requisite service level expectations.

Even though this was not part of the contract, a further test on telephone communication system at the regional offices also revealed that they were not working.

579. Irregular Procurement of Transport Services

The Commission invited open tenders for provision of transport services during the General Elections of 2017 in all the forty-seven (47) county offices. The opening and evaluation of these tenders is reported to have been done on the same day in all county offices.

Audit verification undertaken in thirty-five (35) counties revealed that the Commission did not have procurement officers at that time and therefore, lacked capacity to procure these transport services at counties. Most of the contracts were awarded based on predetermined budgetary allocation issued from the headquarters. In the absence of competition and fair award of contracts, it is not possible to confirm that expenditure of Kshs.1,142,653,945 was fully controlled and that the value for money was obtained on transport services as required under Section 68(1)(a) and (b) of The Public Finance Management Act, 2012.

580. Supply of Biometric Voter Registration (BVR) Kit Internal Batteries

The contract for supply of 8000 BVR kits internal batteries was awarded to a firm at a cost of Kshs.47,600,000 on 17 January 2017 through restricted tendering method. Examination of documents in support of procurement of BVR Internal batteries revealed that 8000 batteries were procured, delivered in the stores but have not been totally utilized to date. Management maintains that the 8000 batteries are usable and that out of these 3003 batteries have been used and expects to use the rest in future. The Commission should reevaluate usability of the stock to ensure that expenditure totaling Kshs.47,600,000 was effective in accordance with Section 68(1)(a) and (b) of The Public Finance Management Act, 2012.

581. Provision of Strategic Communication and Integrated Media Campaign Consultancy Services

The Commission awarded the contract for the media campaign consultancy services to a bidder who had initially quoted Kshs.764, 393,224. Prior to the award, two bidders who tied in the combined score were invited for negotiations as per Section 13(6) of Public Procurement and Asset Disposal Act, 2015. The Commission eventually entered into the contract on 27 July 2017 for Kshs.350,001,353. The consultant issued invoice No. PD-011576 on the same day demanding payment of Kshs.105,001,124. The invoice amount was paid through voucher No.155 on 1 September 2017. The contract required 30% payment on provision of an inception report.

The contract inspection and acceptance report availed for audit verification was dated November, 2017 indicating that the payment was made before the confirmation of delivery of services. The commission provided a revised media plan which indicated a media campaign that was concentrated over three weeks (24 July to 13 August 2017).

The records of the negotiations between the Commission and the two bidders invited for negotiations indicate that it would not be necessary to produce different infomercials for online / digital platforms. The same infomercials produced for television would be the ones to be placed in the online platforms: *youtube, twitter, facebook, integral, eskimi, ghafla, tuko* among others. However, management explained that the infomercials on TV were different from online infomercials. The contract sum included an amount of Kshs.13,154,161 being cost of producing infomercials for digital platforms. No satisfactory explanation was provided why this was the case.

582. Unauthorized Notification of Awarded Contracts

Examination of tender documents and contracts show that winning bidders for tenders amounting to Kshs.1,217,057,024 were notified of their award by the Head of Procurement instead of the Accounting Officer contrary to Section 87 (1) of the Public Procurement and Asset Disposal Act, 2015.

583. Failure to Provide Performance Security

Examination of records further show that tenders amounting to Kshs.4,312,046,372 were not supported by the relevant performance security of 10% of the contract price contrary to Section 142 (1) of the Public Procurement and Asset Disposal Act, 2015.

584. Undisclosed Court Awards to the Commission

Audit examination of documents for various court cases revealed that the court awarded Kshs.66,300,000 due to the Commission on various court petitions during the financial year 2015 -2016. However, no evidence has been provided for audit to show that the dues have been collected from the respective legal firms. Further, the dues have not been disclosed as accounts receivable in the financial statements. The receivables from non-exchange transactions balance of Kshs.1,403,784,000 is, therefore, not fairly stated in the financial statements.

PARLIAMENTARY SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2041

Basis for Qualified Opinion

585. Acquisition of Land

Disclosed in Note No. 7 to the financial statements is a comparative figure under 2015/2016 of Kshs.135,000,000 against acquisition of land. The Commission has, however, explained through a letter Ref: PSC/AUDIT/001/2016/2017/1 dated 25 January 2018 that there was no acquisition of land in the financial year 2015/2016. The Commission claimed that the amount had been erroneously debited to the account item instead of refurbishment of buildings. However, no documentary evidence has been provided in support of any subsequent correction made or restatement of the comparative information.

586. Purchase of Buildings

Disclosed also in Note No.7 to the financial statements is a comparative figure/expenditure under 2015/2016 of Kshs.455,885,904 against purchase of buildings and which relate to County House L.R. No. 209/4311. However, minutes of the 17th Parliamentary Service Commission Tender Committee Meeting held on 22 December, 2014 indicate that the negotiated and approved purchase price was Kshs.325,000,000. This purchase price was supported further by an agreement for sale made and dated 5 May, 2015 between Acco Limited and Parliamentary Service Commission. No satisfactory explanation has been provided for the resulting excess expenditure of Kshs.130,885,904 in respect of the purchase of buildings.

587. Construction of a Multi - Storey Office Block

The Commission awarded a contract No. WP ITEM D29 NB/NBI 901- JOB NO. 7753C to China Jiangxi International Kenya Limited on 23 September 2013 at a tender sum of Kshs.5,893,649,846.67 to construct a multi - storey office block.

The records maintained by the Commission indicate that payments amounting to Kshs.28,169,446.21 have been made to date in respect of interest on delayed payments. Although the Commission has explained that the delayed payments arose due to circumstances beyond the control of the management, poor planning in financial management appear also to have contributed to the situation. The Commission, project management team and the National Treasury should have ensured that the contractor`s certificates were settled promptly to avoid escalation in cost of the project.

Clause 23 of the General Conditions of Contract provides for the mode of payments to the contractor in two components of 80% (US$) and the remaining 20% local currency. The records, however, indicate that fifteen certificates have so far been paid in full in local currencies. In unexplained circumstances, the Commission through a meeting held on 14

July 2017 decided to pay deficits arising from failure to pay 80% in US$ without quantifying the purported deficit and explaining the reasons for failure to comply with the provision of the contract document. The amount paid to date in respect of the deficits is still undetermined.

588. Refurbishment works

Contract records indicates that a contract No. W.P ITEM No. D29 NB/NB 901 – JOB NO.7753C for refurbishment works was awarded to N.K Brothers on 10 October 2014 at a tender sum of Kshs.379,909,101.

The scope of works included refurbishment of 13th floor of Protection House; Ground floor to 4th floor of Red Cross Building; Ground floor to 2nd floor of Juvenile Court Building ; and 3rd, 5th, 6th, 8th, 9th and 10th floors of Ukulima House Building.

Although contract records show that the works commenced on 31 March, 2015 for a period of 12 weeks up to 23 June 2015, which was later reviewed to 31 March 2016, examination of site meeting minute No. 28 of 23 March 2017 indicates that the contractor was still on site after the expiry of contract period. No evidence has been provided to show that the Commission has commenced recovery of liquidated damages from the contractor in accordance with Clause 27 of the General Conditions of Contract.

The contractor was paid Kshs.10,579,770 on 18 May 2017, through Payment Certificate No 13 for refurbishment of 11th floor of Ukulima House despite the fact that the works were not listed in the contracted scope. In the circumstances, rates submitted in the additional works were not competitively awarded.

589. Accounts Payables

The statement of assets and liabilities reflects Kshs.447,619,133 against account payables and which, as disclosed in Note 10 to the financial statements includes deposits of Kshs.408,983,477.75 and Kshs.38,635,655.25 for Centre for Parliamentary Studies and Training (CPST) collection account. However, the Commission has not provided schedules together with other relevant documentary evidence in support of the balances. Consequently, the accuracy and validity of these balances cannot be confirmed.

590. Pending Bills

As disclosed in Note 13.1 and detailed in Annex 1 to the financial statements, pending bills amounting to Kshs.409,090,308.56 were outstanding on 30 June 2017. Had these bills been paid and the expenditure charged to the accounts for 2016/2017, the statement of receipts and payments for the year then ended would have reflected a reduced net surplus of Kshs.42,250,526 instead of Kshs.451,340,835 now shown.

591. Outstanding Imprests

The statement of assets and liabilities reflects outstanding imprests of Kshs.5,576,926 which ought to have been recovered or accounted for on or before 30 June, 2017. No reasons have, however, been provided for failure to surrender or account for the imprests.

592. Un-explained Differences

An analytical review of Notes 4, 6 and 7 to the financial statements and the ledger as at 30 June 2017 revealed some variations in account item balances totalling Kshs.95,223,895 as follows

Note No.	Item	Financial Statements Balance Kshs.	Ledger Balance Kshs.	Difference Kshs.
4	Foreign Travel & subsistence	843,415,153	880,362,478	36,947,325
4	Hospitality supplies & services	233,954,901	233,974,901	20,000
6	Government Pension & Retirement Benefits	34,357,275	45,204,929	10,847,654
7	Construction of Buildings	1,392,463,425	1,439,872,341	47,408,916
	Totals	**2,504,190,754**	**2,599,414,649**	**95,223,895**

No reconciliation or explanation has been provided for the above difference.

PARLIAMENTARY CAR LOAN SCHEME FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

PARLIAMENTARY MORTGAGE SCHEME FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

NATIONAL ASSEMBLY

FINANCIAL STATEMENTS FOR VOTE 2042

Basis for Qualified Opinion

593. Outstanding Imprests

The statement of assets and liabilities reflects account receivable balance of Kshs.34,848,919 that include outstanding imprests totalling Kshs.33,615,058 which ought to have been recovered or accounted for on or before 30 June, 2017. No satisfactory reasons have, however, been provided for failure to surrender or account for the imprests.

594. Accounts Payables

As disclosed in Note 13.1 and Annex 1 to the financial statements, the National Assembly had pending bills totalling Kshs.236,728,322 as at 30 June 2017. Had these bills been paid and the expenditure charged to the accounts for 2016/2017, the statement of receipts and payments for the year would have reflected a reduced surplus of Kshs.97,911,915 instead of Kshs.334,640,237 shown.

JUDICIAL SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2051

Unqualified opinion

There were no material issues noted during the audit of the financial statements of this Commission.

COMMISSION ON REVENUE ALLOCATION

FINANCIAL STATEMENTS FOR VOTE 2061

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the Commission on Revenue Allocation.

PUBLIC SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2071

Unqualified opinion

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

SALARIES AND REMUNERATION COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2081

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the salaries and remuneration Commission.

THE TEACHERS SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2091

Basis for Qualified Opinion

595. Stores and Cash Losses

Note 8 to the financial statements reflects receivables – outstanding imprest and clearance accounts balance of Kshs.2,217,700,000 as at 30 June 2017. The figure of Kshs.2,217,700,000 includes unrecoverable losses of 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 suspect was charged and the case is still pending. Although the case was set for hearing on 19 March 2018, it was adjourned to 25 June 2018.

596. PAYE Refunds

Included in the balance of Kshs.2,217,700,000 under note 8 iis a long outstanding Pay As You Earn (PAYE) amount of Kshs.128,392,939 which was paid to Kenya Revenue Authority (KRA) on account of former teachers who deserted their jobs and their salaries were returned to the Commission. Available information indicate that KRA carried out an audit on the PAYE amount and as a result adjusted the figure downwards to Kshs.46,060,915 as at 30 June 2017. A review of the matter in February 2018 revealed that the Commission had received a refund of Kshs.46,057,935 from KRA on 23 February 2018 and that it has sought authority to write-off the un-recoverable balance of Kshs.68,802,494 from the National Treasury. It is not clear if National Treasury will grant the authority.

In the circumstances, it has not been possible to confirm the full recoverability of the accounts receivables - outstanding imprest and clearance accounts figure of Kshs.2,217,700,000 for the year ended 30 June 2017.

597. Property, Plant and Equipment Schedule

As reported in the previous years, the property, plant and equipment schedule balance of Kshs.3,662,965,318 under Annexure XIX as at 30 June 2017 includes 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 after obtaining a duplicate log book No.20063490279 from KRA. Although the commission repossessed the vehicle, a case is pending before a court of law as at the date of this report and the outcome is known.

Other Matter

598. Budgetary Control and Performance

The Commission had a total budget of Kshs.190,645,010,342 voted for the financial year 2016/2017 comprising of Kshs.100,000,000 for development and Kshs.190,545,010,342 for recurrent votes respectively. The budget absorption in the Commission was as follows:

Item	Budgeted Allocation 2016/2017	Actual Expenditure 2016/2017	Under Absorption	Absorption in %
	Kshs	Kshs	Kshs	
Recurrent	190,545,010,342	190,544,600,000	410,342	99.99%
Development	100,000,000	0	100,000,000	0%
Total	**190,645,010,342**	**190,544,600,000**	**100,410,342**	99.95%

The management of the Commission explained that although, it was allocated development funds totalling Kshs.100 million in the year under review, no funds were received as at 30 June 2017.

599. Recurrent Vote

The Commission had an annual recurrent budget of Kshs.190,545,010,342 against actual expenditure of Kshs.190,544,600,000 indicating absorption of 99.99% as detailed below:

Item	Budget 2016-2017 Kshs'000	Actuals 2016-2017 Kshs'000	Over/Under Absorption Kshs'000	% Absorption
Compensation of employees	189,555,889	189,761,656	(205,767)	100.1%
Use of goods and services	1,076,196	863,609	212,587	80.25%
Acquisition of Assets	387,925	261,443	126,482	67%
Grand Total	**190,020,010**	**190,892,709**	**133,302**	**99.93%**

From the above analysis, the Commission underutilized the budget acquisition of assets by 33% and use of goods and services by 19%. The under absorption of the approved budget is an indication of activities not implemented by the Commission which implies non delivery of goods and services to the Kenyan citizens for the year ended 30 June 2017. Therefore, the stakeholders did not obtain full value for their resources.

600. Development Vote

The management of the Commission had an annual development budget of Kshs.100,000,000 against nil expenditure as no funds were received during the year under review.

Item	Budget 2016-2017 Kshs.	Actuals 2016-2017 Kshs.	Under Expenditure Kshs.	% Absorption
Construction of Buildings(Non-Residential Buildings(County offices))	100,000,000	0	100,000,000	0%
Grand Total	**100,000,000**	**0**	**100,000,000**	**0%**

From the above analysis, the Commission did not receive development funds resulting into underutilization of budget. The under underutilization of the approved budget is an indication of activities not implemented by the Commission which implies non delivery of goods and services to the Kenyan citizens for the year ended 30 June 2017. Therefore, the stakeholders did not obtain value for their resources.

NATIONAL POLICE SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2101

Basis for Qualified Opinion

601. Failure to Sign Lease Agreement

Disclosed under Note 4 to the financial statements is an expenditure of Kshs.57,001,777 in respect of rentals of produced assets. The amount includes Kshs.55,817,301 paid by the Commission for rent, parking and service charge to Park Plaza Ltd during the year under review. As similarly reported in the previous years, the Commission has failed to sign and register lease agreement for the property since1 December, 2012. In the circumstances, the validity of the payment of Kshs.55,817,301 cannot be confirmed.

602. Direct Procurement for Maintenance of Motor Vehicles

Disclosed also under Note 4 is an expenditure of Kshs.13,754,540 in respect of routine maintenance – vehicles and other transportation equipment. Although the Commission prequalified twenty-three firms for provision of repairs of motor vehicle services, a firm was awarded contract at Kshs.3,807,201.60 through direct procurement method for the same. No satisfactory explanation has been provided for failure to invite pre-qualified suppliers to submit their bids.

OFFICE OF THE CONTROLLER OF BUDGET

FINANCIAL STATEMENTS FOR VOTE 2121

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the office of the Controller of Budget.

THE COMMISSION ON ADMINISTRATIVE JUSTICE

FINANCIAL STATEMENTS FOR VOTE 2131

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the Commission on Administrative Justice.

NATIONAL GENDER AND EQUALITY COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2141

Unqualified opinion

There were no material issues noted during the audit of the financial statements of the National Gender and Equality Commission.

INDEPENDENT POLICING OVERSIGHT AUTHORITY

FINANCIAL STATEMENTS FOR VOTE 2151

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of the Independent Policing Oversight Authority.

EXCEPTIONS

The audit reports of the 47 County Governments are not included in this report as they are reported on separately.

The report excludes the report on the financial statements of the Auditor-General which are audited and reported separately by an independent auditor as per Article 226(4) of the Constitution of Kenya.

CONCLUSION

Compliance with the Constitutional Mandate

My Office has in compliance with the Provisions of Article 229(6) which required that I confirm whether or not public money has been applied lawfully and in an effective way done the following:

Embedded compliance audits in its audit methodology and compliance with laws and regulations have been reported in this report.

Carried out value for money audits with some of the reports already tabled in parliament.

However, the Office is still seeking additional finances to increase the scope of continuous audits to ensure full compliance with the requirements of Article 229(6).

Appreciation

I wish to sincerely thank the entire staff of the Office of the Auditor-General for the great effort and hard work they have put in during the year.

FCPA Edward R. O. Ouko, CBS
Auditor-General

Nairobi

31 December 2018

Audit Opinions on the Financial Statements

Unqualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2017 which are listed in Appendix A in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements listed in Appendix A, present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2017, and of its operations for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS)-Cash Basis and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

31 December 2018

Qualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2017 which are listed in Appendix B in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Details of the basis for qualified opinion regarding the Financial Statements listed in Appendix B are given in the accompanying detailed report. This includes various unexplained discrepancies and omission of expenditure from the financial statements.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements listed in Appendix B, present fairly in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2017, and of its operations for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS) -Cash Basis and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

31 December 2018

Adverse Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2017 which are listed in Appendix B in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

Details of the Basis for Adverse Opinion regarding the Financial Statements listed in Appendix C are as per accompanying detailed audit report. This includes various material misstatements, unexplained discrepancies and omission of expenditure from the financial statements.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements listed in Appendix C, do not present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2017 and of its operations for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS)-Cash Basis and do not comply with the Government Financial Regulations and Procedures and Public Finance Management Act, 2012.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

31 December 2018

Disclaimer Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2017 which are listed below in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the detailed Report of the financial statements contained in Appendix D, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Details of the Basis for Disclaimer of Opinion regarding the Financial Statements listed in Appendix D are as per the accompanying detailed audit Report. This includes various unexplained discrepancies, omission of expenditure from the Accounts, lack of documentation to support some of the figures shown in the financial statements listed in Appendix D and failure by the Accounting Officers to provide information and explanation considered necessary for the purpose of the audit.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements contained in Appendix D.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

31 December 2018

	Appendix A : Unqualified Financial Statements
No	**Ministry/Department/Commission/ Fund**
1	Asiatic Widows and Orphans Fund
2	Commission on Revenue Allocation
3	Contingencies Fund
4	Development Revenue
5	Equalization Fund
6	Ethics and Anti-Corruption Commission
7	Government Press Fund
8	Independent Policing Oversight Authority
9	Intelligence Service Development Fund
10	Judicial Service Commission
11	Kenya Citizens and Foreign Nationals Management Service
12	Kenya Energy Environment & Social Responsibility Programme Fund
13	Kenya National Commission on Human Rights
14	Kenya Slum Upgrading, Low Cost Housing and Infrastructure Trust Fund
15	Ministry of Defense
16	National Cohesion and Integration Commission
17	National Exchequer Account
18	National Gender and Equality Commission
19	National Intelligence Service
20	National Land Commission
21	Office of Registrar of Political Parties
22	Office of the Controller of Budget
23	Office of the Director of Public Prosecutions
24	Parliamentary Car Loan Scheme Fund
25	Parliamentary Mortgage Loan Scheme Fund
26	Petroleum Development Levy Fund –State Department of Energy
27	Petroleum Development Levy Fund – State Department of Petroleum
28	Petroleum Training Levy Fund
29	Political Parties Fund
30	Public Service Commission
31	Railway Development Levy Fund
32	Railway Development Levy Fund - Holding Account
33	Receiver of Revenue (Recurrent)
34	Receiver of Revenue -State Department of Infrastructure
35	Receiver of Revenue- State Department of Public Works
36	Salaries and Remuneration Commission
37	State Department for Broadcasting and Telecommunication-Revenue
38	State Department for Cooperatives
39	State Department for Fisheries and the Blue Economy
40	State Department for Maritime and Shipping Affairs
41	State Department for Petroleum
42	State Officers and public Officer Car Loan Scheme Fund
43	State Officers House Mortgage Scheme Fund

44	The Commission on Administrative Justice
45	The Presidency
46	Witness Protection Agency

Appendix B : Qualified Financial Statements	
No	**Ministry/Department/Commission/ Fund**
1	Asian Officers Family Pensions Fund
2	CFS - Salaries, Allowances, Miscellaneous Services
3	CFS -Pensions and Gratuities
4	CFS-Public Debt Expenditure
5	Civil Servants Housing Fund
6	European Widows and Orphans Fund
7	Independent Electoral and Boundaries Commission
8	Mechanical and Transport Fund
9	Ministry of Foreign Affairs and International Trade
10	Ministry of Health
11	Ministry of Lands and Physical Planning
12	Ministry of Mining
13	Ministry of Mining- Revenue Statement
14	Ministry of Tourism
15	National Assembly
16	National Government Constituencies Development Fund Board
17	National Humanitarian Fund
18	National Police Service Commission
19	National Sports Fund
20	Parliamentary Service Commission
21	Petroleum Development Levy Fund
22	Prison Farms Revolving Fund
23	Provident Fund
24	Public Trustee
25	Receiver of Revenue- Judiciary
26	Receiver of Revenue -Pension Department
27	Receiver of Revenue -State Department for Housing & Urban Development
28	State Department for Agriculture
29	State Department for Basic Education
30	State Department for Broadcasting and Telecommunications
31	State Department for Culture and Arts
32	State Department for Devolution
33	State Department for East African Integration
34	State Department for Energy
35	State Department for Environment
36	State Department for Gender Affairs
37	State Department for Housing & Urban Development

38	State Department for Information Communication Technology and Innovation
39	State Department for Interior
40	State Department for Interior - Statement of Revenue
41	State Department for Investment and Industry
42	State Department for Natural Resources
43	State Department for Public Service and Youth Affairs
44	State Department for Special Programmes
45	State Department for Sports Development
46	State Department for University Education
47	State Department for Vocational and Technical Training
48	State Department for Water Services
49	State Department of Agriculture – Revenue
50	State Law Office and Department of Justice
51	State Law Office and Department of Justice - Official Receiver
52	State Law Office and Department of Justice- Revenue Financial Statement
53	Statement of Outstanding Obligations guaranteed by GOK
54	Street Families Rehabilitation Trust Fund
55	Teachers Service Commission
56	The National Treasury
57	Treasury Main Clearance Fund
58	Veterinary Services Development Fund
59	Women Enterprise Fund

Appendix C: Financial Statements with Adverse Audit Opinion	
No	**Ministry/Department/Commission/ Fund/Statement**
1	Judiciary
2	Rural Enterprise Fund
3	State Department for Correctional Services
4	State Department for Infrastructure
5	State Department for Irrigation
6	State Department for Labour
7	State Department for Livestock
8	State Department for Public Works
9	State Department for Social Protection
10	State Department for Trade
11	State Department of Transport
12	Statement of outstanding Loans
13	Subscriptions to International Organizations

Appendix D	
Financial Statements with Disclaimer of Audit Opinion	
No.	**Ministry/Department/Commission/ Fund/Statement**
1	Agricultural Information Resource Centre Revolving Fund
2	Government Clearing Agency Fund
3	Kenya Local Loans Support Fund
4	Land Settlement Fund Trustees
5	Ministry of Lands and Physical Planning- Revenue
6	National Government Affirmative Action Fund
7	National Youth Service -Mechanical and Transport Fund
8	Prisons Industries Revolving Fund
9	State Department for Planning and Statistics
10	Stores and Service Fund
11	Strategic Grain Reserve Trust Fund