



**REPORT
OF THE
AUDITOR-GENERAL
FOR THE
NATIONAL GOVERNMENT
FOR THE
YEAR 2017/2018**



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REPORT OF THE AUDITOR-GENERAL ON MINISTRIES, DEPARTMENTS, COMMISSIONS, FUNDS AND OTHER ACCOUNTS OF THE NATIONAL GOVERNMENT FOR THE YEAR 2017/2018

1.0 Introduction

1.1 Legal Mandate of the Office of the Auditor-General

The Auditor-General is mandated by the Constitution of Kenya, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include; the national government, county governments, the Judiciary, Parliament, statutory bodies/state corporations, commissions, political parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

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

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

1.2 Responsibilities of Management and those Charged with Governance

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

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

Further, management is required to ensure that the activities, financial transactions and information reflected in the financial statements are in compliance with the law and other relevant or applicable authorities, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how each entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

1.3 Auditor-General's Responsibility

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

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

I am independent in accordance with Article 249(2) of the Constitution of Kenya, 2010 and ISSAI 30 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of public entities in the Republic of Kenya.

1.4 New Reporting Structure

I have amended the structure of my report to address the reporting requirements of Article 229(6) of the Constitution of Kenya, 2010, which requires that an audit report shall confirm whether or not public money has been applied lawfully and in an effective way. Section 7(1) (a) of the Public Audit Act, 2015 also requires that I provide assurance on the effectiveness of internal controls, risk management system and governance in national and county governments entities.

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

- i. Report on Financial Statements, in which I give an audit opinion on whether the financial statements present a true and fair view of the financial position and performance of the entity.

- ii. Report on Lawfulness and Effectiveness in Use of Public Resources, in which I give a conclusion on whether or not public money has been applied lawfully and in effective way.
- iii. Report on Effectiveness of Internal Controls, Risk Management and Governance, in which I give a conclusion on whether internal controls, risk management and overall governance were effective.
- iv. Report on Other Legal and Regulatory Requirements is included where applicable, especially for the entities that registered under the Companies Act and any other enabling legislation and authorities that require such disclosure.

1.5 Audit Opinions

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

a) Unmodified/ Unqualified Opinion

The books of accounts and underlying records agree with the financial statements and no material misstatements were found. The financial statements give a true and fair view of the operations of the entity. The financial statements with unqualified opinion are listed in Appendix A.

b) Qualified Opinion

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

c) Adverse Opinion

The financial statements exhibit significant misstatement with the underlying accounting records. There is significant disagreement between the financial statements and the underlying books of accounts and/or standards. Problems are widespread, persistent and require considerable interventions by the management to rectify. The financial statements with adverse opinion are listed in Appendix C.

d) Disclaimer of Opinion

The financial statements exhibit serious and significant misstatements that may arise from inadequate information, limitation of scope, inadequacy or lack of proper records such

that I was not able to form an opinion on the financial operations. The financial statements with disclaimer of opinion are listed in Appendix D.

The sections below highlight key findings noted during the audit of the financial statements for the year ended 30 June 2018.

THE NATIONAL TREASURY VOTE 1071

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1. Accuracy of the Financial Statements

Comparisons between the General Ledger (GL) and the supporting schedules generated from the Integrated Financial Management System (IFMIS) revealed variances. Since the two reports read from the same database in IFMIS, there should be no variances. Management has not provided reconciliation for the variances nor rendered satisfactory explanations for the variances tabulated below:

Item	General Ledger Balance (KSh.)	IFMIS Supporting Schedule (KSh.)	Variance (KSh.)
Tax Receipts	-	2,586,267,792.55	(2,586,267,792.55)
Proceeds from Domestic Borrowings	-	(420,973,660,000.00)	420,973,660,000.00
Other Receipts	-	15,493,183.10	(15,493,183.10)
Bank Balances	1,390,758,926.00	(2,231,391,917.60)	3,622,150,843.60
Cash Balances	741,626.00	55,589,892,673.50	(55,589,151,047.50)
Accounts Receivable	789,854,587.00	205,773,091.05	584,081,495.95
Accounts Payable	154,936,594.00	761,893,477,120.40	(761,738,540,526.40)
Fund Balance b/forward	2,304,964,475.00	(290,124,610,682.30)	292,429,575,157.30
Years surplus/deficit	167,852,631.00	301,362,064,940.35	(301,194,212,309.35)

Further, an inconsistency was noted under recurrent vote Headquarters Administrative Services, Sub-head Strategic Interventions, Basic Wages, Temporary Employees that reflected a negative actual expenditure of KSh.3,000,000 under actual expenditure.

From the foregoing, the accuracy of the financial statements prepared thereof could not be ascertained.

2. Pending Bills

The financial statements discloses pending accounts payable of KSh.563,474,303. Had the accounts been settled and charged to the statement of receipts and payments for the year, it would reflect a deficit of KSh.395,621,672 instead of the current reported surplus of KSh.167,852,631. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

Emphasis of Matter

3. Budget Performance and Control

The Summary Statement of Appropriation-Recurrent reflects a final budget and actual expenditure of KSh.42,539,648,623 and KSh.38,907,442,486 respectively, resulting in under expenditure of KSh.3,632,206,137 or 8.54%. The Summary Statement of Appropriation-Development also reflects a final budget and actual expenditure of KSh.24,614,296,621 and KSh.19,513,275,142 resulting in an under-expenditure of KSh.5,101,021,479 or 20.72%. Although the overall performance was satisfactory, there are individual budget line items namely: - other grants and transfers, acquisition of assets and compensation of employees where the under absorption exceeded the stipulated 25% threshold. My opinion is not modified based on the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

4. Procurement for Services of Cash Management Solution

During the year under review, the National Treasury through restricted tender contracted and paid a supplier to implement a cash management solution for both National and County Governments as well as train and support. This was contracted at the sum of KSh.35,140,040 with an implementation period of 12 months to 31 October 2016. Three firms recommended as accredited Oracle cash management solution suppliers had been invited to bid for the tender. However, the price bid submitted by the winning supplier was significantly lower than those of the other two bidders which stood at KSh.157,798,048 and KSh.181,401,356. It is not clear as to why there was such a significant disparity.

Upon award, the contracted supplier was unable to complete within the stipulated timeline resulting into a no cost extension of the contract for a period of 11 months with a one-year post implementation support contract ending 30 September 2017. Available information indicate that the contract was subsequently re-extended for a further period of 12 months to 31 Dec 2018 at an additional cost of KSh.2,067,120 contrary to Section 75 of the Public Procurement and Asset Disposal Act, 2015.

A review of the contract implementation status as of date of finalizing this audit indicated that the project was incomplete. In the circumstances, it has not been possible to confirm whether The National Treasury got value from the above procurement.

5. Non-Adherence to Human Resources Policy

Public Service human resource policies and procedures manual of 2016 has provisions for recruitment, selection, appointment and transfers of public officers. Contrary to the provisions, The National Treasury has designated a non-public officer into the role of Acting Director - Integrated Financial Management Information

Systems (IFMIS). No information has been availed regarding the designate, consequently it has also not been possible ascertain the terms of engagement and the remuneration thereof.

6. Continued Retention of Retired Public Officers

Section B.20(1) subsection (2) and (4) of the human resource policies and procedures manual 2016 provides for appointment on contract where officers are appointed to serve on fixed term projects and capacity in the public service is lacking or specific skills are required. A review of sample personnel files on local contract terms revealed that seven (7) officers who had attained the mandatory retirement age of sixty (60) years and are not registered as persons living with disability are under contract. Three of the seven officers have had their contracts extended severally. At the initial authorization for the contract extensions, the Commission had advised the National Treasury to plan to build capacity by competitively filling of the positions. Although the management has rendered explanations for the extensions, the affected officers had been heading their respective departments for significantly long durations prior to their retirement. This is indicative of poor or lack of succession planning on the key positions at the National Treasury.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

7. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL EXCHEQUER ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

9. The On-going Special Audit on Euro Bond

I wish to draw your attention to the statement of assets and liabilities for the National Exchequer Account as at 30 June 2017 which reflected an Exchequer balance of KSh.30,928,022,009 as at the end of the financial year. However, and as indicated in the Auditors report for 2014/2015 the receipt of net proceeds from commercial financing (Sovereign/Euro Bond) of KSh.215, 469,626,036 accounted for in

2014/2015 financial year could not be ascertained as investigation into the receipts, issues, accounting and utilization of the funds related to the Sovereign/Euro Bond had not been concluded as at 30 June 2018. Under the circumstances, the accuracy of the Exchequer balance of KSh.59,808,758,121 brought forward from 2015/2016 cannot be ascertained.

10. Budget Control and Performance

A review of the statement of comparison of budget and actual performance indicate that the Exchequer disbursements to (12) twelve Ministries, Departments and Agencies (MDAs) for the period under review was at 94% and 87% of their budgeted allocations for Recurrent and Development votes respectively. Under the Recurrent Vote, some MDAs received as low as 56% of their voted provisions while others received their total allocation. Similarly, under the Development Vote, other MDAs received as low as 0% of their voted provisions while others received their total allocation. Failure to release the budgeted provisions may hinder the accomplishment of the planned projects by MDAs and hence affect the service delivery to the citizens by the entities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

11. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

12. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

THE RECEIVER OF REVENUE (RECURRENT)

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

13. Variances between Revenue Statement balances and the General Ledger balances

The statement of receipts and transfers for the year ended 30 June 2018 reflects balances which were in disagreement with those reflected in the General ledger as tabulated below:

Item(s) Description	Financial Statements		Variance KSh.
	Receiver of Revenue KSh.	General Ledger KSh.	
Taxes on Income and Capital Gains	657,186,136,271.60	657,409,782,534.70	223,646,263.10
Taxes on Goods and Service	524,881,879,090.21	670,039,515,029.45	145,157,635,939.45
Taxes on International Trade & Transactions	117,512,789,772.75	118,327,012,676.85	814,222,904.10
Other Taxes	12,117,526,460.55	12,239,988,748.00	122,462,287.45
Sale of goods and services (Traffic)	3,070,936,003.85	3,083,626,774.85	12,690,771.00

No reconciliation statement was provided to account for the differences between the two sets of records that are ordinarily supposed to agree.

14. Failure to reconcile Arrears of Revenue

The statement of arrears of Revenue as at 30 June, 2018 reflects outstanding arrears of revenue of KSh.305,909,926,390 while the KRA Revenue Accountability Statement reflects arrears of revenue of KSh.288,123,529,688 resulting in a difference of KSh.17,786,396,702.

In the absence of reconciliation between the National Treasury revenue statement and KRA Revenue Accountability Statement, it has not been possible to confirm the accuracy of the statement of arrears of revenue as at 30 June 2018.

15. Long Outstanding Items in Bank Reconciliation Statements

The bank reconciliations statement for the statement receiver of revenue for the year ended 30 June 2018 revealed the following unsatisfactory matters:

- i) Payments in cash book not in bank statement amounted to KSh.14,267,291,907 out of which KSh.605,746,618 or 4.25% are stale cheques with some dating as far back as 29 June 1996.
- ii) Receipts in bank statement not recorded in cash book amounted to KSh.34,524,942,823 out of which an amount of KSh.31,525,074,243 or 91.31% related to balances dating as far back as September 1997. No explanation has been given for failure to update the cash book.
- iii) Payments in bank statements not in cash book amounted KSh.15,723,735,928 all of which related to 2016/2017 and earlier years.
- iv) Receipts in cash book not in bank statement amounted to KSh.25,760,678,513 out of which an amount of KSh.16,240,834,531 related to 2016/2017 and earlier years with some dating as far back as January 2000.

Failure to analyze and updating the accounting records may lead to misstatement of the cash balance reflected in the cash books and bank statements which would in turn compromise the accuracy of the financial statements prepared therefrom.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

16. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

17. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance

THE RECEIVER OF REVENUE (DEVELOPMENT)

REPORT ON THE REVENUE STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

19. The statement of comparison between the budget and Actual Amounts under Receipts and Payments reflects proceeds from borrowings (Loans) budget of KSh.33,573,859,777 compared to the actual receipts realized of KSh.24,149,910,718. This gives a variance under-realization and utilization of KSh.9,423,949,059 or 28% of the budgeted funds. The management indicated that the project implementing units were required to exhaust the already released funds before accessing funds allocated in the current financial year hence the poor absorption of budgeted funds there by leading to under expenditure. The MDAs may not have fully realized their potential from activities approved in the budget thus delaying provision of services to the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

20. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

21. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATEMENT OF OUTSTANDING LOANS

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

22. Lack of fundamental documents and Criteria loans

The management could 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 documents for the determination of the beneficiaries, terms of the loans and the approval /authorization of disbursement made. It was also noted that institutions continue to receive additional funding even when they are underperforming thereby casting doubt on the criteria used to determine the advance of new loans.

In the absence of budgets, annual plans, assessment or evaluation and performance reports of the loaning portfolios, the propriety on the utilization of public funds could not be ascertained. There is also a high likelihood of non-repayment of the loans leading to continued write offs of bad debts and loss of public funds.

23. Previous year matters

i) Outstanding Loan balances

The statement of outstanding loans as at 30 June 2018 reflects a net balance of KSh.799,766,815,394 which represents an increase of KSh.6,030,453,524 or approximately 0.76% of total outstanding loan balance of KSh.793,736,361,870 reported as at 30 June 2017. The balance of KSh.799,766,815,394 includes new loans issued in 2017/2018 totaling KSh.55,981,443,441. During the year under review, only KSh.2,852,780,790 of the loans issued had been redeemed/repaid while loans amounting to KSh.4,255,786,418 were written off.

Further, the accuracy of outstanding loans balance of KSh.793,736,361,870 as at 30 June 2017 could not be confirmed as only sixteen (16) institutions/parastatals responded to circularization done at the close of the year, out of which only four institutions balances agreed with the balances held in the National Treasury's records. The other twelve (12) institutions independently confirmed to have a total loan balance of KSh.576,314,882,795 as at 30 June 2017 whose total balance differed by KSh.3,810,565,700 with the loan balance of KSh.572,504,317,096 reflected in the statement.

The resultant variance of KSh.3,810,565,700 has not been reconciled or explained casting doubt on the accuracy of the outstanding loan balance of KSh.793,736,361,870 carried forward to 2017/2018 financial year. It was also noted that out of the possible seventy-two (72) institutions only 16 or 22% responded to

the circularization. It was also noted that, the National Treasury has not been updating records based on the responses thereby defeating the purpose for such circularization.

In the absence of the responses to circularization and elaborate reporting instrument there is a likelihood of holding in the books non-existent loan balances.

ii) Non-Performing or Dormant Loans

As was reported during the financial year 2016/2017, the total outstanding loans balance of KSh.799,766,815,394 reflected in the financial statements for the year ended 30 June 2018 includes loans amounting to KSh.47,520,436,604 which has fallen due for redemption at various dates over the years. However, during the year under review, the institutions have not made any repayment against their respective loans.

Failure to redeem loans precipitate a high likelihood of defaulting and eventual loss of public funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

24. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

25. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

EQUALISATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of matter

27. Use of Budget as a Control Tool - Budget Performance

The statement of Comparison of Budget and Actual performance indicate that the management did not provide any receipts to be transferred from the National Treasury, but anticipated to utilize an amount of KSh.11,977,764,288 which was KSh.520,078,232 over an above the audited opening balance held at the Fund account at the Central Bank of Kenya of KSh.11,457,686,056. Consequently, during the year under review, no amount was appropriated for the Fund despite the fact that an amount of KSh.6,571,560,117 ought to have been transferred to the Fund based on the 2016/2017 audited financial statements. Out of the budgeted amount of KSh.11,977,764,288, KSh.6,937,847,293 or 57.9% was transferred to implementing MDAS during the year. The management has not given plausible explanation for failure to budget for any receipts to the fund despite this being a constitutional requirement.

Failure to budget for the transfer implies a deliberate intent to deny service delivery to the intended beneficiaries.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

28. Compliance with the Constitution

Article 204(1) of the Constitution of Kenya requires that one half per cent (0.5%) of all the revenue collected by the National Government each year calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly be paid into the Equalisation Fund. The total accumulated entitlement to the Fund for the financial years 2011/2012 to 2016/2017 are estimated at KSh.21.97 billion as at 30 June 2018. A review of the financial statement however revealed that only KSh.12,400,000,000 or 56.4% has been appropriated and transferred to the Equalisation Fund Account.

Further, out of available funds amounting KSh.12,400,000,000 that has been transferred to the Fund Account, only KSh.7,880,161,237 or 63.5% has been

disbursed for projects implementation through the MDAs in the Counties. The disbursed amount represent a meagre overall performance of 36% against the estimated amount since the inception of the Fund. The Fund Administration has cited delayed formulation of policies and project identification coupled by the legislative handled since inception. At that rate, the country may not have achieved equality or bridged the gap between the rich and the poor region as envisaged by the 20 years period as provided under Article 204(6) of the Constitution.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

29. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

PETROLEUM DEVELOPMENT LEVY FUND – HOLDING ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

31. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

32. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

CONTINGENCIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

34. Non-Compliance with Requirements of Public Finance Management Act, 2012

During the year under review an amount of KSh.1,050,000,000 was paid out of the Contingencies Fund on 29th May 2018 for the purposes of supporting countrywide flood response, supporting flood victims and cash release to families affected by landslides. However, it was noted that:

- i) There was no documentary evidence availed to show that the Cabinet Secretary –The National Treasury submitted to Parliament a detailed report in respect of the above payments and to subsequently seek Parliament to approve the payment(s). The lack of parliamentary approval for such payments is contrary to Section 22 (1) of the PFM Act, 2012.
- ii) The fund management did not avail any evidence to show that the Cabinet Secretary – The National Treasury had presented an appropriation bill to Parliament for the appropriation of the money paid and for the replenishment of the Contingencies Fund to the extent of the payment made from the Fund. Lack of the Appropriation Bill/Act referred to above is contrary to Section 22 (3) of the PFM Act, 2012.
- iii) Contrary to the provisions of the Public Finance Management Act, 2012, Section 23(d) and (e), the management did not include in the statements, information whether the funds so withdrawn were spent for the intended purpose or paid to persons who were supposed to be paid.

The non-compliance with the Public Finance Management Act, 2012 on this matter puts to risk the operations of the Contingencies Fund to the extent of monies paid out and not replenished. There is a danger therefore that in future the Fund may be exhausted thereby failing to meet its mandate.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

35. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

RAILWAY DEVELOPMENT LEVY FUND – HOLDING ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Conclusion

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

37. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

38. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

RURAL ENTERPRISE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

39. Unresolved Prior Years Matters

i) Unbanked Cash

The statement reflects unbanked cash balances totaling KSh.3,348,895 brought forward from 2012/2013 and earlier years. According to available information, the amount comprises of KSh.1,951,921 representing cash with District Commissioners (Loans Repaid); KSh.108,840 being Cash with District Commissioners (Interest on Loans); and KSh.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 KSh.3,348,895 at the District Commissioners Office. In addition, the balance of KSh.1,951,921 under District Commissioners (Loans Repaid) included advances amounting to KSh.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 reflected a debit balance of KSh.1,828,388 in respect of the Fund, while the Fund Accounts for the same year had reflected a balance of KSh.397,908,774. The significant difference of KSh.396,080,387 between the two sets of records has not been reconciled or explained since.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

40. Winding up of the Fund

As was reported in the previous year, 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.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

41. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

43. Failure to Commence Business

As was reported during the previous year, 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. However, the fund management has not undertaken any activities since then but the National Treasury continues to transfer money to the fund account at the Central Bank of Kenya which stood at KSh.3,472,500,000 as at 30 June 2018. Though the cash balance has been confirmed to exist and safe, this amount could have been utilized for other more deserving cases in government while the National Treasury continues to develop or create an enabling environment for the Fund's operation.

44. Difference between Trial Balance and the Financial Statement Amounts

The statement of receipts and payments of the fund shows a receipt figure of KSh.637,500,000 being transfers from Government. The Trial balance presented on the other hand reflects a transfers from Government figure of KSh.647,300,000 which is in agreement with the General Ledger but differs with the statement of receipt and payments figure by KSh.9,800,000. Although the management has confirmed that indeed only KSh.637,500,000 was received in the Fund's bank account, no explanation has been provided for the difference. Further, no reconciliation has been carried out between the two records.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

45. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

46. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

GOVERNMENT CLEARING AGENCY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

47. Accuracy and Presentation of Financial Statements

47.1 Failure to maintain Proper Books of Accounts

The statement of receipts and payments reflects KSh.53,586,330.00 as receipts for the year ended 30 June 2018. The receipts have not been supported with verifiable primary documents.

In the absence of such fundamental records and supporting documents, the accuracy and validity of the balances indicated in the financial statements cannot be confirmed.

47.2 Use of Budget as a Control Tool

Contrary to the International Public Sector Accounting Standards IPSAS para. 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. However, a review of the National Treasury budget indicated that the Agency's operational budget is captured under the Head 1071009000. However, it was noted that no Appropriation-in-Aid or revenue was budgeted for and there was no designated officer as a receiver of revenue from the agency operation.

In the absence of any revenue or Appropriation-in-Aid budget component in the National Treasury Approved Estimates, the Agency commercial operations are not budgeted for and thus the revenue collected is not under the control of the National Treasury.

47.3 Failure to Execute Mandate

As was reported in the previous year, a review of the Agency operations manual revealed that the Agency's 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. Only a meagre percentage of Ministries, Departments and Agencies, MDAs businesses are cleared by the Agency while the rest of the government importation business is taken by private companies and individuals in the industry.

48. Prior Year Matters

i) Unsupported Long Outstanding Balances

As was reported during the financial year 2016/2017, the statement of assets and liabilities as at 30 June 2018 reflect a balance brought forward of KSh.300,931,776 and KSh.52,973,897 under Accounts Receivables – Debtors and Accounts Payables - Creditors respectively. However these balance have not been supported with verifiable records and documents. The accuracy, completeness and validity of the balances can not be ascertained. Further, the debtors' balance of KSh.300,931,776 was net of a Clearance Account balance of KSh.654,000,000 which had also not been supported with any verifiable documents making it difficult to ascertain what it represents.

ii) Unsupported Fund Balance

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

iii) Cash and Cash Equivalent

The statement of assets and liabilities and statement of cash flow for the year ended 30 June 2018 reflected a cash and cash equivalent closing balance of KSh.72,435,965. A review of the Cash book and Bank reconciliation statements for Mombasa branch as at 30 June 2017 had revealed that the Agency branch had a closing cash balance of KSh.56,352,095 which was excluded from the cash balance disclosed in the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

49. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

50. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

TREASURY MAIN CLEARANCE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified of Opinion

51. Winding up of the Fund

The Treasury Main Clearance Fund has not been in operation for a long a long time. Consequently, the Public Accounts Committee it 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 Account 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 balances brought forward, whose accuracy, existence and validity could not be vouched.

52. Prior Years Matters

i) Accounts Receivable - Debtors

As was reported during the 2016/2017 and earlier years, the statement of assets and liabilities as at 30 June 2018 reflects an accounts receivable-debtors balance of KSh.12,503,607,446 out of which KSh.2,332,170,394 had not been analyzed. Consequently, the completeness and accuracy of the balance could not be ascertained.

Further, the balance of KSh.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 2018 continue to reflect an accounts payable - creditors balance of KSh.12,490,478,941 which included amounts of KSh.523,686 under PMG special account, KSh.2,285,511,054 under advance deposits, KSh.29,963,831 under advance deposits - Ministry of Information and Communications and KSh.93,455 under JCF interest, all brought forward from 2016/2017 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 KSh.12,490,478,941 as at 30 June 2018 could not be ascertained.

iii) Deficit Balance Brought Forward

In addition, and as was reported during the previous year, the statement of assets and liabilities as at 30 June 2018 also reflects a net financial position (closing fund balance) of KSh.13,128,505 which constitute a deficit brought forward of KSh.871,495 and fund balance brought forward of KSh.14,000,000 that have 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

53. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

54. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

56. Compliance with the Public Procurement and Assets Disposal Act 2015 – Publication of Contract Awards and Management (termination)

Examination of records maintained by the project management revealed that the project awarded several contracts valued at above KSh.5,000,000 and did not issue a quarterly report on the contracts, contrary to the provisions of Section 138 (2) of the Public Procurement and Assets Disposal Act, 2015.

However, the project management has indicated that the National Treasury and Planning is the procuring entity as prescribed in the Act and thus the entity that reports to Public Procurement Regulatory Authority. The Project has solely relied on the National Treasury to submit the requisite reports to Public Procurement Regulatory Authority. It is the responsibility of the project management to be proactive to cause and ensure its operations are in compliance with the existing regulations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

57. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

GLOBAL FUND PROGRAM - TO ACCELERATE THE REDUCTION OF TB, LEPROSY AND LUNG DISEASE (GRANT NO. KEN-T-TNT-1548)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

59. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

60. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIP PROJECT - IDA CREDIT NO. 51570 KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

62. Compliance with the Public Procurement and Assets Disposal Act, 2015 –Publication of Contract Awards and Termination

Contrary to the provisions of Section 138 (2) of Public Procurement and Assets Disposal Act, 2015 the project management awarded Tender No. IFPPP/PPPU/W/NCB/02/2016-2017 and Tender No IFPPP/KNH/34/2016-2017 at a contract price of KSh.97,000,000 and USD 997,716 (approximately KSh.101 million) respectively all valued above KSh.5,000,000 but did not report or issue a quarterly report. Similarly, the Project management terminated a procurement process on Tender No. IFPPP/PPPU/NCB/03/2017/2018 but failed to notify the Public Procurement Regulatory Authority as provided for in the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

63. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

PUBLIC FINANCIAL MANAGEMENT REFORMS PROGRAM

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

65. Budget Control and Performance

The statement of comparison of budget and actual amount reveals that the project utilized an amount of KSh.226,949,389 or about 17% of budgeted figure of KSh.1,306,157,406, resulting to an under expenditure of KSh.1,079,208,017 which represents 83% of the budgeted expenditure. Consequently, the Program could not have implemented all programmes and work plans fully as approved in the budget thus delaying provision of services to the citizens.

Other Matter

66. Human Capacity Shortfalls

It was noted that during the review of the PFMR Organizational Structure, the position of Communication Specialist, Human Resource Specialist (ICT administrator in acting capacity) and Legal Specialist remained vacant during the financial year under review. PFMR project calls for a well empowered and appropriately skilled Secretariat in all areas spelt out in its staff establishment and thus due to the human capacity shortfalls, the programme faces challenges in meeting its mandate, objectives and service delivery to the citizens. Officers holding positions in acting capacity may not have the necessary skills/competencies to achieve the desired goals of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

67. Except for the issues described in the Emphasis of Matter and Other Matter paragraph, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

68. Except for the issues described in the Emphasis of Matter and Other Matter paragraph, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

GLOBAL FUND HIV AIDS PROGRAM (GRANT NO. KEN-H-TNT GA 1547)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

70. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

71. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

73. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

74. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

STUDY AND CAPACITY BUILDING FUND PROJECT (SCBP) NO. CKE 6015 01K AFD FRANCE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

75. Budgetary Control and Performance

The statement of budget and actual amount reveals that the Study and Capacity Building Fund project had budgeted receipts of KSh.8,000,000 as proceeds from Domestic and Foreign Grants but only received KSh.4,472,100 resulting to an unrealized receipt of KSh.3,527,900 or 44.1% of the budgeted amounts. The management has indicated that, the Development Partner made Direct Payments for training in favour of staff amounting to KSh.4,137,140 but the same was omitted in the financial statements. The financial statement therefore do not fully disclose the operation of the project during the year.

76. Non-compliance with Procurement Laws and Procedures

During the year under review, the project made payments amounting to KSh.2,565,000 in respect to an appointment of the technical assistant for contract dated 1st November 2017 for provision of consultancy services. A review of the procurement process revealed that the procurement was not done as per the provisions of the procurement laws and regulations. In particular, it was noted that the selection process was not competitive as required by section 124(1) and (2) of the Public Procurement and Assets Disposal act, 2015. It was further noted that the selection of the technical assistant was based on his prior experience in the Resource Mobilization Department based on the initial procurement process which had been done in 2012, over four years ago as opposed to commencing the procurement process as prescribed by the law upon the expiry of the prior contract. This situation may have compromised the quality of the consultancy services rendered due to lack of a competitive process thus impairing effective service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

77. Except for the issues described in Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

78. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

TECHNICAL SUPPORT PROGRAMME (TSP)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

80. Dormant Accounts

The Project maintains two local currency Accounts with bank balances of KSh.1,136,902 and KSh.359 respectively as at 30 June 2018. No deposits or withdrawals have been made for the last two financial years. The explanation given that the balance of KSh.1,136,902 in one of the accounts was insufficient to be paid back to European Commission owing to ineligible expenditure was not supported by documentary evidence. Further, continued maintenance of the dormant accounts exposes the programme to risk of loss of funds.

81. Non-disclosure of Pending Bills

The statement of receipts and payments for the period ended 30 June 2018 reflects a figure of KSh.48,832,274 under use of goods and services. Examination of records maintained by the management revealed that the expenditure relates to a single payment made to an international company. The payment voucher appears to have been processed in June 2017 during the previous financial year but the same had not been disclosed as a pending bill as at 30 June 2017. Failure to disclose the expenditure as pending bills implies that the financial statements for the year ended 30 June 2017 did not reflect fairly the operations of the project for the period then ended.

82. Unsupported transfer to the Donor

During the year under review, the Programme transferred an amount of KSh.13,257,502 to the European Commission without details. Further, no transmittal documentation or acknowledgement from the European Union was availed for verification to support this transaction. In absence of sufficient and relevant supporting documents, it has not been possible to ascertain the validity of the expenditure.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

83. Except for the issues described in the Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

84. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KENYA PETROLEUM ASSISTANCE PROJECT: IDA CREDIT NO. 55260-KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

86. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

87. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

89. Material Uncertainty Related to Going Concern/Sustainability of Services

Clause 10 of the financial agreement between the Government of Kenya and AFD Development partner states that the deadline of disbursement shall be 31st October

2010. Further, the financial statements of the Micro-Finance Sector Support Credit project under project information shows that the project end date is 31st December 2014 as per amendment No.002.

It was however noted that the Project Management Unit continued to prepare financial statements despite the project having ended on 31st 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. The Project Management Unit of the Micro-Finance Sector Support credit project should ensure that they prepare a project closure report. Alternatively, the Project Management Unit should evaluate the project and if need be may seek for an extension from AFD.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

90. Except for the issues described in the Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

91. Except for the issues described in the Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

93. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

94. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

96. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

97. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Conclusion

99. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

100. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

GLOBAL FUND PROGRAM TO STEER THE COUNTRY TOWARDS THE ACHIEVEMENT OF THE TB MILLENNIUM DEVELOPMENT GOALS IN LINE WITH THE GLOBAL STOP TB STRATEGY PROJECT GRANT NO. KEN-S11-G12-T-D02

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

102. Budget Control and Performance

During the year, the global fund-TB had an approved budget of KSh.1,130,943,625 against actual expenditure KSh.299,250,103 or 26% utilization, resulting in KSh.831,693,522 budget under-utilization. The reasons cited for underutilization of funds include; delay in procurement process and delivery; delay in the inception of warehouse (KEMSA) construction with a 0% budget utilization on acquisition of non-financial assets among others. The low budget utilization of 26% implies that most of the budgeted development programs may not have been implemented.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

103. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

104. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

CONSOLIDATED FUND SERVICES-SALARIES ALLOWANCES AND MISCELLANEOUS SERVICES

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

105. Accuracy of the financial statements and Records

A review of various balances reflected in the financial statements under review revealed that different records maintained by management reflects balances which do not tally/agree though relating to the same item as highlighted below:

- i) The statement of cash flows for the year ended 30 June 2018 shows a comparative Prior year adjustments of KSh.31,142,627 while statement of assets and liabilities for the same period shows a comparative prior year adjustment of KSh.26,919,334 The difference of KSh.4,223,293 has not been explained.
- ii) The statement of receipts and payments for the year ended 30 June 2018 reflect compensation of employee's expenditure of KSh.2,685,214,290. The Trial Balance reflects a credit balance of KSh.3,217,869,377 on the same item while the payroll and payment vouchers show a total expenditure of KSh.2,675,257,162. The differences between the three sets of records have not been reconciled.
- iii) An analysis of the 'off payroll' payments reflect an expenditure of KSh.256,036,689 while the physical vouchers availed and examined for the period indicates a total expenditure of KSh.254,479,596. An expenditure of KSh.1,557,093 could not therefore be vouched.
- iv) The expenditure on Teachers Service Commissioners as per the supporting schedules to the statement of receipts and payments for the year under consideration is KSh.70,500,744 while the Ledger reflects a balance of KSh.55,586,543 for the same period. The difference of KSh.14,914,201 has not been explained.
- v) Examination of schedules supporting the Independent Electoral and Boundaries Commission expenditure in the statement of receipts and payments reflect a closing balance of KSh.61,788,248 while the payroll reflects an amount of KSh.51,679,730 The difference of KSh.10,108,518 has not been explained. In addition, the amount has not been recorded in the Ledger and Trial Balance.
- vi) Examination of payment vouchers revealed that an amount of KSh.23,705,121 paid to two retired officers of the National Gender and Equality Commission

(NGEC) was wrongly charged to National Police Service Commission (NPSC) expenditure item. No adjustment has been done to correct the anomaly.

- vii) The Ledger reflects expenditure for the National Cohesion and Integration Commission as KSh.100,210,801 while the payment vouchers examined indicate a total of KSh.97,017,530.10. The difference of KSh.3,193,271 has not been explained/reconciled.
- viii) The Trial Balance provided for audit include balances which have not been identified as either debits or credits. Whereas the Trial Balance represent a prima facie evidence on the accuracy in the recording of all the transactions affecting an entity, it has therefore been difficult to establish whether the two sides of the Trial Balance would balance as at 30 June 2018. Apparently, the accuracy of the financial statements' figures cannot therefore be ascertained without confirming the balancing of the Trial Balance. The financial statements prepared from unbalanced trial balance could result to grossly misstated financial statements and therefore may not reflect a true and fair view of the operations of the entity.

106. Unsupported Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2018 reflect a prior year adjustment of KSh.18,420,097 (2017: KSh.26,919,334 and 2016: KSh.8,883,205,334) which has not been supported. As similarly been reported during the previous years' audit reports, the management has not explained the genesis of such adjustment or provided any records by way of journal vouchers or entries in the ledger. In absence of sufficient verifiable supporting documents and records, the authenticity of such adjustments in the financial statements cannot be ascertained.

107. Lack of Bank Reconciliation statements

The management only provided the bank reconciliation statement for the month of June 2018. The bank reconciliation statement provided for audit indicates receipts in the bank statement not reflected in the cash book of KSh.645,092 which related to periods between 8 January 2014 and 1 February 2018.

In addition, the bank reconciliation statement indicates an amount of KSh.48,454,895 as payments in the cash book not shown in the bank statement. The amount of KSh.48,454,895 includes KSh.2,079,388 relating to periods between 30 June 2015 and 30 November 2017.

The receipts and payments reflected in the reconciliation statement have been outstanding for long and ought to have been recorded in the cash book/bank or reversed.

Consequently, the accuracy of the bank balance of KSh.158,864,022 reflected in the statement of assets and liabilities could not be ascertained.

108. Prior Years' Audit Matters

108.1 Account Balances not Recorded in Ledger

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

Exchequer releases	3,905,744,684.00
Transfers from other government Entities	362,830,853.00
Other Receipts	18,420,097.00

Upon review of the current position, it was noted that management has not explained the source of the balances and therefore the figures in the financial statements in respect to the specific items could not be confirmed.

108.2 Unsupported Restatement of Balances

The financial statements for the year ended 30 June 2016 had reflected balance brought forward under Fund balance, compensation of employees and account receivables of KSh.8,566,405,035, KSh.2,416,693,457 and nil balance respectively and which had been re-stated from KSh.397,382,932, KSh.2,418,352,317 and 8,663,621,032 respectively, as reflected in the audited financial statements for 2014/2015. The statement of financial position also shows clearance of outstanding item of KSh.11,980,334. The National Treasury has not yet explained or provided details of the said adjustments. Consequently, the accuracy of the balances reflected in the financial statements cannot be confirmed.

108.3 Suspense Balance

The statement of Financial Assets and Liabilities reflects a balance of KSh.4,456,673 referred to as a difference. The management have not explained what this difference is and therefore it is not possible to confirm the suspense account balances as presented in the financial statements. Further the balance has been eliminated in the financial year 2017/2018. Management has not explained the basis of removal.

Other Matter

109. Disclosure on budgetary Provisions

A review of the summary statement of Appropriation for Recurrent Vote shows a budget provision on Miscellaneous Services of KSh.128,000,000 for the year ended 30 June 2018. A similar budget provision of KSh.128,000,000 was made during the financial year 2016/2017. There has however been no expenditure incurred under the item during the two financial years. The management has not disclosed or

explained the activities which are anticipated to be funded under the Miscellaneous Services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

110. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

111. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

THE STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE KENYA GOVERNMENT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

112. Long Outstanding Balances

The statement of Outstanding Obligations Guaranteed by the Kenya Government as at 30 June 2018 reflects long outstanding contingent liabilities totalling KSh.164,132,746 made up of KSh.11,814,920 and KSh.152,317,825 relating to Kenya Railways Corporation and Cereals and Sugar Finance Corporation, respectively. Clearance of these balances appears to be uncertain.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

113. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

114. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KENYA LOCAL LOANS SUPPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

115. Un-supported Balances

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

116. Failure to Redeem Stocks

In the audit reports for previous years, reference had been made to stocks valued at KSh.10,430,700 which were past their redemption dates with the last redemption date for a sum of KSh.17,400 having been made on 6 February 2010. Although the National Treasury had explained in the past that the stocks were redeemed some years ago but erroneously accounted for as revenue, records to confirm the erroneous accounting for receipts and subsequent correction in the books of account have not been made available for audit review.

117. 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 further instructions issued by the National Treasury that all dormant funds are to be wound up. However, the process had not been completed as at 30 June 2018.

118. Material Uncertainty Related to Going Concern/Sustainability of Services

The Fund has been recommended for winding up and the process is ongoing. The Fund will be wound after the Task Force responsible for the process has concluded the verification.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

119. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

120. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

CONSOLIDATED FUND SERVICES - PUBLIC DEBT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

121. Accuracy of the Financial Statements

The financial statements' balances for the following items were found to be misstated after casting procedures were carried out. Details of the misstatement and the respective differences are as shown below:

Item Description	Financial Statement Balance KSh.	Confirmed/casted Balance KSh.	Difference KSh.
Total receipts-Statement of receipts and payments	517,166,531,951.00	517,161,876,534.00	4,655,417.00
Total payments-Statement of receipts and payments	516,955,293,342.00	516,547,494,884.00	407,799,458.00
Actual total payments-Statement of Appropriation	516,955,293,342.00	516,351,021,786.00	604,271,556.00
Cash and Cash equivalent at the beginning of the year - Cash flow statement	757,714,555.00	1,741,262,569.90	983,548,014.90

Further, a comparison of the statement of receipts and payments and the ledger for the period under review reflects different account balances in respect to the items as indicated below.

Item Description	Financial Statement Balance KSh.	Ledger Balance KSh.	Variance KSh.
Interest Payments on Foreign Borrowings	84,357,487,111	84,725,600,971	368,113,860
Principal Repayment on Domestic Loans	111,700,845,296	294,836,376,343	183,135,531,047
CBK -Pre-1997 Loans	1,110,000,000	2,220,000,000	1,110,000,000
Repayment of Principal from Foreign Lending and On-Lending	141,532,524,729	141,360,882,966	171,641,763
Exchequer Releases	517,161,876,534	-	517,161,876,534

The management has however not provided any analysis and supporting documents to support the adjustments. The accuracy of the balances reflected in the financial statements could therefore not be confirmed.

122. Unsupported Balances

The Statement of Assets and Liabilities for the year ended 30 June 2018 reflects a prior year adjustment balance of KSh.27,251,420,599 which has not been supported by any journal voucher or notes to the financial statement. Further, the general ledger under payment reflect a balance of KSh.516,547,493,884 which includes a credit balance of KSh.1,244,520,000 under Debit International SVRNG Bond (USD 2.75 BN). The balance is not supported by any documentary evidence. Further, the Ledger reflects expenditure for new loans and new administrative costs of KSh.7,919,757,971 and KSh.59,894,313,393 respectively. The details of these payments have not been provided. Consequently, the accuracy of the balances could not be confirmed in the absence of the relevant supporting documents.

123. Outstanding Loan Balance

The summary statement of public debt reflects an outstanding loan balance of KSh.4,801,416,851,482 as at 30 June 2018. The statement also shows opening public debt loan balance of KSh.4,194,102,152,577 as at 1 July 2017 and an amount of cumulative debt repaid of KSh.588,472,106,190 as at 30 June 2018. The statement does not however disclose amounts of disbursements and repayments during the period under review, making it difficult to confirm the correctness of the closing balance. In the absence of details on the loans, it has not been possible to confirm accuracy of the loan balances reported of KSh.4,801,416,851,482.

124. Failure to Prepare Monthly Bank Reconciliation Statements

The statement of assets and liabilities reflect bank balance of KSh.968,953,164 as at 30 June 2018. The Bank Reconciliation Statements for the period under review have not been availed for audit and the balance of KSh.968,953,164 is therefore not supported. In the absence of such records, the accuracy of the financial statement bank balance of KSh.968,953,164 cannot be confirmed.

Other Matter

125. Outstanding Loan Balance

The Summary Statement of Consolidated Fund Services-Public Debt reflects an outstanding loan balance of KSh.4,801,416,851,482 as at 30 June 2018. The outstanding loan balance increased by KSh.607,314,698,905 from the previous year balance of KSh.4,194,102,152,577. This represents 14.48% increase in the outstanding loans.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

126. Except for the issues discussed in the Basis for Adverse, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

127. Except for the issues discussed in the Basis for Adverse, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

CONSOLIDATED FUND SERVICES - PENSIONS AND GRATUITIES

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

128. Cash and Cash Equivalents

The statement of assets and liabilities reflect an overdrawn bank balance of KSh.572,446,864 while the cash book in support of the balance reflects a debit balance of KSh.1,540,215,805 resulting in a variance of KSh.2,112,662,670. The bank reconciliation statements provided for the financial year 2017/2018 had the following deficiencies:

i. Payments in the Cash Book but not in the Bank

The bank reconciliation statement reflects payments in the cash book but not in the bank statement amounting to KSh.6,851,074,383. The following inconsistencies were noted:

- Included in the balance are transactions dated July 2018 amounting to KSh.2,930,968,073 which are outside the financial year and relate to the 2018/2019 financial year;
- Examination of the cash book and the bank statements revealed payments amounting to KSh.2,355,546 cleared through the bank account but continued to be carried as reconciling items;
- Further review of bank transactions revealed overpayments in excess of those recorded in the cash book amounting to KSh.5,352,286;
- Scrutiny of the cash book revealed transactions totalling KSh.169,677,839 not in the bank statement but excluded from the schedule of reconciling items under payments in the cash book but not in the bank statement. Consequently, the payments in the cash book not in the bank statement amount has been understated;
- Included in the reconciling item payments in the cash book but not in the bank statement are long outstanding items relating to periods between 2014 and 2017 totalling to KSh.37,661,799 which had not been resolved as of the financial statements date.

ii. Receipts in the Bank Statement but not in Cash book

Included in the balance for receipts in the bank statement but not in the cash book figure are long outstanding items relating to the periods between 2007 and 2017 totalling to KSh.123,524,492. Ideally, the balances ought to have been cleared but remained outstanding as at the financial statements date.

iii. Payments in Bank Statement but not in Cash book

The bank statement reflects transactions whose amounts are in excess of those recorded in the cash book. The excess payments total KSh.11,877,823 for which no explanations have been rendered. Further, the reconciling items in the schedule of payments in the bank statement but not in cash book include transactions amounting to KSh.36,454,406 already recorded in the cash book rendering them invalid.

From the foregoing, the accuracy of the reported overdrawn bank balance of KSh.572,446,864 as at 30 June 2018 could not be confirmed.

129. Military Gratuity Expenditure

Included in the amount under commuted pension (Lumpsum) is military gratuity expenditure of KSh.1,517,299,948, and of this expenditure, an amount of KSh.107,965,176 was noted to have been recorded twice. In addition, a military gratuity expenditure amount of KSh.38,352,507 had not been incorporated in the records thus understating the expenditure. In the circumstances, the accuracy of the military gratuity expenditure could not be confirmed.

130. Irregular Payment of Pension

Also included in the payment of pensions expenditure of KSh.63,170,121,740 are irregular payments found from the sample field inspection visits during the period of July to September 2018. These are detailed below: -

- During the period under review, monthly pension payroll amounting to KSh.58,605,552 was indicated as having been paid to Asian and European officers. However, no individual officer files were made available to authenticate the payments.
- Payments amounting to KSh.27,378,721 were made to deceased persons. Of this amount, KSh.12,580,674 relate to repeat payments to deceased persons bank accounts even after being returned by the receiving bank at first instance. Ideally, the pension department should suspend further payments into an account on return of the pension paid/sent.
- Monthly pension amounting to KSh.20,761,552 was paid out to pensioners and dependants who could not be traced at their indicated areas of residence as per

department of pensions records and our physical verification with the government administration representatives.

From the foregoing, the accuracy of the reported expenditure on payment of pensions of 63,170,121,740 could not be confirmed.

131. Unsupported Expenditure

Also included in the pensions expenditure is an amount of KSh.20,294,340 paid to Crown Agents, on account of pre and post-independence pensioners residing in the United Kingdom. The expenditure has not been adequately supported by way of payrolls detailing the said beneficiaries. Consequently, the accuracy of the expenditures could not be confirmed.

132. Returned Pensions

The statement of assets and liabilities indicates accounts payables of KSh.4,061,252,617 - (2017 - KSh.3,243,545,204). Analysis of the account indicates that KSh.1,189,930,008 relates to payments returned during the year while KSh.372,222,595 was repaid to pensioners on account of 2017 returns. Consequently, the net movement for the year is KSh.817,707,413. The Management has not been able to support the balance of KSh.4,061,252,617 by way of detailed listing per individual pensioners.

Other Matter

133. Prior Years' Matters

133.1 Irregular Payment of Pension

The statements of receipts and payments for the financial year 2016/2017 reflected pension expenditure of KSh.59,757,695,779. Included in the expenditure was civil pension of KSh.22,901,547,520. An amount of KSh.1,306,966,519 was paid to retired teachers during the financial year 2016/2017 without being properly supported with documents such as the last pay slips as required by Pension Act 189, Section 10. The Management did not explain the basis of calculating the pensions. Therefore, the accuracy of payment of civil pension amount of KSh.22,901,547,520 could not be confirmed.

133.2 Military Gratuity

Also, included in the pension expenditure figure is military gratuity of KSh.4,562,597,165 which had an overpayment of KSh.86,584,111. Management is yet to effect recovery for the overpayment.

133.3 Unsupported Expenditure

The Department paid pension totalling KSh.58,656,973 to Asian and European Pensioners who retired due to Africanization of public sector after independence in 1963. Their life certificates were not availed to confirm that the pensioners are still

alive as required by the pension department internal controls. The propriety of the expenditures could not, therefore, be confirmed.

133.4 Failure to Surrender Unspent Allocation

The Statement of Receipts and Payments for the financial year 2016/2017 reflected a deficit of KSh.1,270,093,379 for the year ended 30 June 2017. The excess expenditure over the receipts for the year was funded from unspent balance from the financial year 2015/2016. This is contrary to the provisions of Section 45 of the Public Finance Management Act 2012 that requires the department to surrender the unspent pension as of year-end to the Exchequer Account.

133.5 Un-supported Clearance of Prior Year Adjustment

The statement of financial assets for the year 2015/2016 reflected a prior year adjustment of KSh.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 neither supported nor explained. The financial statement may not have presented fairly the financial position as at 30 June 2016.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

134. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

135. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

THE RECEIVER OF REVENUE – PENSION DEPARTMENT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

136. Misstatement of Revenue Balance

During the year under review, the statement of receipts and transfers reflects total revenue collected and transferred to the Exchequer as KSh.308,019,086. The bank statements on the other hand shows the total receipts and transfers thereof to the Exchequer of KSh.309,398,233 resulting to unexplained difference of KSh.1,379,147.

The statement of revenue is therefore misstated and does not reflect a true and fair view of its operations.

137. Previous Audit Issues - Revenue Balances

In the audit of the previous year, reference was made where various classes of revenue reflected in the statement of revenue and the cash book showed different amounts as analyzed below.

Revenue Class	Notes to the Revenue Statement	Electronic Cash book Balance
31% Contributions	356,715,202.00	0
2% WCPS	0	65,265,348.10
Abatement	0	49,072,014.90
Cap Deductions	0	2,403,645.05

Consequently, the accuracy of the balances reflected in the statement of revenue could not be ascertained. No reconciliation has been done to address the differences.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

138. Failure to Provide a Budget

The Pensions Department collected revenue totaling KSh.309,398,233, during the year under review. The Department, however, failed to provide a budget for the amount estimated to be collected during the period. It is not possible therefore to evaluate the performance of the department based on the amount reported or determine whether all the revenue due was collected.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

139. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

PROVIDENT FUND ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

140. Trial Balance and Ledger Balances

Included in the Trial Balance and the Ledger Balance as at 30 June 2018 are items whose balances have been omitted from the financial statement. The National Treasury Management have not explained what the items represent nor provided analysis to support their omission from the financial statements. The details of the items, their respective accounts and account balances are as indicated below:

Account	Description	Amount
4-867-0903-7310224	Interest on Investments Provident Fund	739,438,030.80Cr
4-867-0903-7310227	Profit/Loss on realization of Investments	7,163,992.05Cr
4-867-0903-7310230	Interest credit to Deposit	113,114.00Dr
4-867-0903-7310231	Accumulative Income & Expenditure Account	1,372,274.45Cr
4-867-0903-7310235	Recovery of Interest due from Kenya Government	1,448,783.00Cr
4-867-0903-7310236	Annual Account	883,161.85Cr
4-867-0903-7310237	Bonus paid to Depositors	1,296,168.10Cr
4-867-0903-7310238	Annuity Payment (Charles Rombo Agriculture)	50,695.00Dr
4-867-0903-7310237	Bonus paid to Depositors	1,296,168.10Dr

In absence of any reconciliation and explanation, the financial statements may not therefore present a true and fair view of the financial position.

141. Other Receivables

The statement of assets and liabilities reflects other receivables balance of KSh.9,972,598 which include a cash deposit balance of KSh.3,796,226 held in the

insolvent Cereals and Sugar Corporation. The Corporation has been recommended for winding-up but the process is yet to be completed. Therefore the realization of the amount of KSh.3,796,226 deposited in the Corporation cannot be ascertained and the balances of other receivables of KSh.9,972,598 may be grossly misstated.

Further, included in Other Receivables is KSh.6,176,372 in respect of ordinary shares due from KP & LC that is not reflected in the ledger. Therefore, the source and accuracy of the balance could not be ascertained.

142. Other Pending Payables

The statement of assets and liabilities reflects KSh.9,715,111 as Other Pending Payables brought forward made up of KSh.9,622,726 and KSh.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 but without any supporting analyses. In the absence of analyses, it has not been possible to confirm the accuracy, validity and completeness of these balances.

Other Matter

143. Idle Resources

For sometime now, the fund has carried out minimal operations where only dividends from investment in Kenya Power and Lightings Company Limited are recorded. The fund continues to accumulate funds which now standing at KSh.759,472,236 as at 30 June 2018 and nothing is invested even with Government bonds and therefore no interest is earned. The fund administrator has not undertaken any of the activities for which the fund was established. The amount has been held idle at Central Bank of Kenya but could have been invested in income generating ventures. Alternatively, if the mandate of the fund is found to have ceased or lapsed, the same ought to be wound up and the assets reverted to the Government.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

144. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

145. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

EUROPEAN WIDOWS AND ORPHANS PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

146. Unsupported Investments

The statement of assets and liabilities as at 30 June 2018 reflects a receivables balance of KSh.21,221,715 which includes an investment balance of KSh.16,900,000 representing cash deposits that was made to the Cereals and Sugar Finance Corporation. The investment balance was not supported by any verifiable documents such as deposit certificates as required. Further, the Corporation in question is technically insolvent and the cabinet approved its winding up vide memorandum dated 13 September 2007 with recommendation that assets and liabilities be transferred to The National Treasury. In addition, a taskforce constituted by the Principal Secretary in 2013/2014 to look at the old and un-reconciled balances submitted interim progress report but did not make any recommendations, indicating recoverability of the investment.

In the circumstances, the investments may not be recovered and the funds' assets could be overstated.

147. Bank Reconciliation

The statement of assets and liabilities as at 30 June 2018 reflects a cash balance of KSh.175,505,994. A review of the cash book reflects a balance of KSh.168,552,393 at the same date resulting to an un-explained difference of KSh.6,953,601. The bank statements and bank certificates on the other hand indicates a balance of KSh.172,853,169. The discrepancies between the three sets of records have not been reconciled.

148. Adjustment of prior year Investment Balance

During the year under review, the Fund's management made an adjustment by crediting the investment account balance brought forward from previous years of

KSh.25,516,932 to KSh.21,608,573 by KSh.3,908,360. The adjustment was effected through debiting the Capital account balance with a similar margin from KSh.125,506,423 to KSh.121,598,063. The two accounts were adjusted in 2011/2012 financial year with an amount of KSh.17,364,820 in recognition of bonus shares which had been omitted. The adjustments to capital account have not been explained therefore rendering the present adjustment invalid.

149. Balances Omitted from the Ledger

The statement of receipts and payments shows dividend income receivable of KSh.4,321,715. The amount has however not been recorded in the General Ledger. The balances in the financial statements should be derived from the Ledger and Trial Balance. The receivable balance in the financial statement is therefore not supported by any primary books of accounts

150. Statement of Comparison between the Budget and Actual Amounts

The management did not include for audit, the Statement of Comparison between Budget and Actual amounts in the financial statements as prescribed by the Public Sector Accounting Standards Board and as exemplified by the Treasury circular No. AG 4/16/1/VOL.IV/76 of 13 July 2017. As a result, it has not been possible to evaluate or appraise the performance of the fund during the year under review.

Other Matter

151. Credit Risk in the Financial Statements

The financial statements include a note on the credit risk of the entity which however, does not include all relevant information with regards to the entities debtors. The receivables from non-exchange transactions shows nil balance while the statement of assets and liabilities indicates receivables amounting to KSh.21,221,715. Included in the balance are doubtful receivables from Cereals and Sugar Finance Corporation of KSh.16,900,000.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

152. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

153. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

ASIAN OFFICERS FAMILY PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

154. Previous Year's Report

i) Failure to Provide Records for Verification

During the period under review, the Pension Department made payments amounting to KSh.1,600,842 as pensions to pensioners/dependants under the Fund. Included in the schedule are two payments totaling to KSh.84,000 paid to two pensioners with reference pension numbers BPN/PB 589 & BPN/PB 1688 but whose pension files were not availed for audit review.

ii) Irregular Payment of Pension

As was reported during the previous years, the department had made pension payments amounting to KSh.519,800 to two beneficiaries between the year 2007 and 2015 who were later confirmed to be deceased. A further KSh.42,000 was paid between July 2015 and January 2016 despite the families of the two beneficiaries having notified the department of their demise in September 2007 and February 2008 respectively. Although the Fund management has so far recovered an amount of KSh.418,710, an amount of KSh.143,090 has remained outstanding.

iii) Un Supported Balance

The statement of financial assets and liabilities reflects receivables balance of KSh.15,200,000 relating 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

required for audit verification. The accuracy and validity of the receivable balance of KSh.15,200,000 cannot be confirmed.

155. Transactions in the Cash Book not in Bank Statement

The bank reconciliation statement for the month of June 2018 reflects payroll payments for the months of May and June 2015 totaling KSh.237,646 in the cash book but not in the bank statement. Further, the cash book also reflects receipts of KSh.6,575 which have not been banked for more than five years. In absence of any reconciliation or explanations, it has not been possible to ascertain the accuracy of the balances reflected in the financial statements.

156. Failure to Capture Ledger Figures in the Financial Statement

The Trial Balance presented includes debit/credit balances which have been omitted from financial statement as indicated below:

Item(s) Description	Debits KSh.	Credits KSh.
Depreciations/ Appreciations	337,703.00	
Expenses of management	10,613,702.35	
Interest on Investment-Asian	592,078,739.65	
Government Contributions		1,219,565.05
Interest on Investment Asian		1,075,831,824.85

No explanatory notes have been provided by management indicating what the figures represent.

In addition, the Trial Balance total credits of KSh.1,491,614,679 and debits of KSh.1,042,467,389 do not agree. The difference of KSh.449,147,290 has not been explained. Consequently, the Financial Statement may not reflect a true and fair position of the Fund as at 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

157. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

158. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

ASIATIC WIDOWS AND ORPHANS PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

160. Material Uncertainty Related to Going Concern/Sustainability of Services

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 National Treasury to initiate the process of winding up of the Fund. According to the report of the task force appointed by the National Treasury on winding up of the dormant funds dated August 2015, a draft legal Notice has been prepared in conjunction with the State Law Office for degazetting 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

161. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

162. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

SUBSCRIPTION BY KENYA GOVERNMENT TO INTERNATIONAL ORGANIZATIONS

REPORT ON THE FINANCIAL STATEMENTS

Basis for an Adverse Opinion

163. Comparison Between the Budget and Actual Amounts

The statement of comparison between the budget and the Actual Amounts indicates that during the year under review, an amount of KSh.500,000 was provided in the budget but no expenditure was incurred. The Management has explained the huge variance arose due to the fact that the amount in the budget was a 'notional' budget provision as there was no amount that had been called for payment during the year in absence of such a resolution by the member states. The budget process does not provide for such a 'notional budgetary estimates' for parliamentary approval as this would exposes the Government to abuse and misappropriation/misdirecting of public funds. Further requisition and approval of budget which is subsequently not utilized deny other needy government programs funds for implementation.

164. Failure to Provide the Trial Balance

The Management did not provide trial balance relating to the vote, for the financial year 2017/2018. The source and accuracy of the information contained in the financial statements could therefore not be ascertained.

165. Comparison of Expenditure with the Appropriation Account

A comparison of balances reflected in the Treasury main financial statement indicates that the Government made several payments as Grants and transfers amounting to KSh.1,069,476,595 during the year under review. Included in KSh.1,069,476,595 are membership dues and subscription to unspecified international organizations totaling to KSh.48,779,790.

It has not been possible to draw a line between what is payable under the subscription to international organization and those under Grants and Transfers to various expenditure vote heads of international nature.

166. Unsupported Balances

In the Audit Report of the previous year, reference was made to the report of the financial year 2015/2016 where the statement of details of Kenya Government share subscription and capital contribution to international organizations had reflected local value of subscription totaling to KSh.51,403,651,783 against various amounts in foreign currencies as at 30 June 2016. However, an independent confirmation of those balances then showed that subscription were received from only four (4) out of the twelve (12) organizations. In addition, the amount confirmed by two of those organizations had differed significantly. Further, the subscription for 2014/15 totaling to KSh.116,813,106,919 in respect of 10 organizations had been restated to KSh.49,750,957,607 due to conversion of foreign currencies. The huge foreign currencies loss had not been explained

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

167. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

168. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

THE PRESIDENCY VOTE 1011

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

170. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

171. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR INTERIOR VOTE 1021

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

172. Pending Bills

The financial statements indicate that pending bills amounting to KSh.4,835,827,891 were not paid during the year under review but were instead carried forward to 2018/2019 financial year. Had these bills been paid and the expenditure charged to the relevant items of accounts for 2017/2018, the financial statements for the year ended 30 June 2018 would have reflected a net deficit of KSh.4,677,852,838 instead of a net surplus of KSh.157,975,053 now shown.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

173. Purchase of Helicopters - Tender No. NPS/AW/001/2016-2017

The tender for purchase of three new helicopters under classified procurement; AW139 LE- law enforcement twin turbine engine, AW139 VIP- twin turbine engine and AW119 KX -single turbine engine was awarded to a foreign firm at a contract sum of Euros39,123,357(equivalent to KSh.4,927,993,312) through direct procurement method. The contract was signed on 8 June 2017. The tender was evaluated on the four stages; preliminary, technical, financial and negotiations stage. Audit examination of the underlying documents and records revealed the following unsatisfactory matters:

173.1 Preparation of the Bid Documents

A review of the tender evaluation report revealed that only one bidder was invited and issued with bid documents on 29 March 2017 for purchase of the three new helicopters - AW139 LE, AW139 VIP and AW119 KX.

Further, no evidence was provided to show that technical input in preparation of the tender documents. As a result, additional essential standard avionics helicopter parts required to be issued to form the basis of tender preparation and subsequent negotiations were not included in the original tender documents contrary to Section 104 (a) of the Public Procurement and Asset Disposal Act, 2015.

173.2 Upward Variation of the Original Bid Price at Negotiation Stage

Examination of tender evaluation report revealed that the tenderer was evaluated at preliminary and technical stage and was found to be responsive. At financial

evaluation stage, the tender evaluation committee recommended the firm to be awarded Tender No. NPS/AW/001/2016-2017 for supply and delivery of three new turbine engine helicopters to the National Police Service at the bid price of Euros 31,941,200 (equivalent to KSh.4,029,701,792) as tabulated below:

Description	Cost in Euros	Equivalent Cost KSh.
AW139 VIP Helicopter	14,729,400	1,858,261,104
AW139 Law Enforcement Helicopter	13,390,800	1,689,383,328
AW119Kx training helicopter	3,821,000	482,057,360
Total	31,941,200	4,029,701,792

Further, the tender evaluation committee also recommended that the outcome be negotiated with the bidder to get better value for the tax payers' money through:

- a) Harmonizing the submitted bid document with the issued tender document and;
- b) Lowering price without compromising the technical specifications required in the tender document.

However, during negotiations stage carried out on 8 May 2017, the total cost of the tender went up from the original bid price of Euros 31,941,200 to Euros 39,123,357 by Euros 7,182,157 (KSh.906,100,927) contrary to tender evaluation committee recommendation for negotiation to lower the price without compromising the technical specifications in the tender.

The negotiation committee minutes indicates that the additional items negotiated were not included in the original tender documents and included amongst others; weather radar, enhanced ground proximity warning system, additional flight display and FLIR Ultra force 350 EP Camera all amounting to Euros 7,182,157 (KSh.906,100,927.12).

173.3 Verification of Deliveries

An audit verification exercise carried out on 15 May 2019 confirmed that the helicopters were delivered at National Police Service Air wing, Wilson Airport. However, two of the trainer helicopters; AB 206 - A/C 9173 and A/C 9175 had not been fully assembled as at the time of the audit verification exercise. Further, only two helicopters registration numbers 5Y-DIG and 5Y-PEU were certified by the manufacturer and insured as required under the Civil Aviation Insurance Regulations.

173.4 Unexplained Payment for Difference in Exchange Rates

Examination of payment voucher numbers 202 and 210 dated 30 June 2018 revealed that amounts of KSh.4,000,769,752 and KSh.927,223,560, respectively

were paid to the firm for supply of the 3-new turbine engine helicopters. However, as per payment voucher number 196 dated 30 June 2018, an amount of KSh.76,368,793 was also paid to the firm for the difference in exchange rates. No justification was provided for the payment.

174. Supply and Delivery of CQ 7.62mm General Purpose Machine Guns and AK-47 Rifles - Contract No. NPS/CFA/017/2016-2017

The National Police Service procured under classified items through direct procurement method 300No. CQ 7.62mm General Purpose Machine Guns and 12,000No. AK-47 Rifles. A foreign firm was invited to tender on 2 May, 2017 for the supply of 300No. CQ 7.62mm General Purpose Machine Guns and 12,000No. AK-47 Rifles. The tender was closed on 8 May 2017 and the bid opened on the same date. The contract was signed on 8 June 2017.

The tender was evaluated and after negotiations, the contract price was agreed at USD 2,696,250 (KSh.27,231,250). However, examination of the tender documents revealed the following unsatisfactory matters:

The tender evaluation report indicated that at the preliminary evaluation stage, the bidder did not provide certificate of incorporation and a weaponry manufacture registration /authorization and that at the technical evaluation stage, the bidder was not responsive on rate of fire, maximum effective range and provision of accessories.

Failure to meet all the requirements by the bidder should have led to automatic disqualification. However, the tender was awarded to the bidder contrary to Section 80 (1) and (2) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, it has not been possible to ascertain whether the State Department for Interior got value for money in respect of the Contract No. NPS/CFA/017/2016-2017.

175. Proposed Grilled Masonry Perimeter Fencing Including Canopies at Kenya Police Headquarters and Vigilance House Annex Nairobi -Tender No. KPS/RT/A/3/2016-2017

The project was procured under restricted tendering method where ten bidders were invited to bid and all responded. A local firm was awarded the contract at a contract sum of KSh.19,023,971 being the lowest responsive bidder. The project was scheduled to take twelve months to completion. However, examination of the tender documents revealed that although Section 3.3 of the tender documents required the bidders to have a valid registration with National Construction Authority, the firm awarded the contract had provided an expired certificate from National Construction Authority.

In addition, the bidder did not provide audited financial reports for the previous two years that is, 2015 and 2016 but attached audited report for the financial year 2012.

In the above circumstances, the tender was not properly, transparently and fairly awarded as contemplated under Article 227(1) of the Constitution of Kenya. It cannot, therefore, be confirmed whether the State Department for Interior got value for money in respect of the contract.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

176. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REVENUE STATEMENTS OF STATE DEPARTMENT FOR INTERIOR

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

177. Uncollected Fuel Storage Tanks Annual Licence Fees

Records maintained at Nairobi County Commissioner's offices at indicated that two hundred and eighty (280) petrol stations had been licensed and were to pay fuel storage tanks annual licence fee of KSh.4,000 per station.

However, audit review established that, out of the two hundred and eighty (280) registered petrol stations, only seventy-six (76) paid their annual licence fees in 2017/2018 financial year, resulting in uncollected revenue amounting to KSh.816,000 from two hundred and four (204) petrol stations. The uncollected amount had not been disclosed or reflected in the statement of arrears of revenue as at 30 June 2018.

In addition, audit inspection and verification exercise within Nairobi County of sampled petrol stations revealed that a total of twenty-five (25) operational petrol stations were not registered by Nairobi County Commissioner for collection of fuel storage tanks annual license fees and thus, denying the Government revenue amounting to KSh.100,000 indicating that the extent of loss of revenue could be higher if the entire population of the petrol stations was inspected.

Further, the Department for Interior explained that provisions of Section 14(5) of the Petroleum Act, 1947 was the basis for collecting the revenue until 16 May 2017 when the department realized that there was no legislation governing the revenue collection. However, the Department continued to collect the annual licence fees from petrol stations even after 16 May 2017 during 2017/2018 financial year.

178. Variance Between the Revenue Statements and Actual Receipts under Certificate of Good Conduct

As disclosed in Note 1 to the revenue statements under fees on use of goods and services, revenue amounting to KSh.674,327,058 was collected in respect of Certificate of Good Conduct during the year ended 30 June, 2018. However, examination of revenue records maintained at Directorate of Criminal Investigations Department showed that revenue collected under Certificate of Good Conduct during the year was KSh.713,835,000, resulting in unreconciled difference of KSh.39,507,942.

Further, a review of the response from the Directorate of Criminal Investigations revealed that out the revenue amounting to KSh.69,296,850 collected by Postal Corporation of Kenya at Huduma Centers, only KSh.25,281,850 was remitted to Central Bank of Kenya, resulting in unremitted revenue of KSh.44,015,000.

Although the State Department for Interior explained that the amount of KSh.69,296,850 collected by the Postal Corporation of Kenya on behalf of Directorate of Criminal Investigations comprised KSh.51,290,000 and KSh.18,006,850 remitted to Central Bank of Kenya during 2017/2018 and 2016/2017 financial years, respectively to Central Bank of Kenya. No documentary evidence was provided to support this explanation.

Consequently, it has not been possible to confirm the completeness and accuracy of the revenue amounting to KSh.674,327,057 in respect of Certificate of Good Conduct included in the statement of receipts and transfers for the year ended 30 June 2018.

179. E-Citizen Services

Although the E-citizen services led to enhanced revenue collection, a comparison of the revenue amounts in the revenue statements with E-citizen collections/remittances during 2017/2018 financial year revealed unreconciled differences amounting to KSh.3,658,646,536.

No explanation was given for the unreconciled differences.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

180. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

181. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KENYA CITIZENS AND FOREIGN NATIONALS MANAGEMENT SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

183. Irregular Payment Per-diem and Allowances to Board Members

Examination of payment voucher number 154 dated 08 June 2016 revealed that an amount of USD 59,000 equivalent to KSh.6,015,050 was paid to an International Management Institute for full board accommodation, airport transfers, study materials, study tours, weekend excursions and medical insurance for six board members and four senior staff of Kenya Citizens and Foreign Nationals Management Service (KCFNMS).

During the same training trip, the board members were also paid quarter per diem for thirteen days through payment voucher number 156 dated 13 June 2016 amounting to USD3,263 equivalent to KSh.332,663 per board member totalling KSh.1,995,977.

In addition, examination of payment voucher number 180 dated 30 June 2018 revealed that the six board members were each paid KSh.300,000 being sitting allowance for fifteen days totalling KSh.1,800,000 during the same training in Israel at the management institute.

Further, examination of payment voucher number 203 dated 30 June 2018 revealed that five board members were each paid KSh.340,484 being payment of extra per diem for thirteen days totalling KSh.1,702,417.75 during the same trip to Israel.

The original arrangement approved by the full board meeting held on Tuesday, 31 May 2016 authorized payment of USD 59,000 to the management institute for full accommodation and the Accounting Officer approved payment of ¼ per diem. However, a comparison of full per diem in Israel of USD 1004 with ¼ per diem of USD 251 resulted in irregular payment of extra per diem of KSh.1,702,417.75 contrary to Salaries and Remuneration Commission (SRC) advice as communicated in a letter Ref. No.SRC/TS/DRRPS/3/26Vol.V(127) dated 06 July 2016 on payment of allowances to board members of KCFNMB, which provided for payment of quarter per diem for international travels for a limited number of days.

In addition, payment of full per diem of KSh.1,330,651 per board member based on State Corporations Advisory Committee Circular No. OP/SCAC.1/1/5 (45) dated 29 August 2016 was made contrary to Salaries and Remuneration Commission Circular No.SRC/ADM/CIR/1/13 Vol.III (126) dated 10 December 2014 under scope of application which instructed all other existing Circulars on Daily Subsistence (Local and Foreign travel) to cease to apply.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

184. Operating Without a Board of Directors

During the year under review, the Service operated without a board of directors to guide its policies and operations contrary to Section 5(1) of the Kenya Citizens and Foreign Nationals Management Service Act, 2011. The term of the five board members expired on 26 June 2017 having been appointed to office for a period of five years on 25 June 2012. The Chairman's term also expired on 17 April 2017 having been appointed on 16 April 2012 for a period of six years.

NATIONAL COHESION AND INTEGRATION COMMISSION

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES'

Conclusion

186. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

187. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

GOVERNMENT PRESS FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

189. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

190. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NATIONAL HUMANITARIAN FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

191. Unvouched Expenditure

Disclosed in Note 4 to the financial statements under other grants and payments are payments amounting to KSh.7,371,112 in respect of construction of Internally Displaced Persons houses in Turkana County and KSh.6,667,000 for office running expenses for the year ended 30 June 2018. However, payment vouchers and supporting documents for the expenditure were not provided for audit review.

In the circumstances, the validity and propriety of the expenditure of KSh.14,038,112 could not be ascertained.

192. Irregular Payments to Integrated Internally Displaced Persons

Disclosed also in Note 4 to the financial statements are grants to Internally Displaced Persons under cash payments programme amounting to KSh.2,651,669,415 in 2017/2018 financial year. Although schedules of payments to internally displaced persons were provided for audit review, the following anomalies were observed:

192.1 Payments to Internally Displaced Persons without National Identity Cards in Turkana

Examination of the list of Internally Displaced Persons from Turkana County submitted for audit revealed that an amount KSh.4,600,000 was paid to Internally Displaced Persons who did not have national identification cards. As a result, it was not possible to confirm whether the Internally Displaced Persons paid were Kenyan citizens.

192.2 Payments to Internally Displaced Persons with Duplicate Names

Examination of the list of Internally Displaced Persons from sixteen counties submitted for audit revealed that payments totalling KSh.17,800,000 were made to Internally Displaced Persons with duplicate names. Further, for every duplicate name, only one name matched with the identification card number provided, while the other similar name whose identification card number provided was related to a different person as verified in the National Registration Bureau database. Consequently, the validity and propriety of the payments amounting to KSh.17,800,000 could not be confirmed.

192.3 Payment to Non-existing Internally Displaced Persons

Examination of a sampled list of Internally Displaced Persons' national identity card numbers revealed that payments amounting to KSh.250,000 were made to Internally Displaced Persons whose national identity card numbers provided did not exist in the database of National Registration Bureau. Consequently, the validity and propriety of the payments amounting to KSh.250,000 could not be confirmed.

193. Bank Balances

The statement of financial assets and liabilities as at 30 June 2018 reflect bank balance totalling KSh.799,889,432 and as disclosed in Note 5A to the financial statements. However, the cash book provided for audit review was incomplete and had not been updated with some transactions in bank statements amounting to KSh.17,804,212. Further, the board of survey report on cash and cash and bank balances as at 30 June 2018 was not made available for audit review. In the circumstances, the completeness and accuracy of bank balance of KSh.799,889,432 as at 30 June, 2018 could not be confirmed.

194. Imprests and Advances

The statement of financial assets and liabilities as at 30 June 2018 reflects imprests and advances balance of KSh.71,960,000. As disclosed in Note 5B to the financial statements, the outstanding advances relates to Authority to Incure Expenditures (AIEs) given to County Commissioners of Mandera, Nakuru and Bomet in 2014/2015 financial year for onward transmission of the funds to the beneficiaries. However, the imprests and advances had not been accounted for as of 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

195. Late Submission of Financial Statements

Section 84 (3) of the Public Finance Management Act, 2012 states that, not later than three months after the end of each financial year, the administrator of a national

public fund shall submit the financial statements prepared under Section 84 (1) and (2) to the Auditor General. However, the financial statements of the National Humanitarian Fund for the year ended 30 June 2018 were submitted to the Auditor General on 20 November 2018, one month and twenty days after the statutory deadline.

196. Failure to Provide Documents for Audit Review

Despite requests for documents and records pertaining to the National Humanitarian Fund, the management failed to provide for audit review Internally Displaced Persons (IDPs) status report as required under Section 13(g) of the Prevention, Protection and Assistance to Internally Displaced Persons and Affected Communities Act. No justification was provided for the failure to provide the status report.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

197. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR CORRECTIONAL SERVICES VOTE 1023

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

198. Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2018 reflects expenditure totalling KSh.8,512,721,265 in respect of use of goods and services and as summarized and disclosed in Note 3 to the financial statements. The audit has revealed the following irregularities and anomalies as regards the expenditure:

198.1 Food and Rations Paid for but not Accounted For

Included in Note 3 to the financial statements for the year ended 30 June 2018 under the use of goods and services is an expenditure of KSh.4,074,213,142 for specialized materials. The expenditure includes an amount of KSh.69,892,400 which the State Department for Correctional Services paid to various suppliers for supply of food and rations to six Prisons within Nairobi. However, during an audit verification exercise undertaken in the month of October 2018 delivery, receipt and taking on charge of the food and rations could not be traced in the records maintained at the Prisons. As a result, the propriety of the expenditure of KSh.69,892,400 on food and rations cannot be confirmed.

198.2 Clothing Materials Paid for but not Delivered

The State Department for Correctional Services ordered for supply and delivery of 32,000 metres of blue stripped material 60" wide, 100% cellulose from a supplier Services vide Local Purchase Order No. 2774906 dated 26 September, 2017 for KSh.18,400,000. The firm was paid the total amount of KSh.18,400,000, vide payment voucher number 4352 dated 8 May, 2018. However, an audit verification exercise carried out at the Quarter Master on 8 October 2018 revealed that only 30,000 metres of the clothing materials were delivered and taken on charge. The balance of 2000 metres valued at KSh.1,150,000 were paid for but not delivered resulting to loss of public funds. Consequently, the propriety of the expenditure of KSh.1,150,000 in respect of undelivered clothing materials cannot be confirmed.

198.3 Unsupported Payments to Staff Through Imprests and Expenditure Claims

During 2017/2018 financial year, the State Department for Correctional Services made payments totalling KSh.118,642,950 to various members of staff through imprests to undertake some activities or as refund claims for activities already undertaken. However, the following anomalies were observed:

- i) Some officers received payments on behalf of others. No explanation has been given for failure to issue imprest to each officer individually after making formal application.
- ii) Further, the officers on whose behalf imprests were taken did not sign the payment schedules to confirm receipt of the money.
- iii) Personal employment numbers of the officers were not indicated against the names of payees in the payment schedules, thus creating doubts as to whether the names were genuine.
- iv) Attendance registers of workshops or training were not attached as evidence that the workshops took place.

In view of the above observations, the validity and propriety of the payments amounting to KSh.118,642,950 could not, therefore, be confirmed.

198.4 Facilitation of Counter Violence and Radicalization Program

Included in Note 3 to the financial statements for the year ended 30 June 2018 under the use of goods and services is an expenditure of KSh.331,170,951 relating to other operating expenses. This amount includes KSh.42,682,500 which the State Department for Correctional Services paid for facilitation of counter violent extremism and radicalization program in the Prisons. The program was to be implemented by a team of officers drawn from Prisons Headquarters and the State Department's Headquarters in various counties.

However, it was observed that the payment vouchers were not supported with relevant information and documents such as names of the participants and personal/national identity card numbers; evidence of per diem payments; invoices for conference and hotel facilities; and evidence of travel (work-tickets and air/bus tickets). In the circumstances, it has not been possible to confirm the propriety of the cash payments amounting KSh.42,682,500.

198.5 Unsupported Cash Payments for Prison Officers Mess

Included in Note 3 to the financial statements for the year ended 30 June 2018 under the use of goods and services are expenditure of KSh.365,756,271 and KSh.114,320,276 relating to training and hospitality, supplies and services, respectively. The State Department for Correctional Services made cash payments relating to Prison Officers Mess - Nairobi West totalling KSh.13,490,850 for conference charges, lunches, tea and snacks for various activities undertaken at the facility during the financial year and charged the amount to training and hospitality, supplies and services.

These cash payments were claimed to have been made to members of staff who had submitted claims for refund of money already spent for the aforementioned activities and which they claimed to have spent at the officers' mess. No reasons have been given for failure to transfer funds directly to Prison Officers Mess instead

of giving cash to staff. Further, there was no record to confirm that the various activities were undertaken. In the circumstances, it has not been possible to confirm the propriety of the expenditure of KSh.13,490,850.

199. Compensation of Employees

199.1 Irregular Payment of Allowances

Examination of payment records revealed that the State Department incurred expenditure totalling KSh.87,467,849 in form of various allowances as shown below:

However, relevant documents in support of the payments have not been provided for audit review. In the circumstances, it has not been possible to ascertain the validity and propriety of the expenditure of KSh.87,467,849.

200. Prepayments

IFMIS records show that payments amounting to KSh.27,800,630 were made by the State Department for Correctional Services to various institutions and individuals and posted in the ledger as prepayments. However, no documentary evidence has been provided to explain the nature of the payments and what they relate to. Consequently, it has not been possible to confirm the validity and propriety of the payments of KSh.27,800,630.

201. Un-vouched Expenditure

Examination of expenditure records revealed that during the year under review, the State Department paid a total of KSh.174,989,039 to some staff and various suppliers.

Payment vouchers and documentation in respect of these payments have not been provided for audit examination. In the circumstances, it has not been possible to confirm the propriety of the payments amounting to KSh.174,989,039 to the staff and suppliers.

202. Unsupported District Suspense

The accounts receivables balance of KSh.674,545,397 disclosed in Note 8 to the financial statements includes an amount of KSh.674,134,610 relating to district suspense. However, the district suspense balance has not been supported by verifiable source documents. As a result, it has not been possible to ascertain the validity, completeness and accuracy of the amount of KSh.674,134,610 included in the accounts receivables.

203. Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2018 reflects a prior year adjustment of KSh.103,141,638 and as disclosed in Note 11 to the financial statements. The adjustment is explained in the notes as relating to the district data that was processed after 2016/2017 accounts had been prepared. However, analysis of the negative balance of KSh.103,141,638 has not been provided and therefore, it is not possible to ascertain the composition of the balance or what it represents.

204. Pending Bills

Other Important Disclosures under Note 13 to the financial statements includes pending bills amounting to KSh.6,204,906,534 as at 30 June 2018 which were not settled in the year under review but carried forward to 2018/2019 financial year. Had these bills been settled and the expenditure charged to the account for 2017/2018, the statement of receipts and payments for the year ended 30 June 2018 would have reflected a deficit of KSh.6,129,122,944 instead of a surplus of KSh.75,783,590 now shown. Failure to settle bills in the year to which they relate adversely affects the following years' provisions to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

205. Procurement of Goods and Services Through Direct Cash Purchases

The State Department procured goods and services from various suppliers through direct cash purchases totalling to KSh.27,699,330 during 2017/2018 financial year. However, suppliers of goods and services were paid in cash through temporary imprest issued to various officers. In addition, procurement procedures for identifying suppliers of the goods and services were not followed and the goods purchased through imprests were not inspected, certified and taken on charge contrary to Section 48 of the Public Procurement and Asset Disposal Act, 2015.

206. Payment for Goods and Services from Unregistered Suppliers

The State Department procured and paid for goods and services amounting to KSh.54,220,061 from various suppliers who had not been registered as required under Sections 56 and 57 of the Public Procurement and Asset Disposal Act, 2015. No reasons have been provided for this irregularity.

207. Wasteful Expenditure

207.1 Procurement of Seventy MK3112G Locks and Eighty-Eight 4L56 Locks

During the financial year 2015/2016, the State Department for Correctional Services procured seventy MK3112G locks for Naivasha Main G.K. Prisons and eighty-eight 4L56 locks for Kibos Main G.K. Prisons at a cost of KSh.18,900,000 and KSh.23,672,000, respectively totalling to KSh.42,572,000. The security locks were received in the stores vide Counter Receipt Voucher Nos. 8080010 and 8080009 dated 10 June, 2016. However, an audit verification undertaken on 1 October 2018 revealed that the security locks were still being held in the stores (Quarter Master-Nairobi). In the circumstances, value for money may not have been obtained in respect of the expenditure of 42,572,000 on locks which remained unused.

207.2 Procurement of Firefighting All-Terrain Vehicles Water Based

The State Department for Correctional Services procured fifteen firefighting all-terrain vehicles water based at a total cost of KSh.11,886,570 from M/S Car Experts Ltd vide Local Purchase Order No. 1307895 dated 16 June 2014. The firefighting vehicles were received vide Counter Receipt Voucher (S13) No. 7003667 on 25 June 2014 and distributed to various G.K. Prisons across the country. However, a copy of the contract for the supply of the vehicles was not provided for audit review.

Audit verification exercise carried out in the month of March 2018 revealed that all the fifteen fire fighting vehicles had never been used because they were supplied without the water tanks which are essential components of the vehicles. In the circumstances, value for money may not have been obtained in respect of the expenditure of 11,886,570 on the firefighting all-terrain vehicles which have remained idle.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

208. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REVENUE STATEMENTS OF THE STATE DEPARTMENT FOR CORRECTIONAL SERVICES

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

210. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

211. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

PRISON INDUSTRIES REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

212. Non-current Assets

The statement of financial position as at 30 June, 2018 reflects total non-current assets balance of KSh.77,919,093. This differs with the balance of KSh.74,992,653 shown in the property, plant, and equipment movement schedule in Note 17 to the financial statements by KSh.2,926,440. In addition, the Prison Industries assets register shows that the Fund had non-current assets with total current value of KSh.91,774,309 as at 30 June 2017.

In the circumstances, it has not been possible to ascertain the completeness and accuracy of the non-current assets balance of KSh.77,919,093 reflected in the statement of financial position as at 30 June, 2018.

213. Paymaster General (P.M.G.) Account

The statement of financial position as at 30 June, 2018 reflects a balance of KSh.175,987,430 against a Paymaster General Account as at 30 June 2018. This balance represents amounts held on behalf of the Fund in the former Ministry of Home Affairs Deposit Account and which was yet to be transferred to the Fund's new account as of 30 June 2018. However, no documentary evidence in the form of bank certificate or bank reconciliation statements of the said deposit account have been provided to support this balance.

Consequently, it has not been possible to confirm the existence, completeness and accuracy of the P.M.G. Account balance of KSh.175,987,430 as at 30 June, 2018.

214. Cash in Transit

Included in the financial statements under cash and cash equivalents is a balance of KSh.30,318,827 in respect of cash in transit as at 30 June 2018. However, no documentary evidence has been provided to support this balance.

Consequently, it has not been possible to confirm the existence, completeness and accuracy cash in transit balance of KSh.30,318,827 as at 30 June 2018.

215. Creditors

The statement of financial position as at 30 June 2018 reflects a balance of KSh.188,239,335 against creditors. Analysis of this balance showing the details of the creditors including description, respective amounts due to them and period have not been provided for audit review.

As a result, the completeness and accuracy of the creditors balance of KSh.188,239,335 as at 30 June 2018 cannot be confirmed.

216. Debtors

The statement of financial position as at 30 June 2018 reflects a balance of KSh.116,930,607 in respect of debtors. This balance is claimed to include an amount of KSh.116,852,847 and KSh.77,760 owed by government departments and private debtors, respectively. However, analyses of the balance showing each of the debtors and the amount due have not been provided for audit review. Further, no satisfactory explanation has been provided for failure to collect these outstanding debts.

In the circumstances, it has not been possible to confirm the validity and accuracy of the debtors' balance of KSh.116,930,607 as at 30 June, 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

217. Procurement of Raw Materials for Prison Industries Fund

Included in Note 14 to the financial statements under inventories are raw materials with a value of KSh.195,756,762 as at 30 June 2018. The value includes raw materials amounting to KSh.86,119,000 which the Prison Industries Revolving Fund had procured from various suppliers through the Government initiative of Access to Government Procurement Opportunities (AGPO) for various categories.

Examination of payment records and documents revealed that although the above suppliers were indicated to be in the categories under the Access to Government Procurement Opportunities (AGPO), the National Treasury certificates to confirm the actual status of the firms have not been provided for audit review.

Consequently, it has not been possible to ascertain compliance with the Government initiative of Access to Government Procurement Opportunities (AGPO) with regard to the procurement of raw materials amounting to KSh.86,119,000 or validity of the same.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

218. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

PRISON FARMS REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

219. Unreconciled and Unexplained Difference in P.M.G Cash Balance

The statement of financial position as at 30 June 2018 reflects a P.M.G cash balance of KSh.58,134,080 and as disclosed in Note 9 to the financial statements held in the Ministry's Deposit Account on behalf of the Fund. However, the Ministry's Deposit

Account had a balance of only KSh.49,091,790 instead of KSh.58,134,080 as at 30 June 2018. The resulting difference of KSh.9,042,290 has not been reconciled or explained. Consequently, it has not been possible to confirm the accuracy of the P.M.G cash balance of KSh.58,134,080.

220. Credit Sales Balance

The statement of financial performance for the year ended 30 June 2018 reflects sales of KSh.228,302,006 which includes credit sales balance of KSh.80,572,895 as disclosed in Note 2 under Summary of Significant Accounting Policies. However, details of the sales including a breakdown of the amount have not been provided for audit review. In the circumstances, it has not been possible to confirm the validity, completeness and accuracy of the sales figure of KSh.228,302,006 reflected in the statement of financial performance for the year ended 30 June 2018.

221. Suspense Account

The statement of financial position as at 30 June 2018 reflects a balance of KSh.5,809,155 in the suspense account. However, the balance has not been supported with analysis and verifiable source documents contrary to regulation 107 (1) of the Public Finance Management (National Government) Regulations 2015. Consequently, it has not been possible to confirm the nature, validity, completeness and accuracy of the suspense balance of KSh.5,809,155.

222. Fixed Assets

The statements of financial position as at 30 June 2018 reflects total fixed assets balance of KSh.30,669,201. This does not agree with the balance of KSh.29,572,901 shown in the fixed assets movement schedule, resulting in unexplained and unreconciled difference of KSh.1,096,300.

In addition, an examination of fixed assets register revealed a balance of KSh.32,698,600 as at 30 June 2018. No explanation has been given for the differences between the three sets of records. In the circumstance, it has not been possible to ascertain the completeness and accuracy of the fixed assets balance of KSh.30,669,201 reflected in the statement of financial position as at 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

223. Failure to Achieve Budgeted Revenue and Expenditure Targets

The statement of comparison of budget and actual amounts for the year ended 30 June, 2018 reflects budgeted revenue amounts of KSh.246,300,000 while the actual

revenue amount realized was KSh.147,729,112 resulting in a shortfall of KSh.98,570,888 or 40% of the budgeted revenue.

In addition, while the budgeted expenditure was KSh.234,750,000, the actual expenditure amounted to only KSh.130,699,065 or 56% of the budgeted amounts. This is an indication that public resources were not effectively used and the Fund, therefore, did not achieve a significant proportion of its planned goals during the financial year ended 30 June 2018.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

224. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR DEVOLUTION VOTE 1032

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

225. Unexplained Adjustments

The financial statements submitted on 29 September 2018 was amended and a revised set of financial statements provided. However, adjustments explaining the movements in the two (2) accounts as indicated below have not been provided.

Account Name	Initial Balance KSh.	Final Balance KSh.	Difference KSh.
Proceeds from Sale of Assets	0	407,200	407,200
Bank Balances	24,546,987	34,050,501	9,503,514

Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be ascertained.

226. Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents balance in bank of KSh.34,050,501 as at 30 June 2018. The balance includes the bank balances held under Instruments for Devolution Advice and Support (IDEAS) Project as at 30 June 2016 amounting to KSh.9,503,514 which was processed as a single adjustment to the cash and cash equivalents. However, it is clearly evident that the transactions through this particular bank account for the year ended 30 June 2018 have not been accounted for in the financial statements thereby making them incomplete. This casts doubt on the accuracy of the financial statements for the year ended 30 June 2018 as the receipts giving rise to the balance in the IDEAS Project bank account have been captured in the accounting records.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

227. Accounts Receivable

The statement of assets and liabilities reflect an account receivable of KSh.663,520 out of which an amount of KSh.544,820 is in respect of District Suspense amounts dating back to financial year 2015/2016 which has not been cleared to date. Further, the accounts receivables balance of KSh.663,520 as at 30 June 2018 includes an amount of KSh.118,700 relating to outstanding imprest. However, this amount has

been outstanding since the financial year 2015/2016 and the officer holding the imprest is no longer in the service of State Department for Devolution, therefore recoverability is uncertain.

Consequently, the validity and recoverability of the accounts receivable balance of KSh.663,520 could not be confirmed.

228. Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2018 reflects prior year adjustments of KSh.37,987,738 in respect of the current year and KSh.180,997,512 in respect of the previous year. However, the reason for the prior year adjustments and the documentation in support of the adjustments have not been provided for audit scrutiny. Further, the treatment does not satisfy the requirements of IPSAS on "Accounting Policies changes in Accounting Estimates and Errors" which require restatement of the figures in the year the error first occurred except when it is impracticable and the fact must be disclosed.

Under the circumstances, the accuracy and validity of the adjustments as presented and that of the financial statements for the year ended 30 June 2018 cannot be ascertained.

229. Pending Bills

The financial statements reflect pending bills for suppliers, staff and Dues to National Government entities amounting to KSh.78,805,453, KSh.728,271 and KSh.26,981,088 respectively. Had the bills been paid and expenditure charged to the accounts for the year 2017/2018, the statement of receipts and payments for the year would have reflected a deficit of KSh.105,951,359 instead of the net surplus of KSh.563,453. Further, the pending bills have not been supported as required.

In addition, the pending bills as at 30 June 2017 stood at KSh.3,296,627,373 while the balance as at 30 June 2018 was KSh.106,514,812. The movement of KSh.3,190,676,014 has not been explained neither has it been supported by any payment details.

Included in the pending bills is an amount of KSh.19,208,963 in respect of assets procured during the year under Kenya Devolution Support Programme. However, the identity and details of the assets procured were not provided as there was no fixed assets register in place. The list of assets acquired during the year have also not been disclosed in the financial statements as required by the Public Sector Accounting Standard Board.

In view of the foregoing, the accuracy, validity, completeness and propriety of the pending bills of KSh.106,514,812 as at 30 June 2018 could not be ascertained.

230. Deposits

The State Department received a total of KSh.419,600,821 from the State Department of Planning for settlement of retention money owed to various contractors. The money was transferred together with the deposit register that had an equivalent balance of KSh.419,600,821. However, details on the retention register showed that retentions totaling KSh.128,233,923 that were to be paid out of the KSh.419,600,821 were yet to be paid even though only KSh.24,430,731 was remaining in the bank account resulting in unexplained shortfall of KSh.103,803,192. Further, the list provided to support the payments includes payment of KSh.179,004 to the Ministry Local Government which was nonexistent as at the time of transfer of the funds and also, the list had unexplained cash banking offset amounting to KSh.4,850,363.

Under the circumstances, the accuracy, validity, completeness and propriety of the deposits balance of KSh.24,023,531 as at 30 June 2018 could not be confirmed.

231. Compensation of Employees

The compensation to employees payment of KSh.165,449,897 was above the approved fund budget of KSh.154,000,000. No documentation has been made available to support the approval of the over expenditure of KSh.11,449,897. Further, the compensation of employees figure of KSh.165,449,897 differs with the salaries journal for the year that adds up to KSh.166,375,026. The difference of KSh.925,929 has not been supported by any documents or reconciliation.

Consequently, the accuracy, validity and completeness of the compensation to employees expenditure of KSh.165,449,897 could not be ascertained.

232. Proceeds from Domestic and Foreign Grants

The statement of receipts and payments reflects receipts from domestic and foreign grants of KSh.48,819,253 as at 30 June 2018. The balance relates to amounts disbursed by World Bank directly to Makueni County Government in respect to IDEAS Project. Information availed for audit indicated that the said amount was received by the County Government on 16 July 2018 which was outside the accounting period under review. Further, the IDEAS Project receipts total to KSh.66,307,652 due to KSh.17,488,399 in respect of project administration that was received in the financial year 2016/2017, and which was recorded as KSh.19,897,500 but was not utilized that financial year. The difference of KSh.2,409,101 between amounts received by the State Department of Devolution on behalf of the project and the amount transferred to the project has not been explained or reconciled.

Consequently, the accuracy of the proceeds from domestic and foreign grant figure of KSh.48,819,253 for the year ended 30 June 2018 could not be ascertained.

233. Transfer to Other Government Entities

The statement of receipts and payments reflect a total of KSh.4,604,371,258 as transfers to Other Government Entities out of which the following balances do not agree with the amounts reported by the respective government agencies.

Name of Agency	Amount per Financial Statements KSh.	Amount per Agency's Financial Statements KSh.	Difference KSh.
Council of County Governors	107,000,000	132,000,000	25,000,000
IDEAS Project	48,819,253	66,307,652	17,488,399

The above differences have not been supported or adjusted in the financial statements.

Further, in 2nd level disbursement in respect of Kenya Devolution Support Project totaling KSh.1,950,000,000 was made on 4 July 2018 which was four (4) days after the year end hence not recorded during the year thereby overstating the exchequer receipts and the figure for transfers to other government entities for the year ended 30 June 2018.

Consequently, the accuracy of the transfers to other government entities balance of KSh.4,604,371,253 for the year ended 30 June 2018 could not be confirmed.

234. Hospitality

The hospitality supplies and services amounting to KSh.25,538,372 as recorded in the financial statements includes committee and task force allowances paid to staff amounting to KSh.6,940,000. However, the committee allowances were paid to staff who were undertaking their normal duties and especially those within their lines of operations and no justification was provided why staff are paid allowances for undertaking their routine duties.

Under the circumstances, the legality and propriety of the hospitality expenditure of KSh.25,538,372 could not be ascertained.

235. Other Operating Expenses- Unsupported Expenditure

Other operating expenses of KSh.405,269,854 as reported in the financial statements includes an amount of KSh.25,000,000 transferred to the Council of Governors to cater for devolution conference preparation costs. However, the supporting documents or expenditure returns from the Council of Governors were not made available for audit examination. Further, the other operating expenses amount of KSh.405,269,854 in the financial statements includes an amount of

KSh.14,497,552 posted as an adjustment in the ledger but no supporting documents were provided for audit review.

In addition, Foreign Travel and Subsistence is reported as KSh.365,706 while the vouchers supporting this expenditure which were presented for audit verification amounted to KSh.533,533. The difference of KSh.167,847 has not been reconciled or explained.

Consequently, the propriety and accuracy of other operating expenses balance of KSh.405,269,854 for the year ended 30 June 2018 could not be confirmed.

236. Disbursement to Council of Governors Secretariat (COG) and Intergovernmental Relations Technical Committee (IGRTC)

The financial statements reflect an amount of KSh.4,604,371,258 in respect of transfers to other government entities which includes disbursements to Council of Governors (COG) Secretariat and Intergovernmental Relations Technical Committee (IGRTC) Secretariat. The total disbursements to the two organizations for the year under review amounted to KSh.482,552,000 with CoG secretariat getting KSh.132,000,000 and IGRTC getting KSh.350,552,000. However, as per section 17 of the Intergovernmental Relations Act, 2012, the IGRTC may employ officers and staff as are necessary to discharge the functions of Technical Committee, it is therefore apparent there is duplication of roles, in the two entities that undertake the same function. There is also no legal framework supporting the creation of Council of the Governors Secretariat.

Consequently, the legality and propriety of the KSh.132,000,000 disbursed to the CoG could not be confirmed.

237. Instruments for Devolution Advice and Support (IDEAS) Project

The State Department of devolution is the implementing agency of Instruments for Devolution Advice and Support (IDEAS) project whose operating result have not been included in these financial statements and which had the following issues as at 30 June 2018.

237.1 Statement of Receipts and Payments

The statement of receipts and payments for the IDEAS Project for the year ended 30 June 2018 reflect a total of KSh.66,307,652 out of which KSh.48,819,253 are direct payments made by third parties on behalf of the project. However, the documentation provided to support how the payment was made by European Union confirmed that the money was received by the County Government in July 2018.

Consequently, the accuracy of the receipt of KSh.48,819,253 by the beneficiary could not be confirmed.

237.2 Other Grants and Transfers and Payments

Other grants and transfers payments as reflected in the statement of receipts and payments amounting to KSh.48,819,253 fully relate to payments made by third parties directly to the beneficiary county. However, no supporting documentation was provided to support that the amounts were utilized at the county for the intended purpose.

Further, the agreement between the County Government and the State Department of Devolution under Article 15.7 require that the expenditure by the receiving County Government be verified by an Auditor appointed by the Ministry. However, the expenditure of KSh.48,819,253 had not been verified as required.

Consequently, the expensing of the amount of KSh.48,819,253 is inappropriate as the amount is not yet accounted for as at 30 June 2018.

237.3 The Proceeds from Domestic and Foreign Grants

The statement of receipts and payments reflects an amount of KSh.48,819,253 as proceeds from domestic and foreign grants payment made by third parties. However, there was no supporting documentation to demonstrate that this payment was actually made to the State Department of Devolution by the third party neither was there an acknowledgement by the recipient that the amount above was received. Information available for audit indicated that the amount was disbursed by the donor on 17 July 2018 and therefore should not have been a receipt during the year.

Consequently, the accuracy and completeness of proceeds from domestic and foreign grants totaling KSh.48,819,253 for the financial year ended 30 June 2018 could not be ascertained.

237.4 Unauthorized Expenditure

The IDEAS Project statement of receipts and payments reflects an amount of KSh.6,636,184 under purchase of goods and services. The figure includes an amount of KSh.3,466,584 in respect of printing, advertising and information supplies and services which included a figure of KSh.1,475,000 for purchase of polo t-shirts and caps that were not included in the approved project work plan and KSh.1,991,584 in respect of banners, brochures and bended note books which had an approved budget of KSh.1,000,000 resulting in an over expenditure of KSh.991,584.

No documentation was provided for audit examination to support the approval/authorization of the expenditure amounting to KSh.3,466,584.

Under the circumstances, the accuracy, validity and propriety of the expenditure of KSh.6,636,184 on printing, advertising and information supplies for the year ended 30 June 2018 could not be ascertained.

238. Progress on follow-up of Auditor’s Recommendations for the Year Ended 30 June 2017 Financial Statements

The financial statements indicate that four (4) out of the seven (7) issues raised in the previous year audit report have been fully resolved, one (1) is partly resolved and two are yet to be resolved. However, no documentation has been provided for audit review to support their resolution and as such they remain outstanding as detailed below:

238.1 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.

238.2 Other Revenue

The statement of receipts and payments and as disclosed at Note 3 and Annex 3 to the financial statements, reflects other revenues amounting to KSh.3,031,318. These other revenues are described under Note 3 as receipts found in the State Department’s bank statement as having 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, ownership and accuracy of other revenues cannot be confirmed.

238.3 Grants and Transfers to other Government Entities

The financial statements reflect payments totalling KSh.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 KSh.	Amount Reported in the State Dept. Financial Statements KSh.	Variance KSh.
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.

238.4 Use of Goods and Services

The use of goods and services payments totalling KSh.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 KSh.260,256,399 in respect of other operating expenses. However, examination of the ledger revealed that the following amounts were charged to operating expenses instead of the correct items of the expenditure:

Nature of Expense	Amount KSh.
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

No explanations have been provided for the above anomalies.

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

238.5 Cash and Cash Equivalents

(i). The statement of assets and liabilities as at 30 June 2017 reflects an amount of KSh.76,795,422 as cash and cash equivalents comprising of the bank balances of KSh.75,987,651 and cash balances of KSh.807,771. However, even 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.

(ii). Although the bank confirmation certificate as at 30 June 2017 reflects an amount of KSh.1,163,889 in respect of Kenya Devolution Support Programme, the same has not been taken into account inspite of the programme expenditure forming part of the other operating expenses. Further, an adjustment of KSh.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 KSh.76,795,422 as at 30 June 2017 cannot be confirmed.

238.6 Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2017 reflects prior year adjustments of KSh.180,997,512 in respect of 2016/2017 and KSh.792,501 in respect of the previous years. However, the reasons for the prior year adjustments and the documentation in support of the adjustments have not been provided. In addition, the treatment does not satisfy the requirement of IPSAS 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.

238.7 Pending Bills

The State Department of Devolution reported pending bills amounting to KSh.3,296,627,373 as at 30 June 2017, comprising of KSh.3,286,465,791 brought forward from the previous year and KSh.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 KSh.3,259,566,371 instead of the surplus of KSh.37,061,102 now shown.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

239. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

240. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

241. Accuracy, Completeness and Presentation/Disclosure of the Financial Statements

The financial statements for Kenya SymbioCity Programme for the year ended 30 June, 2018 had an incorrect name for the project which was not in line with the Specific Project Agreement. The Agreement has the name Kenya SymbioCity Programme while the financial statements have Symbiocity Programme.

In addition, inconsistencies were noted between the note numbers as referenced in the financial statements and the actual numbers of the disclosure notes.

Further, the figures on the financial statements were different from the figures reflected on the trial balance.

A reconciliation for the two sets of records was not provided for audit review. In view of the foregoing circumstances, the accuracy, completeness and presentation of the project's financial statements could not be ascertained.

242. Cash and Cash Equivalents Balances

The bank balance of KSh.120,873,022 reported in the financial statements included a receipt of KSh.25,000,000 that was not recognized in the receipts during the year and was not reflected as a reconciling item. In addition, the bank reconciliation statement for 30 June, 2018 included cash in transit amounting to KSh.204,991 out of which an amount of KSh.192,491 had been outstanding for over four months. No explanation was provided for non-clearance of these amounts.

Under the circumstances, the accuracy of the cash and cash equivalents balance of KSh.120,873,022 as at 30 June, 2018 could not be ascertained.

243. Acquisition of Non-Financial Assets

The statement of receipts and payments as at 30 June 2018 reflects an amount of KSh.5,318,903 in respect of acquisition of non-financial assets and as further disclosed at note 7.5 to the financial statements, the figure includes an amount of KSh.150,800 in respect of purchase of office equipment, furniture and fittings. However, the payment vouchers provided in support of these purchases totalled KSh.1,317,760 resulting into an unexplained difference of KSh.1,166,960.

Similarly, note 7.5 of the financial statements reflects an amount of KSh.5,168,103 in respect of purchase of Transport Equipment while the payment vouchers provided in support of the purchase amounted to KSh.5,450,000. The difference of KSh.281,897 was not explained.

Additionally, ownership of the Kenya Symbiocity Programme Vehicle, Registration GKB 769S Double Cabin could not be verified as the Logbook was not provided for audit scrutiny.

Under the circumstances, the accuracy of the payments and ownership in respect of acquisition of non-financial assets totaling KSh.5,318,903 as at 30 June 2018 could not be ascertained.

244. Compensation of Employees

The statement of receipts and payments, reflects payments in respect of compensation of employees amounting to KSh.9,732,050. However, the figure includes KSh.670,250 being payments to a consultant.

Further, annual increment to the Communication Officer, for the months of November and December amounting to KSh.4,750 was not paid. No explanation was provided for the anomalies.

Consequently, the accuracy and validity of the cost of employees compensation amounting to KSh.9,732,050 could not be confirmed.

245. Funds Balance

The statement of financial assets and liabilities includes an amount of KSh.28,155,667 described as amount payable to main account. However, evidence of how the funds were received culminating to a liability to the project was not provided.

Under the circumstances, the accuracy of the Fund balance of KSh.120,964,016 could not be confirmed.

Other Matter

246. Budgetary Provisions and Work Plans

In reference to the Financing Agreement between the Swedish Government and Kenya Government, the release of grants is subject to availability of approved budget and work plans for the financial year. The approved budget and the work plans for financial year 2017/2018 were not availed for audit examination. Further even though the management indicated that the budget was approved by the Council, no minutes were availed to support the approved budget by the Council.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

247. Except for the issues described in the Basis for Qualified Opinion and Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

248. Compliance with Specific Agreement

248.1 Funding as per Agreement

The specific agreement indicated that the Swedish Government was to provide financial assistance totalling Swedish Cronor (SEK) 32,300,000 and Technical Assistance amounting to SEK 45,700,000 to the programme. However, project information attached to the financial statements under the funding summary indicated total donor commitments of SEK 30,300,000 (KSh.378,750,000) out of which only SEK 13,908,330 (KSh.163,136,457) had been received as at 30 June 2018 with no record in respect of technical assistance received.

No explanation was provided for the variance of SEK 2,000,000 (KSh.25,000,000) between the total financial assistance provided in the specific agreement and the one disclosed under project information in the 2017/2018 financial statement.

248.2 Financial Management Agency

The specific agreement stipulated that the project was to have an independent Financial Management Agency (FMA). The FMA was to be sourced and paid directly by the donor partner from the programme proceeds upto a budget of SEK 2,000,000. However, the identity of the FMA has not been disclosed in the project information attached to the financial statements. In addition, details of the amounts so far paid to the FMA against the SEK 2,000,000 budget have not been included in the financial statements for the year ended 30 June 2018.

248.3 Technical Assistance

The specific agreement also stated that the Swedish Government would make available support to the programme, through Swedish Association of Local Authorities and Regions (SALAR), by providing technical assistance amounting to SEK 45,700,000. The details of disbursements made by the Swedish Government to the SALAR or amounts paid to consultants by SALAR during the year under review have not been provided for audit verification. There was also no demonstration of how the receipts in kind would be accounted for in the programme's financial statements.

Further, the Council of Governors, being one of the implementing agencies for the programme, did not provide for audit review, the documents detailing delivery schedules and key milestones used as a basis for initiating payments. It was, therefore, difficult to establish whether payments made in relation to technical assistance were made against attained project milestones.

Consequently, it was not possible to confirm whether or not value-for-money was obtained in respect of the technical assistance granted to the programme.

249. Budget

The budget for the Kenya Symbiocity Programme reflected two components, that is, Swedish Association of Local Authorities and Regions (SALAR) and the Council of Governors (COG). However, the financial statements have only taken into account the COG component only. No reason has been provided for the exclusion of the SALAR component in the financial statements for the year ended 30 June 2018.

INSTRUMENTS FOR DEVOLUTION ADVICE AND SUPPORT (IDEAS) PROJECT-CREDIT NO.KE/FED/024/230

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

250. Statement of Receipts and Payments

The statement of receipts and payments for the year ended 30 June 2018 reflect KSh.66,307,652 as proceeds from domestic and foreign grants. Included in the balance is KSh.48,819,253 direct payments made by third parties on behalf of the project which has also been disclosed as transfer to other government entities. However, documentation available show that the payment was made by European Union and money was confirmed received by the County Government in July 2018. Therefore, the receipt and expenditure should have been accounted for in the 2018/2019 financial year.

Consequently, the accuracy of the receipt and payment of KSh.48,819,253 for the year ended 30 June 2018 could not be confirmed.

251. Unauthorized Expenditure

The statement of receipts and payments reflects an amount of KSh.6,636,184 under purchase of goods and services. The figure includes an amount of KSh.3,466,584 in respect of printing, advertising and information supplies and services which included a figure of KSh.1,475,000 for purchase of polo t-shirts and caps. However, purchase of polo t-shirts and caps were not included in the approved project work plan. Also included in the KSh.3,466,584 figure is KSh.1,991,584 in respect of banners, brochures and bended note books which had an approved budget of KSh.1,000,000 resulting in an over expenditure of KSh.991,584. No documentation was provided for audit examination to support the approval/authorization of the expenditure amounting to KSh.2,466,584.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

252. Project Implementation

The project financing agreement was signed by the Cabinet Secretary, National Treasury and European Union representation on 25 September 2014 and on 26 February 2014 respectively. The project was to be implemented over a duration of 60 months and have a closure period of 24 months after the implementation phase. The project had been in the implementation phase for a period of 45 months while the total amount disbursed is EUR 602,796.84 (Kenya Shilling equivalent KSh.66,307,652) out of the total donor commitment of EUR 4,544,422.73 (Kenya Shilling equivalent KSh.499,897,500). The disbursed amount represents 13.26% while the lapsed project implementation time as at 30 June 2018 was 75%. There is a serious disparity in the implementation and there is a risk of not achieving the project objectives.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

253. Acquisition of Assets

The financial statements under statement of receipts and payments reflect an amount of KSh.1,348,700 in respect of acquisition of non-financial assets. However, the quotation from suppliers that were used to source the assets were opened by different teams, there are two evaluation opinions on the supporting document though one of them is not supported by any relevant quotations and professional opinion from the accounting officer was not availed for audit review.

STATE DEPARTMENT FOR SPECIAL PROGRAMMES VOTE 1033

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

254. Presentation and Disclosures of Financial Statements

254.1 Preparation of Financial Statements outside IFMIS

The financial statement reported were prepared outside IFMIS and the following differences were noted between the figures in the financial statements and the figures in the IFMIS: -

Details	Amounts per Financial Statements (KSh.)	Amounts per IFMIS Reports (KSh.)	Difference (KSh.)
Financial Assets	11,110,013	9,893,518,217	9,882,408,204
Financial Liabilities	10,899,114	10,485,872,765	(10,474,937,365)

The variances between the two sets of records have not been reconciled or explained.

254.2 Inaccuracies in the Financial Statements

There is a difference noted between the financial statement figures and ledger figures for the item communication, supplies of KSh.37,500 which has not been explained.

255. Other Grants and Transfers

255.1 Emergency Relief and Refugee Assistance

The statement of receipts and payments reflects KSh.3,401,423,681 (2016/2017 – KSh.7,097,995,969) in relation to Other Grants and Transfers as at 30 June 2018. The amount includes KSh.3,289,532,111 (2016/2017 – KSh.7,097,393,359) in respect of Emergency Relief and Refugee Assistance. However, although the documentation in respect of procurement of the relief commodities were made available, the documentation for distribution to beneficiaries and the basis of selection of beneficiaries were not provided for audit scrutiny. Consequently, the validity of the expenditure and value for money to the citizens could not be confirmed.

255.2 Unsupported ECORAD Project

The Other Grants and Transfers balance of KSh.3,401,423,681 includes an amount of KSh.92,141,470 in respect of a ECORAD Project for which no documents have been provided for audit verification.

255.3 Unaccounted for National Drought Management Authority Transfers

Further, the amount of other grants and transfers balance of KSh.3,401,423,681 includes an amount of KSh.19,500,000 issued to National Drought Management Authority for which no accountability document have been provided for audit verification.

255.4 Discrepancies in Relief Foodstuff Receipts and Distribution to Beneficiaries

Further, an audit inspection in four (4) Sub Counties namely Mwatate, Kilifi North, Baringo Central, Kitui Central and Makueni revealed the following anomalies in relief receipts and distribution to vulnerable populations:

- i) The distribution of the relief food is undertaken by the State Department for Interior who make no report of the quantities received and quantities distributed to the State Department of Special Programmes and therefore there is no evidence that the foodstuff was received by the beneficiaries.
- ii) There were no documentation on how the needy persons were identified and hence no support of how the quantities of various destinations were determined.
- iii) The management at the State Department of Special Programmes is not involved in ensuring smooth logistics for transportation and distribution of the relief support to the beneficiaries.
- iv) There was no accountability for AIEs sent to the County Commissioners for transport as evidenced in the Counties which did not fully account for KSh.1,700,000 AIEs sent to them.

In view of the foregoing, the accuracy, completeness, validity and accountability of Other Grants and Transfers balance of KSh.3,401,423,681 could not be confirmed as at 30 June 2018.

256. Use of Goods and Services - Routine Maintenance – Vehicles

Included in the figure of KSh.767,068,671 for use of goods and services is KSh.5,007,742 in respect of routine maintenance-vehicles. Examination of payments in this account revealed payments totalling KSh.560,594 were not supported.

Consequently, the accuracy and validity of the expenditure for routine maintenance-motor vehicles of KSh.5.007,742 for the year ended 30 June 2018 could not be confirmed.

257. Pending Bills

Analysis of historical pending bills at annex 2 to the financial statements totaling to Ksh.9,751,879 had no movements during the year some dating back to 31 December 2015. Management has not explained why they were not cleared. Further, 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 will be charged.

258. Unresolved Prior Year Audit Issues

258.1 Pending Bills

As reported in the 2017, the State Department for Special Programmes reported pending bills amounting to KSh.118,865,458 as at 30 June 2017, for supply of goods and services. As at the time of audit KSh.6,837,245 had been paid leaving a balance of KSh.112,028,213. Failure to settle pending bills during the year to which they related distorted the financial statements for the year and adversely affected the provisions of the subsequent year to which they had been charged.

258.2 Acquisition of Assets

258.2.1 Wajir Sewerage Project

During the year 2017, the status of completion of the project was not clear since it was reported that there were no activities going on and that the project stalled in 2013 after the contractor had been paid KSh.32,182,850. No works were going on in the year under review.

258.2.2 Motor Vehicles

The list of motor vehicles provided for audit indicated that State Department for Special Programmes was handed over 13 vehicles by the defunct Western Kenya Community Development Project which were still at the area of location in Western Kenya and they were grounded. Further, eleven (11) motor vehicles identified for boarding had not been disposed of so far. Another motor vehicle registration KBJ 936E (GKB 320D) Toyota Hilux double cabin had been reported lost.

No action appears to have been taken by Management to resolve these anomalies as at 30 June 2018 putting the assets at risk.

259. Compensation of Employees

259.1 Approved Staff Establishment

An examination of the State Department`s approved staff established records revealed that there were variations between the staff In-post and the approved establishment as shown below: -

Office/Department	In-post	Approved Establishment	Remarks
Relief and Rehabilitation Division	2	10	Understaffed by 8
Community mobilization Division	0	11	Understaffed by 11
Community Development Unit	0	1	Understaffed by 1
Office of the secretary, Arid and Semi-Arid lands	3	0	Overstaffed by 3 staff (no approved availed)
ASALs Department	12	30	Understaffed by 18
Policy, Research and knowledge management	5	0	Overstaffed by 5 staff (not approved)
ASAL Secretariat	2	0	Overstaffed by 2 staff (not approved)
Field Services offices at the county-ASALs	0	138	Not filled
Information communication & technology division	10	6	Overstaffed by 4 (no approvals availed)
HRM & department	10	11	-No Director, Deputy Director, Senior Assistant Director in post. -Understaffing by 1.
Central Planning & Projects Monitoring Unit	11	5	Overstaffed by 6 staff (No authority seen)
Supply chain management division	20	11	Overstaffed by 9 (No authority seen)
Records management personnel	2	6	Understaffed by 4 staff.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

260. Except for the issues described in Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

261. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STREET FAMILIES REHABILITATION TRUST FUND – STATE DEPARTMENT FOR SPECIAL PROGRAMMES

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

262. 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, however, prepared its first financial statements from the year 2016/2017 even though it is evident that there were activities in the year 2015/2016 financial year such as Board meetings held on April 2016 and cash transfer amounting to KSh.230,000,000 to the Fund's bank account in the year 2015/2016 financial year. No satisfactory explanation has been given for failure to prepare the financial statements for that year.

Consequently, the closing balances for the year 2017/2018 could not be confirmed in the absence of previous years' financial statements.

263. Inaccuracies of Accounting Records

The operating expenses of KSh.14,933,782 as reflected on note 4 to the financial statements could not be verified as accurate as the amounts posted in the general ledger which has been used in the preparation of the financial statements differed with the supporting documents made available for audit examination as shown in the sample ledger by an amount of KSh.541,515.

Under the circumstances, the accuracy and completeness of the financial statements as at 30 June 2018 could not be confirmed.

264. Initial Capital Fund

The Trust Deed indicates that the fund was to have an initial capital fund of KSh.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.

In consequence, the capital fund of the Trust Fund could not be confirmed as at 30 June 2018.

265. Unvalued and unsupported Land

265.1 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 2018 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 KSh.38 million on 6 December 2013. The original title was surrendered to the Ministry of Lands for subsequent transfer in the same month. However, up 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. There is real threat of loss of these properties if the Fund does not expedite the process of obtaining ownership documents.

In view of the foregoing, the ownership, valuation and safety of the Trust Fund's parcels of land could not be ascertained as at 30 June 2018.

266. Transfers to Other Partner Institutions

A review of the transfers to other partner institutions balance of KSh.273,709,276 reflected in the statement of receipts and payments for the year 2017/2018 revealed:

The Board of Trustees approved an amount of KSh.270,550,089 to be disbursed to partner institutions but amount disbursed as per the documentation provided for audit verifications totaled to KSh.274,053,089 resulting in an excess payment of KSh.3,503,000. In addition, the reported amount of KSh.273,709,276 has an unexplained variance of KSh.343,813 with the supported disbursements of KSh.274,053,089. Further, there was a double payment to one of the partner institutions amounting to KSh.1,641,500. Even though the management indicated the amount to have been subsequently refunded, the refund could not be supported by corresponding entry in the bank statement.

Under the circumstances, the accuracy and completeness of the transfers to other partner institutions balance of KSh.273,707,276 as at 30 June 2018 could not be confirmed.

267. Chairman's Honoraria

The statement of receipts and payment for the year ended 30 June 2018 reflects KSh.116,695,980 in respect of other grants transfers and payment which includes KSh.540,000 in respect of payments for Chairman's honoraria. However, the amount excludes KSh.180,000 relating to the period from April, 2018 to June, 2018 that was not included in the pending bills even though it was due and payable in the year under review.

Consequently, the amount of the Chairman's Honoraria of KSh.540,000 for the year under review as reported on note 4 of the financial statements is not fairly stated.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

268. Except for the issues described in Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

269. Except for the issues described in the Basis for Disclaimer of Opinion there were no other material issues relating to effectiveness of internal controls, risk management and governance.

**STATE DEPARTMENT FOR PLANNING AND
STATISTICS VOTE 1034**

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

270. Accuracy and Completeness of the Financial Statements

270.1 Accuracy of Financial Statements

- i) The trial balance as at 30 June 2018 reflects balances against various account items which differ from corresponding balances reflected in the financial statements for the year then ended. The differences totaling KSh.100,481,828,741 (under) and KSh.8,910,155,414 (over) between the two sets of records have not been reconciled.
- ii) Capital grants to government agencies and other level of government in the financial statements is KSh.36,725,628,366 while the detailed analysis under note 6 of the financial statements casts to a total of KSh.36,765,553,336 resulting in unexplained variance of KSh.39,925,000.

270.2 Unsupported Adjustments

The management submitted financial statements to the Auditor-General on 28 September 2018 which was revised and another set submitted on 27 February 2019. However, the movements in the balances noted in some of the components as detailed below were not supported by any documentation or adjustment journals;

Component	2nd Financial statements KSh.	Revised financial statements KSh.	Variance KSh.
District Clearance suspense	0	73,322,660	73,322,660
Prior year adjustments	(563,400,307)	(488,660,397)	(74,739,910)

Under the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be confirmed.

271. Receipts

271.1 Proceeds from Foreign Borrowing

271.1.1 Unsupported Advance payment for Aror Multipurpose Dam Development Project

The statement of receipts and payments reflect proceeds from foreign Borrowings of KSh.4,526,966,879 as at 30 June 2018. Included in this balance is KSh.4,292,651,060 paid to a firm as advance payment for the Aror Multipurpose Dam Development project. However, the following was noted about this payment:

- i) The report on feasibility was submitted on 31 May 2012. No Environmental Impact Assessment report was provided for audit review.
- ii) The advertisement requesting for proposals was made on 19 December 2014 and 24 December 2014 and closed on 18 March 2015.
- iii) A second stage request for proposal (which was not in line with procurement regulations) was made with the closure date of 30 October 2015 under tender No.KVDA/RFP/36/2014/2015 without appropriate budgetary provisions or a financier for the project.
- iv) The letter of bid was prepared on 26 October 2015 and the letter of acceptance by Kerio Valley Development Authority prepared on 14 December 2015.
- v) Kerio Valley Development Authority signed a Memorandum of Understanding on 18 December 2015 committing to exclusively contract the bidder as and when they obtained funding from some stated financiers. The memorandum had a validity period of eight months which then expired on 18 August 2016. There was no evidence of extension provided for audit verification.
- vi) The credit/finance was obtained in 2017 and financing agreement for the loan signed on 18 April 2017 amounting USD \$224,442,164 equivalent to KSh.23,153,700,510 for a period of fifteen (15) years with a floating interest rate to be determined from time to time by the agent.
- vii) The contract awarding the works was signed on 5 April 2017 seven months outside the validity period of the memorandum of understanding but no fresh bids were sought.
- viii) Advance claim certificate of USD 41,611,141 (representing 15% of the contract sum) equivalent to KSh.4,292,651,060 which was used for payment was not dated, had not been recommended by the KVDA General Manager, Technical Services, and was not approved by CEO KVDA

- ix) No evidence of who was paid the money, when the money was paid and by who and who granted the authority to pay the money was availed for audit examination.
- x) No evidence or correspondence to show the payment was made to the contractor by the financier upon obtaining the necessary approvals and to ensure there is delivery and compliance with contract terms.
- xi) An inspection carried out by the audit team on 5 April 2019 revealed the following:
 - Even though the advance payment was made through a memorandum payment voucher dated 7 December 2017, no work had been done on the ground to cover the payment.
 - No compensation had been made for the affected community members.
 - Kenya Forest Service had not ceded the forest portion required for utilization in the dam construction.
 - The agreement between the affected community and Kerio Valley Development Authority had not been confirmed and therefore viability of the project is in doubt.

271.1.2 Unsupported Payment for Sigor Wei Wei Integrated Development Project

The statement of receipts and payments reflect proceeds from foreign Borrowings of KSh.4,526,966,879. Included in this balance of KSh.4,526,966,879 is KSh.234,315,819 in respect of payment to two consultant firms on behalf of KVDA. However, the following was noted about this payment.

- i) The financing agreement availed for audit was made on 28 January 2007 and a further endorsement made on 18 September 2009.
- ii) The project's lifespan was four years beginning 18 September 2009 and had detailed deliverables for each phase of the project and therefore the agreement lapsed on 18 September 2013.
- iii) The memorandum payment voucher for capturing the payment consultants were prepared by KVDA in July 2017 which was more than three years outside agreement timelines for implementation.

No further endorsement of financing loan agreement was provided in support of the validity of expenditure being captured in the financial statement.

In addition, proceeds from foreign borrowings figure of KSh.4,526,966,879 includes direct payments amounting to KSh.234,315,819 made on behalf of Kerio Valley Development Authority to contractors and consultants in respect of Sigor Wei Wei Integrated Development Project. However, supporting documents availed for audit revealed that payments totalling KSh.41,259,819 out of KSh.234,315,819 did not have certificate of completion from the inspection and acceptance committees hence not adequately supported for payment.

271.1.3 Unrecorded and Unsupported Retention Money

The statement of receipts and payments reflect proceeds from foreign borrowings of KSh.4,526,966,879 which excludes retentions totalling KSh.11,472,805 in respect of payments to contractors and consultants for Sigor Wei Wei Integrated Development Project phase III.

Consequently, the authenticity of proceeds from foreign borrowings and the propriety of the payments therefore amounting to KSh.4,526,966,879 cannot be confirmed.

272. Other Revenues

The statement of receipts and payments reflect other revenues of KSh.294,587,503 being Appropriation in Aid collected during the year. However, the supporting documents availed to confirm the other revenue earned, received, confirmed and reported in the financial statement of the respective SAGAs amounted to KSh.668,322,928 against a budget of KSh.296,000,000. The accounting treatment of the amounts that are above the recorded balances has not been explained as analyzed below.

SAGAs	Budgeted AIA (KSh.)	Amount Collected (KSh.)
Kenya National Bureau of Statistics	71,000,000	288,345,947
Kerio Valley Development Authority	45,000,000	226,521,478
Tana & Athi Rivers Development Authority	157,000,000	130,222,079
Lake Basin Development Authority	21,500,000	18,365,424
Ewaso Ngiro South Development Authority	1,500,000	4,868,000
Total	296,000,000	668,322,928

Under the circumstances, it has not been possible to confirm the accuracy of the other revenue balance of KSh.294,587,503 reported in the financial statements as at 30 June 2018.

273. Use of Goods and Services

273.1 Specialized Materials

The statement of receipts and payments reflect an amount of KSh.304,669,023 in respect of use of goods and services. Included in this balance of KSh.304,669,023 is KSh.16,613,364 in respect of specialized materials and supplies which includes payments totaling KSh.7,778,730 made in respect of tuition fee expenses which is not in any way specialized materials, resulting in excess vote of a similar amount under the training vote. No evidence was availed to support the approval of the over expenditure by National Assembly contrary to section 113(1) of Public Financial Management (PFM) regulations 2015. This anomaly has not been satisfactorily explained.

Consequently, the accuracy and propriety of specialized materials expenditure of KSh.16,613,364 in the financial statements could not be confirmed.

274. Grants and Transfers to Other Government Entities

The statement of receipts and payments for the year ended 30 June 2018 and Notes 6 of the financial statements reflects transfers to other Government Entities amounting to KSh.40,336,190,128. However, there are differences amounting to KSh.8,177,413,627 between the amounts reported as disbursed by the State Department for Planning and the amounts reflected in the financial statements of the respective SAGAS which is as detailed below:

Entity	Amount disbursed by Ministry (KSh.)	Amount received by Entity (KSh.)	Difference KSh.
Kenya National Bureau of Statistics	2,628,666,648	2,410,805,540	217,861,108
National Constituency Development Fund	29,800,000,000	21,875,000,000	7,925,000,000
Lake Basin Development Authority	356,087,141	337,721,717	18,365,424
Ewaso Ngiro North Development Authority	268,379,281	333,222,674.00	(64,843,393)
Tana and Athi Rivers Development Authority	476,030,488	345,000,000	131,030,488
Ewaso Ngiro south Development Authority	522,366,291	572,366,291	(50,000,000)
Sub-Total	34,051,529,849	25,874,116,222	8,177,413,627

As a result, the accuracy of the grants and transfer figure of KSh.40,336,190,128 for the year ended 30 June 2018 cannot be confirmed.

275. Acquisition of Assets

275.1 Unsupported Construction of Civil Works

The statement of receipts and payments for the year ended 30 June 2018 in the financial statements, reflect acquisition of assets amounting to KSh.1,169,062,004. Included in this balance is KSh.424,528,403 paid in respect of construction and civil works. However, documents availed in support of the amount showed the following;

- i) Payment of Ksh.109,406,979 relates to a consultant's bill/invoice in respect of feasibility study and design of high grand falls dam along River Tana in Tana River County, dated 30 June 2012 which had been outstanding ever since. The payment was made to an insurance company in respect of a claim settled to the consultant against a policy covering risk of nonpayment.

However, no documentation was provided to show the bill was actually outstanding as at the time of payment since the amount was not included in the pending bills for the financial year 2016/2017 and no documentation in support of inspection and acceptance of work done by consultant if any in respect of the contract dated 30 January 2010.

- ii) Payment of Ksh.277,793,123 in respect of consultancy services for feasibility study and design for Lower Ewaso Ngiro South Multipurpose Dam contracted in May 2012 and billed on 17 December 2013. However, no documentation was provided to show the bill was actually outstanding as at the time of payment since the amount was not included in the pending bills for the financial year 2016/2017 and no documentation was provided in support of inspection and acceptance of work done by consultant if any. In addition, the payment voucher provided in support of the payment had been voided and hence not valid for payment.

Consequently, the accuracy, validity and propriety of construction of civil works expenditure of KSh.424,528,403 cannot be confirmed.

276. Cash and Cash Equivalents - Bank Balance

The statement of assets and liabilities reflects a bank balance of KSh.8,991,117 as at 30 June 2018. However, a review of the bank reconciliation statement for the Central Bank of Kenya recurrent bank account had the following unsatisfactory issues:

- i) The reconciliation included payments totaling KSh.38,940,201.00 which had not been presented to the bank for payment as at the time of audit and which were more than six months old therefore not payable.

- ii) Payments in cash book not in bank statement for the recurrent bank account included three payments totaling KSh.24,495,961 paid on 26 June 2018 and that had been recorded twice in the cash book on 27 June 2018, effectively understating the cash balance by a similar amount and overstating unidentified expenditure by the same.
- iii) The receipts in cash book not in bank statement for the recurrent bank includes an unexplained reversal of cash book under cast adjustment of KSh.2,747,896.

In view of the foregoing, it has not been possible to confirm that the cash-and-cash equivalents balance of KSh.8,991,117 is fairly stated as at 30 June 2018.

277. District Suspense

The statement of assets and liabilities as at 30 June 2018 reflects accounts receivable balance of KSh.75,649,930 which includes a district suspense figure of KSh.73,322,660. The district suspense figure has been explained as the difference between the monies disbursed to various Regional Authorities in the financial year 2016/2017 for drought intervention measures totaling KSh.700,500,000 and out of which the amounts of KSh.627,177,340 had been converted to expenditure. However, a review of expenditure returns from the Regional Authorities showed that out of the total indicated as converted expenditure of KSh.627,177,340, only KSh.430,451,134 had relevant supporting documents, leaving an unsupported balance of KSh.196,726,206.

Consequently, the accuracy and completeness of the accounts receivable balance as at 30 June 2018 cannot be confirmed.

278. Unsupported Prior Year Adjustments

The statement of assets and liabilities reflects prior year adjustments amounting to KSh.488,660,397. 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.

Consequently, the accuracy of the financial statements for the year ended 30 June 2018 could not be ascertained.

279. Accounts Payable – Deposits and Retentions

The statement of assets and liabilities reflects a balance of KSh.8,833,772 as at 30 June 2018. However, a review of retention money outstanding at the close of 2016/2017 indicated that a contractor listed as having a retention balance of

KSh.4,857,934 then was currently not listed in the retention schedule for 2017/2018, yet no documentation has been provided to show how retention money was paid.

Consequently, the completeness and accuracy of the deposit and retentions balance of KSh.8,833,772 reported in the financial statements could not therefore, be confirmed.

280. Pending Bills

Pending bills totaling KSh.340,632,037 as at 30 June 2018 have been disclosed under Note 16.1 to the financial statements. Had these bills been paid and the expenditure charged to the financial statements for 2017/2018 financial year, the statement of receipts and payments for the year under review would have reflected a net deficit of KSh.339,564,672 instead of the net surplus of KSh.1,067,365 now shown. Failure to settle the bills in the year they relate to distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they are charged.

281. Prior Year Audit Matters

The following issues in the audit report for financial year 2016/2017 are yet to be addressed.

281.1 Trial Balance and Financial Statements

- i) The first trial balance as at 30 June 2017 provided for audit reflected a credit balance of KSh.38,202,648,535 which did not agree with the debit balance of KSh.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.
- ii) The comparative surplus of KSh.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 KSh.1,820,184,001. Consequently, the accuracy of the financial statements is doubtful.

281.2 Unsupported Adjustments to the Financial Statements

- i) 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 making it difficult to confirm the accuracy of the new balances.

Component	Initial Financial Statements (KSh.)	Revised Financial Statements (KSh.)
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)

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

Code	Item	Balance reflected in the Initial accounts analyses KSh.	Balance in the Revised accounts analyses (KSh.)	Unexplained adjustment (KSh.)
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

281.3 Wrong Classification and Charge of Expenses

Amounts of KSh.25,252,905 were irregularly spent as they were charged to the wrong accounts. The wrong charging of the expenditure amounts to reallocation which requires authority from the National Treasury. No documentary evidence has been provided for audit verification to support the charge of expenditure to the accounts.

281.4 Membership Dues and Subscriptions to International Organizations

The financial statements disclose that an amount of KSh.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 KSh.78,165,786 was paid as subscriptions, resulting to a difference of KSh.2,733,377

No explanations have been provided for the above variances.

281.5 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 KSh.33,323,844,396. However, variances of KSh.49,077,373 were noted between the amounts disbursed by the State Department and amounts received by Ewaso Ngiro North Development Authority and Kenya Institute for Public Research and Analysis during the year under review.

No explanation has been provided for the above variances.

281.6 Utilities Supplies and Services

Disclosed in the financial statements is an amount of KSh.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.

281.7 Acquisition Assets

The statement of receipts and payments reflects an expenditure of KSh.668,102,870 on acquisition of assets which, includes a total of KSh.310,830,233 in respect of construction of buildings, refurbishment of buildings and construction and civil works. Information available, however, indicates that the amount of KSh.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 KSh.271,692,590 as disclosed in Note 11 includes amounts of KSh.10,000,000 in respect of funds disbursed to PALWECO Project and KSh.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 KSh.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.

281.8 Proceeds from Foreign Borrowing

As disclosed in Note 3 to the financial statements proceeds from foreign borrowing of KSh.15,302,899 relate to a direct payment made by a donor on behalf of Kerio Valley Development Authority to a consultant. However, the following matters have been noted about the proceeds and payment:

- (i) The soft loan agreement was made on 28 January 2007 and a further endorsement made on 18 September 2007.
- (ii) The project being funded had a lifespan of four years and had detailed deliverables for each phase up to December 2013.
- (iii) Information available indicates that the consultancy contract was signed on 4 December 2014, which was outside the period of the financing agreement.
- (iv) 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.

281.9 District Suspense (AIEs)

The statement of assets and liabilities as at 30 June 2017 reflects accounts receivable balance of KSh.561,320,941 which includes a district suspense figure of KSh.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 KSh.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 KSh.132,523,904 and KSh.701,245 in respect of Ewaso Ngiro South Development Authority and Ewaso Ngiro North Development Authority respectively. However, an amount of

KSh.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 KSh.9,476,096 from the financial records has not been explained.

281.10 Cash and Cash Equivalents

- i) The bank balances of KSh.12,191,813 as at 30 June 2017 reflected in the statement of assets and liabilities differs from the verified cash book balances of KSh.139,226,598.
- ii) In addition, trial balance figures for bank balances differs with the balances as per financial statements as detailed below:

Account	Trial balance KSh.	Financial Statements KSh.	Difference KSh.
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

- iii) Further, the bank balances as per the reconciliations differ with bank certificate balances by KSh.376,834,856 for the recurrent and development accounts.

The above differences have not been reconciled or explained.

281.11 Bank Reconciliations Statements

- i) The bank balances of KSh.12,191,813 include an amount of KSh.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 KSh.2,105,672 out of which KSh.116,499.20 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 cash book amounting to KSh.44,349,056.60 out of which KSh.3,180,558.80 were dated July 2017 and therefore relate to 2017/2018 financial year. In addition, another payment of KSh.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 KSh.34,956,457.95 which include an unexplained adjustment of KSh.34,769,909.95 in the cash book.

- ii) The bank balances of KSh.12,191,813 also include an amount of KSh.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 KSh.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 KSh.5,180,386.00 out of which KSh.4,325,950 had been outstanding for one month as of 30 June 2017.

The above anomalies have not been explained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

282. Except for the issues described in Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

283. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

WOMEN ENTERPRISE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

284. Receivables from Exchange Transactions

284.1 Provisioning Loss of Funds

The receivables from exchange transactions balance of KSh.2,832,405,516 in the statement of financial position includes an amount of KSh.24,625,450 due from nineteen (19) constituencies but claimed to have been misappropriated by the employees. Further, the amount includes KSh.21,170,000 due from twenty constituencies misappropriated by employees in previous financial years. No provision has however, been made in the financial statements in respect of the above losses nor any recoveries made as at 30 June 2018.

284.2 Non-performing Financial Intermediaries Loans

The receivables from exchange transactions balance of KSh.2,832,404,516 in the statement of financial position as at 30 June 2018 includes non-performing loans totalling KSh.83,248,508 due from financial intermediary partners. Any provision that would have been necessary in relation to this had not been incorporated in the financial statements.

284.3 Doubtful Recovery of LPO Financing and CWEs Loans

The receivables from exchange transactions balance of KSh.2,832,405,516 further includes loans relating to Local Purchasing Order Financing of KSh.11,386,677 which were due but not paid as at 30 June 2018. This amount has however increased from KSh.7,440,277 reported in 2016/2017 financial year. Also included in the receivables from exchange transactions balance of KSh.2,832,405,516 is an amount of KSh.855,933,915 due from Constituency Women Enterprise scheme (CWEs) which had been outstanding for more than one year and out of which an amount of KSh.61,796,082 had zero repayments amounts during the year under review. Recoverability of these loans is doubtful since they had 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, the provision made of 1% for all loans to recognize the inherent credit risk appears to be inadequate to cover any potentially irrecoverable amounts and contrary to the WEF Credit Policy and Guidelines.

284.4 Outstanding Imprests and Advances

The receivables from exchange transactions balance of KSh.2,832,405,516 includes a balance of outstanding imprests of KSh.508,240 and advances of KSh.1,244,434. Outstanding imprests of KSh.368,700 ought to have been surrendered or otherwise accounted for on or before 30 June 2018 in accordance with Section 93 of the Public Finance Management (National Government) Regulations, 2015.

Also, included in the advances balance of KSh.1,244,434 includes an amount of KSh.98,000 outstanding from officers who had left the Fund making recovery of the outstanding amounts doubtful. No explanation was provided for these anomalies.

In view of the foregoing, the accuracy, completeness and full recoverability of the balance of KSh.2,832,405,516 under receivable from exchange transactions as at 30 June 2018 could not be confirmed.

285. Employee Costs

The statement of financial performance reflects an amount of KSh.182,443,959 in respect of employee costs. This includes an expenditure on acting allowances amounting of KSh.424,035 paid to two (2) officers who were appointed on acting capacity on 1 December 2015 for a renewable period of six (6) months. These officers however acted for more than six months contrary to Human Resource

Policies and Procedures Manual and Women Enterprise Fund Human Resource Policy.

286. Employee Benefit Obligation Gratuity

The employee benefit obligation/gratuity liability of KSh.24,751,873 as reflected in the statement of financial position. However, the opening balance of KSh.15,310,323 was not supported. As a consequence, the accuracy of the closing balance of gratuity liability amounting to KSh.24,751,873 as at 30 June 2018 could not be ascertained.

Other Matter

287. Financial Performance

The Fund's financial performance continued to deteriorate during the year from a loss of KSh.12,043,444 in 2016/2017 to a loss of KSh.56,554,343 in 2017/2018. The accumulated surplus for the Fund continued to be depleted having decreased from KSh.508,233,689 in 2016/2017 to KSh.451,679,346 in 2017/2018. Although the management has indicated that it is engaging with the parent Ministry and the National Treasury for funding of the Fund's operations, this has not yielded any results to date.

288. Use of invalid documents from suppliers during procurement process

The Fund paid a supplier an amount of KSh.311,568 for the supply and delivery of goods. Examination of attached documents in support of the payment revealed that the supplier had a certificate of registration dated 30 December 2013 and the same expired on 30 December 2015. It has not been explained how a firm with an expired registration certificate was included in the list of pre-qualified firms and contracted to supply.

Consequently, the validity of this expenditure could not be confirmed.

289. Undisclosed Pending Bill on Insurance

Examination of records held by the Fund showed a payment of KSh.214,868 to an insurance service provider, on behalf of the Fund's staff. Review of the invoices in support of the expenditure showed that some staff received medical services in the financial year 2014/2015. This insurance bill was not included in the list of outstanding accounts payables for the previous financial years. This is contrary to the accrual basis of recognition and accounting for prior period adjustments.

290. Progress on follow up of audit recommendations for the financial year 2016/2017

The following issues raised in the audit report for the financial year 2016/2017 were yet to be resolved:

290.1 Remuneration of Directors

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

(b) The remuneration of directors' expenditure of KSh.10,486,400 included an amount KSh.960,000 paid to board members as sitting allowances for undertaking normal operational activities of approving loans to various groups. The expenditure also included an amount of KSh.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 KSh.2,067,200 in respect of these allowances could not therefore be confirmed under the circumstances.

(c) 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 KSh.3,634,401 on remuneration of directors.

290.2 Receivables from Exchange Transactions

(i) Loss of Funds

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

No provision had however been made in the financial statements in respect of the above losses.

(ii) Non-performing Financial Intermediaries Loans

The receivables from exchange transactions balance of KSh.2,323,541,431 included non-performing loans totalling KSh.106,618,100 due from financial intermediary partners. There is no provision to mitigate against this uncertainty.

(iii) Doubtful Recovery of LPO Financing and CWEs Loans

The receivables from exchange transactions' balance of KSh.2,323,541,431 further included loans relating to LPO Financing of KSh.7,440,277 which were due and not paid as at 30 June 2017 and Constituency Women Enterprise Schemes (CWEs) of KSh.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 was clearly doubtful, no provision were made against them in the financial statements.

(iv) Unsupported Opening Balances

The opening balances of LPO Financing and Pikipiki loans of KSh.5,302,714 and KSh.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 KSh.2,323,541,431 included outstanding imprests of KSh.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 KSh.4,975,780 before accounting for the imprests previously issued to them. No explanation has been provided for this anomaly.

290.3 Payables and Accruals

Payables and accruals' balance of KSh.29,895,361 included an amount of KSh.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.

290.4 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 KSh.25,251,035 and no corresponding liability was shown in the financial statements for that period. In the year 2016/2017, 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 had 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 KSh.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 KSh.10,640,300 while the detailed schedule provided in support of the expenditure amounts to KSh.21,870,545 resulting in an unexplained difference of KSh.11,230,245.

290.5 Communication Supplies and Service

The communication supplies and services expense as disclosed in Note 7 to the financial statements of KSh.5,684,446 included staff airtime allowance amounting to KSh.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 2016/2017. No explanation has been provided for the non-compliance.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

291. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

292. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

293. 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.

Further, an amount of KSh.163,496,536 spent on acquisition of motor vehicles in the financial year 2016/2017 was 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.

Consequently, the financial statements for the year ended 30 June 2018 do not conform with IPSAS (Accrual Basis) of accounting and the prescribed reporting format by the Public Sector Accounting Standards Board.

294. Transfers to Other Government Units

The statement of financial performance reflect a figure of KSh.1,431,879,801 as transfers to Other Government Units. This amount relates to the amounts transferred to the forty-seven Counties Affirmative Action Fund Committees. However, the following anomalies were observed:

- (i) No evidence was provided to show that the Counties Committees submitted record of the amounts received, record of expenditures made out of the amounts so received and copies of the relevant bank statements to the Board within the stipulated period after the closure of the financial year.
- (ii) The expenditure returns from the Counties Committees showed a total expenditure of KSh.1,143,252,386 against the recorded total disbursements of KSh.1,431,879,801. The balance of KSh.288,627,415 has not been explained or reconciled.

Based on the foregoing, the accuracy and propriety of the transfers to Other Government Units of KSh.1,431,879,801 could not be confirmed.

295. Cash and Cash Equivalents

The cash and cash equivalents balance of KSh.708,173,717 as at 30 June 2018 represents the balance as per the bank certificate as opposed to the cash book balance of KSh.690,310,141, the difference between the two records has not been reconciled. In addition the Secretariat's bank account balance as at 30 June 2018 was KSh.25,010,009. However, although the fund maintained a cash book for this account, the balance was not included in the financial statements and it was not possible to establish whether the transactions arising from this account had been accounted for in the financial statements. In addition, the Secretariat's bank account reconciliation statement had bank charges amounting to KSh.464,371 which had not been included in the financial statements and unrepresented cheques amounting to KSh.12,768,699 all of which were stale at the time of the audit.

Further, Information available for audit showed that thirty-six (36) out of the forty-seven (47) counties committees bank accounts had unspent balances totalling KSh.352,641,446 for the year under review which was not included in the financial

statements. While eleven (11) of the forty-seven (47) counties' committees bank accounts had no cash books, bank statements, bank certificates or any other form of record availed for audit examination. The balance in these accounts, if any, have not been included in the financial statements.

In view of the foregoing, the completeness, validity, existence and accuracy of the cash and cash equivalents balances of KSh.708,173,717 could therefore not be confirmed.

296. Board Expenses

During the year under audit, individual Board members were issued with temporary imprests by the fund of KSh.938,800 for subsistence allowances when carrying out routine monitoring and evaluation activities in the Counties. The Board members were also paid sitting allowances of KSh.900,249 for the days they were in the field. The payments were however not supported with Board minutes and approvals as required. No field reports from the Board members on the areas they visited were availed for audit review. Further, no minutes of the Board were provided to show that such reports were presented, discussed and filed.

As a result, the validity and accountability of the Board expenditure of KSh.1,839,049 could not be ascertained.

297. Staff Costs

The amount of KSh.45,541,449 for staff cost expenses excludes County secretariat staff salaries totalling KSh.15,180,483 for the fourth quarter that had not been paid and the corresponding liability was also not included in the statement of financial position. Consequently, the staff costs figure of KSh.45,541,449 is not fairly stated.

298. Secretariat Expenses

The statement of financial performance reflects a balance of KSh.63,801,809 as Secretariat expenses. Included in the Secretariat expenses is an amount of KSh.6,451,100 in respect of emergency expenses and donation of KSh.200,000 for which no board approvals were provided for audit verification.

In addition, The Secretariat's expense includes gratuity in respect of County Coordinators amounting KSh.8,394,166 as disclosed in note 8 of the financial statements. However, the total gratuity payable to county coordinators was KSh.9,501,604 out of which a total of KSh.8,494,166 was paid and KSh.1,007,438 withheld due to pending cases between the Fund and some of the staff. The amounts will be paid upon determination of the cases and clearance of the staff from the Fund. This unpaid expenditure and the commensurate liability however has not been disclosed or included in the financial statements. In addition, the note to the financial statements reflects a gratuity expense of KSh.8,394,166 against a total expenditure payment of KSh.8,494,166 resulting in unreconciled variance of KSh.100,000.

Consequently, the validity and accuracy of the secretariat gratuity expenses balance of KSh.63,801,809 could not therefore be confirmed.

299. Emergency Reserve

As per enabling legislation, the Fund should maintain an emergency reserve which should be two (2%) per cent of the Fund allocation and which should remain unallocated and be available to cover emergencies as they arise and utilized upon approval by the Board of Directors. However, although the Fund has received a total of KSh.8,310,000,000 since its inception and as such should have an emergency reserve of KSh.166,200,000 less any utilized amounts, no reserves is reflected in the financial statements.

300. Outstanding and Multiple Imprests

Information availed for audit indicated that the Fund had imprests amounting KSh.7,955,584 which remained unaccounted for by the close of the year under audit. It was also noted that officers were issued with multiple imprests totalling KSh.7,955,603 before surrendering the previous one(s) contrary to the regulations.

Further, the former Chairperson of the Board had outstanding imprests amounting to KSh.605,249 as at 30 June, 2018. The State Officer is no longer a member of the Board. The management had not recovered the outstanding amount to date and no efforts had been made towards the same.

In addition, although Note 4(f) to the statements states that the cash and cash equivalents balance include short term cash imprests to authorized officers not surrendered or accounted for at the end of the financial year, the outstanding imprest balance of KSh.7,955,584 had not been included or disclosed in the financial statements.

Consequently, the cash and cash equivalents balance was understated and the recoverability and or accountability of the imprests of KSh.7,955,584 could not be ascertained.

301. Progress on Follow up of Audit Recommendations for Financial Year 2016/2017

In the previous financial year 2016/2017 audit, the following issues which formed the basis for the audit opinion are yet to be resolved: -

301.1 Cash and Cash Equivalents

(i). The cash and cash equivalents' balance of KSh.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 cash books, bank statements and bank reconciliations for the bank accounts were provided for audit review. In addition, the cash balances held in these bank accounts had not been included in the statement of financial position as at 30 June 2017.

(ii). The Public Finance Management (National Government Affirmative Action Fund) Regulations 2016, regulation 24(8) 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.

301.2 Presentation of the Financial Statements

The financial statements for the year ended 30 June 2017 reflected 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 were not supported with any relevant documentation to show the conversion of prior year figures from IPSAS cash basis accounting to IPSAS accrual basis of accounting.

301.3 Annual Budget for Year 2016/2017

The financial statements included 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 was not possible to confirm whether the expenditure for various account items were within the approved budget.

301.4 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 were not signed by the designated Fund administrator contrary to the regulations and Section 84 of the Public Finance Management Act, 2012.

301.5 Accuracy of Financial Statements

The following inaccuracies were noted with regard to the financial statements:

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

(ii). Exchequer receipts comparative figure of KSh.4,050,000,000 reflected in the statement of financial performance differs with the figure of KSh.2,130,000,000 disclosed in Note 2 to the financial statements. In addition, the receipts were described differently as “exchequer receipts” and “operational grants” in the statement of financial performance and Note 2, respectively.

301.6 Unexplained Adjustments

An adjustment of KSh.7,258,321 processed against the expenditure on transfer to Other Government Units which increased the initial reported figure of

KSh.4,006,699,872 to the final figure of KSh.4,013,958,193 as reflected in the statement of financial performance was not explained. Consequently, the accuracy of the figure could not be ascertained.

301.7 Transfer to Secretariat

The statement of financial performance reflected board expenses amounts of KSh.192,326,620 and KSh.40,000,000 for 2016/2017 and 2015/2016 financial years, respectively. The amounts, however, related to transfers to the Fund's Secretariat. The following were also noted:

(i). The transfer to the Fund's Secretariat is required to be 5% of the total disbursements but in this case, there was no indication of the basis on how the amounts transferred were derived. The total transfers to the Secretariat for the two years should have been 5% of KSh.6,180,000,000 amounting to KSh.309,000,000. The short fall of KSh.76,673,371 was not explained.

(ii). No documentation was provided to support how the amounts were utilized by the Fund management.

(iii). 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.

(iv). Accountability statement for transfers to the Secretariat were not prepared and provided for audit verification.

301.8 Transfer to Other Government Units

Transfer to Other Government Units amounting to KSh.4,013,958,103 shown in the statement of financial performance related to disbursement made by the Fund to the county committees. However, the following were noted:

(i). 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.

(ii). In addition, the Board's approved county committees projects' reports were not provided for audit verification.

(iii). There were no accountability statements from the county committees and supporting documents for the payments made out of the funds from the county committees' bank accounts.

(iv). 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 incorrect.

(v). Records of the county committees' bank accounts were not provided for audit examination. Consequently, it was not 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.

Under the circumstances, the validity and accuracy of transfers to Other Government Entities expenditure of KSh.4,103,958,103 could not be confirmed.

I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

302. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

303. Internal audit report for the Fund revealed the following issues in respect of the Counties offices:

(i) Loss of Public Resources Through Theft

In Bungoma County, a Local Purchase Order (LPO) No. 2588742 was issued for the supply and delivery of thirty-six (36) canvas tents of a hundred persons' seater capacity worth KSh.5,400,000 and a payment of the same amount was made. Another LPO, No. 2588739, was issued for the procurement of one thousand two hundred (1,200) water tanks worth KSh.12,000,000 and which was paid for. However, on the night of 1 September, 2017, the Bungoma County NGAAF office lost all the above items worth KSh.17,400,000 from its office yard. The theft was not reported to the relevant authorities. As at the time of audit the lost items had not been recovered.

(ii) Imprests Unaccounted For

Two counties had unaccounted for temporary imprest amounting to KSh.6,059,600 being Kisumu, KSh.5,259,600 and Uasin Gishu, KSh.800,000 which had been applied in procuring of goods and services using temporary imprests.

(iii) Irregular Direct Procurements

The following direct procurement of KSh.2,931,776 for goods and services were carried out without observing the regulatory guidelines; (a) Bungoma County - procurement of Kuroiler chicks – KSh.1,000,000 and (b) Embu county - procurement of blankets and chairs - KSh.1,931,776. The management did not explained why the above items were single sourced without subjecting the process to competition as required. Further, no evidence has been provided to show that the direct procurements were reported to the Public Procurement Regulatory Authority as a mandatory reporting requirement.

(iv) Unapproved Expenditure

Two groups were given funds totalling KSh.900,000 in Uasin Gishu County without seeking and obtaining either the County Committee's or the Board's approval.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND BOARD

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

304. Unsupported expenditure

304.1 Unsupported Corporate Social Responsibilities

The statement of financial performance reflects general expenses balance of KSh.584,678,158 which as per note 10 of the financial statements includes a figure of KSh.217,617,644 relating to Corporate Social responsibility.

Included in the expenditure of Corporate Social responsibility of KSh.217,617,644 is an expenditure amount totaling KSh.78,132,400 which had no supporting

documentation. Consequently, it was not possible to confirm the propriety for the expenditure of KSh.78,132,400 included in the statement of financial performance under general expenses.

304.2 Unsupported Adjustments

The management submitted financial statements to the Auditor-General on 28 September 2018 which was revised and another set submitted on 26 February 2019. However, the movements in the balances noted in some of the components as detailed below were not supported by any documentation or supported adjustments.

Component	1st Financial statements KSh.	Revised financial statements KSh.	Variance
General expenses			
General office supplies	15,597,182	15,583,175	14,007
Medical, cleaning, membership, legal, parking	20,740,722	22,194,537	(1,435,815)
Cash and cash equivalents			
Coop Bank	1,502,782,497	1,502,721,471	61,026
Receivables			
Insurance	71,690,057	70,365,859	1,324,198

Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

304.3 Unsupported Contracted Services

The statement of financial performance for the year ended 30 June, 2018 reflects contracted services figure of KSh.27,699,963. Included in this balance is expenditure amounting to KSh.341,975 (Note 9) whose contract and other relevant documentation were not availed for audit review.

Consequently, the propriety of the expenditure of KSh.341,975 on contracted services included in the financial statements could not be confirmed.

304.4 Unsupported Board Expenses

The statement of financial performance reflects Board expenses figure of KSh.8,755,505. Included in this balance is expenditure amounting to KSh.649,200 that was not supported with payment vouchers and related documents.

Consequently, the propriety of the expenditure of KSh.649,200 on Board expenses could not be confirmed.

Further, included in board expenses of KSh.8,755,505 is a payment to two board members of KSh.40,000 which was wrongly paid out as KSh.160,000, resulting to an overpayment of KSh.120,000 which has not been recovered. As a result, the accuracy of the board expenditure of KSh.8,755,505 reported in the financial statements could not be confirmed.

In view of the foregoing, it has not been possible to ascertain the accuracy and completeness of the financial statements for the year ended 30 June 2018.

305. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 reflects cash and cash equivalent balance of KSh.1,502,721,471. However, the following unsatisfactory issues have been observed:

(i) Cooperative Bank Account

Included in the bank reconciliation statement for cooperative bank are payments in the cash book not in the bank statements totaling to KSh.90,272,821 for which cheques totalling KSh.55,747,835 were later cancelled and reversed back without proper explanation and supporting documentation.

(ii) Kenya Commercial Bank (KCB) Account

The balance in the financial statements for KCB bank account is KSh.5,435,664 which differs with the reconciled cash book balance as at 30 June 2018 of KSh.38,052,848 resulting to an unreconciled variance of KSh.32,617,184.

The above variance is in respect of monies fraudulently withdrawn from the Board's KCB bank account in the year 2011/2012 which has not been recovered to date. It is not clear how the amount was cleared from the reconciliation.

(iii) Equity-Gratuity Account

The statement of financial position reflects cash and cash equivalents figure of KSh.1,502,721,471. Included in this balance is Equity gratuity money balance of KSh.110,786,072 which had an opening balance of KSh.79,259,177. During the year under review, a provision of gratuity was made and an amount of KSh.60,598,759 was sent to the gratuity account at equity bank. However, the block figures for provision of gratuity, the payments made during the year and closing balance have not been analyzed and submitted for audit review.

In the circumstances, the accuracy and correctness of the equity-gratuity bank balance of KSh.110,786,072 as at 30 June 2016 could not be confirmed.

(iv) Dormant Bank accounts

The following bank accounts maintained by the CDF Board remained dormant during the year;

Bank Name	Balance as at 30 June 2018 KSh.
KCB(ESP)	32,506,625
ABC(current)	371
Equity	415
SBM-Chase	332,522,667
Eco(Current)	2,938.601
Total	365,033,017

No explanation has been provided why these bank accounts remained dormant during the year and why action has not been taken to close them down to avoid incurring unnecessary running expenses.

In consequence, it has not been possible to confirm whether the cash-and-cash equivalents balance of KSh.1,502,721,471 is fairly stated in the financial statements.

306. Wrong Charge and Misclassification of Expenses

Expenditure of KSh.17,641,603 were charged to wrong accounts instead of seeking authority from the Treasury to reallocate funds to the necessary accounts.

The inconsistency in charging the expenditures to wrong expenditure account class undermines the accuracy of the financial statements and renders budgeting meaningless.

As a result, the propriety and validity of the expenditure of KSh.17,641,603 could not be confirmed.

307. Employee costs

307.1 Variances between the Ledger and Financial statements

The statement of performance for the year ended 30 June 2018 reflects employee costs figure of KSh.832,559,413 which, when compared against the Integrated Personal Payroll Data (IPPD) report over the same period gives KSh.841,727,361.80 resulting in unreconciled net variance of KSh.9,156,948 which has not been explained.

Further, the payroll for the year under review contains an amount of KSh.20,061,185 classified as payroll arrears. It is not clear how the arrears were computed, the period to which they related to, payees and type of earnings paid out.

In the circumstance, it has not been possible to confirm the expenditure on employee costs of KSh.832,559,413 included in the statement of receipts and payments for the year ended 30 June 2018.

308. Property, Plant and Equipment

The statement of financial position and note 13 to the financial statements reflects Property Plant Equipment figure of KSh.97,283,759 which includes additions during the amounting to KSh.7,580,899. However, during the year under review, the Board awarded a contract amounting to KSh.3,913,086 for partitioning of Board offices at Harambee Co-operative plaza 6th Floor. KSh.3,913,086 was paid before the end of the financial year but the same was not included in property, plant and equipment additions schedule presented for audit verification. The expense account where the payment was captured could not be identified.

Consequently, it has not been possible to confirm the accuracy of property, plant and equipment balance of KSh.97,283,759 in the financial statements statement for the year ended 30 June 2018.

309. Intangible Assets

309.1 Utilization of National Government Constituency Development Fund Management Information System

The Board entered into a contract with a Consultant for the supply and implementation of an integrated CDF Management Information System (CDFMIS) at a contract sum of KSh.34,800,000 on 31 August 2010.

The major objective of the system was to implement an integrated CDF Management Information System (CDFMIS) across all the departments and at the constituency level.

The system has modules which include programmes, Finance, legal services, corporate planning strategy, audit, communication and procurement. The only department that is partially utilizing the system is the programmes department.

Further, an amount of KSh.10,536,800 was spent to train fund managers on use of the projects module of the MIS in Eldoret.

The secretariat programmes and finance staff were trained in February 2018 on use of the projects module of the MIS. Details on the cost that was incurred for the training in Naivasha was not availed for audit verification.

Despite all the investment in the cost of purchase, maintenance and training, the integrated CDF Management Information System (CDFMIS) largely remains underutilized since 2010 and hence the CDFMIS has not been put in proper use as intended by the Board. No explanation has been provided why the system has not been fully implemented.

Further, the application has been included in the intangible assets but at historical cost of KSh.11,332,835 instead of the contract amount as at 30 June 2018.

Consequently, the accuracy and completeness of intangible assets balance of KSh.5,548,189 as at 30 June 2018 could not be ascertained.

310. General Expenses – Training

The statement of financial performance reflects an amount of KSh.585,987,958 in respect of general expenses that includes KSh.57,778,746 in respect of training expenses. The training expense includes an amount of KSh.10,536,800 paid during the year under review to train fund managers on use of the projects module of the management information system but the system is still not in use. The basis of selection of the trainer who was different from the system implementation consultant was not availed for audit verification.

In addition, the secretariat programmes and finance staff were trained in February 2018 on use of the projects module of the system but details of how the trainer was identified and procured and the cost incurred for the training were not availed for audit verification.

Consequently, there is no evidence that the Fund has received value for money in the procurement of the integrated CDF Management Information System (CDFMIS) despite all the investment in the cost of purchase, maintenance and training. No explanation has been provided why the system has not been fully put into use.

311. Prior Year Matters

The following issues in the audit report for financial year 2016/2017 are yet to be addressed and resolved by Management.

311.1 Cash and Cash equivalents

The statement of financial position as at 30 June 2017 reflects cash and cash equivalent balance of KSh.1,564,762,110. However, the following unsatisfactory issues have been observed:

- i) The bank reconciliation statement as at 30 June 2017 for KCB Bank Account has long outstanding payments in the bank statements and not reflected in cash book amounting to KSh.32,589,080.60. The details of these payments are as indicated below;
 - An amount of KSh.32,585,558 in respect of monies that were fraudulently withdrawn from the Board's bank account in the year 2011/2012 and has not been recovered to date.
 - A bank reconciliation error dating back to year 2007 of KSh.3,522.45 that has never been investigated or resolved to date.

- ii) The cash and cash equivalent balance of KSh.1,564,762,110 also include an amount of KSh.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 KSh.1,564,762,110 as at 30 June 2017.

311.2 Trade Payables

Trade and other payables balance of KSh.124,173,750 as reflected in the statement of financial position excludes a brought forward liability of KSh.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 KSh.124,173,750 as at 30 June 2017 is not fairly stated.

Other Matter

312. Unaccounted and Unutilized Procurements

312.1 Purchase and Payment for Undelivered Motor Vehicles

During the year 2017/2018, approved procurement plan for National Government Constituencies Development Fund Board for the purchase of motor vehicles was KSh.24,000,000 , while the budget for the board shows that the Board will utilize KSh.40,000,000 to purchase new motor vehicles for the nine regional offices. However, only four motor vehicles were purchased at a total cost of KSh.37,544,600 resulting to unplanned variance of KSh.13,544,600 contrary to Section 53. (2) of Public Procurement and Asset Disposal, 2015.

Further, the payment of KSh.37,544,600 was made to Toyota Kenya on 30th June 2018 before the delivery of motor vehicles contrary to government regulations governing the purchase of motor vehicles.

No explanation has been provided for not complying with the law.

312.2 Purchase of Televisions

Included in additions of furniture fittings and general equipment are three televisions that were bought at KSh.1,907,000 for the boardroom. Details on why three televisions were acquired for the boardroom as opposed to one television were not provided. Further, the price at which each TV was acquired do not reflect fair market price in accordance with fair competition and value for money.

In view of the foregoing, the propriety and validity of the expenditure could not be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

313. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

314. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

DATA COLLECTION AND DATABASE DEVELOPMENT PROJECT- UNFPA KEN7P32A

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

315. Financing Agreement

As reported in the 2016/2017 Audit report, Management has not provided the financing agreement between the Bureau and UNFPA for the project. Further, the project remained dormant throughout the year with cash in bank of KSh.2,170,918 which remained unutilized. Consequently, in the absence of the financing agreement, the continuity of the project and the subsequent utilization of the cash in bank of KSh.2,170,918 cannot be confirmed.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

316. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

317. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

CO-ORDINATION OF POPULATION POLICY IMPLEMENTATION PROJECT (UNFPA CREDIT NO.KENO8POP

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

319. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

320. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MINISTRY OF DEFENCE VOTE 1041

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

322. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

323. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MINISTRY OF FOREIGN AFFAIRS VOTE 1052

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

324. Unapproved Expenditure and Irregular Prior Year Adjustment

The Ministry of Foreign Affairs expenditure estimates (Supplementary II) for 2017/2018 reflects a development budget of KSh.207,786,113 for the Kenya High Commission in Pretoria in respect of construction of the ambassador's residence and staff houses. A review of expenditure records revealed that payments amounting to KSh.439,635,854 were made to the contractor for the construction works in 2017/2018 financial year. The total payments of KSh.439,635,854 exceeds the budget of KSh.207,786,113 by KSh.231,849,741 leading to unapproved expenditure of KSh.231,849,741.

To accommodate part of the expenditure that was not budgeted for in 2017/2018 financial year, the management irregularly made a prior year adjustment of KSh.221,020,794 as disclosed in Note 15 to the financial statements. According to the International Public Sector Accounting Standard: Financial Reporting under the Cash Basis of Accounting, Paragraph 1.5.3. only errors in the preparation of the financial statements of one or more prior periods discovered in the current period are required to be corrected by a prior year adjustment. The errors according to the Standard may occur as a result of mathematical mistakes, misinterpretation of facts, mistakes in applying accounting policies or oversights. However, in the foregoing case, no error had occurred in the previous financial year to warrant a prior year adjustment in the financial statements for the year ended 30 June 2018.

325. Pending Accounts' Payables / Bills

The Ministry of Foreign Affairs had pending accounts' payables/bills totalling KSh.2,036,219,938 as at 30 June 2018 that were not settled in 2017/2018 financial year but were instead carried forward to 2018/2019.

Had the bills been paid and expenditure charged to the accounts for 2017/2018, the statement of receipts and payments for the year ended 30 June 2018 would have reflected a deficit of KSh.1,652,730,790.80 instead of the surplus of KSh.383,489,147 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

326. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

327. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR BASIC EDUCATION VOTE 1063

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

328. Compensation for L.R.NO.7879/4 Ruaraka High School and Drive-Inn Primary School

Note 6 to the financial statements on use of goods and services reflects other operating expenses amounting to KSh.5,548,266,723 for the year ended 30 June 2018. Included in this amount is KSh.1,500,000,000 paid to the National Land Commission being part payment for acquisition of land occupied by two schools in Ruaraka area. However, evidence of budgetary provision and approval was not provided. There was no evidence of budgetary allocation for the payment neither approval of the same.

In addition, records provided for audit review indicated that the proprietors of the said property had in 1984 applied for the subdivision/development of the above land to the then Director of City Planning. In his reply to the applicants through letter Ref. No. CPD/0644/7879/4 dated 28 March 1984, the Director of City Planning-Nairobi gave a conditional subdivision approval where the owners were to set aside land for public utilities. However, the developers through unreferenced letter dated 5 April 1984 declined and stated clearly they were no longer interested with the Director of City Planning's conditional approval and that the entire application of subdivision be cancelled.

As at the time of the audit, the entire area had been developed contrary to the provisions of Section 30,31 and 41 of the Physical Planning Act, 1996 (Revised 2012) that applications for development should be accompanied by such plans and particulars as are necessary to indicate the purposes of the development, and in particular shall show the proposed use and density, and the land which the applicant intends to surrender for purposes of principal and secondary means of access to any subdivisions within the area included in the application and to adjoining land; and public purposes consequent upon the proposed development.

Had due diligence been observed by all parties in the whole transaction, compensation for the land that ought to have been surrendered for public utilities should not have occurred.

Further, the National Land Commission had on 13 September, 2016 wrote to the Cabinet Secretary Ministry of Education informing him that the proprietors of the said property had filed a complaint with the Commission that the two schools had been occupying their land for 30 years without compensation.

Commission had thereafter, on 24, April 2017 instructed the Ministry to set aside KSh.3,269,040,600 as compensation for the land. The instructions to set aside the funds were given prior to the Commissions' valuation report dated 14 June, 2017, in which the land was valued at KSh.3,262,136,690.

In the circumstances, it has not been possible to confirm that the expenditure totalling KSh.1,500,000,000 for the year ended 30 June 2018 was procedural and a proper charge to public funds.

329. Cash and Cash Equivalents

329.1 Reversal of Stale Cheques

Included in the statement of assets and liabilities as at 30 June 2018 is cash and cash equivalent balance of KSh.119,211,679. However excluded from the balance of KSh.119,211,679 are stale cheques amounting to KSh.32,452,532 and which had not been reversed in the cash book as at 30 June 2018.

The state department did not explain why the stale cheques payments were not reversed in the cash book. Under the circumstances the accuracy of cash and cash equivalent balance of KSh.119,211,679 as at 30 June 2018 could not be confirmed.

330. Accounts Receivable

330.1 Temporary Imprests

The statements of assets and liabilities as at 30 June 2018 reflects account receivable balance of KSh.712,165,859. Details of which are disclosed in Note 13 to the financial statements.

The balance included KSh.2,879,366 being imprest that had not been surrendered as at 30 June 2018. This is contrary to Section 93(5) of the Public Finance Management (National Government) Regulation, 2015.

In addition, the Integrated Financial Management Information Systems Imprest register reflected outstanding imprest of KSh.3,165,243 as at 30 June 2018 resulting to a variance of KSh.1,666,700. No explanation was given for the variance between the two sets of records.

In the circumstances, it was not possible to confirm the accuracy, validity and completeness of the outstanding temporary imprest figure of KSh.2,879,366.

331. Accounts Payable - Deposits and Retentions

The statement of assets and liabilities as at 30 June, 2018 reflects accounts payable balance of KSh.80,139,200 (2016-2017 KSh.64,852,390) which as disclosed in note

14 to the financial statements includes other liabilities figure of KSh.78,277,274 (2016/2017 –KSh.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 KSh.62,990,464 which has been outstanding over four (4) 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 80,139,200 for the year ended 30 June, 2018 could not be ascertained.

332. Subsidies

Note 7 to the financial statements reflects subsidies totaling KSh.54,008,807,387 for the year ended 30 June 2018. Included in this amount is overpayment of subsidies to Secondary Schools amounting to KSh.269,254,288 to 185 Secondary Schools in eleven (11) sampled counties whose enrolment data was inflated.

Although the State Department of Early Learning and Basic Education has explained that the officer involved in the data entry that resulted to a variance between the enrolment data submitted by schools and the enrolment data used by the State Department for computation of amounts due to the schools was interdicted and the matter referred to Ethics and Anti-corruption Commission for further investigation, the case has not been concluded. In addition, two non-existent schools in Kakamega received a total of KSh.27,329,598.95.

In the circumstances, it was not possible to confirm that payment of KSh.296,583,887 to the 187 Secondary Schools was a proper charge to public resources.

Other Matter

333. Budgetary Control and Performance

The State Department of Early Learning and Basic Education had a total approved budget of KSh.93,688,058,581 against actual expenditure of KSh.92,585,874,563 resulting to under absorption of 1,102,184,018 or 1.18% of the budget.

It has not been explained why the State Department did not utilize its allocated budget of KSh.1,102,184,018 as at 30 June 2018.

333.1 Recurrent Vote

The State Department of Early Learning and Basic Education had an annual recurrent budget of KSh.83,774,399,585 against actual expenditure of KSh.83,832,934,873 resulting to overall under expenditure of KSh.(58,535,287).

The State Department underutilized the budget under other grants and transfers and acquisition of assets by 50% and 99.63% respectively. 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 2018.

333.2 Development Vote

The State Department of Early Learning and Basic Education had an annual development budget of KSh.9,913,658,996 against actual expenditure of KSh.8,752,939,691 resulting to under expenditure of KSh.1,160,719,305.

The State Department underutilized the budget under use of goods and services and acquisition of assets by 13% and 100 % respectively. 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 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

334. Payment of Rent without Valid Lease Agreements

As reported previously, the statement of receipts and payments for the year ended 30 June 2018 reflects use of goods and services figure of KSh.9,647,926,541 which includes payments totalling KSh.174,949,886 in respect of rentals of produced assets as disclosed in note 6 to the financial statements. The figure of KSh.174,949,886 also includes KSh.15,583,858 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 the circumstances, it was not possible to confirm that the rent paid of KSh.15,583,858 was in line with the existing agreement and consistent with market rates. Consequently, the propriety of KSh.15,583,858 expenditure could not be ascertained for the year ended 30 June 2018.

335. Wasteful Expenditure on Tyres

As reported previously, the statement of receipts and payments for the year ended 30 June, 2017 reflects use of goods and services figure KSh.4,843,009,920 which includes a payment of KSh.459,420 in respect of purchase of thirty (30) pcs of tyres size 205/65R16. A physical check of the store done in February 2018 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 omission 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. Consequently, the propriety of

expenditure totalling KSh.459,420 on tyres for the year ended 30 June, 2017 could not be ascertained.

336. Obsolete Stores

As previously reported, examination of stores records revealed that 128 uninterrupted power supply batteries (UPS's) worth KSh.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. Physical verification done in February 2018 revealed the UPS were still in the store. In the circumstances, it has not been possible to confirm the propriety of expenditure totalling KSh.1,218,176 and the expenditure may have been wasteful.

In the circumstances, it was not possible to confirm if the above expenditure was a proper charge to public funds.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

337. Audit Committee

As required by Section 73(5) of the Public Finance Management Act (2012) the State Department did have an audit Committee in place. However, the Minutes of the deliberations of the Committee were not availed for audit review.

In the absence of the minutes, it has not been possible to confirm that the audit committee's roles of ensuring the integrity of the state department's financial information, its system of internal controls, and the legal and ethical requirements provided for in Section 3.2 of gazette notice No.2690 dated 15 April 2016 were achieved.

DONOR FUNDED PROJECTS

KENYA PRIMARY EDUCATION DEVELOPMENT (PRIEDE) PROJECT (CREDIT NO. TFO18863)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

338. Inaccuracies in the Financial Statements

The statement of receipts and payments for the year ended 30 June 2018 reflects total expenditure amounting to KSh.2,259,784,105 while records available in the IFMIS report for the same period reflects expenditure of KSh.2,274,469,102 resulting in a variance of KSh.14,684,997 which has not been explained or reconciled.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the expenditure of KSh.2,259,784,105 for the year ended 30 June 2018.

339. Cash and Bank Balances

Excluded from cash and cash equivalents balance of KSh.196,612,188 is an amount of KSh.1,326,538 being payments in bank not captured in the cash book some of which date back to the month of December 2017. The management has not explained the genesis of the payments. In the circumstances, the accuracy and completeness of the cash and bank balance of KSh.196,612,188 as at 30 June 2018 could not be confirmed.

340. Unresolved Prior Year Matters

340.1 Special Account Statements

As previously reported, the statement of receipts and payments for the year ended 30 June 2018 reflects a comparative figure of KSh.2,458,212,857 under proceeds from domestic and foreign grants which differs with the amounts reflected in the special accounts statements of KSh.2,392,050,847. The resultant difference of KSh.66,162,010 has not been explained/reconciled as at the date of this report.

340.2 Unconfirmed Transfers

As reported in the previous years, the statement of receipts and payments for the year ended 30 June 2016 reflected receipts from Government entities of KSh.23,902,753 which is at variance with the supported disbursement to TSC and KNEC on the same item totalling KSh.12,659,308. The resultant variance of

KSh.11,243,445 has not been explained or reconciled. In the circumstance, it has not been possible to confirm the accuracy and validity of the transfers from Government entities figure of KSh.23,902,753 for the year.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for conclusion

341. Unresolved Prior Year Matters

341.1 Non-Compliance with Approved Budget

As previously reported, included in note 8.7 to the financial statements for the year ended 30 June 2017 is expenditures totalling to KSh.251,637,245 paid to ten consulting firms to train 4,000 schools on School Improvement Planning (SIP) during the year under review against budgetary provision of KSh.200,000,000 resulting to unapproved expenditure of KSh.51,637,245. The unapproved expenditure of KSh.51,637,245 was contrary to the section 3.5 of the project financial manual and management, therefore, was in breach of the law.

341.2 Irregular Procurement of Consultants

As previously reported, 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 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 KSh.251,637,245. However, scrutiny of the tender evaluation reports of the request for expression of interest (REOI) revealed that no detailed analysis on how the firms were evaluated and ranked by the tender evaluation committee was availed for audit review.

Further, examination of payment and contract records revealed that on 28th October, 2016 the Ministry entered into a contract for carrying out school improvement plan (SIP) training for key stakeholders in the Mau A Region with a consulting firm at a contract sum of KSh.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 KSh.251,637,245 could not be confirmed to be proper charge to public funds for the year.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

342. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

SECONDARY EDUCATION QUALITY IMPROVEMENT PROJECT (SEQIP) CREDIT NO. 6138

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

344. Budget Control and Performance

The project had a budget of KSh.641,940,396 against actual expenditure of KSh.247,637,058 resulting in under expenditure of KSh.394,303,338 or 61% of the total budget.

The project management underutilized the budget under purchase of goods and services by KSh.394,303,338 or 85%. The under absorption of the approved budget implies that planned goods and services to the Kenya Education Sector stakeholders were not delivered.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

345. Except for the issues described in the Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

346. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT OF VOCATIONAL AND TECHNICAL TRAINING VOTE 1064

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

347. Cash and cash Equivalents

347.1 Bank Reconciliation Statement

The statement of assets and liabilities as at 30 June 2018 reflects cash and cash equivalents balance of KSh.108,647,577 out of which an amount of KSh.45,716,743 for the recurrent account whose bank reconciliation statement was not availed for audit review.

In the absence of the bank reconciliation statement, the accuracy of the cash and cash equivalents figure of KSh.108,647,577 as at 30 June 2018 could not be confirmed.

347.2 Reversal of Bank Reconciliation Items

As reported in the previous year, excluded from the cash and bank balances of KSh.156,769,047 as at 30 June, 2017 is a payment in the cash book not in the bank statement amounting to KSh.600,000 relating to development account which was not reversed in the cash book in the financial year 2016/2017. The payment has still not been reversed in the cash book as at 30 June 2018. Non reversal of the payment affected the closing cash and cash equivalents balance.

348. Outstanding imprest

Note 9 to the financial statements for the year ended 30 June 2018 reflects KSh.13,366,521 as outstanding imprest while the manual imprest register reflects a nil balance. The integrated Financial Management Information System imprest register for the same period reflects a balance of KSh.9,441,138. No explanation was given for the variance in the three sets of records which should in normal circumstances reflect the same balance.

In addition, a schedule of outstanding district suspense account balance of KSh.1,463,501 was not provided for audit review.

Other Matter

349. Budget Analysis

According to the statement of comparison of budget and actual amounts, the State Department had an approved total budget of KSh.13,393,068,261 against actual expenditure of KSh.10,681,585,024 resulting to an under absorption of KSh.2,718,379,187 or 28% of the total budget as detailed below:

The implication of the under absorption of the budget is that the State Department did not offer services envisaged for delivery to the Citizens during the year under review. In addition the Department spent KSh.6,913,950 in excess of the approved budget. No supporting evidence was availed to show that the over expenditure was approved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

350. Purchase of Information, Communication and Technology (ICT) Equipment

The statement of receipts and payments reflect a figure of KSh.6,850,983,600 under use of goods and services. The figure includes an amount of KSh.6,509,182,533 for purchase of specialized materials and services as disclosed in note 4 to the financial statements, which also includes an amount of KSh.339,347,580 spent in the procurement of ICT equipment, furniture and fittings for various technical training institutions from nine (9) firms. However, the approved procurement plan for the year was not availed for audit review. It was therefore not possible to confirm that the items were in the procurement plan of the State Department of Vocational and Technical Training.

Further, bidder's original tender documents were not availed for audit review and therefore the validity of the procurement process could not be ascertained for the year ended 30 June 2018.

In addition, tender evaluation was undertaken 34 days after the tender opening on 19 April 2018 and forty-one (41) days for ICT equipment and furniture and fittings respectively contrary to the provisions of Section 80(6) of the Public Procurement and Asset Disposal Act 2015 which allows a maximum of 30 days after the opening of the tenders.

Furthermore, the appointment letters for the tender opening and evaluation committees were not availed for audit review and hence it's not clear if the members who performed the duties on 19 April 2017 and 15 May 2017 were appointed by the Principal Secretary as per the Public Procurement and Assets Disposal Act 2015.

Further, the evaluation reports prepared did not have scores awarded by each evaluator neither were the individual score sheets availed for audit review.

In addition, the Inspection and Acceptance Committee members were paid KSh.5,917,800 for inspection and acceptance of various equipment and construction works at various Technical Training Institutions. The officers had not been appointed formally into the Inspection and Acceptance Committees as required by the Public Procurement and Asset Disposal Act Section 48(1) which requires that an accounting officer of a procuring entity to establish an ad-hoc committee known as the Inspection and Acceptance committee.

In the circumstances, the State Department is in breach of the law.

351. Disbursements to Technical and Vocational Institutions

351.1 Excess Disbursement

Note 5 to the financial statements reflects transfers to other government units of KSh.3,514,285,398 out of which KSh.2,118,483,203 is in respect of recurrent grants. The recurrent grants to technical training and vocational institutions were to be disbursed based on the following criteria; New technical institutions were to receive KSh.2 Million per year: Those with less than 500 students were to receive KSh.12 million, those with between 501 to 999 students to receive KSh.20 million; Those with between 1,000 to 2,000 students to receive KSh.24 million; Those with over 2,000 students to receive KSh.28 million.

However, examination of records held by the State Department revealed that 58 institutions received a total of KSh.1,418,011,801 instead of the entitled KSh.782,000,000 based on the set criteria resulting to excess disbursement of KSh.636,011,801. No explanation has been given to justify the excess payment.

Further, KSh.22,000,000 was disbursed to Rwika institute. However, the institution was not listed among the beneficiary institutions.

In the circumstances it was not possible to confirm the authenticity of the disbursements.

351.2 Development disbursements

A total of KSh.1,066,152,564 was disbursed as development grants to Special Needs Institutions, National Polytechnics, Technical Training Institutions and Technical Vocational Centers without a basis and purpose of allocation.

In the circumstances it has not been possible to confirm the validity of the Development expenditure of KSh.1,066,152,564.

352. Unresolved Prior Year Matters

352.1 Wasteful Expenditure

As reported in the previous year, the statement of receipts and payments for the year ended 30 June 2017 reflected use of goods and services figure of KSh.3,497,472,588. This figure includes an amount of KSh.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 KSh.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 KSh.137,135,407, while the contract signed on 13 December, 2011 indicates a contract sum of KSh.59,954,926. No explanation was availed for audit review on how the contract sum changed from the initial KSh.59,954,926 to KSh.137,135,407 and finally to KSh.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 usually applied in settlement of court cases. Further, no explanation has been provided as to why the Ministry consented to pay KSh.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 KSh.159,817,204 could not be confirmed as a proper charge to public funds for the year ended 30 June 2017.

352.2 Delay in Completion of Projects

As reported in the previous year, the statement of receipts and payments for the year ended 30 June, 2017 reflected transfers to other government units figure of KSh.4,329,951,710 which included KSh.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 KSh.3,821,946,495 for a period of one year.

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

In addition, 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 KSh.3,246,940,967.92 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 KSh.1,284,489,490 were still incomplete despite the contract period having elapsed and the Ministry had released its entire contribution totaling KSh.2,646,940,968.

In the circumstances, it was not possible to confirm when and if the projects will be completed and if the stakeholders will ever get value for money from the public resources totaling KSh.5,106,436,447.

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

As previously reported, the statement of receipts and payments for the year ended 30 June 2017 reflected transfers to other government units figure of KSh.4,329,951,710 which includes payments of KSh.39,929,939 to eight (8) technical training institutes towards construction of septic tanks. This project was preceded by the construction of nine (9) technical institutes during the year 2014/2015 in counties at a contract sum of KSh.487,865,560.

However, available information indicated that the institutes were incomplete while the building constructed to host Chepareria TI 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 KSh.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 was not possible to confirm the validity of the expenditure of KSh.39,929,939 for the year ended 30 June 2017 incurred on construction of septic tanks.

352.4 Procurement of Equipment for TTIS – Kenya-China Project

As previously reported, the Government of Kenya through the then Ministry of Education, Science and Technology 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 (TVET) workshops at a total cost of US \$ 166,618,659 which was later revised to US \$158,785,183 (KSh.16,402,509,401) through an addendum dated 25 May 2016.

This project preceded 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 (KSh.13,743,066,799). However, minutes of the meeting on negotiations between AVIC International and GoK were not availed

for audit review. It was further noted that as part of 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.

It was further noted that the on 11 January 2017 the State Department-VTT paid KSh.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 KSh.2,440,000,000 was used was availed for audit review.

In the circumstances, it was not possible to confirm the propriety of expenditure of KSh.2,440,000,000 for the year ended 30 June.

352.5 Payment of Rent without Valid Lease Agreements

As reported in the previous year, the statement of receipts and payments for the year ended 30 June, 2017 reflects use of goods and service figure of KSh.3,497,472,558 and which includes payments totalling KSh.57,244,711 in respect of rentals of produced assets as disclosed in Note 3 to the financial statements. The figure of KSh.57,244,711 also includes KSh.55,369,049 being rent of office space for the various departments whose valid and current lease agreements with various landlords and property managers were not availed for audit verification.

In the circumstances, it was not possible to confirm that the rent paid of KSh.55,369,049 was in line with the existing agreement and consistent with market rates.

352.6 Direct Procurement of Goods and Services

As previously reported, the statement of receipts and payments for the year ended 30 June, 2017 reflects use of goods and services figure of KSh.3,497,472,558 which included payments totalling KSh.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 with 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.

352.7 Pending Bills

352.7.1 Unclear Payments for Equipment for Vocational Training Centers

As reported in the previous year, examination of payment records for the year 2016/2017 revealed that the Department paid pending bills for the year 2015/2016 totalling KSh.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 45(3) of the Public Procurement and Asset Disposal Act, 2015 which requires that all procurement processes be within the approved budget and be planned through the annual procurement plan.

In the circumstances, the validity of expenditure of KSh.8,362,600 on equipment for the year ended 30 June, 2017 could not be confirmed.

352.7.2 Unauthorized Payment of Pending Bills

As previously reported, examination of pending bills revealed that during the year 2016/2017, the State Department paid KSh.1,695,000 and KSh.2,082,336 to Kenya Education Management Institute and Shawa Suppliers and General Contractors respectively. These two payments were however not included in the approved list of pending bills for the year 2015/2016. No explanation was provided for this anomaly.

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

352.8 Transfers to Other Government Units

As reported previously, the statement of receipts and payments for the year ended 30 June 2017 reflects transfers to other government units figure of KSh.4,329,951,710 which includes payments totalling KSh.91,400,000 made to ten (10) Technical Institutes and seven (7) National Polytechnics in various counties towards renovation of workshops.

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 was not possible to confirm the authenticity of payments totalling KSh.91,400,000 to the ten (10) Technical Institutions and seven (7) National Polytechnics for the year ended 30 June 2017.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

353. Audit Committee

As required by Section 73(5) of the Public Finance Management Act (2012) the State Department did have an audit Committee in place. However, the Minutes of the deliberations of the Committee were not availed for audit review. In the absence of the minutes, it has not been possible to confirm that the audit committee's roles of ensuring the integrity of the State Department's financial information, its system of internal controls, and the legal and ethical requirements provided for in section 3.2 of gazette notice No.2690 dated 15 April 2016 were achieved.

STATE DEPARTMENT OF UNIVERSITY EDUCATION VOTE 1065

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

354. Pending Bills

As disclosed in note 17 to the financial statements, pending bills totalling KSh.1,311,738,922 were not settled in 2017/2018 but were carried forward to 2018/2019. Out of the amount, bills amounting to KSh.1,025,849,040 relate to Recurrent Vote while the balance of KSh.285,889,882 relate to Development Vote. Had the bills been settled and the expenditure accounted for in 2017/2018, the statement of receipts and payments for the year ended 30 June 2018 would have reflected a deficit (excess vote) of KSh.1,312,053,352 instead of the deficit of KSh.314,433 now reflected. Further, the pending bills increased by 278% from KSh.347,139,946 in the financial year 2016/2017.

355. Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2018 reflects use of goods and services figure of KSh.453,314,843 which includes payments totalling KSh.22,533,406 in respect of rent of office space at Utalii House. However, of this amount, KSh.7,355,188.80 was for lease of office space occupied by National Commission for Science, Technology and Innovation. No explanation was given as to why the State Department paid rent on behalf of a State Corporation with its own budget allocation.

In the circumstances, it was not possible to confirm the validity and propriety of rent payment totalling to KSh.22,533,406 made for the office spaces.

356. Unresolved Prior Year Matters

356.1 Wasteful Expenditure

As reported in 2016/2017, the statement of receipts and payments for the year ended 30 June 2017 reflected use of goods and services figure of KSh.740,922,565 which included an amount of KSh.20,790,625 paid to the Principal Secretary National Treasury who in turn paid four (4) firms in respect of reimbursement of demurrage and storage charges under GoK/ADB HEST 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.

Further, available information indicated that the above four (4) firms were paid KSh.20,790,626 as reported in the year 2015/2016 in respect of demurrage and storage charges as detailed below. This may amount to double payment of public resources.

Payment Date	Cheque no.	Amount
1-Jul-16	2377	1,432,675.30
1-Jul-16	2379	1,780,798.25
1-Jul-16	2376	2,222,721.40
1-Jul-16	2378	15,354,431.80
		20,790,626.75

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

356.2 Transfers to Other Government Units

As reported in 2016/2017, the statement of receipts and payments for the year ended 30 June 2017 reflected transfers to other Government Units figure of KSh.60,911,006,803 which comprises KSh.7,844,854,056 and KSh.53,066,152,748 in respect of development and recurrent grants. The figure of KSh.7,844,854,056 includes development grants of KSh.279,846,149 and KSh.935,078,854 transferred to Kisii and Moi Universities respectively. However, a review of the records maintained by the Ministry revealed that KSh.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 KSh.33,443,953 in respect of construction of a library annex out of which KSh.14,163,570 and KSh.18,227,227.75 relate to interim certificates dating back to 25 September 2012. A further amount of KSh.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 KSh.279,846,149 and KSh.935,078,854 made to Kisii University and Moi University respectively for the year ended 30 June 2017.

356.3 Unsupported Balance

As previously reported, the statement of assets and liabilities as at 30 June 2017 reflected a balance of KSh.48,129,092 under prior year adjustments which included

district suspense figure of KSh.5,259,494 whose nature and supporting analysis was not explained and availed for audit review.

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

Other Matter

357. Budgetary Control and Performance

357.1 Budget Analysis

The State Department for University Education had an approved total budget of KSh.100,825,119,576 against actual expenditure of KSh.90,501,604,905 resulting to an under-absorption of KSh.10,323,514,671 or 10% of the total budget.

357.2 Recurrent Vote

Further, the budget performance analysis for recurrent budget shows that the State Department underutilized the planned budget under use of goods and services and other grants and transfers by 54% and 16% respectively.

Under absorption of the approved budget is an indication of activities not been implemented by the State Department which implies non delivery of goods and services to the Kenyan citizens for the year ended 30 June 2018.

357.3 Development Vote

In addition, the State Department had a total development budget of KSh.4,323,815,292 against actual expenditure of KSh.3,613,324,606 for the year ended 30 June 2018 resulting to under absorption of KSh.710,490,686.

The under absorption of the approved budget is an indication of activities planned but not implemented by the State Department which implies non delivery of goods and services to the Kenyan citizens for the year 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

358. Unresolved Prior Year Matters

358.1 Procurement of Contracted Professional Services

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

358.1.1 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 Ltd to develop research funding guidelines at a contract sum of KSh.9,890,000. However, procurement documents and records showing how the consultants were 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. The state department was therefore in breach of the law.

358.1.2 Consultancy Services on Capacity Building Strategy

On 1 September 2016 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 (JKUAT) at a contract sum of KSh.130,900.310 with the completion date of 21 January 2017. The contract was done through single sourcing. However, no supporting procurement documents showing how JKUAT was identified and 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 Asset Disposal Act, 2015 and relevant regulations.

358.1.3 Expenditure on Leased Offices

The statement of receipts and payments for the year 30 June 2017 reflected use of goods and services figure of KSh.740,922,565 which includes payments totalling KSh.45,769,339 in respect of rentals of produced assets as disclosed in note 5 to the financial statements. The figure of KSh.45,769,339 also included KSh.44,733,296.80 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 KSh.44,733,296.80 was in line with the existing agreement and consistent with market rates, and that the contract was valid.

358.2 Failure to Surrender Temporary Imprests

The statement of assets and liabilities as at 30 June 2017 reflected accounts receivables balance of KSh.230,008 which includes government imprest of KSh.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 was in breach of the law.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Basis for Conclusion

359. Audit Committee

As required by Section 73(5) of the Public Finance Management Act (2012) the State Department did have an audit Committee in place. However, the Minutes of the deliberations of the Committee were not availed for audit review.

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

360. 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 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 2018 the cumulative amount on acquisition of non-financial assets was KSh.3,008,786,166. However, the following omissions were noted:

360.1 Equipment not Delivered

As previously reported, audit verification revealed that equipment worth KSh.47,244,172 were not delivered to three universities despite being paid for.

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 propriety of KSh.47,244,172 paid for goods not delivered could not be confirmed.

360.2 Equipment Installation

As previously reported, equipment worth KSh.222,464,621 supplied to four (4) universities namely 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 the time of our audit on 24 October 2017. Information obtained from the University management showed that they had no specifically 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.

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 KSh.222,464,621.

360.3 Equipment not as per User Specification

As previously reported, equipment delivered to Meru University, South Eastern Kenya University and Technical University of Kenya valued at KSh.215,035,132 were found not to meet user specification, hence were rejected by the respective inspection and acceptance committee. However, these equipment had not been replaced as at the date of the audit on 24 October 2017. In some cases, the equipment could not be used as they lacked essential accessories to operate.

In the circumstances, the validity of expenditure totalling KSh.215,035,132 on the equipment could not be ascertain.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

361. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

362. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KENYA ITALY DEBT FOR DEVELOPMENT PROGRAMME (KIDDP)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

363. Stale Cheques

The projects bank reconciliation statement as at 30 June 2018 reflects payments in cash book not recorded in bank statement of KSh.19,405,181 which include stale cheques totaling KSh.4,222,939. In the circumstance, accuracy of bank balance of KSh.63,523,862 reflected in the financial statement could not be confirmed.

Further, as previously reported the bank reconciliation statement as at 30 June 2017 reflects payments in bank statement not yet recorded in the cash book amounting to KSh.259,794, which includes a prior year adjustment balance of KSh.240,529 dating back to 30 June 2013. Although the amount has now been recorded in the cash book, the nature of the prior year adjustment has not been explained or respective analysis availed for audit review.

364. Unaccounted for Scholarship Funds

Included in other grants and transfers and payments balance of KSh.8,662,000 for the year ended 30 June 2017 are scholarship grants to various youth polytechnics. Field audit verification in 2017/2018 revealed that some institutions namely Lucy Onono Vocational training centre, Mfangano Youth Polytechnic, Nagwethe Vocational training centre and Mkwajuni vocational training centre could not account for the grants.

In the circumstances, it has not been possible to confirm that an amount of KSh.1,450,250 was expended as per the Kenya Italy Debt for Development Programme Financing Agreement.

365. Unresolved Prior Years' Matters

365.1 Balance Brought Forward

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

365.2 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:

The statement of comparative budget and actual amounts for the year ended 30 June, 2015 reflected a final budget figure of KSh.118,600,000 under proceeds from domestic and foreign loans. However, an approved budget supporting the balance was not availed for audit verification. Further, the statement reflected actual proceeds from domestic and foreign grants totaling KSh.18,731,449 which differed with the balance of KSh.118,600,000 reflected in the statement of receipts and payments by an unexplained variance of KSh.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 KSh.118,600,000 reflected in the financial statements.

365.3 Unconfirmed/Excluded Expenditure

As reported in the previous years, examination of payment vouchers revealed that expenditures totaling KSh.59,724,550 and KSh.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. Further, expenditure of KSh.8,190,400 and KSh.1,288,814 totalling to KSh.9,479,214 reflected in the financial statements were incurred on tools and construction of workshops respectively under the loan component. However, management did not avail the project status report for audit review. In the circumstances, it was not possible to confirm the propriety of the expenditure of KSh.9,479,214 on tools and construction of workshops.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

366. Acquisition of Non-Financial Assets

366.1 Construction Projects in Vocational Training Centers

Included in the statement of receipts and payments for the year ended 30 June 2018 is acquisition of non-financial assets totaling KSh.31,324,656 paid in respect of construction works in seven (7) youth polytechnics during the year.

Physical verification of the projects revealed that all the projects were incomplete and that the contracts periods had expired and no extensions had been granted. Management has not explained why action has not been taken against the contractors in accordance with clause 27 of section III-Conditions of contract.

In the circumstances, the propriety of the total payments of KSh.31,324,656 and value for money for stakeholders on the seven projects could not be ascertained for the year ended 30 June 2018.

367. Going Concern of the Project

The agreement on debt development swap between the Italian Republic and the Government of Kenya of 27 October 2004 states that the agreement will remain in force until 30 June 2018. Further, amounts not disbursed on eligible projects by then shall be repaid within three months to the Government of the Italian Republic. The project cash book as at 30 June 2018 reflects a balance of KSh.63,525,862 and the constructions projects under the program are incomplete. In the circumstances, the completion of the projects under Kenya Italy Debt for Development Programme will, therefore, depend upon the support of the Italian Government. Consequently, the Kenyans may not get full benefits from the project if the funds are refunded to the donor.

368. Unresolved Prior Years' Matters - Failure to Prepare and Submit for Audit 2013/2014 Financial Statements

As previously reported, although the project management submitted the 2014/2015, 2015/2016, 2016/2017 and 2017/2018 financial statements to the Auditor-General for audit, 2013/2014 financial statements were not prepared and submitted for audit. This is contrary to section 4 (1) of the Public Audit Act 2003 that require preparation of final accounts for every financial year. In the circumstance, the management breached the provisions of the Public Audit Act, 2003.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

369. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

370. Cash and Cash Equivalents

The statement of financial assets as at 30 June 2018 reflects cash and cash equivalent balance of KSh.5,482,012. However, as noted in the previous year's report, a recast of the cash book in the month of August 2016 revealed that the balance carried down was KSh.9,128,436 instead of KSh.10,148,436 thus understating the balance by KSh.1,020,000. This anomaly had not been corrected as at the date of this report. Further, bank reconciliation statement reflects payments in bank statements not recorded in cash book amounting to KSh.505,000 out of which KSh.503,350 was in respect of outward payment and whose nature has not been disclosed or analysed.

In view of the above, it has not been possible to confirm the validity and accuracy of the cash and cash equivalents balance of KSh.5,482,012 as at 30 June 2018.

371. Unsupported Expenditure

As was the case in the previous year, the statement of receipts and payments for the year ended 30 June 2018 reflects payments for purchase of goods and services totalling to KSh.134,826,523. However, direct payments of KSh.114,711,204 representing 85.1% were not supported.

In the absence of the supporting documents and analyses, it has not been possible to confirm the propriety of expenditure totalling KSh.114,711,204 for the year ended 30 June 2018.

372. Unapproved Excess Expenditure

The statement of comparative budget and actual amounts reflects total budgeted expenditure of KSh.105,000,000 against actual expenditure of KSh.134,826,523 thus resulting to over expenditure of KSh.29,826,523 or 28% of the total budget.

However, no evidence was provided to confirm whether the excess expenditure was approved by the National Treasury. In the circumstances, the validity of over-expenditure of KSh.29,826,523 for the year ended 30 June 2018 could not be confirmed.

373. Non-Availability of Key Project Information

The following Project documents were not availed for audit review; Project Contractual Agreement, Programme Design Report, Project Implementation Manual, GOK-UNICEF Policies, Work plan and Activities Report.

It has therefore not been possible to ascertain if the project was meeting its expectation and mandate to the Kenyan citizens and implemented as per contract agreement.

374. Programme Progress Reports

The statement of receipts and payments for the year ended 30 June 2018 indicate that KSh.134,826,523 had been expended by the project in respect of purchase of foods and services. However, progress report on the various expenditure components totaling KSh.1,356,536,939 as at 30 June 2018 were not availed for audit review.

In the circumstances, it has not been possible to verify the extent to which the programme achieved its objectives and output targets for the year under review. Further, it has not been possible to ascertain if value for money was obtained by the State Department on the money expended in this project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

375. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

376. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

AFRICA HIGHER EDUCATION CENTERS OF EXCELLENCE PROJECT NO. 151847

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

378. Lack of Government Counterpart Funding

The statement of receipts and payments reflects a grant of KSh.111,854,167 received from International Development Association (IDA). However, there was no evidence that counterpart funding was received or budgeted for as per the Grant Agreement which provided for counterpart funds of up to five percent of the credit (equivalent to a maximum of US\$ 900,000) over the project duration of five years to support activities of the project. This is contrary, to section 72 (6) of Public Finance Management (National Government) Regulations 2015.

Failure to receive budgeted funds negatively affect the operations of the project while non-adherence to the provisions of relevant laws may lead to withdrawal of Project funding by the donor.

379. Budget Execution and Performance

Included in the financial statements under statement of comparative budget and actual amounts is an approved budget figure of KSh.189,109,594. However, a budget utilization analysis of the project revealed that only KSh.35,311,379 representing 19% of the budgeted amount of KSh.189,109,594 was utilized. In addition, receipts during the year amounted to KSh.115,626,464 against a budget figure of KSh.189,109,594, resulting to a shortfall of KSh.73,483,130.

The underutilization of budgeted amounts may impact negatively on timely implementation of project activities and financing timeliness.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

380. Investment of Project Funds

Included in statement of receipts and payments is other receipts figure of KSh.2,162,703 which includes finance income of KSh.2,140,603. This figure relates

to interest earned on call deposits totaling KSh.190,000,000. However, authority and approvals to withdraw the funds from the project account to the call and deposit bank accounts were not availed for audit review.

Further, evidence of closure of the bank accounts was not provide and as a result the accuracy and completeness of interest on investment earned or receivable could not be confirmed. In addition, out of the total interest earned of KSh.2,140,602 an amount of KSh.324,863 was banked in the Implementing Agencys bank account contrary to Section 2.06 of the Subsidiary Agreement, between JOOUST and Government of Kenya.

In the circumstances the completeness and accuracy of other receipts figure of KSh.2,162,703 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

381. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the International Development Association (IDA)-World Bank, I report based on my audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by the Africa Higher Education Centers of Excellence Project No.151847) so far as appears from the examination of those records; and,
- iii. The Africa Higher Education Centers of Excellence Project No.151847) financial statements are in agreement with the accounting records and returns.

MASENO UNIVERSITY FLOOD DISASTER RISK REDUCTION PROJECT – BUNYALA (ADB G-KE-KZO-ZZZ-002)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

382. Inaccuracy and completeness of the Financial Statements

The financial statements presented for audit for the year ended 30 June 2018 had the following inaccuracies and inconsistencies:

- i. The total amount received to date of KSh.85,884,269 as per funding summary at Note 1.7 of the financial statements less total payments to date of KSh.53,647,815 as per the statement of receipts and payments amounts to KSh.32,236,454 which is different from the closing bank balance of KSh.21,415,047. There is an unexplained variance of KSh.10,821,407.
- ii. The cumulative receipts of KSh.85,884,269 indicated in Note 1.7 differs with receipts to date of KSh.55,279,580 in the statement of receipts and payments. This results in an unexplained variance of KSh.30,604,689.
- iii. The cumulative to date figures in the statement of receipts and payments do not include figures for the year 2015/2016. This also applies to Note 8.6 to the financial statements.
- iv. The Fixed assets register is not in the format prescribed by the templates issued by Public Sector Accounting Standards Board (PSASB).
- v. The figures for compensation of employees in Note 8.4 differ with those indicated in the statement of receipts and payments for both years 2016/2017 and 2017/2018 as shown below:

Year	Statement of Receipts and Payments	Note 8.4 to the Financial Statements	Variance
	KSh.	KSh.	KSh.
2016/2017	15,216,000	5,171,000	10,045,000
2017/2018	14,083,000	15,216,000	(1,133,000)

- vi. The statement of comparative budget and actual amounts shows that payments to consultants were KSh.4,231,750. This amount has not been included in the statement of receipts and payments.

- vii. Note 8.9 to the financial statements indicates total pending bills for the year 2017/2018 as KSh.4,081,660. However, there is a casting error of KSh.254,000 since the correct total is KSh.4,335,660.

Consequently, the accuracy, completeness and validity of the financial statements for the year ended 30 June 2018, could not be ascertained.

383. Cash and Cash Equivalents

The statement of financial assets and liabilities as at 30 June 2018 indicates that the cash and cash equivalents balance was KSh.21,876,147. However, included in this amount was cash of KSh.461,100 which was not supported with a board of survey report. Further, note 8.7 to the financial statements does not disclose the KSh.461,100 as indicated.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of KSh.21,876,147 could not be ascertained as at 30 June 2018.

384. Contributions in kind from Maseno University

Included in note 8.2 to the financial statements were contributions in kind from Maseno University of KSh.1,273,992 as at 30 June 2018. However, no documentary evidence has been provided to support the contributions.

Consequently, accuracy of the contributions of KSh.1,273,992 could not be confirmed as at 30 June 2018.

Emphasis of Matter

385. Budget Performance

The project utilized on average 66% of the budget in implementing project activities. This implies that a significant portion of the programs ear-marked for implementation during the financial year were not implemented.

This had an effect of under achieving the objectives and goals of the project and denying the citizens the expected benefits.

386. Co-mingling of Funds

A review of the supervision and mid-term review reports by the donor indicates that there were concerns of co-mingling of project funds with those of the university. Rather than make payments directly from the project bank account, funds were transferred to the university's operations account from where payments relating to the project were being made. This had an effect of causing considerable delays in the implementation of project activities, including delayed payment of project staff and consultants even though funds had been released from donor Euro account.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Basis for Conclusion

387. Purchase of Toyota Hilux 4X4 Double Cabin

The project management procured a Toyota Hilux 4X4 Double Cabin at a total cost of KSh.5,870,000 using the State Department of Public Works purchase contract. In addition, the log book for the vehicle has also not been obtained.

Consequently, it was not possible to establish whether the procurement was done as per the law. The ownership of the motor vehicle remains doubtful.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

388. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by African Development Bank, I report based on my audit, that:

- i. 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;

- ii. In my opinion, adequate accounting records have been kept by the Maseno University Flood Disaster Risk Reduction Project – Bunyala so far as appears from the examination of those records; and,
- iii. The Maseno University Flood Disaster Risk Reduction Project – Bunyala financial statements are in agreement with the accounting records and returns.

MINISTRY OF HEALTH VOTE 1081

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

389. Inaccuracies in the Financial Statements

The statement of cash flows and note 15B to the financial statements reflects adjustments during the year of KSh.77,047,705 and whose analysis was not availed for audit verification. In the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

390. Un-Surrendered Old Deposits Balances from former Ministries

As previously reported, included in the statement of assets and liabilities as at 30 June 2018 is cash and cash equivalent balance of KSh.52,707,139. Further information revealed that deposits totalling KSh.10,956,114,687 that were held in former Ministries of Medical Services and Ministry of Public Health and Sanitation which merged to form 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 analyzed and transferred to new account.

The management is in breach of Treasury Circular No.AG/CONF/17/01/65 of 2013 for failing to transfer the deposits of KSh.10,956,114,687 to the new deposit account and as a result, the validity and accuracy of the accounts deposits balance of KSh.52,085,926 as at 30 June 2018 could not be ascertained.

391. Cash and Cash Equivalent

The statement of assets and liabilities as at 30 June 2018 reflects bank balance of KSh.52,707,139. Scrutiny of the cash books indicated that the closing figure for the development cash book as at 30 June 2017 was KSh.1,364,997. In addition, out of the closing balance of KSh.1,364,997 available for recall by the Central Bank, only KSh.75,836 was recalled leaving a balance of KSh.1,289,161 un-accounted for in the cash book. Further, review of the recurrent account reconciliation statement reflects receipts in bank statement not in cash book of KSh.95,345 and receipts in cash book not in bank statement of KSh.6,066,022 whose clearance status as at 31 January 2019 was not provided for audit verification.

Consequently, the accuracy and validity of bank balance of KSh.52,707,139 in the statement of financial assets and liabilities as at 30 June 2018 could not be confirmed.

392. Accounts Receivable-Outstanding Imprest and Advances

The statement of financial assets and liabilities as at 30 June 2018 reflects outstanding imprest and advances totalling KSh.28,693,994. Included in the imprest

balance KSh.28,388,120 is an amount of KSh.10,945,734 which ought to have been accounted for on or before 30 June 2018 but was still outstanding as at 31 January 2019.

In the circumstance, the Ministry is in breach of the law and recoverability of the accounts receivable balance of KSh.28,693,994 as at 30 June 2018 could not be ascertained.

393. Accounts Payables-Deposits

The statement of financial assets and liabilities as at 30 June 2018 reflects accounts payable balance of KSh.52,085,926. Included in this balance is an amount of KSh.3,141,159 made up of fines and surcharges, salary recoveries and imprest recoveries from the payroll which were wrongly classified as payables.

In the circumstances, the accuracy of accounts payables balance of KSh.52,085,926 as at 30 June 2018 could not be confirmed.

394. Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2018 reflects compensation of employees amount of KSh.6,793,884,157. Included in this figure was an expenditure amounting to KSh.4,246,449 whose payment vouchers and other related supporting documents were not availed for audit review. In the circumstance, the propriety of the expenditure of KSh.4,246,449 could not be confirmed for the year ended 30 June 2018.

395. Use of Goods and Services

395.1 Specialized Materials and Services

The statement of receipts and payments for the year ended 30 June 2018 under note 7 includes expenditure on specialized materials and services of KSh.979,340,730 out of which payment vouchers and other related supporting documents amounting to KSh.46,137,719 were not availed for audit review.

Consequently, it was not possible to confirm the regularity of expenditure of KSh.46,137,719 for the year ended 30 June 2018.

395.2 Rental of Produced Assets

The statement of receipts and payments for the year ended 30 June 2018 under note 7 includes expenditure on rental of produced assets of KSh.5,200,995,733 out of which payment vouchers and other related supporting documents amounting to KSh.2,149,755 were not availed for audit review.

Consequently, the propriety of expenditure totalling KSh.2,149,755 could not be confirmed for the year ended 30 June 2018.

396. Transfer to Other Government Units

Note 8 to the financial statements reflects expenditure on transfer to other government units of KSh.36,004,834,419 out of which payment vouchers and other related supporting records amounting to KSh.9,994,101 were not availed for audit review. In addition, included in other transfers figure of KSh.63,911,988 is an amount of KSh.4,855,887 being refund of ineligible expenditure to Global Fund National Tuberculosis Lung Disease (NTLD) project as a result of imprest issued for activities outside the project's work plan in 2007. No reason was provided for non-recovery of this long outstanding amount from the officers concerned. Consequently, the propriety of expenditure totalling KSh.14,849,988 could not be confirmed for the year ended 30 June 2018.

397. Other Grants and Transfers

397.1 Membership Dues and Subscriptions

Note 9 to the financial statements reflects membership dues and subscriptions to international organizations of KSh.51,881,817 out of which payment vouchers and other related supporting records amounting to KSh.2,206,076 were not availed for audit review. Consequently, the propriety of expenditure totalling KSh.2,206,076 included in membership dues and subscriptions to international organizations could not be confirmed for the year ended 30 June 2018.

397.2 Emergence Relief and Refugee Assistance

Note 9 to the financial statements include expenditure on emergency relief and refugee assistance of KSh.364,502,952 out of which payment vouchers and other related supporting documents amounting to KSh.46,067,114 were not availed for audit review. In addition, expenditure totalling KSh.14,021,158 was wrongly classified under this item as the same ought to have been classified under use of goods and services.

Consequently, the propriety of expenditure totalling KSh.60,088,272 charged to emergency relief and refugees assistance could not be confirmed for the year ended 30 June 2018.

398. Acquisition of Assets

The statement of receipts and payments for the year ended 30 June 2018 includes expenditure on acquisition of assets of KSh.2,392,695,718 out of which payment vouchers and other related supporting documents amounting to KSh.82,592,762 were not availed for audit review. In addition, the Ministry incurred expenditure amounting to KSh.5,703,714 made up of stationery items-KSh.611,258, printing and supply of promotional materials-KSh.3,394,500, household goods-KSh.111,856 and surgical gloves and other specialized materials-KSh.1,586,100 which were wrongly charged to acquisition of assets instead of use of goods and services. No explanations or reasons were availed for the misclassification.

Consequently, it has not been possible to ascertain the propriety of KSh.88,296,476 included in acquisition of assets for the year ended 30 June 2018.

399. Pending Bills

As disclosed at note 18.1, pending bills totalling to KSh.4,434,472,786 were not settled during the year 2017/2018 but were instead carried forward to 2018/2019. Had the bills been paid and the expenditure charged to the account for 2017/2018, the statement of receipts and payments for the year would have reflected a deficit of KSh.4,403,334,857 instead of a surplus of KSh.31,137,929.

Other Matter

400. Budgetary Performance

During the year under review, the Ministry's actual receipts amounted to KSh.52,483,141,437 against budgeted receipts of KSh.78,391,624,264 resulting in an shortfall of KSh.25,908,482,827 which translate to 67% efficiency. Further, the Ministry's actual expenditure for the year amounted to KSh.52,452,003,508 against budgeted expenditure of KSh.78,391,624,264 resulting in an overall under absorption of KSh.25,939,620,757 or 67% efficiency.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

401. Computed Tomography (CT) Scanners

The statement of receipts and payments for the year ended 30 June 2018 includes expenditure on acquisition of assets of KSh.2,392,695,718. Included in this amount is KSh.1,740,000,000 under specialized plant equipment and machinery paid for CT Scanners. This was 20% of the contract value which was paid as a condition precedent for Government of Kenya to obtain a loan of KSh.7,000,000,000 from Government of China to finance the purchase of the CT scanners. The scanners were procured through an International Company. However, no procurement documents for the Company had been provided at the time of conclusion of the audit review. Information available indicate that the Company was proposed by the Government of the Peoples Republic of China as a leading manufacturer of CT scans. Consequently, it was not possible to ascertain whether due diligence and fidelity to the Public Procurement and Assets Disposal Act, 2015 was observed and in particular Section 85 which require tenders to be evaluated by the evaluation committee of the procuring entity for the purpose of making recommendations to the accounting officer through the head of procurement to inform the decision of the award of the contract to the successful tenderers.

402. Proposed Upgrading of Othaya District Hospital

As previously reported, the Ministry awarded a contract for the upgrading of facilities at Othaya District Hospital to Contractors at a price of KSh.436,300,799 which was later revised to KSh.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 KSh.501,745,917.70 representing 99.9% of the revised contract sum of KSh.501,574,917.70. At the time, 192 weeks had elapsed out of contract period of 123 weeks.

Despite this apparent overpayment, the following works were outstanding:

- (a) Floor tiling and grouting
- (b) Wall tiling
- (c) Window glazing
- (d) Window stays and fasteners
- (e) Ceiling
- (f) Fixing of door leaves, locks, and glazing
- (g) Internal and external painting
- (h) Ramp and staircase finishes
- (i) Worktop and counter finishes
- (j) Road drainage
- (k) Medical gas installation

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 KSh.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 company was given a new contract to complete the remaining works at a contract sum of KSh.141,959,487. The total expenditure for the construction of the hospital had accumulated to KSh.578,542,747 by 30 June 2016.

In addition, the ministry reported an expenditure of KSh.145,154,150 during the year 2016/2017 for construction of Othaya District hospital which accumulated to KSh.723,696,897 by 30 June 2017 and which when compared against the initial

contract value of KSh.436,300,798 gives rise to a variation of KSh.287,396,099 which is about 66%. The project progress reports availed have not addressed the variation, completion and handing over of the facility. However, an update report in the month of February 2019 indicate that the hospital is not yet operational and the Ministry has been making arrangements to operationalize the new hospital as a National Government facility. This was after the County Government of Nyeri cited budgetary challenges and requested the Ministry to take over the hospital.

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

403. Long Outstanding County Debts

As previously reported, during 2013-2014 financial year, the ministry paid on behalf of county government salaries totalling KSh.19,208,279,767 which were to be recovered in the same financial year. Documents and information available indicate that the ministry only recovered KSh.14,837,973,349 during 2013-2014 financial year leaving a balance of KSh.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 2018.

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

404. Irregular Payment on Portable Clinics

As previously reported, the Ministerial Tender Committee awarded the contract for Supply of Portable Medical Clinics to an Investments company vide Ministerial Tender Committee minutes No.MOH/MTC/.37/2014-2015 held on 29 June 2015 to supply one hundred (100) portable medical clinics at KSh.10,000,000 each totalling to KSh.1 billion. On 17 July 2015, the contract to Supply, Install, Commission and Hand over was signed between the Investment company and the Ministry. 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 KSh.800,000,000 for portable clinics but before installing, commissioning and handing over thus contravening the contractual agreement. Further, information availed by management indicate 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 KSh.800,000,000.

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

Basis for conclusion

405. Lack of an Audit Committee

In 2017/2018 financial year, the Ministry did not have an independent audit committee as required by Section 73 (5) of the Public Finance Management Act, 2012 which state that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. In the absence of a functioning audit committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of an audit committee did not take place which may have affected good corporate governance at the Ministry.

406. Lack of well Documented Enterprise Wide Risk Management Process and IT Strategic Committee

During the year under review, the Ministry did not have a well-documented enterprise wide risk management process and policies in place to effectively guide the enterprises risk management processes at large. This is contrary to the Public Finance Management regulations 2015, Section 165 which states that the Accounting Officer shall ensure that the national government entity develops— (a) risk management strategies, which include fraud prevention mechanism; and (b) a system of risk management and internal control that builds robust business operations. Treasury circular No. 03/2009; Ref: MOF/IAG/033(75) requires that government entities/agencies should among other things develop and establish Risk Management Policy and Framework (IRMPF) so as to guide its strategic and operational activities. The Ministry also did not have an IT strategic committee, an IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan, formally approved IT security policy to ensure data confidentiality, integrity and availability, formal, documented and tested emergency procedures, copies of the IT continuity plan and disaster recovery plan kept off-site and no backups stored in a secure off site location.

DONOR FUNDED PROJECTS

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

407. Account Receivables - Imprest and Advances

The statement of financial assets reflects outstanding imprest and advances balance of KSh.11,250,790 as at 30 June 2018 which ought to have been accounted for on or before 30 June 2018.

In the circumstances, it has not been possible to confirm the validity and recoverability of the imprest and advances balance of KSh.11,250,790 as at 30 June 2018.

408. Bank Balances

The statement of financial assets reflects bank balance of KSh.61,986,759 as at 30 June 2018. However, the bank reconciliation statement for a local bank account reflects receipts in cash book not captured in the bank totalling to KSh.1,397,060 which are reflected as outstanding as at 30 June 2018. However, a review of the bank statements showed the cheques totalling KSh.1,397,060 were indeed cleared in May 2018.

In the circumstances, the accuracy of cash book balance of KSh.61,986,759 as at 30 June 2018 could not be confirmed.

409. Statement of Cash Flow

The statement of cash flow for the year ended 30 June 2018 reflects cash and cash equivalent at the beginning of the year balance of KSh.197,319,875 which differ with the audited cash and cash equivalent at end of year 30 June 2017 balance of KSh.162,505,713 resulting in unexplained difference of KSh.34,814,162. In addition, the statement reflects change in imprest and advances of KSh.11,250,790 which differ with the movement of imprest and advances in the statement of financial assets of KSh.23,563,372 resulting again in unexplained difference of KSh.12,312,582. Further, the statement include an unexplained adjustment during the year of KSh.535,875.

In the circumstances, the accuracy and completeness of the statement of cash flow for the year ended 30 June 2018 could not be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

410. Imprest and Advances

As disclosed at note 8.11 to the financial statements, one officer was issued with an additional imprest of KSh.573,200 before surrender of an earlier imprest of KSh.658,440 contrary to Section 93(4) and (5) of the Public Finance Management Act, 2015.

411. Inability to Utilize the Grant within the Project Period

The Global Fund - Expanding HIV Prevention, Care and Treatment Services to Reach Universal Access (80% Coverage) to Reduce Both Incidence and Associated Impact Program was intended to reduce HIV AIDS new infections and related mortality rate by provision of HIV prevention programs, provision of care and treatment of those living with HIV. As disclosed under the funding summary section of the annual report and financial statements, the project was for a duration of two (2) years from 1 October 2015 to 31 December 2017 with total available funding of KSh.3,801,642,328 (USD 43,200,481). A review of the annual report and financial statements for the year ended 30 June 2018, however reflect undrawn balances of KSh.1,016,799,046 (USD 9,825,170) and cash and cash equivalent balance of KSh.61,986,759 as at 30 June 2018 which is likely to be refunded to the donor as no project extension is in place. Although management has indicated that disbursements of funds to counties remained a challenge, there was need to expand the area of coverage so as to utilize the grant and maximize the benefits.

In light of undrawn and unutilized funds, the primary objective of reduction of HIV AIDS new infections by 75% and related mortality rate by 25% and value for money for the program may not have been achieved.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

412. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

414. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

415. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

416. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance of KSh.17,548,573.35 as at 30 June 2018. The balance includes amounts totalling KSh.13,364,444 which were held by the County Government of Kisii in the County Revenue Fund (CRF) and the recurrent account at the Central Bank of Kenya as of that date. These amounts were erroneously included in the cash and

cash equivalents balance given that they represent funds that were not received into the Project's Account for Kenya Health Sector Programme Support III – Danida Ref. 104. Kenya.810.300 for the component being implemented by the County Government of Kisii.

Further, the cash books, certificates of confirmation of bank balances as at 30 June 2018 and bank reconciliation statements in support of the balances held by the health facilities and the special purpose account were not provided for audit. The management also transferred an amount of KSh.200,400 from the special purpose account to Isamwea Dispensary. However, no supporting documents relating to the transfer were provided for audit review.

Consequently, the accuracy, validity and completeness of the cash and cash equivalents balance of KSh.17,548,573.35 could not be ascertained.

417. Un-audited Opening Balances

Included in the financial statements for the year ended 30 June 2018 are comparative figures relating to 2016/2017 financial year. However, the management did not prepare and submit for audit to the Auditor-General the financial statements of Kenya Health Sector Programme Support III – Danida Ref. 104.Kenya.810.300 – County Government of Kisii for the year ended 30 June 2017

Consequently, the accuracy and completeness of the comparative figures for 2016/2017 and the opening balances of the assets and liabilities for the year ended 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

418. Late Submission of Financial Statements to the Auditor General

The financial statements of Kenya Health Sector Programme Support III – Danida Ref. 104. Kenya.810.300 - County Government of Kisii were prepared on 30 September 2018, but submitted on 20 January 2019 to the Auditor General contrary to provisions of Section 47 of the Public Audit Act, 2015.

419. Delayed Disbursements of Funds to the Facilities

As at the end of the financial year 2017/2018 funds totalling KSh.17,548,573 were still held in various bank accounts. These funds were not disbursed for the intended purposes on time contrary to the provisions of the Intergovernmental Participation Agreement on Transforming Health Systems for Universal Care Project and Danida Support to Universal Health Care in the Devolved System signed on 30 November 2016 between the Republic of Kenya and the County Government of Kisii.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

420. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

421. Cash and Cash Equivalent

The bank balance of KSh.365,626,247 included in the statement of financial assets and liabilities as at 30 June 2018 include long outstanding payments in bank statement not in cash book of KSh.2,380,000 dating back to July 2016. No explanation has been provided for failing to clear these long outstanding items. Consequently, the accuracy and validity of the bank balance of KSh.365,626,247 as at 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

422. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

423. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

HEALTH SECTOR SUPPORT PROJECT – SWaP SECRETARIAT (IDA CR. NO. 4771-KE AND CR. NO.5367-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

424. Imprests and Advances

The statement of financial assets and liabilities as at 30 June 2018 reflects imprests and advances of KSh.21,106,696 out of which KSh.490,098 had been outstanding for more than six (6) years. Under the circumstances, full recoverability of the outstanding imprest of KSh.21,106,696 was doubtful.

425. Cash and Bank Balances - Stale Cheques

The statement of financial assets and liabilities reflects bank balance of KSh.239,647,556 as at 30 June 2018. However, the bank reconciliation statement reflects payments in the cash book not reflected in the bank statement (unpresented cheques) totalling to KSh.225,375,658 out of which cheques totalling KSh.928,200 were stale as at 30 June 2018 and had not been reversed in the cash book. In addition, the clearance status of cheques with a value of KSh.138,000 and KSh.212,250 was not provided for audit verification. In the circumstances, the accuracy of bank balance of KSh.239,647,556 as at 30 June 2018 could not be confirmed.

426. Receipts - Loan from External Development Partners

The statement of receipts and payments for the year ended 30 June 2018 reflects loan from external development partners of KSh.1,791,653,859 which comprised of

KSh.1,030,500,740 from KHSSP - SWap special account and KSh.761,153,120 from KHSSP-HSSF. However, the special account statement indicated that a total of KSh.1,146,923,320 was withdrawn and transferred from the special account to the project account during the year under review. No explanation or reconciliation was provided for the resultant difference of KSh.116,422,580. In addition, the amount of KSh.1,030,500,740 from KHSSP - SWap special account differed from the figure of KSh.1,031,850,536 reflected in the development exchequer issue notification from the National Treasury by KSh.1,349,796. The difference has similarly not been explained or reconciled.

Under the circumstances, the accuracy and completeness of the loan from external development partners figure of KSh.1,791,653,860 could not be ascertained for the year ended 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

427. Transfers to Other Government Entities

Note 8.7 to the financial statements indicates that a total of KSh.1,625,129,741 was transferred to five (5) self reporting entities. However, confirmations totalling to KSh.799,375,289 had not been received from the beneficiary institutions as at 30 June 2018 contrary to the Public Sector Accounting Standards Board requirements. No explanation was provided for the omission.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

428. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer Opinion

429. Unsupported Receipts

Included in the statement of receipts and payments for the year ended 30 June 2018 are receipts of KSh.13,531,743 and KSh.17,067,557 totalling KSh.30,599,300 from Government of Kenya whose supporting documents and ledgers were not availed for audit review. Consequently, the completeness and validity of the receipts of KSh.30,599,300 for the year ended 30 June 2018 could not be confirmed.

430. Unsupported Expenditure

Included in the statement of receipts and payments for the year ended 30 June 2018 is purchase of goods and services comparative amount of KSh.54,410,806. As reported in 2016/2017 this figure includes an amount of KSh.9,122,745 in respect of imprest and whose surrender and ledger documents were not availed for audit review.

431. Unsupported Cash and Cash Equivalent Balance

Included in the statement of financial assets and liabilities as at 30 June 2018 is a bank balance of KSh.4,909,518. However, as reported in 2016/2017, the project management did not provide documents in support of the 2016/2017 opening balance of KSh.6,236,169. Further, the opening balance of KSh.6,236,169 was not taken into account in arriving at the closing balance of KSh.4,909,518 as at 30 June 2018 as it was excluded in the opening balance of KSh.9,203,765 as at 1 July 2017.

In addition, the bank reconciliation statement reflects payments in cash book not in the bank statement of KSh.1,299,025 out of which cheques totaling KSh.139,675 were stale as at 30 June 2018 but had not been reversed in the cash book. Further, the clearance status of the unpresented cheques balance of KSh.1,159,350 was not provided for audit confirmation. Similarly, the reconciliation statement reflects receipts in bank statement not yet recorded in the cash book of KSh.84,000 and payments in the bank statement not yet recorded in the cash book of KSh.252,000 and whose clearance status as at the time of the audit in October 2018 was not availed for audit verification. Consequently, the accuracy of the bank balance of KSh.4,909,518 as at 30 June 2018 could not be confirmed.

432. Compensation of Employees

432.1 Delay in Remittance of P.A.Y.E

The statement of receipts and payments reflects compensation of employees totalling KSh.9,550,500 for the year ended 30 June 2018. It was however noted that the project management delayed to remit the monthly P.A.Y.E deductions from the project manager's salaries for a period of thirteen (13) months at the rate of KSh.137,775 per month contrary to Section 72D of the Income Tax Act Cap 470 (Revised 2017). As a result, the project is likely to incur penalties at the rate of 20 per cent of amount paid late as prescribed.

432.2 Delay in Salary Payments

A review of sampled monthly salary and personnel documents revealed that on various occasions there were delays in payment of salaries to the project manager contrary to Paragraph 18 (2c) of the Employment Act Cap 226 Revised Edition 2012 (2007).

433. Delay in Project Completion

The project commencement date was 17 December 2014 with a projected end date of 31 December 2019. A review of the project status as at 30 June 2018 revealed that the project has less than 18 months to the project ending period. However, some major milestones for the project are yet to commence including the construction of the East Africa Kidney Institute Complex thus delaying implementation of other activities. Consequently, the government is likely to start repaying the loan before the project objectives are achieved and thus the expected project benefits to the public will not be realized in time, a clear indication that value for money may not be achieved by the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

434. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

435. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

GLOBAL FUND TUBERCULOSIS GRANT PROGRAMME (GRANT NO. KEN-T-TNT-854 AND KEN-T-TNT-1548)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

436. Accounts Receivables-Outstanding Imprest and Advances

The statement of financial assets reflects accounts receivable-imprest and advances balance of KSh.4,507,064 as at 30 June 2018. However, imprest and advances totalling to KSh.3,316,184, some dating back to 2011/2012 financial year, were overdue as at 30 June 2018. Consequently, it has not been possible to confirm the validity and recoverability of the imprest and advances balance of KSh.3,316,184.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

437. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

438. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

440. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

441. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

442. Unsupported Cash Balances

The statement of financial assets and liabilities reflects bank balances of KSh.1,029,248,879 as at 30 June 2018. Included in this balance is KSh.657,875,266 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 equivalents balance of KSh.1,029,248,879 as at 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

443. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

444. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

446. Inability to Utilize the Grant within the Project Period

The Output Based Approach (OBA) Reproductive Health Program was intended to contribute in reduction to both maternal and infant mortality rates by improving access to and utilization of reproductive health services by the economically disadvantaged populations. As disclosed under the funding summary section of the annual report and financial statements, the project (Phase I-IV) was expected to end

in January 2018 with total available funding of KSh.3,273,686,056 (EURO 30,200,000). A review of the annual report and financial statements for the year ended 30 June 2018, however, reflect undrawn balances of KSh.96,511,077 (EURO 1,055,376) and cash and cash equivalent balance of KSh.15,197,361 as at 30 June 2018 which is likely to be refunded to the donor as no project extension is in place. In light of undrawn and unutilized funds, the primary objective of reduction of both maternal and infant mortality rates and subsequent value for money for the program may not be achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

447. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

448. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

SUPPORT OF THE HEALTH FINANCING STRATEGY- REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH (RH - OBA) - PROJECT CREDIT BMZ - NO. KENYA 201065853

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

449. Use of Goods and Services-None compliance with Contractual Obligations

Included in use of goods and services expenditure (payments made by third parties) of KSh.53,799,700 in the statement of receipts and payments for the year ended 30 June 2018, is an expenditure of KSh.28,646,500 paid to a health insurance consulting firm. Information available indicate that the consultant entered into a

contract with the Ministry of Health to perform consulting services on micro health insurance through micro-finance institutions (BMZ-Ref No. 201065853) on 22 December 2014 for a duration of five (5) years ending 1 October 2019 for a fixed order value of EUR 3,000,000 (KSh.330,000,000). Section 5.2 of the contract-Detailed disbursement plan provides for annual external audit report during the project period. A review of disbursements to the consultant in respect of the project up to 30 June 2018 revealed that a total of KSh.229,946,500 of the order value had been paid despite the fact that no financial statements had been prepared and presented for audit by the consultant. In the circumstances, the propriety of expenditure totalling KSh.229,946,500 paid for the programme cannot be confirmed. Further, information available indicate that Support of the Health Financing Strategy-Output Based Programme project was officially scheduled to end on 30 October 2017 while the micro health project which is operating under the Support of the Health Financing Strategy-OBA programme is scheduled to end on 1 October 2019 with the final report expected on 1 April 2020. The project management has not explained how the micro health project will be managed beyond the period of the main project which has already come to an end.

Other Matter

450. Undrawn Balances at the end of the Project Period

The Republic of Kenya entered into a Financing agreement with KfW, Frankfurt am Main (KfW) for Programme Development of the Health Sector Support of the Health Financing vouchers for maternity care, family planning and related services within the framework of the Output Based Approach on 7 October 2011 with the project closing date being 30 October 2017. The grant amount together with residuals was EURO 30,867,630 equivalent to KSh.3,642,380,315. The Output Based approach (OBA) was intended to contribute in reduction to both maternal and infant mortality rates by improving access to and utilization of reproductive health services by the economically disadvantaged populations. A review of the financial statements for the year ended 30 June 2018 shows undrawn balance of EURO 4,709,273 equivalent to KSh.555,694,239 and cash and cash equivalent balance of KSh.20,432,354 which is likely to be refunded to the donor. Further, the project continued operating with no extension of programme period in place. In light of undrawn and unutilized balances, the primary objective of project and value for money for the programme may not be realized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

451. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

452. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

**EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING
PROJECT (EAPHLN) CREDIT NO.4732-KE**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Conclusion

454. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

455. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

AFRICA CENTRE OF EXCELLENCE (ACEII) PTRE PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

457. Budgetary Control and Performance

457.1 Budget Absorption

During the year under review, the Project had a total budget of KSh.119,769,567 against actual expenditure of KSh.52,095,618 resulting in under absorption of KSh.82,486,634.

The under expenditure of the approved budget is likely to negatively impact on the overall achievement of project objectives and goals.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

458. Receipts

458.1 Term Deposits

The statement of receipts and payments for the year ended 30 June 2018 reflects miscellaneous receipts figure of KSh.1,851,681 which includes an amount of KSh.1,695,342 in respect of interest income. Available information revealed that the interest income of KSh.1,695,342 was interest in respect of payment by a local bank on a term deposits of KSh.80,000,000 invested in the Bank by the University contrary to article II Section 2.05 of the subsidiary grant agreement between the government of Kenya and Moi University dated 27 October 2016.

In addition, no procurement records were availed for audit review to confirm that the investment was competitively sourced and that the University got the best interest. Further, no evidence was provided for audit review to confirm that the investment was approved by the University Council. Consequently, the management was in breach of subsidiary grant agreement and the general disbursement guidelines for World Bank Projects.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

459. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT OF INFRASTRUCTURE VOTE 1091

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

460. Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June 2018 did not balance and reflect the following material inaccuracies.

460.1 Unbalanced Trial Balance - Suspense and Clearance Accounts

The trial balance for the year ended 30 June 2018 did not balance as it reflects KSh.676,928,451 (Debit) and KSh.355,031,018 (Credit) described as Suspense and Clearance Accounts. Management has not investigated the balances.

460.2 Cash and Cash Equivalents

460.2.1 Development Bank Account

Included in the cash and cash equivalent balance of KSh.2,655,834,850 as at 30 June 2018 is an amount of KSh.2,244,259,194 being development bank account balance. This amount is at variance with the trial balance figure of (KSh.88,564,683,918) resulting to unexplained and unreconciled difference of KSh.90,808,943,112.

In addition, the bank reconciliation statement for development account has KSh.4,875,005 as payments in cash book not in bank all of which were over six (6) months as at the time of audit. Further, KSh.3,350,700 was reflected as receipt in bank not in the cash book and KSh.2,045,624 being payments in bank not in the cash book nor reconciled with IFMIS figures.

460.2.2 Recurrent Bank Account

Included in the cash and cash equivalent balance of KSh.2,655,834,850 as at 30 June 2018 is an amount of KSh.199,020,416 being recurrent bank account balance. This amount is at variance with the trial balance figure of KSh.17,416,693,411 resulting to unexplained and unreconciled difference of KSh.17,217,672,995.

In addition, the reconciliation statement for recurrent account has KSh.18,253,404 being payments in cash book not in the bank statement of which KSh.9,608,371 are stale cheques. Also KSh.12,695,351 are receipts in bank statement not in cash book. It was not explained why the cash book was not updated.

Further, the reconciliation statement reflects payments in bank not recorded in cash book of KSh.4,434,680 and receipt in cash book not recorded in bank of

KSh.11,090,993. This was an indication that the cash book was not updated and reconciliation were prepared outside IFMIS system.

460.2.3 Deposits

The cash and cash equivalent balance of KSh.2,655,834,850 as 30 June 2018 include KSh.212,555,241 described as deposits. Management has not provided analysis of who the deposits belongs to. Further, the deposit balance of KSh.212,555,241 was at variance with the trial balance figure of KSh.309,435,345 by unexplained and unreconciled difference of KSh.96,880,104.

460.2.4 Unreported Bank Balances

Excluded from the above cash and cash equivalent is an amount of KSh.4,004,785 and KSh.25,056,895,967 being Kenya Transport Sector Support Project and the Road Annuity Fund respectively. It was therefore not possible to ascertain the accuracy and completeness of the cash and cash equivalent balance of KSh.2,655,834,850 as at 30 June, 2018.

460.3 Exchequer Releases

The exchequer releases balance of KSh.52,873,956,581 as disclosed in note 3 to the financial statements is at variance with the trial balance figure of KSh.254,572,836,570 resulting to unreconciled difference of KSh.201,698,879,989.

In the circumstance, it was not possible to ascertain the correctness and accuracy of the exchequer releases balance of KSh.52,873,956,581 as at 30 June, 2018.

461. Account Receivables

461.1 Clearance Account

Included in the accounts receivable balance of KSh.1,643,354,782 as at 30 June 2018 is KSh.1,104,260,165 being clearance account which was at variance with the trial balance figure of KSh.676,928,451 by KSh.427,331,714. Management has not provided supporting documents for the total balance of KSh.1,104,260,165. In addition, management has not carried out any investigations on the course of the suspense and clearance accounts.

461.2 Other Debtors and Prepayments and Agency Account

Further, the account receivables balance of KSh.1,643,354,782 as at 30 June 2018 excludes an amount of KSh.13,068,546, described as other debtors and prepayments and KSh.16,410,340 being agency account reflected in the trial balance.

461.3 Government Imprests

The Government Imprest balance of KSh.1,731,087 as at 30 June, 2018 was at variance with the trial balance figure of (KSh.1,798,211) resulting to unexplained and unreconciled difference of KSh.3,529,298.

In the circumstance, the correctness and accuracy of accounts receivables balance of KSh.1,643,354,782 as at 30 June, 2018 could not be ascertained.

462. Accounts Payables – Deposits and Retention

The statement of assets and liabilities shows accounts payables balance of KSh.212,555,241 which is disclosed under note 13 as deposits. The supporting schedule for the same was not availed for audit verification. Further, the above figure was at variance from the trial balance figure of KSh.1,605,943,329 reflected in the trial balance by unexplained difference of KSh.1,393,388,088.

Consequently, the validity and accuracy of the balance for payables of KSh.212,555,241 as at 30 June 2018 could not be confirmed.

463. Pending Bills

Note 17 to the financial statements reflect pending bills for the year amounting to KSh.22,888,397 as at 30 June 2018. Had the pending bills been paid during the year, the surplus reported of KSh.1,009,439,378 would have reduced to KSh.986,550,981. Further, the unpaid bills have a negative effect on the budget for 2018/2019 as the same form a first charge.

464. Prior Years Unresolved Matters

The following Matters reported in 2016/2017 remained unresolved as at 30 June 2018:

464.1 Inaccuracies in the Financial Statements for the year ended 30 June 2017

464.1.1 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 KSh.120,591,704,974 and negative variances totalling KSh.224,059,394,058 which were not explained or reconciled.

The accuracy of the Department's financial statements for the year ended 30 June 2017 could therefore not be confirmed. In addition the suspense clearance account balance of KSh.1,215,183,052 had not been investigated.

464.1.2 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 KSh.	IFMIS Report KSh.	Difference KSh.
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/reconciled.

464.2 Statement of Assets and Liabilities

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

464.2.1 Accounts Receivables and Suspense Account

The statement showed receivables balance of KSh.1,216,853,632 as at June 2017. Included in above balance was district suspense of KSh.110,922,927 and amount of KSh.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 KSh.1,216,853,632 as at 30 June 2017 could not be confirmed.

464.2.2 Accounts Payables – Deposits and Retention

The statement further showed accounts payables balance of KSh.214,648,553 which is disclosed in note No.13 as deposits. The schedule in support of this balance was not availed for audit.

464.3 Pending Accounts Payable

Note 17.1 in the financial statements reflected pending accounts payable for the year as KSh.2,501,700. This amount differed with the support schedule availed for audit verification which had a balance of KSh.5,013,942. The resultant difference of KSh.2,365,592 was not explained, or reconciled. Further, had the pending accounts payable been paid, the surplus would have been reduced by the same amount.

Other Matter

465. Proposed Replacement of 3 No. Lifts at Works Building

The contract for above works was awarded to a company on 30 October 2016 at a contract sum of KSh.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:

465.1 Lack of Clarity in Tender Evaluation

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) 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.

465.2 Award Price Above Engineers Estimate

The contract was awarded at a contract price of KSh.34,876,996 while the Engineer's estimate was KSh.28,574,500. The award price was therefore KSh.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 amount of KSh.20,995,000 which was KSh.13,881,995 lower than the awarded price and no satisfactory explanation was provided.

465.3 Notification to Unsuccessful Bidders

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 KSh.34,876,996.

465.3.1 Unresolved Issues for Deposits Account for 2012/13 and Earlier Years

(i) As reported in the previous years, 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 (KSh.)
Recurrent AIA	(184,700)
General Suspense	255,702,281
District Deposit Bank	251,227
Provincial suspense account	22,250,046
R/D cheques	38,488
Fuel Levy	30,004,898
Credits	
Stale cheques	719,064
Revenue deposit	52,409,214
Mechanical Branch Suspense	687,268,445

465.3.2 The statement as at 30 June 2013 reflected a balance of KSh.1,192,886,515 on 10% retention money composed of a balance of KSh.1,438,823,266, relating to 2011/2012 and earlier years and movement during the year of negative KSh.245,936,752. However out of the KSh.1,438,823,266 reported in 2011/2012 an amount of KSh.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 KSh.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.

465.3.3 Schedule supporting the retention money closing balance of KSh.1,192,886,515 reflected debit balances under various accounts amounting to KSh.233,311,537 implying irregular over-refunding of retention money. One contractor was paid KSh.17,213,703 when the account already had a debit balance of KSh.59,940,017 resulting in an overpayment of KSh.77,153,720. Payment voucher no. 008618 for the amount of KSh.17,213,703 paid was still not availed for audit review as at 30 June 2017.

Debit balances reflected in the 2011/2012 statement of KSh.2,181,697,190 differed with balance of KSh.10,288,638,370 shown in the Ministry's trial balance as at 30 June 2012 by KSh.8,106,941,180. Similarly, the credit balances totaling KSh.2,181,697,190 differed with the trial balance totals of KSh.3,335,760,496 by KSh.1,154,063,305. Additionally several accounts totaling KSh.72,528,192 and credit balances of KSh.16,549,108,680 shown in the trial balance were excluded from the statement of assets and liabilities as at 30 June 2012.

All the above matters remained unresolved as at 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

466. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

467. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT (IDA CREDIT NO. 5140-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

469. Special Account Reconciliation

As reported in the previous year, the statement of receipts and payments reflected total receipts for the year 2015/2016 from development partners as KSh.48,744,572 while the special account statement prepared and submitted for audit by the National Treasury reflected KSh.8,000,736 as having been withdrawn to finance project activities. Management did not explain the cause of the variance amounting to KSh.40,743,836. A review of the position in the current year shows the matter has not been resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

470. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

471. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS REHABILITATION PROJECT IN KENYA CREDIT NO. KE/FED/023-571

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

473. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

474. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NUNO-MODOGASHE ROAD PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

476. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

477. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NORTH EASTERN TRANSPORT IMPROVEMENT PROJECT (IDA CREDIT ADVANCE NO. V0630)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

479. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

480. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NAIROBI OUTER RING ROAD IMPROVEMENT PROJECT (NO. P-KE-DBO-020)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

482. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

483. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KIBWEZI-MUTOMO-KITUI ROAD PROJECT (EXIMBANK CONTRACT NO. BLA2016K001)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

485. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

486. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

EASTERN AFRICAN REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT CREDIT NO.5638-KE (IDA)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

488. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

489. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

DUALLING OF MAGONGO ROAD (A109L): PHASE II (FIDIC EPC/TURNKEY BASED)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

491. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

492. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MULTINATIONAL UGANDA-KENYA: KAPCHORWA-SUAM-KITALE & ELDORET BYPASS ROADS PROJECT NO.P-ZI-DBO-0183

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

494. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

495. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MOMBASA PORT AREA ROAD DEVELOPMENT PROJECT (LOAN AGREEMENT NO.KE-P29)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

497. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

498. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT NO.P-Z1-DBO-027 PHASE II (MARSABIT-TURBI ROAD)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

500. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

501. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT
PHASE III (TURBI-MOYALE ROAD PROJECT) NO. P-ZI-DBO-095
LOAN AGREEMENT NO. 2100150025546**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

503. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

504. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**MOMBASA - MARIAKANI ROAD PROJECT (A109) LOT 1
(MOMBASA-KWA JOMVU) LOAN NO. 2100150032743**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

506. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

507. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**IMPROVEMENT OF RURAL ROADS AND MARKET
INFRASTRUCTURE IN WESTERN KENYA PROJECT CREDIT NO.
BMZ 2007-65 123 (KFW)**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

509. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

510. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**KENYA SOUTH SUDAN LINK (KITALE MORPHUS) ROAD PROJECT
(REF. NO.202062065 and BMZ NO. 202083939)**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

512. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

513. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**TIMBOROA-ELDORET REHABILITATION PROJECT ID-NO. P-KE-
DBO-019 LOAN NO. 2100150023344**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

515. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

516. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**NAIROBI-THIKA HIGHWAY IMPROVEMENT PROJECT LOT I AND II
CREDIT NO.2100150015544**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

518. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

519. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

CENTRAL KENYA RURAL ROADS IMPROVEMENT AND MAINTENANCE PROJECT CREDIT NO. CKE101201B & 104601J (AFD)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

521. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

522. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**MULTINATIONAL ARUSHA-HOLILI/TAVETA-VOI ROAD PROJECT
ID NO. P-ZI-DBO-075 LOAN AGREEMENT NO. 2100150028894**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

524. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

525. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**NAIROBI-THIKA HIGHWAY IMPROVEMENT PROJECT LOT I AND II
CREDIT NO.2100150015544**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

527. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

528. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**PORT REITZ/MOI INTERNATIONAL AIRPORT ACCESS ROAD
(FIDIC EPC/TURNKEY BASED)**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

530. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

531. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

DUALLING OF NAIROBI - DAGORETTI CORNER ROAD C60/C61 PROJECT, PHASE 1 (JICA GRANT NO. 1260210)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

533. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

534. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT CREDIT NO.4148 (IDA)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

536. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

537. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

SIRARI CORRIDOR ACCESSIBILITY AND ROAD SAFETY IMPROVEMENT PROJECT: ISEBANIA-KISII-AHERO (A1) ROAD REHABILITATION (CREDIT NO. 2000130015238)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

539. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

540. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MOMBASA – NAIROBI – ADDIS ABABA ROAD CORRIDOR DEVELOPMENT PROJECT NO.P-ZI-DBO-018 (ISIOLO – MERILLE ROAD SECTION)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

541. Project's closure of Bank Account

As reported in the previous year, the project was substantially completed on 16 July 2010. The defects liability period was from 16 July 2012. After defects liability period, the project was handed over to the employer on 2 May 2014. However, although the project's bank account in the name of Ministry of Roads and Public Works was closed and the cash balance of KSh.16,682,650 transferred by the parent Ministry to Kenya National Highways Authority on 16 October 2014, the funds were not remitted to the National Treasury.

Further, as reported in the previous year, the financial statements submitted for the year ended 30 June 2015 reflected an expenditure of KSh.6,007,057.24 incurred in 2013/2014 which has not been adequately supported.

The stated issues remained unresolved as at 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

542. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

543. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO. 4926-KE AND 5410-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

545. Unsupported Expenditure

As reported in the previous years, an expenditure of KSh.3,778,139,482 in the statement of receipt and payments for the year ended 30 June, 2015 included an amount of KSh.11,015,603 described as miscellaneous payments. However, a letter from the bank dated 5 November, 2015 clearly stated that the charges related to interest charges at the rate of 8% for the period between November 2013 and July 2014 but not for the financial statements for 2014/2015

In addition, the terms of engagement between the Authority and the bank were not availed for audit verification. In the circumstance, the propriety of the expenditure of KSh.11,015,603 could not be confirmed.

A review of the issue during the year under audit has revealed that management has not resolved the same

546. Rehabilitation of Buchuma-Gate-Maji ya Chuvi Section of Nairobi-Mombasa Road (A109)

As reported in the previous year, the project was awarded on 10 December 2013 to two firms at a contract sum of KSh.4,986,218,100 for a period of 24 Months commencing 3 November 2014 and a defect liability period of 12 Months. Review of

the progress in the monthly progress report no. 32 of June 2017 showed that the percentage of physical works completed was 85% while the percentage of time elapsed was 128%, an indication of slow progress in the project implementation.

547. Construction of Three (3) Interchanges along A104 at Nyahururu Turnoff Njoro Turnoff and Mau Summit

As reported in the previous year, the contract was awarded to a firm at a contract sum of KSh.2,690,008,027 for a period of fifteen Months. The contract commenced on 2 February, 2015 and was originally scheduled for completion on 2 May, 2016. Review of the progress in the monthly progress report No. 24 of May 2017 showed that the percentage of time lapsed was 80% while the physical works completed were at 56.5% an indication of slow progress in project implementation.

A review of the above Project in the year under audit indicated that the contract period had elapsed while as per progress report no. 37 of June 2018, the overall progress of work was at 99.8%.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

548. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

549. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NORTHERN CORRIDOR REHABILITATION PROGRAMME PHASE III (ELDOROT-TURBO-WEBUYE-MALABA ROAD IMPROVEMENT PROJECT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

551. Rehabilitation of Eldored-Turbo-Webuye-Malaba Road (A104)-Contract No. KeNHA/ICB/51/2010

As reported in the previous year, the contract was awarded to a contractor on 19 November, 2010 at a contract sum of KSh.3,383,387,115 while the contract Agreement was signed on 26 November, 2010. The contractor commenced work on 26 January, 2011 and the contract duration was 18 months. However, the contract was not completed within the stipulated time and the contractor was awarded two extensions under claim 1 and 2 of 45 and 115 days respectively.

However, the contract sum was revised upwards by KSh.2,005,552,882 or 59.3% to KSh.5,388,939,997 through addendum No. 1 dated 20 June 2014 and the completion date extended to 31 October, 2015

A review of the project revealed that the works were substantially completed on 15 March 2016. However, there is no evidence that the Authority charged liquidated damages to the contractor for working outside the contract period from 31 October, 2015 to 15 March, 2016. Further, an expenditure of KSh.22,337,536 has been incurred to pay interest on delayed payments which is a nugatory expenditure. A review of the matter in the year under review shows that the matter remains unresolved.

552. Rehabilitation of Webuye-Malaba (A104) Road- Contract No. KeNHA/ICB/52/2010

As reported in the previous years, the contract was awarded to a contractor on 19 November 2010 at a contract sum of KSh.3,848,928,516 while the contract Agreement was signed on 26 November 2010. The contractor commenced work on 26 January, 2011 under a contract duration of 18 Months with an expected completion date of 31 August, 2012. However, the contract was not completed within the stipulated time and the contractor was awarded two extensions of time totalling 12.5 months.

Further, the contract sum was revised upwards by KSh.2,106,120,003 or 55% to KSh.5,955,048,519 through addendum No. 1 dated 23 July 2014 and the completion date was extended by 12 months to 13 August, 2015.

A review of the project has revealed that as at July 2016 the progress of work stood at 99.12% against period that lapsed on 13 August, 2015. However, there was no evidence that the Authority charged liquidated damages to the contractor for working outside the contract period. Further, an expenditure of KSh.45,336,029 has been incurred to pay interest on delayed payments which is a nugatory expenditure.

Further review of the issues in the year under audit shows that the matter remains unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

553. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

554. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT OF TRANSPORT VOTE 1092

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

555. Inaccuracies in the Financial Statements

555.1 Cash and Bank Balances

The statement of assets and liabilities as at 30 June 2018 reflect bank balances amounting to KSh.69,256,067 for the four bank accounts maintained by Department and nil cash in hand as shown under note 22A and 22B of the notes to the financial statements. However, the revised trial balance for the year reflects debit balance for development account of KSh.124,244,171 and credit balance for recurrent of KSh.195,907,005 and deposit bank KSh.122,300,570 (credit). It further shows cash in hand debit balance of KSh.13,984,777,708 and credit balance of KSh.10,749,887,363.

Management has not reconciled the variances and therefore the accuracy of cash and cash equivalents balance of KSh.69,256,067 as at 30 June 2018 could not be confirmed.

555.2 Outstanding Imprests

The statement of assets and liabilities as at 30 June 2018 shows nil balance for outstanding imprests while the trial balance shows Government imprests credit balance of KSh.16,519,588. As such, it was not possible to confirm the accuracy of the outstanding imprests .

555.3 Accounts Payables-Deposits and Retention

The statement of assets and liabilities shows financial liabilities of KSh.51,759,681 while, the trial balance as at the same date shows general deposits of KSh.365,045,006. The variance of KSh.313,285,325 has not been explained or reconciled.

555.4 Other Inaccuracies Between Trial Balance and Financial Statements

Further comparison between the financial statements and the supporting trial balance revealed total positive variances of KSh.40,895,171,368 and negative variances totalling KSh.9,755,392,435 all of which were not explained or reconciled.

In the circumstances, the accuracy of the Departments' financial statements for the year ended 30 June 2018 could not be confirmed.

556. Budgetary Controls and Pending Bills

The financial statements for the year ended 30 June 2018 include a summary of appropriation; recurrent and development combined which reflects an expenditure of KSh.100,029,423,714 against the budget of KSh.112,448,931,343 thus resulting in an under-expenditure of KSh.12,419,507,629 i.e 11% under-utilization and no satisfactory explanation was provided.

Further, analysis of pending accounts payables reflected pending bills amounting to KSh.95,458,485 as at 30 June 2018. Had the bills been paid, the State Department could have reported deficit of KSh.77,962,099 instead of the surplus of KSh.17,496,386 now shown. The pending bills have an effect on the budget for 2018/2019 as the bills form first charge to the budget.

557. Kenya Transport Sector Support Project-MOT Component

The statement of Receipts and Payments for the period ended 30 June 2018 reflected receipts from external development partners controlled by the entity amounting to KSh.55,558,563 while the special account statement prepared by the National Treasury reflected KSh.15,529,982. The variance of KSh.40,028,581 had not been reconciled or explained.

Other Matter

558. Prior Year Unresolved Matter

As reported in 2016/2017 report, the following matters remained unresolved as at 30 June 2018.

558.1 Financial Statements Inaccuracies

558.1.1 Variances between Trial Balance and Financial Statements

As reported in previous year, a comparison between the financial statements and the supporting trial balance revealed total positive variances of KSh.238,120,816 and negative variances totalling to KSh.295,288,337,930 which were not explained or reconciled.

In addition, the trial balance reflected credit balance of 14,078,691 and debit balance of KSh.288,504,593 both described as suspense clearance account which were not investigated. The accuracy of the Department's financial statements for the year ended 30 June 2017 could not be confirmed.

558.2 Variances between the Financial Statements and IFMIS generated report

The financial statements submitted for audit differed from IFMIS generated financial statements as shown below:

Details	Financial Statements (KSh.)	IFMIS Reports (KSh.)	Difference (KSh.)
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.

559. Budgetary Control

As reported in the previous year, the financial statements for the year ended 30 June 2017 included a summary of appropriation; recurrent and development combined which reflected an expenditure of KSh.145,111,654,945 against the budget of KSh.169,130,621,133 thus resulting in an under-expenditure of KSh.24,018,966,188 i.e. 14% under-utilization and no satisfactory explanation was provided.

Further, analysis of pending accounts payables reflected pending bills amounting to KSh.6,368,644 as at 30 June 2017. Had the bills been paid, the surplus of KSh.24,512,389 would have been reduced to KSh.18,143,745.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

560. Except for the issues described in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

561. Except for the issues described in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

RAILWAY DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

563. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

564. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (IDA CREDIT NO. 4148KE - MOT COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

566. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

567. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT
(IDA CREDIT NO.4148KE AND 4977KE-MOT/KRC COMPONENT)**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

569. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

570. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT (IDA
CREDIT NO.5140KE - MOT COMPONENT**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Conclusion

572. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

573. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO. 4926-KE AND NO.5410-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

575. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

576. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT CR. NO. IDA 5140-KE (KRC COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

578. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

579. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT OF MARITIME AND SHIPPING AFFAIRS VOTE 1093

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

580. Inaccuracies in the Financial Statements

The statement of financial assets and liabilities reflect cash and bank balance as KSh.419,062 while the Integrated Financial Management Information Systems trial balance reflects KSh.470,225,301 (KSh.44,360,556 bank balance and KSh.425,864,745 cash in hand) resulting to unexplained and unreconciled variance of KSh.469,806,239.

In addition, outstanding imprests amounting to KSh.1,944,248 as reflected in the IFMIS trial balance were not included in the statement of financial assets and liabilities as at 30 June 2018

In the circumstances, the accuracy, and completeness of the financial statements for the year ended 30 June 2018 could not be confirmed.

581. Pending Bills

The Department accumulated pending bills amounting to KSh.33,497,702 (Note 13.1) as at 30 June, 2018 which remained unpaid as summarised in Annex I to the financial statements. Had the pending bills been paid during the year, the surplus of KSh.77,062 reflected in the statement of receipts and payments would have reduced by the same amount. In addition, the pending bills have a negative impact on the budget for the subsequent year as the bills become a first charge to the budget.

Further, no evidence was availed to confirm that the pending bills were authenticated by a Committee appointed by the Accounting Officer in line with best practices.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

582. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

583. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT VOTE 1094

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

584. Inaccuracies in the Financial Statements

584.1 Suspense and Clearance Account

The trial balance as at 30 June 2018 did not balance as it reflects KSh.101,740,405 described as suspense and clearance account. Management has not investigated/reconciled the balance and it is not possible to confirm the effect the figures may have on the financial statements for the year ended 30 June 2018.

584.2 Cash and Cash Equivalents

584.2.1 Recurrent Bank Account

The cash and cash equivalents balance of KSh.307,147,816 as at 30 June 2018 as shown in the statement of financial assets and liabilities include KSh.7,034,044 being cash held in recurrent bank account. The trial balance has a balance of KSh.697,948,449 resulting to unexplained variance of KSh.690,914,405. Further, the bank confirmation certificate as at 30 June 2018 had a balance of KSh.38,413,152 while the cash book balance was KSh.7,034,043. Management did not provide bank reconciliation statements for the account.

584.2.2 Development Bank Account

The cash and cash equivalents balance of KSh.307,147,816 as at 30 June 2018 as shown in the statement of financial assets and liabilities include KSh.3,703,183 being cash held in development bank account. The trial balance had a balance of KSh.786,532,000 resulting to unexplained variance of KSh.782,828,817. Further, the bank confirmation certificate as at 30 June 2018 had a balance of KSh.14,944,099 while the cash book balance was KSh.3,703,183. Management did not provide bank reconciliation statements for the account.

584.2.3 Deposits Bank Account

The cash and cash equivalents balance of KSh.307,147,816 as at 30 June 2018 as shown in the statement of financial assets and liabilities include KSh.296,410,590 being cash held in deposit bank account. The trial balance had a balance of KSh.417,668,946 resulting to unexplained variance of KSh.121,258,356 which has not been reconciled.

584.2.4 Cash in Hand and Cash in Transit

Similarly, the trial balance as at 30 June 2018 has a balance of KSh.10,177,007,503 referred to as cash in hand while in the financial statements only KSh.627 was disclosed. The difference of KSh.10,177,006,876 was not explained or reconciled.

In addition, the trial balance reflects cash in transit amounting to KSh.9,971,930,237 which was not supported and the same was completely omitted in the financial statements.

In the circumstance, it was not possible to ascertain the completeness and accuracy of the cash and cash equivalents balance of KSh.307,147,816 as at 30 June 2018.

585. Account Receivables

585.1 District Suspense

The trial balance reflects a balance of KSh.101,740,405 described as District Suspense which was not included in the financial statements. Management did not provide a supporting schedule to the figure and investigations have not been conducted to find out the cause of the suspense.

585.2 Pre-payments

The trial balance had a figure of negative KSh.5,742,838 described as other debtors and pre-payments which had not been explained/analyzed. In addition, the figure was not disclosed in the financial statements.

585.3 Temporary Imprest

Note 12 to the financial statements reflect Government imprests of KSh.2,069,419 while the trial balance reflects (KSh.14,079,569) resulting to unexplained and unreconciled difference of KSh.16,148,988.

586. Transfer to Other Entities

Included under note 7 on transfer to Government entities is an amount of KSh.1,599,992,362 to Civil Servants Housing Scheme while the financial statements reflects KSh.1,088,689,662 resulting to a variance of KSh.511,302,700. The variance of KSh.511,302,700 has been reflected under the same note as transfer to others and nor details were provided or availed for audit verification.

587. Account Payables-Deposits

The payables balance of KSh.296,410,591 as at 30 June 2018 was at variance with the trial balance figure of KSh.114,124,090 resulting to unreconciled and unexplained difference of KSh.182,286,500.

588. Exchequer Release

The Exchequer release of KSh.10,477,169,945 as stated in the statement of receipts and payments was at variance with the trial balance figure of KSh.10,818,621,490 resulting to unexplained and unreconciled difference of KSh.341,451,545. Further, from the documents availed for audit, the Exchequer release during the period under audit added up to KSh.10,150,397,275 giving another variance of KSh.326,772,670. It was therefore not possible to ascertain the completeness and accuracy of the Exchequer release figure of KSh.10,477,169,945 as stated in the statement of receipts and payments.

589. Rental Income

The rental income in the statement of receipts and payments was reflected as KSh.156,530,113 while the trial balance reflects nil. No explanations were provided for the variance.

590. Pending Bills

The financial statements under other important disclosures reflect pending bills as KSh.873,248,731 as at 30 June 2018. Had the pending bills been paid, the reported deficit for the year could have been increased to KSh.(886,785,648).

591. Unresolved Prior Year Matters

The following matters reported in 2016/17 remained unresolved as at 30 June 2018:

591.1 Account Receivables

The statement of assets and liabilities as at 30 June 2017 reflected financial assets totaling KSh.710,374,182 out of which KSh.26,260,178 were account receivables. Included in the account receivables balance of KSh.26,260,178 was an amount of KSh.9,608,578 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 included outstanding imprest totaling KSh.16,651,602 issued to staff between 1 July 2012 and 30 June 2017, an indication that some imprests have been outstanding for over five (5) years.

592. Proceeds from Domestic and Foreign Grants

The statement of receipts and payments for the year ended 30 June 2017 reflected proceeds from domestic and foreign grants amounting to KSh.200,000,000. Although the trial balance also reflected grants from Foreign Governments- direct payments treated as AIA amounting to KSh.200,000,000, the total amount was not supported.

593. Proceeds from Foreign Borrowing

The statement of receipts and payments for the year ended 30 June 2017 reflected proceed from foreign borrowings representing direct payment to Nairobi Metropolitan Service program amounting to KSh.3,864,144,628. However, the audited financial statements for the program reflected KSh.3,702,677,896 resulting to a variance of KSh.161,466,732 which was not explained or reconciled.

Further, the balance of KSh.3,864,144,628 excluded foreign borrowings-draw-downs through exchequer amounting to KSh.3,776,610,350 which was inadvertently included in the transfer from National Treasury-exchequer release balance of KSh.10,855,020,511.

594. Pending Bills

The financial statements under other important disclosures, reflected pending accounts payables (pending bills) amounting to KSh.1,257,844,010 which had not been settled by 30 June 2017. Had the pending bills been settled, the surplus for the year would have been reduced by the same amount.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

595. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

596. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

THE RECEIVER OF REVENUE – STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

597. Arrears in Revenue

The statement of arrears in revenue reflect arrears of property income of KSh.184,600,915 as at 30 June 2018. Management did not provide evidence of measures being taken to recover the arrears. In the circumstance, the recoverability of the arrears of KSh.184,600,915 as at 30 June 2018 could not be determined.

598. Under-collection of Revenue

The Department had budgeted to collect revenue of KSh.,450,000,000 during the period under audit. However, only KSh.156,530,113 or 35% was realized resulting to a shortfall of KSh.293,469,887 or 65% which was not explained.

599. Unresolved Prior Year Matters

599.1 Non Maintenance of Books of Account and Revenue Bank Account

During the period ended 30 June 2017, the state Department of Housing and Urban Development did not maintain books of account (e.g. cash book and ledgers) and a revenue bank account contrary to Public Finance Management Act, 2012.

In the circumstance, the validity and completeness of the rent revenue amount of KSh.249,561,252 reported in the revenue statement for the year ended 30 June, 2018 could not be confirmed.

600. 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 KSh.49,131,995. Consequently, expected rental revenue for the year ended 30 June, 2017 was KSh.589,583,940, but only KSh.249,561,252 was disclosed in the revenue statement and the under collection of KSh.340,022,688 was not satisfactorily explained.

Further, a summary of payroll by product held by the Estate Department shows that the total rent revenue deducted from staff amounted to KSh.407,966,482 during the year while the revenue statement reflected KSh.249,561,252 resulting to a variance of KSh.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 were safeguarded and that rent

deducted from payroll is received, recorded, banked and remitted to the exchequer account as required.

A review of the above issues confirmed that the issues remained outstanding as at 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

601. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

602. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

CIVIL SERVANTS HOUSING SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

603. Cash and Cash Equivalents

Examination of the bank reconciliation statement as at 30 June, 2018 revealed long outstanding balances in the bank reconciliation totaling to KSh.201,183,649 as receipts in cash book not in bank statement which includes KSh.37,454,290 being receipt which are over one year. Management did not explain why the balances remained outstanding.

In addition, the bank reconciliation statement also shows unexplained payments in the bank not in cash book amounting to KSh.31,553,576. It was not clear and management did not explain why the balances have remained outstanding for long.

Further, the bank reconciliation statement reflects balances of KSh.180,596,212 being payments in the cash book not in bank which include KSh.16,911,231 relating to financial year ended 30 June, 2017 and earlier years.

Consequently, it was not possible to confirm the accuracy and completeness of cash and cash equivalent balance of KSh.2,408,632,335 as at 30 June 2018.

Other Matter

604. Unresolved Prior Year Matters

604.1 Cash and Cash Equivalent

As reported in the previous audit of 2016/2017, the statement of financial position as at 30 June, 2017 reflected cash and cash equivalents balance of KSh.2,375,548,143 which was arrived at after netting off cash and cash balance totaling KSh.2,500,000,000 with an overdraft of KSh.124,451,857. No satisfactory explanation was provided for this treatment.

In addition, the reflected cash book balance of KSh.124,451,857 (Overdraft) differed with the audited cash book balance of KSh.463,720,505 resulting to variance of KSh.339,268,648 which was not explained and/or reconciled.

605. 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 to KSh.184,750,652 as receipts in cash book not in bank statement. The receipts in cash book not in the bank include KSh.13,347,366 balance relating to previous financial years. The bank reconciliation statement also shows unexplained payments in the bank not in cash book amounting to KSh.10,354,685. These payments were effected without the necessary payment vouchers being posted to the cash book.

Further, the bank reconciliation statement reflected balances of KSh.59,498,951 being payments in the cash book not in bank which included KSh.12,741,658 relating to the financial year ended 30 June 2016 and earlier years.

In the circumstance, it was not possible to confirm the accuracy and completeness of cash and cash equivalent balance of KSh.2,375,548,142 as at 30 June 2017.

A review of the above revealed that all the above matters remained unresolved as at 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

606. Except for the issues described in the Basis for Qualified Opinion and Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

607. Except for the issues described in the Basis for Qualified Opinion and Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE OFFICERS HOUSE MORTGAGE SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

609. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

610. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

KENYA INFORMAL SETTLEMENT IMPROVEMENT PROJECT CREDIT NO.4873-KE (IDA)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

612. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

613. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KOROGOCHO SLUM UPGRADING PROJECT (KENYA/ITALY DEBT FOR DEVELOPMENT SWAP PROGRAMME) CREDIT NO. CN/1246

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

615. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

616. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NAIROBI METROPOLITAN SERVICES IMPROVEMENT PROJECT (IDA CREDIT NO.5102-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

618. Unsupported Retention Monies

Project Information availed for audit review indicated that the Project had withheld dues from various contractors as part of the Certified Works as Retention Monies totaling to KSh.752,826,327. However, no evidence of a dedicated bank account into which retention monies were held was availed for audit review. In the circumstances, Management may face difficulties in paying the retention monies as and when the same fall due.

619. Unremitted Taxes

The project financial statements discloses pending bills amounting to KSh.1,028,027,047. This balance includes withheld but unremitted taxes totalling to KSh.861,104,138 made up of KSh.564,813,465 Value Added Tax and

KSh.296,290,673 withholding taxes. In the circumstances, Management had breached the law and the unremitted taxes may attract penalties from Kenya Revenue Authority.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

620. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

621. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KENYA URBAN SUPPORT PROJECT - (IDA CREDIT NO. 6134-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

623. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

624. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

**KENYA SLUM UPGRADING LOW COST HOUSING AND
INFRASTRUCTURE TRUST FUND (KENSUF)**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Conclusion

626. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

627. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KENYA MUNICIPAL PROGRAMME (IDA CREDIT NO. 4714)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

628. Special Account Reconciliation

As reported in 2016/2017, the Special Accounts Statement prepared by National Treasury indicated that KSh.1,455,530,287 (US\$. 14,107,348.14) was released for the Programme's activities during that year but the project financial statements reflected receipt of KSh.1,340,283,408. The variance of KSh.115,246,879 has not been explained or reconciled and remained unresolved in 2017/2018.

As such, it has still not been possible to confirm the accuracy and correctness of the total receipts during the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

629. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

630. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KISUMU URBAN PROJECT (PROJECT ADVANCE ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

631. Inaccuracies of Financial Statements

631.1 Trial Balance

The financial statements as prepared by the project management were not supported by a trial balance. Consequently, the accuracy of the financial statements could not be confirmed for the year ended 30 June 2018.

631.2 Financial Statements Reporting Framework

The review of the financial statements revealed non-compliance with the IPSAS Cash Basis-Reporting Framework as follows:

- Roles and responsibilities did not indicate the key qualifications for the City Manager.
- Summary of overall project performance did not include i) physical progress based on outputs, outcomes and impacts since project commencement, and ii) comments on value for money achievements.
- The statement of receipts and payments, statement of financial assets and statement of cash flows indicate incorrect notes to the financial statements.

Consequently, the management was in breach of the IPSAS reporting framework.

632. Ineligible Payment of Value Added Tax (VAT)

The Kenya Power and Lighting Company limited (KPLC) was paid KSh.8,407,710 for relocation of service line along Impala-Dunga-Nanga road. The quotation letter from KPLC shows the cost of supply at KSh.7,248,026 and Value Added Tax (VAT) at KSh.1,159,684 totaling to KSh.8,407,710. The gross payment of the amount contravenes the credit agreement requirement that all payments to be tax exempt. Further, the management failed to issue VAT exemption documents to KPLC as laid out in the loan contract agreement resulting in ineligible payment of KSh.1,159,684.

633. Special Accounts Statements

The special account statement reflects Euros 2,336,248 (KSh.272,710,229) as amount withdrawn and not yet claimed as at 30 June 2018 whose expenditure returns had not been submitted to National Treasury.

Consequently, the regularity of amount withdrawn and not claimed could not be confirmed.

634. Irregular Payments

634.1 Lack of Technical Implementation Unit Approval

Included in the statement of receipts and payments under acquisition of non-financial assets figure of KSh.238,422,187 are payments to five (5) contractors amounting to KSh.25,235,486. The payment relates to construction of primary schools and were made without the technical implementation unit endorsing the payments contrary to KUP operations manual.

634.2 Hire of Specialist Furniture Supplier

Further it was noted that a 50% advance payment of KSh.2,500,000 was made to each of the five (5) schools' contractors for the supply of school furniture. However, the project consultants through a letter to the City Manager Ref: FC/105/03/17 dated 23 October 2017 proposed to invite a specialist furniture supplier to procure the items for the five schools. It is not clear how the specialist supplier was engaged at such an advanced stage of contract implementation as it contravenes the independence of the contractors and violates the contract agreements and procurement regulations.

634.3 Furniture Non – Delivery

Physical verification visits were carried out in the five (5) beneficiary schools to confirm the delivery of school furniture. In Thim Bonde primary school the contractor only supplied furniture worth KSh.1,708,700 out of the advance payment of KSh.2,500,000 resulting in a shortfall in supply totaling KSh.791,300. In Got Nyabondo primary school, the contractor supplied furniture amounting to KSh.679,800 out of advance payment of 2,500,000, thus short supply of KSh.1,820,200. Further, there were no inventory records to indicate the value of furniture supplied to Angira, Rota and Rweya primary schools. Consequently, propriety and value for money on the expenditure on furniture amounting to KSh.12,500,000 could not be confirmed.

635. Waste of Funds

Included in the statement of receipts and payments under purchase of goods and services figure of KSh.54,428,209 is a payment cheque No.279 dated 6 July 2017 of KSh.512,800 to an officer for provision of subsistence allowance and transport to four (4) officers from State Department of Housing and Urban Development. The officers were expected to provide technical support, monitoring and evaluation of KUP following financier's approval. However, it was not explained how the civil servants were paid subsistence and transport for eleven (11) days between 10 and 21 July 2017 while these expenses were expected to be provided by the parent

Ministry. Further, no report was provided to show the output of the facilitated state officers. Consequently, the regularity of KSh.512,800 expenditure could not be confirmed for the year ended 30 June 2018.

636. Floodlight Relocation

Included in the acquisition of non-financial assets figure of KSh.238,422,187 as shown in the statement of receipts and payments is a floodlight valued at KSh.4,618,772. The floodlight was supposed to be supplied, installed, tested and commissioned at Oile Market. The management said that the floodlight was relocated to Kenyatta Sports Ground. However, the relocation was not supported by the Engineer's and AFD's approvals. Consequently, the existence of the floodlight and expenditure of KSh.4,618,772 could not be confirmed for the year ended 30 June 2018.

Emphasis of Matter

637. Delay in Projects Implementation

Payments amounting to KSh.5,985,986, KSh.4,421,189 and KSh.406,859 and totaling KSh.10,814,034 were made to KPLC and Kisumu Water and Sewerage Company (KIWASCO) respectively for relocation of service lines.

However, physical verification carried out on 11 October 2018 revealed that the relocation of the service lines had not been carried out which therefore delayed the inception of road works. The delay was caused by failure of KUP to issue Value Added Tax exemption certificate to KPLC and no action was taken to compel KIWASCO to relocate the service line.

638. Pending Bills

Excluded from note 9.1 to the financial statements under pending accounts payable are retention fees liabilities held during the defects liability period amounting to KSh.36,590,141. However, liabilities brought forward from the financial year 2016/2017 that remained outstanding as at 30 June 2018 amounted to KSh.26,826,664.

Further, the closing bank balance as at 30 June 2018 stood at KSh.42,205,209 indicating adequate funds were available to meet the obligations. It was not explained why the contractors had not been paid retention fee, twelve months after the expiry of the defects liability period.

639. Budget Performance

The statement of comparative budget and actual amounts reflect final budget of KSh.897,288,735 against printed estimate figure of KSh.655,000,000 resulting in a

variance of KSh.242,288,735 that was not explained or supported by supplementary printed estimates.

Further, it was noted that the entity under absorbed the budget on purchase of goods and services (14%), acquisition of non-financial assets and transfer to CEF by 14%, 53% and 37% respectively.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

640. Expired Performance Guarantee Bonds

A follow up on the previous year audit recommendations revealed that the construction of Kemri-Otonglo and Tiengre roads was awarded to a local company who presented a forged performance bond. As a result, KUP has incurred loss of KSh.8,517,588 according to a letter dated 5 August 2017 that was written to the contractor informing the firm of KUP intention to recover the amount. The contractor has since abandoned site. In addition, a loss of KSh.5,859,132 was incurred for terminating a contract with another contractor for the construction of Namthoe road. The performance bond that the contractor issued had expired and had not been renewed as at the time of the audit. Consequently, the two (2) contracts resulted in loss of public funds.

Further, the performance guarantee of KSh.4,801,474 for a local contractor which expired on 9 February 2016 is yet to be renewed. The contract to supply, install blade server, set up data centre and related services continued beyond its completion date but has not received a no objection from the financier to extend the end date resulting in irregular engagement by management.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

641. Invalid Transactions

The KUP Project Committee did not validate the bank reconciliation statements for the months of May 2018 and June 2018 contrary to the KUP operations manual.

Further, a payment validation voucher for refund of performance bond of KSh.10,851,361 (cheque no. 322) to a local company on 12 March 2018 was not authorized by the city manager. In addition, a payment validation voucher to another company dated 26 June 2018 for supply of motorcycles of KSh.2,574,000 was not authorized by the Technical Assistance Team (TAT) for Finance contrary to set KUP payments approval process.

642. Unsupported Receivables from Related Parties

Included in note 8.10 to the financial statements under receivables from related parties' figure of KSh.3,201,124 is a KUP Cash Expenditure Fund (CEF) amount of KSh.2,823,963 in respect to ineligible expenses incurred by the KUP- PAA which should have been financed by KUP-CEF. This leads to comingling of separate funds.

643. Unapproved KUP Operation Manuals

During the year under review, KUP used draft operations manual that did not receive lender's no objection contrary to amendment No.2 to the CFA Clause 5.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Kisumu Urban Project (KUP) Credit Financing Agreement No. CKE1035.01.G, I report based on my audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by KUP , so far as appears from the examination of those records; and,
- iii. The KUP financial statements are in agreement with the accounting records and returns.

KISUMU URBAN PROJECT (CASH EXPENDITURE FUND) -CKE 1035.01.G

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

644. Unsupported and Misstatement of All Other Expenditure

Note 11 to the financial statements reflect all other expenditure figure of KSh.651,659 which includes a payment dated 18 April 2018 vide cheque number No.506 for KSh.39,060. The payment was presented in the financial statements both as an expenditure and outstanding imprest. Further, a petty cash expense of KSh.118,775 was not supported by payment vouchers. In addition, a payment of

KSh.145,850 did not have any narration as to identify what the expenditure related to.

Consequently, the accuracy and completeness of the financial statements as at 30 June 2018 could not be confirmed.

645. Unsupported KUP Secretariat Expenses

Note 10.8 to the financial statements as at 30 June 2018 reflect KUP secretariat services figure of KSh.4,288,710. This balance includes cash payments totaling KSh.3,660,621 shown in the bank statements as paid to one officer on behalf of various officers to perform different functions. However, the payments lacked supporting documents (travel tickets, receipts and invitation letters) to show that the intended functions were achieved. Further, a petty cash expenses amount of KSh.710,421 was not supported by way of payment vouchers or receipts.

As a result, the accountability and propriety of the KUP Secretariat expenditure of KSh.4,288,710 could not be ascertained.

646. Ineligible Pending Bills

Indicated under item (iv) of the significant accounting policies to the financial statements are pending bills amounting to KSh.2,128,038 as at 30 June 2018, contrary to amendment No.2 to clause 4 of credit financing agreement (CFA).

Further, three (3) outstanding imprests totaling to KSh.551,438 (travelling cost to Nairobi KSh.38,600; cost of AFD mission KSh.366,800; reimbursement of float KSh.146,038) were classified as pending bills under unclear circumstances.

In view of the foregoing, the eligibility of the pending bills of KSh.2,128,038 is doubtful.

Emphasis of Matter

647. Budget Performance

During the financial year, KUP (CEF) had a total budget of KSh.20,670,375 against a total expenditure of KSh.19,404,023 resulting in 94% budget absorption.

Although the overall budget absorption rate is indicated as 94% the entity under spent the budget on office stationery (39%) and repairs & maintenance (44%), while they overspent on travelling & subsistence (105%), fuels, oils & tyres (160%) and KUP secretariat services (148%). In addition, training expenses incurred KSh.858,211 against a zero (KSh.0) budget. No explanation was given for the variances in budget performance as well as reasons for overspending on some expenditure items.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

648. Irregular Issuance of Imprest

Note 14 to the financial statements under outstanding imprests and advances shows a balance of KSh.6,877,287 which includes of current outstanding imprests amounting to KSh.1,045,020.

The imprests were issued in the names of various officers whose payment cheques were withdrawn by one officer (a third party to the imprests). However, there was lack of documentary evidence that the imprest holders received the due cash. Further, the imprests issued had not been surrendered as at 30 June 2018 contrary to KUP operations manual.

In addition, item named 'In eligible cost brought forward' amounting to KSh.5,427,267 was not supported.

Further, two (2) outstanding imprests of KSh.38,600 and KSh.366,800 issued to an officer were erroneously reflected in the statements as pending bills.

649. Invalid Bank Reconciliation Statements

During the year under review, the bank reconciliation statements for twelve months were not validated or approved contrary to KUP operations manual. Further, the bank reconciliation statement for the month of May 2018 was not availed for audit and no explanation was given for the omission. Consequently, the accuracy of the cash and bank balance as shown in the financial statements could not be confirmed.

650. Delayed Remittance of Withholding Tax

During the year under review, a 30% withholding tax on motivational allowances amounting to KSh.1,392,323 was remitted to Kenya Revenue Authority in two (2) instalments of KSh.1,131,137 and KSh.261,186 on 15 December 2017 and on 25 January 2018 respectively. This translates to 9 months of delay in remittance contrary to the requirement by the Income Tax Act section 8(1). The late submission of the withholding tax may attract more penalties and lead to ineligible expenditure.

651. Irregular Payment of Motivational Allowances

Included in the statement of receipts and payments is motivational allowances amounting to KSh.8,268,981. The allowances were paid to KUP secretariat from April 2012 to June 2017. Nevertheless, there was no indication that the Salaries and Remuneration Commission (SRC) approved the allowances in accordance with Article 230 of the Constitution of Kenya 2010. Further, the above figure excludes a payment cheque No.310 dated 28 January 2018 of KSh.609,434 which was paid through the KUP (PAA) bank account. In addition, a payment to an officer vide

cheque No. 511 dated on 23 November 2017 of KSh.876,487 was not supported with any documentation. Consequently, the validity of the expenditure could not be confirmed.

652. Irregular Travelling and Subsistence Expenses

Note 10.4 to the financial statements under travelling and subsistence expenses figure of KSh.2,618,635 includes expenses amounting to KSh.2,408,190. The expenses were incurred by issuing of imprest to an officer on behalf of other recipients, some of whom were not employees of the project. Further, there were no travel and subsistence documents to support the purposes of the imprests resulting to an irregular public spending.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

653. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by The Agence Francaise De Development (AFD) Credit Agreement No. CKE1035.01. G dated 17 October 2016, I report based on my audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by the KUP(Cash Expenditure) , so far as appears from the examination of those records; and,
- iii. The KUP(Cash Expenditure) financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR PUBLIC WORKS VOTE 1095

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

654. Inaccuracies in the Financial Statements

A comparison between the financial statements and the trial balance revealed a difference of KSh.586,182,304 under cash and bank balances and a difference of KSh.553,457,103 in payables balances.

These variances were not reconciled and it was not possible to confirm the accuracy of the financial statements for the year ended 30 June 2018.

655. Cash and Cash Equivalent

655.1 Recurrent Bank Account

655.1.1 Payments in the Cash Book not Recorded in Bank

The reconciliation statement for recurrent account for the month of June 2018 reflect an amount of KSh.15,795,232 as payments in cash book not in bank statements (unpresented cheques), included in this amount are payments totaling to KSh.2,660,483 which are over six (6) months and therefore stale.

656. Payments in Bank not in Cash Book

The reconciliation further shows an amount of KSh.3,188,624 being payments in bank not in cash book. Management did not provide explanation for the variance.

657. Receipt in Cash book not in Bank Statement

The reconciliation statement also shows an amount of KSh.1,724,899 as receipts in cash book not recorded in the bank statement which include an amount of KSh.1,190,399 described as closing balance under cast. In addition, this amount includes KSh.534,500 being receipt from State Department of Public Works not recorded in the bank statement. No explanation was provided on the discrepancies noted in the bank reconciliation statement

657.1 Development Bank Account

657.1.1 Receipt in the Cash Book not in the Bank Statement

Included in the bank reconciliation statements was KSh.5,537,584 being receipts in cash book not in bank statement. Management has not explained why the cash book was not updated.

658. Payment in Cash Book not in Bank Statement

The bank reconciliation statement for Development bank account as at 30 June 2018 reflect an amount of KSh.9,831,837 as payments in cash book not in bank (unpresented cheques). Included in this amount was an amount of KSh.5,585,081 representing payments which remained outstanding for more than six (6) months and were therefore stale. Management did not explain as to why those payments were not reversed in the cash book.

658.1 Deposit Bank Account

658.1.1 Payments in Cash Book not in Bank Statements

The reconciliation statement reflects an amount of KSh.10,640,280 as payments in cash book not in bank. Included in this amount was an amount of KSh.600,000 being cash book error adjustment which has not been explained or reconciled.

659. Cash in Hand

The financial statements under note 7A reflect cash in hand as KSh.40,314 whereas the trial balance reflects KSh.2,448,277,169 resulting to unexplained and unreconciled difference of KSh.2,448,236,855.

In the circumstance it was possible to confirm the completeness and accuracy of the cash and cash equivalent balance of KSh.631,800,997 as at 30 Jun 2018.

660. Pending Bills

Annex 1 of the financial statements reflects analysis of pending accounts payable totalling KSh.821,171,919 which remained unpaid as at 30 June 2018 and were carried forward to 2018/2019 financial year. Had the pending bills been settled in 2017/2018, the surplus of KSh.2,727,127 reported would have been reduced by the same amount.

661. Unresolved Prior Year Matters

The following matters reported in 2016/2017 remained unresolved as at 30 June 2018:

661.1 Differences Between Financial Statements and Trial Balance

As reported in 2016/2017, comparison between the financial statements and the trial balance which was in agreement with IFMIS generated statements revealed a difference of KSh.3,727,394,544 under cash and bank balances and a difference of KSh.,120,882,634 in payables balance.

In the circumstance, it was not possible to confirm the accuracy and correctness of the financial statements for the year then ended.

661.2 Pending Bills

As reported previously, the statement of assets and liabilities as at 30 June 2017 reflected pending bills account payable amounting to KSh.10,352,026. Included in this amount and as disclosed in note 10.1 to the financial statements was an amount of KSh.909,950 related to supply of goods. However, in the course of the audit, management provided a schedule showing total pending bills of KSh.354,554,474 and KSh.41,102,636 for construction of buildings and construction of civil works respectively. Although management has explained that the pending bills of KSh.364,554,474 and KSh.41,103,635 had no budgetary provision during the year, no satisfactory explanation was provided for failure to include them in the budget.

661.3 Cash and Bank Balances

A review of the bank reconciliation statements in support of cash and bank and bank balance of KSh.1,069,674,052 revealed the following;

661.4 Recurrent Bank Account

661.4.1 Payment in the Cash Book not Recorded in Bank

The reconciliation statement for recurrent account for the month of June 2017 reflected an amount of KSh.57,157,709 as payments in cash books not in bank statements (unpresented cheques) included in this amount are entries totaling to KSh.10,850 which had over six (6) months therefore stale.

662. Payments in Bank not in Cash Book

The reconciliation further showed an amount of KSh.2,714,751 as payments made in the bank not posted in cash book which include an amount of KSh.526,836 for closing balance under cast. Management did not provide explanation for these payments.

663. Receipt in Cash Book not in Bank Statement

The reconciliation statement also showed an amount of KSh.247,5501 for receipt in cash book not recorded 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 KSh.105,267 and an amount of KSh.142,283 for a SACCO dated 30 September 2016. Cash book under cast are supposed to be adjusted in the cash book and should not appear as reconciling item, also the nature of the receipt from the SACCO could not be established as it had no support.

664. Development Bank Account

A review of the development account revealed the following;

i) Receipt in the Cash Book not in the Bank Statement

The statement showed a total of KSh.215,005 as receipt in the cash book not in bank statement which include an amount of KSh.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) Payment in Bank Statement not in cash book

The statement included an amount of KSh.227,555 for payment in bank statement not in cash book made up of KSh.158,979 withholding tax dated 28 February 2017 and KSh.68,278 for a holding company dated May 2017. The two entries were not supported and their validity could not be established.

664.1 Deposit Bank Account

664.1.1 Payments in Cash Book not in Bank Statements

The reconciliation statement reflected an amount of KSh.21,324,393 as payments in cash book not in bank. Included in this figure was closing balance under cast of KSh.285,000 whose validity could not be confirmed.

665. Receipt in Cash Book Not in Bank Statement

The bank reconciliation statement reflected an amount of KSh.9,024,644 for receipts in cash book not in bank statement which included KSh.57,283 for a contracting company. This amount had remained outstanding since 27 April 2016 and its nature and validity could not be confirmed.

In the circumstance it was not possible to confirm the accuracy of the cash and cash equivalent balance of KSh.1,069,674,052 as at 30 June 2017.

Other Matter

666. Proposed Completion of Lamu Police Station and Management Housing

As reported in the previous year, the Project was awarded to a company at contract sum of KSh.615,848,997 and contract duration was 72 weeks to be completed on 19 February 2014. The Contractor was given extension of time which revised the completion date to 19 January 2017. A review of progress report dated 14 December 2017 showed KSh.267,196,753 representing 46% of the contract sum had been certified and the Project was behind schedule as at 30 June 2017 while

KSh.12,952,170 had been incurred to pay interest. During the year 2017/2018, Management did not avail any progress reports and it was not possible to ascertain the status of the Project.

667. Construction of Mathare Nyayo Hospital

As reported in the previous year, the project was awarded to an International Company at a contract sum of KSh.1,212,414,732 with contract duration of 156 weeks. It commenced on 27 August 2012 with the expected completion date being 27 August, 2015. However, progress report showed that by July 2017, the value of work done stood at 48% of the contract sum. Subsequently Management had granted the contractor an extension of time by 76 weeks vide a letter Ref No. BD108/11/7325B/Vol.IV/13 dated 11 December, 2017 to bring the new completion date to 27 December 2018.

Further, it was noted that project management expenses of KSh.25,294,298 had exceeded the contracted bill of quantities (BOQ) KSh.16,413,600 by KSh.8,880,698.

In addition, payment certificate for valuation No.20 dated 11 July 2017 showed that the Contractor had been paid KSh.46,570,658 as interest on delayed payments.

During the year under audit, Management did not avail the progress reports and it was not possible to confirm the status of the Project.

668. Proposed Completion of Kenya Institute of Business Training

The contract was awarded to a company at a contract sum of KSh.629,909,101 revised to KSh.767,533,439 and contract duration of 115 weeks. The contract commenced on 12 March, 2009 with expected completion date being 28 June 2011. Though the project completion time was revised to 29 June 2018, the project works were still at 83% completion an indication of slow progress of works which is likely to lead to escalation of Project costs.

In addition as at 30 June 2018, KSh.16,676,563 had been incurred to pay interest on delayed certificates which was a nugatory expenditure.

669. Construction of Bridges

Included in the acquisition of non-current assets balance figure of KSh.473,284,876 was an amount of KSh.48,110,666 being amount paid for construction of bridges in various Districts which were procured through restricted tendering instead of open tender. Management has not satisfactorily explained why restricted tendering was used as opposed to Open Tendering Method.

As such it has not been possible to confirm whether the Department obtained value for money in construction of the bridges.

670. Motor Vehicles

670.1 Stolen and Un-Accounted for Motor Vehicles

As reported in the previous year, a review on motor vehicles records showed that two vehicles were stolen and had not been recovered. Another two project vehicles had not been transferred to the State Department after completion of the project.

670.2 Unaccounted for Vehicles Purchased

As reported in the previous year (2016/2017) a payment voucher no. 0685 dated 20 March, 2017 showed that an amount of KSh.13,825,000 was paid to a motor vehicle dealer for purchase of motor vehicles. A review of the supporting documents revealed that;

- (i) The local purchase order No. 100 attached to the payment voucher was dated 9 February 2017 and was for the purchase of six (6) units of Toyota Prado (Japan made) at a unit price of KSh.2,304,167 all totaling to KSh.13,825,000. The total amount was paid on 7 March 2017. However, no documents were availed during the audit to confirm that the vehicles were received by the Department.
- (ii) In response to audit report ref. SDOW/ACCTS/AUDIT/ (21) dated 27 April 2018. Management availed work tickets for a vehicle under State Department of Transport with registration number GKB 539R. However, the number differed from the supporting purchase documents (invoice) from the dealer dated 24 January 2017, which showed the registration number as GKB 539Q and the delivery note which had the registration number of GKB 539Z. it was therefore difficult to confirm which vehicle was actually delivered.
- (iii) Also, the motor vehicle was not in the list of inventories of Department vehicles provided for audit.
- (iv) Further, the vehicles log books and subject file were not availed for audit verification.
- (v) In addition, there was no evidence that the vehicles were 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.

Consequently, it was not possible to confirm the propriety of the total expenditure of KSh.13,825,000 incurred to purchase the unaccounted-for vehicles.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

671. Except for the issues discussed in the Basis for Adverse Opinion and Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

672. Except for the issues discussed in the Basis for Adverse Opinion and Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STORES AND SERVICE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

673. Lack of Budget, Ledgers and Trial Balance

During the year ended 30 June 2018, Management did not avail an approved budget, ledgers and the trial balance for Stores and Service Fund.

In the circumstances, it was not possible to confirm the accuracy and correctness of the Revenue from sale of goods amounting to KSh.7,211,800 and the expenses totaling to KSh.6,696,330 reflected in the statement of financial performance for the year ended 30 June 2018.

674. Bulky Purchase of Stores and Fuel

The bulky purchase of stores and fuel expenditure of KSh.6,696,330 as reflected in the statement of financial performance was at variance with the supporting schedules and payment vouchers balance of KSh.74,724,385 resulting to unexplained difference of KSh.68,028,055. The expenditure was therefore understated by KSh.68,028,055.

675. Inventories

675.1 Unaccounted for Stocks

The inventory balance of KSh.130,736,547 as at June 2018 as per the statement of financial position was at variance with the inventory stock sheets balance of KSh.515,470 resulting to unexplained difference of KSh.130,221,077.

In the circumstance, it was not possible to ascertain the accuracy of the Inventory balance of KSh.130,736,547 as at 30 June 2018.

675.2 Stocks Transferred to Regional Offices

The Fund transferred stock worth KSh.5,138,117 to Regional Offices (Kisumu KSh.3,162,689 and Kisii KSh.1,975,428) during the year under audit. There were no returns from these Regions to confirm whether the said stocks were received and taken on charge and accounted for.

676. Cash and Bank Balances

676.1 Cash in Transit

The cash and bank balance of KSh.6,847,026 as at 30 June 2018 include KSh.377,860 referred to as cash transit which has been outstanding since 2016/2017 and no further details were provided.

676.2 Lack of Bank Reconciliation Statements

The cash and bank balance of KSh.6,847,025 as at 30 June 2018 was not supported with a bank reconciliation statement. Management did not prepare bank reconciliation statements as required under Public Finance Management Act of 2012. It was therefore not possible to ascertain the completeness and accuracy of cash and bank balance of KSh.6,847,025 as at 30 June 2018.

677. Receivables from Exchange Transactions

677.1 Long Outstanding Receivables

The receivables from exchange transactions balance of KSh.1,232,261 as at 30 June 2018 include receivables which have been outstanding for over one year and whose recoverability was doubtful. Management has not made any provision for doubtful debts. Further, management did not provide receivables age analysis.

678. Sale of Goods and Services

The sale of goods and services received during the year amounted to KSh.7,211,800 as compared to KSh.100,047,544 in the previous year 2016/2017 representing 93% reduction. Management has not provided evidence of any efforts being made to reverse the trend in future and sustain its services.

679. Unresolved Previous Audit Matters

679.1 Presentation of Financial Statements

Examination of the Fund's financial statements for the year ended 30 June 2017 revealed instances of noncompliance with the reporting template issued by Public Sector Accounting Standards Board (IPSAB). Some financial statements were not signed and some did not have headers, the statements of comparison of budget and actual amounts and disclosure notes were not prepared and attached.

680. Inaccuracies in the Financial Statements

A review of the Fund's financial statements for the year ended 30 June 2017 revealed several errors in comparative balances with the audited balances for the year ended 30 June 2016.

681. 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:

681.1 Undisclosed Fund Operating Expenditure

The statement of financial performance showed sales of goods and services amount of KSh.100,047,544 and expenditure on bulk purchase of stores and fuel of KSh.96,461,850 and a resultant surplus from operations of KSh.3,585,694. It was however noted that the statement did 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.

681.2 Sales of Goods

The statement also showed amount of KSh.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 KSh.100,047,544 for the year ended 30 June 2017.

681.3 Bulk Purchases of Stores and Fuel

The statement further showed an amount of KSh.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 and accuracy of the amount for bulk purchase of store and fuel in the financial statements could not be confirmed.

682. Statement of Financial Position

Examination of balances in the statement of financial position revealed the following discrepancies:

682.1 Receivables

The statement reflected receivables from exchange transactions balance of KSh.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.

682.2 Trade and Other Payables

The statement of financial position also showed a balance of KSh.97,278,342 in respect of trade and other payables. Management provided two schedules in support of this of KSh.79,595,301 and KSh.17,549,972 for stores and fuel respectively. The combined total from these two schedules was KSh.97,145,273 which differed from amount in the statement above by KSh.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 of the trade and other payables balance as at 30 June 2017.

682.3 Payment Received in Advance

The statement of financial position also had a balance of KSh.65,051,145 for payments received in advance which was not analyzed. The accuracy of this amount could therefore not be confirmed.

682.4 Inventories

The statement further shows a balance of KSh.137,830,312 for inventories. A schedule provided in support of this amount only showed a breakdown by station with a total of KSh.105,785,617.77 resulting to a variance of KSh.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.

682.5 Borrowings

The statement of financial position also reflected a borrowings balance of KSh.844,003,800. However, the document availed in support of this amount was a letter from Central Bank dated 8 September, 2008 showing write off of overdrawn Fund's Bank account balances of KSh.560,408,646. The amount in this supporting document differed from the financial statements balance of KSh.844,003,800 by KSh.283,595,154 which was not explained. It was also noted that the description given to this balance was incorrect as overdraft write-off is a funding since it amounts to settling a liability without a requirement for the Fund to repay this amount.

682.6 Cash and Cash Equivalents

The statement also showed a cash and cash equivalents balance of KSh.79,625,351 representing a bank balance of KSh.79,326,058 and cash in hand balance of KSh.299,294. However, examination of the Fund's cash book and the supporting bank reconciliation statements showed Bank balance of KSh.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 of cash and cash equivalents of KSh.79,625,351 could not be confirmed.

683. Statement of Changes in Net Assets

A review of the statement of changes in net assets for the year ended 30 June 2017 revealed that the balance brought forward as at 30 June 2016 description was not aligned to the corresponding amounts.

Further, the statement also reflects a balance for accumulated 'surplus' brought forward of KSh.(792,904,795). This description was incorrect as the above 'surplus' was in negative meaning it was a deficit. Further, the audited financial statements for the year ended 30 June 2016 had accumulated balance carried down of (KSh.816,282,207). The resultant difference of (KSh.23,377,412) was not reconciled.

684. Statement of Cash Flows

A review of the statement of cash flows for the year revealed some misstatements as follows:

684.1 Receipts

The statement showed receipts from sale of goods balance of KSh.12,497,403 which differed from the statement of financial performance balance of KSh.100,047,544 resulting to unexplained variance of KSh.87,550,141.

684.2 Payments

The statement reflected payment for goods and services as KSh.80,764,486 while the statement of financial performance has a balance of KSh.96,461,850 on the same account. The resultant difference of KSh.15,697,364 was not explained.

684.3 Net Cash Flows from Operating Activities

The statement further reflected a balance of KSh.68,267,083 as net cash flow from operating activities which was 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 KSh.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 was therefore incorrect.

685. Unresolved Prior Year Matters – Inaccuracies for the Year Ended 30 June 2016

Audit issues raised in the audit of 2015/2016 financial year had not been resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

686. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

687. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR WATER SERVICES VOTE 1103

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

688. Variances Between Financial Statements and Trial Balance

A comparison of the financial statements and the trial balance availed for audit review had variances as indicated below;

Item	Financial Statements (KSh.)	Trial Balance (KSh.)	Variance (KSh.)
Exchequer releases	16,620,310,434	39,436,368,036	(22,816,057,602)
Bank Balances-Recurrent Account	21,355,105	(109,464,047)	(88,108,152)
Bank Balances- Development Account	196,647,352	(4,209,375,850)	4,012,728,498
Bank Balances- Deposit Account	35,476,750	948,275	34,528,475
Cash Balances	698,852	9,497,059,058	(9,496,360,206)
General Deposits	35,476,750	33,969,410	1,507,340
Other Liabilities	0	758,540	(758,540)
System required Liabilities	0	6,615,900	(6,615,900)
Cash Clearing Account	0	(11,539,853,706)	11,539,853,706
Opening Balance Reserve	0	22,695,352,025	(22,695,352,025)

In absence of a reconciliation between the two sets of records, it was not possible to confirm the accuracy and completeness of balances reflected in the financial statements and that those balances agree with the Department's books of accounts.

Other Matter

689. Underfunding of the State Department

According to the summary statement of appropriation for both Recurrent and Development Vote, the State Department had a total budget of KSh.44,704,627,545, from exchequer, foreign and domestic grants and borrowings. The Department however received KSh.28,977,170,367 from the three sources, resulting to an underfunding of KSh.15,727,457,178 (35%), as detailed below:

Receipt Item	Budget (KSh.)	Actual (KSh.)	Difference (KSh.)	% of underfunding
Proceeds from Domestic and Foreign Grants	521,000,000	317,244,314	203,755,686	39%
Exchequer releases	20,003,575,625	16,620,310,434	3,383,265,191	17%
Proceeds from Foreign Borrowings	24,180,051,920	12,039,615,619	12,140,436,301	50%
	44,704,627,545	28,977,170,367	15,727,457,178	35%

Consequently, the State Department may have been unable to implement all the planned activities and this may have had a negative impact on service delivery to the public.

690. Budget Performance

A review of the budget and actual information for the State Department indicated instances of budget under performance under various items, as detailed below:

Receipt/Expense Item	Budget (KSh.)	Actual (KSh.)	Difference (KSh.)	% of Utilization
Other Receipts	678,186,770	5,067,000	673,119,770	1%
Transfers to Other Government Units	43,614,834,826	27,482,449,643	16,132,385,183	63%
Social Security Benefits	17,578,234	0	17,578,234	0%
Acquisition of Assets	248,839,461	3,069,970	245,769,491	1%

The low budget utilization may have led to low implementation of planned activities and this may have had a negative impact on delivery of services to the public by the State Department.

691. Motor Vehicle Management

A review of the State Department's transport correspondences showed that motor vehicle registration No.KCH 683T, which was allocated to a former Cabinet Secretary, was not handed over to the Department when the officer was transferred to another State Department.

In addition, a review of the Ministry's vehicles ownership documents revealed that fifteen (15) vehicles had no ownership documents as detailed below:

S/No.	Vehicle No.	Make/Type
1	GK A198U	VW Passat
2	GK A999T	VW Passat
3	KBG 118C	Toyota Hilux D/Cabin
4	GK A921Q	Toyota Prado
5	KAU 096V	Nissan X-trail
6	GK A905G	Nissan Patrol
7	KAU 476L	Toyota Prado
8	GK A 087U	Nissan sunny saloon
9	GK A139L	Nissan Sanny
10	GK A187L	Nissan Urvan
11	GK A537L	Nisan x-trail
12	GK A440F	Nissan double cabin
13	GK A458K	Nissan X-trail
14	KAU 678P	Toyota Prado
15	GK A 141	Nissan Saloon

Further, 4 vehicles which previously belonged to Projects implemented under the State Department but reverted back to the State Department following completion and subsequent closure of the projects were still bearing private registration numbers and were yet to be changed to Government registration numbers as detailed below:

S/No.	Vehicle No.	Make/Type
1	KAU 476L	Toyota Prado
2	KBH 282Q	Toyota Prado
3	KBV 755T	Nissan Navara
4	KAH 438Z	Isuzu Trooper

Under the circumstances, it was not possible to confirm the ownership and that there was effective management of the Department's vehicles.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

692. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

693. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

UPPER TANA NATURAL RESOURCES MANAGEMENT PROJECT (UTaNRMP) IFAD LOAN NO. 1-867-KE AND SPANISH TRUST FUND LOAN NO.I-E-8-KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

695. Unremitted Funds

The statement of receipts and payments for the year ended 30 June 2018 reflected KSh.969,581,289 being total receipts for the year. Included in this amount was KSh.845,043,789 (note 8.4) being the loan from external development partners

consisting of KSh.601,848,419 equivalent to (USD 5,888,236) and KSh.243,195,371 (EURO1,987,512) received from IFAD and Spanish Food Security Trust Fund respectively.

However, the Project's special account statement from National Treasury reflected receipts from IFAD of KSh.602,118,418.96 (USD.5,888,235.04) and not KSh.601,848,419 (USD5,888,236) resulting in a difference of KSh.270,000. Records made available showed that the KSh.270,000 was released by the National Treasury to the Ministry of Water and Sanitation for onward transmission to the Project. Although, the Ministry confirmed receipt of the KSh.270,000, and the same had not been released to the Project as at 30 June 2018.

In the circumstances, the accuracy of the Project's total receipts of KSh.601,848,419 in the statement of Receipts and Payments for the year ended 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

696. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

697. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the International Fund for Agricultural Development (IFAD), I report based on my audit that;

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

COASTAL REGION WATER SECURITY AND CLIMATE RESILIENCE PROJECT (IDA CR. NO. 5543-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

699. Budgetary Absorption

The Statement of comparative Budget and Actual Amounts shows total approved budget of KSh.1,000,000,000 against actual expenditure of KSh.393,256,353 resulting in under absorption of KSh.606,143,647 representing 61% of the total approved budget. Further, in spite of the fact that three and half years of the project life had lapsed as at the time of the audit, the project had absorbed only KSh.640,029,400 out of the KSh.20 billion loan representing 3% of the total loan. In the circumstance, there is likelihood that the loan may not be fully utilized at the end of the project life.

700. Delayed Project Implementation

According to the project's progress reports and records reviewed, there were delays in the implementation of the projects, with some having delays of over one year, as detailed in the table below;

Contract Description	Contract Amount	Planned Contract Completion Date	Delays as at 1- Nov- 2018 (in days)
Consultancy Services for Physiographic Study of Mwache Watershed	USD 206,327	8-Apr-17	572
Social Impact Assessment of downstream impacts of lower Nzoia Irrigation Dev. Project & Mwache Dam project	KSh.28,988,400	15-May-18	170
Construction of rain water harvesting facilities and sanitation blocks for schools in Kwale County phase one	KSh.8,831,840	21-Oct-17	376

Although management explained that the delays arose from linkages and sequence of the studies as well as the rough terrain and roads within Kwale County the objectives of the project may not be achieved as a result of the delays.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

701. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

702. Internal Audit Review

According to paragraph 9.2 of the projects' financial management manual, the Ministry's internal auditor should perform annual internal audit review on the project funds. According to information obtained from the internal audit department, no such internal audit review was performed on the project's funds during the year under review. In the absence of internal audit reviews, it was not possible to confirm the effectiveness of internal controls, risk management and governance of the project.

LAKE VICTORIA WATER SUPPLY AND SANITATION PROGRAM-(PHASE II) PROJECT NO. P-KE-00-004(ADF GRANT NO.2100150019967)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

703. Pending Bills

The financial statements under Note 9.6 reflects pending bills amounting to KSh.96,665,853 as at 30 June 2018. However, the total undrawn balance as at 30 June 2018 is KSh.47,989,884. It was therefore not clear how the difference of KSh.48,675,969 would be funded as the project ends on 31 December 2018.

704. Special Accounts Statement

The special Accounts statements reflects USD 115,842 (KSh.11,694,250) as amount withdrawn and not yet claimed as at 30 June 2018 whose statement of expenditure returns had not been submitted to the National Treasury. Consequently, the propriety of the KSh.11,694,250 withdrawn and not claimed could not be confirmed.

705. Acquisition of Land

Included in payment of works of KSh.34,849,370 is an amount of KSh.1,650,000 in respect to purchase of land of which the project management had team entered into a contractual agreement on 19 December, 2017 with four (4) representatives of an estate of Rioba S/O Muniko situated within in Migori County at a contract cost of KSh.3,300,000 with the balance of KSh.1,650,000 being payable on completion of the succession process. However, the following anomalies were noted:

Copy of the original title deed, official search from the land commission and Valid land rates or land clearance certificate were not availed.

In the circumstance, the ownership, valuation, custody and safety of the land worth KSh.1,650,000 was paid in the year under review could not be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

706. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

707. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by African Development Fund and the financing agreement No.ADF Grant No.2100150019967, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Lake Victoria Water Service Board, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA GRANT/CREDIT NUMBER: IDA 5103-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

708. Acquisition of Non-Current Assets

Included in the statement of receipts and payments and as disclosed in Note 8.5 to the financial statements for the year ended 30 June 2018 is acquisition of non-current assets of KSh.124,435,338 paid by the Project. Included in this figure is purchase of office equipment amounting to KSh.68,613,628, for the supply, installation and maintenance of billing system for six Water Service Providers (WSPs) in Mombasa, Kwale, Kilifi, Malindi, Taita Taveta and Tana-River. The contract was awarded on 26 October 2016 at a contract sum of KSh.81,374,583.67 and delivery date was 26 February 2017.

However, the Board did not provide evidence of needs assessment or requisitions by the user water companies for audit review. In addition the contract period lapsed on 26 February 2017, no action had been taken to obtain an extension of the contract period.

Further, a review of the implementation status of the billing system in September 2018 revealed that Kwale water Company declined to be supplied with the system preferring to proceed with the procurement of their own billing system; Kilifi and Malindi water companies had procured the Suli system in 2016 and 2012 respectively. As a result, all the equipment supplied for the new billing system was lying idle in the two companies premises. For Tana River Water Company, the system was yet to be fully operational since the configurations were being done by the supplier.

Consequently, the propriety and value for money of office equipment of KSh.68,613,628 for the year ended 30 June 2018 could not be ascertained.

709. Drought Mitigation

The statement of receipts and payments for the year ended 30 June 2018 and as further described under Note 8.11 to the financial statements reflects drought mitigation expenditure amount to KSh.487,915,466. The amount includes expenditure of KSh.5,004,707 relating to rehabilitation of Bura Irrigation Scheme Water Supply. The rehabilitation work was awarded to a contractor at a contract sum of KSh.90,905,144.40 with a commencement date of 18 April 2016 for a period of 12 months up to 17 April 2017.

However, the contract was terminated on 30 November 2017 due to slow progress. The overall progress of project implementation as assessed by the consultant was 66.64% when the contract was terminated. A total amount of KSh.39,954,023.25 had been paid.

In an out of court settlement in September 2018 the contractor was paid KSh.11,972,181 of KSh.11,972,181 to withdraw the court case he had filed.

Consequently, the propriety and value for money of drought mitigation cost totaling KSh.39,954,023.25 paid up to the year ended 30 June 2018 and the out of court settlement payments of KSh.11,972,181 paid after the year end could not be confirmed.

Other Matter

710. Budgetary Controls and Performance

The Water and Sanitation Services Improvement Project (WaSSIP – AF) had a final budget of KSh.1,362,000,000 and actual expenditure of KSh.2,306,391,499 resulting to an overall over absorption of KSh.944,391,499 or 69 % .

The expenditure budget availed was not itemized and only one expenditure item under purchase of goods and works of KSh.1,362,000,00 was listed. Further, management do not prepare a detailed statement of comparative and actual amounts to capture the detailed budget items.

Consequently, it was not possible to compare detailed specific actual expenditure with the allocated budget per item.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

711. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

712. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA CR. NO.5103-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

713. Exclusion of Retention Money from Statement of Receipts and Payments

The statement of receipts and payments excludes retention money amounting to KSh.109,260,820 not reflected as part of payments to a deposit account pending release to relevant contractors for various projects once prescribed conditions are met. This has therefore led to understatement of payables while exposing the Project to the risk of not having these funds available whenever they fall due for payment to the contractors.

In the circumstances, it was not possible to ascertain completeness of the payments reported in the financial statements.

714. Accuracy, Presentation and Disclosure of the Financial Statements

The financial statements were not prepared in compliance with the guidelines and reporting template provided by the Public Sector Accounting Standards Board in the areas stated below:

Under the statement of receipts and payments there was no separate disclosure of loans and grants from development partners has recorded both grants and loans from external development partners as a block figure, failing to distinguish loan from grant for appropriate disclosure thus distorting the true position of the funding.

The annexures for pending bills, retention money and summary of fixed assets register were not attached to the financial statements neither was a description of receipts and payments utilization together with any challenges encountered made.

Further, the cumulative receipts reflected in the statement of receipts and payments amount to KSh.2,915,278,261 (inclusive of miscellaneous receipts) while the funding summary statement reflect KSh.3,130,426,998, resulting to a variance of KSh.215,148,737. A reconciliation provided for this variance indicate that an amount of KSh.301,062,017 was held in the designated account. However, no evidence was provided to support of the balance.

Also, the project financial statements reflected a total of KSh.577,421,000 received from IDA as disbursements towards implementation of the project. However, the special account statements reflected no withdrawal from the account during the year under review. No reconciliation was provided to explain the variation in the two sets of statements. In addition, Part 'B' of the special account statement reflected accumulative balance of USD 8,596,670.07 transferred to the local project bank accounts, but project management had not submitted expenditure returns to National Treasury as at 30 June 2018 as required in the financing agreement.

In the circumstances, it was not possible to ascertain the accuracy of the balances in the financial statements.

Other Matter

715. Project Implementation Status

As at 30 June 2018, the project had received 95% of the funding. However, the project indicating the implementation of the planned project activities was not provided.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

Various works for water supply projects were undertaken during the year under review. However, some of the projects as detailed below, were not implemented efficiently, effectively and in compliance with the Water Act, 2016; general conditions of contract in terms of specifications and drawings; Project Financing Agreement; the Public Finance Management Act, 2012 and the Public Finance Management Regulations (National Government) 2015.

716. Kishermuruak Water Project

Contrary to provisions of Section 5 of the Water Act, 2016, which requires that every water resource be vested in and held by the National Government in trust for the people of Kenya, the Rift Valley Water Services Board and the project accounting officer were yet to secure the site of Kishermuruak water resource. Even though a consent (deed of gift) was signed between the land owner and the Kishermuruak Community, the project manager had not followed up or acquired ownership of the site on which project is located. Further, item No.3.5.4 in the bills of quantities in regard to supply and installation of reverse osmosis treatment plant amounting to KSh.4,000,000 had not been implemented as at the time of audit, more than one and half years after the expiry of the expected completion date of 24 March 2017.

717. Kongelai & Kasepa Boreholes

Kongelai borehole was sunk to a depth of 140 meters deep and capped on 27 November 2014 with a tested yield of one (1) cubic meter per hour as indicated in the test pumping report. The borehole works were completed and handed over on 18 September 2017, about 3 years after sinking. However, the borehole completion report indicated that the yield rate of 1 cubic meters per hour was not achieved and instead the borehole returned a lower rate of 0.4 cubic meters per hour. The project management have attributed the reduction in rate to the long period taken before equipping the borehole casting doubt on the long-term viability of the borehole.

Similarly, Kasepa borehole was sunk to a depth of 120 meters and capped on 12 December 2014 with a tested yield of 3 cubic meters per hour as indicated in the test pumping report. However, during equipping, the depth of the borehole was noted to be 98m instead of 120m as indicated in the borehole completion report resulting to a variation of 22 meters. Further, the yield rate was found to be too low at 0.29 cubic meters per hour to allow any motorized pumping.

The variation between the test pumping reports and the boreholes completion reports means that there may have been inaccuracies in the test pumping analysis which may have resulted in the management of the project equipping boreholes which may not achieve the intended purpose and may result in loss of public funds if the boreholes do not meet the objective of supplying water to the intended users.

718. Liter Water Project

Liter Water Supply Project was undertaken within the compound of Liter Girls High School in Elgeyo Marakwet County. The drilling of the borehole, equipping and civil works were done during the year under review and prior financial years. As at the time of audit, all the structures as per the bills of quantities were complete. However, the water supply was not in use since the water was found to be too saline and unfit for human consumption as per the testimonies of the school administration who were the intended beneficiaries of the project.

In addition, it was noted that no public participation was undertaken before the identification, budgeting and implementation of the project as the school administration indicated that they would have preferred the development at another source preferably a water spring from where they get their current supply. The supervision and implementation of the project may have been poor as the salinity should have been detected at the time of test pumping before the equipping of the borehole begun which could have saved the project KSh.7,961,200 spent on equipping of the borehole.

719. Kapcherop Water Supply

Kapcherop water supply was undertaken at a contract price of KSh.114,586,833 with KSh.14,254,490 having been paid during the year under review and a final completion certificate issued on 6 June 2018. During an audit visit to the project site on 9 October 2018, it was observed that the project had not been operational for more than three months as a result of clogging of the intake caused by siltation around the intake area, which would have been avoided had a proper feasibility study of the location done and the project designs taken into account the risks of the topography of the site.

This view was corroborated by a technical audit report which reviewed the status of substantial completion on 19 October 2017 and noted that environmental and water quality issues were not taken into account during feasibility study, preliminary and detailed design and implementation process to ensure issues pertaining to water quality, health and safety were well captured and implemented. The report concluded that in its current state, the water project could not meet the intended purpose of provision of adequate, quality and affordable water as per the Board's mandate and community expectation. The contractor was subsequently discharged from site and issued with a final completion certificate on 6 June 2018 without having further evaluation of the project to ensure that the issues raised in the report had been addressed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

720. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM (ADB LOAN NO. 2000200000501)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

722. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

723. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

SUPPORT TO WATER AND SANITATION SERVICES IN PERI-URBAN AREAS PROJECT (LOAN NO. BMZ 2013.6543.6)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

725. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

726. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KISII WATER SUPPLY AND SANITATION PROJECT (PROJECT CREDIT NUMBER ORIO11/KE/21)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

727. Non Submission of Prior Years Financial Statements

The statement of receipts and payments for the year ended 30 June 2018 reflected prior year comparative figures totalling KSh.30,040,907 whose source was not disclosed. Further, comparative figures could not be confirmed because management had not prepared financial statements for the period ended 30 June 2017. Consequently, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be confirmed.

Other Matter

728. The Kisii Water Supply and Sanitation Project commenced on 3 February, 2014 after signing of the grant agreement between the Government of Netherlands and Government of Kenya. The Project was slated for completion in March 2018. However, the project was still at the formative stages due to unrest from the locals who were protesting against the project. The tension had subsided but any visit to the site by the workers or experts could only happen in the presence of security personnel raising doubt as to whether the project management undertook a public participation to ensure implementation of the project and achievement of its objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

729. Separate Project Budget

Contrary to the provisions of IPSAS 1.9.11, the Board did not prepare a separate budget for the project. Instead, it was consolidated with the board's budget. Consequently, the expenditure reflected in the statement of receipts and payments could not be traced to any financial budgetary planning.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

730. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the ORIO11, I report based on my audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by the Kisii Water Supply and Sanitation Project so far as appears from the examination of those records; and,
- iii. The Kisii Water Supply and Sanitation Project financial statements are in agreement with the accounting records and returns.

WATER AND SANITATION SERVICE IMPROVEMENT PROJECT (IDA CR. 5103-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

731. Variance Between Special Account Statement and Project Account

According to the Special Account Statement for the Project, USD 14,223,000 equivalent to KSh.1,438,327,560 was withdrawn from the account and transferred to the Project account. However, the project's statement of receipts and payments indicate that KSh.700,000,000 equivalent to USD 6,916,586 was received into the Project, resulting to an unexplained variance of USD 7,306,414 equivalent to KSh.738,327,560. Management has not explained/reconciled the variance between the two sets of records.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

732. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

733. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

TRILATERAL DEVELOPMENT COOPERATION IN KENYA, WATER AND SANITATION SECTOR PROJECT NO. BMZ 201365352

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

734. Non Submission of Previous Year Financial Statements

Financial statements for the years 2015/2016 and 2016/2017 were not prepared and presented for audit. However, the fund summary reflects donor commitment of KSh.35,353,521 as received in the prior years. Therefore, the opening balances for the year ended 30 June 2018 could not be confirmed as correct.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

735. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

736. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by (KfW) Development Bank, I report based on my audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by the Trilateral Development Cooperation in Kenya, Water and Sanitation Sector so far as appears from the examination of those records; and,

- iii. the Trilateral Development Cooperation in Kenya, Water and Sanitation Sector financial statements are in agreement with the accounting records and returns.

NAIROBI SANITATION OUTPUT BASED AID PROJECT (IDA CR NO.TF14251-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

737. Misleading Statement of Compliance and Basis of Preparation

Note 8.1. to the financial statements disclosed the financial statements were prepared, “in accordance with and complied with International Financial Reporting Standards (IFRS) with particular emphasis on accrual basis of financial reporting.” However, the financial statements prepared and submitted for audit do not comply with IFRS for the following reasons;

- (i) According to IFRS, International Accounting Standard (IAS) 1, a complete set of financial statements prepared under that reporting framework comprises, a statement of financial position, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows. The Project management has instead prepared and presented, the statement of financial assets and liabilities as at 30 June 2018, and the statement of income and expenditure, statement of cash flows and statement of comparative of budget and actual amounts for the year then ended.
- (ii) International Accounting Standard (IAS) 1 also requires that both current and non-current assets and liabilities, respectively be presented in the statement of financial position. However, property, plant and equipment; trade and other receivables; trade and other payables, inventories and long-term loans relating to the Project have not been presented in the statement of assets and liabilities as at 30 June 2018.
- (iii) In addition, contrary to the requirements of IAS 1 and accrual basis of accounting, the statement of changes in equity or net assets has not been prepared and presented.

738. Unexplained Variance

Although the special account shows that an amount of KSh.233,016,678 was withdrawn and transferred to the Project's Account, the financial statements reflect grant from the World Bank amounting to KSh.185,132,719 in the year 2017/2018. The resulting difference of KSh.47,883,959 has not been explained.

Other Matter

739. Under Funding of Project Activities

Although, financial planning records shows that the Project was to receive KSh.1,293,000,000, being World Bank commitment of KSh.693,000,000 and KSh.600,000,000 from Nairobi City Water and Sewerage Company Limited, the actual receipts were KSh.704,645,562 from both sources resulting in under-funding of KSh.588,354,447 or 46%.

740. Cost Escalation

Examination of Global Partnership on Output Based Aid (GPOBA) Restructuring Paper indicate that the Technical Design was revised resulting in project cost review from USD 12,930,000 to USD 13,799,330.

741. Extension of Time

Examination of records shows that the completion date of the project was extended from 26 February 2018 to 31 December 2018 due to delays in disbursement of funds and electioneering period.

742. Project Performance

Project total sewer and water connections as at 30 June 2018 stood at 11,414 against overall project targeted output of 15,051 which translate to an average of 76% completion rate as detailed below;

Connection	Target Output No	Unit Cost (KSh.)	Total Target Cost (KSh.)	Attained Output	Performance Difference No	% of Output Attained
Sewer Type A	4,871	54,573	265,825,083	2,709	2,162	57%
Sewer Type B	3,742	164,478	615,476,676	3,742	-	100%
Water	6,438	23,084	148,614,792	4,963	1,385	77%
Total	15,051		1,029,916,551	11,414	3,637	76%

Although 100% of the project duration had lapsed as at 30 June 2018, only 76% of the targeted output had been achieved, a clear indication that the project is behind schedule. It is, therefore, unlikely that the project's goals of increasing access to

sanitation and water services in the target areas will be achieved by the end of project period in December 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

743. Commercial Loan

As disclosed in note 8.3. to the financial statements, during the year ended 30 June 2018, the Project was co-financed and funded using a commercial loan amounting to KSh.213,865,433 negotiated by the Nairobi Sewerage and Water Company and issued by a local commercial bank. The Project as a result of the commercial loan incurred finance costs totalling KSh.48,936,811 in respect of interest charges, which is equivalent to about 23% of the principal amount. This is contrary to Article 201 (d) of the Constitution which, requires that public money be used in a prudent and responsible way.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

744. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NAIROBI WATER DISTRIBUTION NETWORK PROJECT (CR. NO. BMZ 2020.82.527/KV 26833)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

746. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

747. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NORTHERN COLLECTOR PHASE 1: ADDITIONAL REHABILITATION AND DEVELOPMENT OF THE NETWORK PROJECT (LOAN NO. CK 1074)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

749. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

750. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

SMALL TOWNS AND RURAL WATER SUPPLY AND SANITATION PROJECT (ADF LOAN No. 2100150021543)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

751. Accuracy of the Financial Statements

Note 7 to the financial statements for the year under review reflected a balance of KSh.46,769,836 as cash and cash equivalents which included KSh.45,793,763 relating to Tanathi Water Service Board (WSB) 10% retention balance. However, the respective bank confirmation certificate reflected a balance of KSh.43,472,182 resulting to an unreconciled variance of KSh.2,321,581.

Further, included in note 6 (B) to the financial statements was KSh.855,565,735 reflected as Yatta and Thwake dam water and sanitation projects Work in Progress (WIP) as at 30 June 2018 which has remained constant from the previous financial year. However, no explanation was availed as why the works remained dormant during the year which might have resulted in depreciation of the already completed works.

In addition, the financial statements submitted for audit review on 19 November 2018 reflected revenue receipts of KSh.(139,842,557) and KSh.(157,147,146) in respect to loans from African Development Bank (ADB) and Government of Kenya (GOK) Counterpart respectively. However, a subsequent set of revised financial statements submitted for audit review on 6 December 2018 reflected KSh.(128,899,169) and KSh.(11,126,481) for the loans from ADB and GOK Counterpart respectively resulting to a variance of KSh.10,943,388 and KSh.146,020,665 for the two items respectively. However, no journal records were availed for audit review to support this change in revenue receipts.

In the circumstances, the accuracy of the project's financial statements balances as at 30 June 2018 could not be ascertained.

752. Presentation of the Financial Statements

752.1 Incorrect Financial Statements

The financial statements submitted for audit review include a statement of receipts and payments with a total negative revenue of KSh.156,964,053 for the year and total expenditure of KSh.143,051,152. Further, the financial statements for the same period include a statement of financial performance with revenue of KSh.140,025,649 and expenditure of KSh.143,051,152. It is clear from the above that the Project Management has applied two accounting methods to prepare the financial statements which is contrary to generally accepted accounting principles and Public Sector Accounting Standards Board (PSASB) guidelines. The Project Management has failed to rectify the anomaly and as a result the financial statements are not in agreement with the prescribed accounting framework.

Further the financial statements reflect statement of receipts and expenditures and statement of budget and actual expenditure. However, the Public Sector Accounting Standards Board (PSASB) recommends that the two statement be referred to as statement of receipts and payments and statement of comparative budget and actual amounts respectively. The presentation is therefore not in accordance with the recommended framework.

In addition, note 1 to the financial statements has not clearly demonstrated if the accounting method adopted for preparation of these financial statements is International Public Sector Accounting Standards (IPSAS) (Accrual basis) or IPSAS (Cash Basis). The basis for preparation of the financial statements should be clearly disclosed in the accounting policy. As a result, the Management has adopted two accounting frameworks of IPSAS into one.

752.2 Incorrect Project Title

The financial statements for the year under review reflect Tanathi Water Services Board ADFB Funded Project instead of the name reflected in the financing agreement of Small Towns and Rural Water Supply and Sanitation Project.

753. Property Plant and Equipment

The financial statements under note 6(a), reflected the property, plant and equipment at a net book value of KSh.4,366,957,648 which comprised of motor vehicles at nil book value, plant and machinery at KSh.86,528,450 and water supply infrastructure at KSh.4,280,429,198. However, the motor vehicle, an exhaustor KBR 886U which had been fully depreciated to nil book value was still in use at Machakos Water Supply and Sanitation Company as at the date of the audit in October 2018 an indication that the vehicle was still in operation and ought to have been subjected to a revaluation in line with paragraph 67 of IPSAS 17.

In the circumstances, it has not been possible to ascertain that the property, plant and equipment net book value of KSh.4,366,957,648 reflected in the statement of financial position as at 30 June 2018 is fairly stated.

754. Long Outstanding Debtors

During the year under review, the project had a debtors and prepayments balance of KSh.101,000,000. These were funds paid to the National Land Commission for compensation for the 124 acres of land for Yatta dam in Machakos County whose acquisition started in 2011. The payments were based on a letter reference NLC/V&T/GEN/97 dated 13 June 2016 where the chairman of the National Land Commission requested the Cabinet Secretary in the Ministry of Water and Irrigation to deposit the funds under the Land Compensation Fund as articulated in Sections 153 and 120(2) of the Land Act 2012. As a result KSh.101,000,000 was transferred to National Land Commission by the Tanathi Water Services Board on 28 June 2016 via Kenya Commercial Bank (KCB) bank, Kitui branch. However, although the funds were confirmed as having been received by the National Land Commission as at the time of this audit, in October 2018, no documents were made available to show that the resettlement action plan had been implemented and compensation made to the affected persons in line with Section 5.02 (i) of the loan agreement between the Republic of Kenya and Africa Development Fund (ADF) dated 5 April 2010.

In the circumstances, it was not possible to ascertain whether the KSh.101,000,000 was expended as appropriated as it remained unaccounted for as at 30 June 2018.

755. African Development Bank (ADB) Loan Receipts

The ADB loan budget in the programme budget at page 22 of the financial statements reflected budgeted receipts of KSh.4,569,860,000 and cumulative actual receipts of KSh.5,070,066,333 resulting in a variance KSh.500,206,333. However, the budgeted and actual receipts ought to have been similar as the lender has remitted all funding and closed the project. Although, the KSh.500,206,333 variance was indicated as having resulted from a Kenya currency exchange loss, documents availed to show how the exchange loss was computed were based on KSh.5,198,965,502 as the opening ADB loan amount instead of the KSh.5,209,908,890 balance reflected in the audited financial statements of 2016/2017 resulting in an unexplained variance of KSh.10,943,388.

Further, the statement of receipts and expenditure for the year ended 30 June 2018 reflected an unexplained amount of KSh.128,899,169 referred to as exchange whose source and composition could not be ascertained.

In the circumstances, the accuracy of the KSh.5,070,066,333 cumulative ADB receipts in the statement of receipts and expenditure for the year ended 30 June 2018 could not be ascertained.

756. Outstanding Government of Kenya (GOK) Counterpart Contributions

The Project is financed through Tanathi Water Services Board by a loan from ADB of UA 70,000,000 (Seventy Millions Units of Account) to the GOK which was to be shared with Lake Victoria South Water Services Board (LVSWSB). The GOK was obligated to enter into Subsidiary loan agreements with these water services board providing for on- lending the portion of the loan proceeds to each of the Water Services Boards for the implementation of the water and sanitation facilities in towns under the Projects.

Consequently, the GOK entered into a Subsidiary Loan Agreement with Tanathi Water Services Board (TAWSB) on 10 September 2010 for UA 34,732,926 (Thirty-Four Million Seven Thirty-Two Thousand Nine Hundred Twenty-Six Units of Accounts) translating to USD53,913,490 (equivalent to KSh.4,381,549,332) at an exchange rate of UA to USD1.55223 which was to close on 31 December 2014. However, the project was closed on 31 December 2016 after National Treasury requested for the extension.

The statement of budget and actual expenditure for the period ended 30 June 2018 did not reflect any loan disbursement from ADB since the project was closed in December 2016 when the cumulative ADB loan was KSh.5,070,066,333 and the Cumulative GOK contribution was KSh.953,811,588. There was no breakdown on how the initial loan of USD53,913,490 (equivalent to KSh.4,381,549,332) was translated to these ADB and GOK cumulative loans.

Further, although the project was closed on 31 December 2016, the Programme Budget for the period ended 30 June 2018 indicated that the GOK had unremitted balance of KSh.224,368,412 as at 30 June 2018 and no documents were made available to show when these funds would be disbursed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

757. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

758. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Fund, I report based on my audit that;

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records.
- iii. The project's financial statements are not in agreement with the accounting records and returns.

STATE DEPARTMENT FOR IRRIGATION VOTE 1104

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

759. Understatement of Receipts

The statement of receipts and payments for the year ended 30 June 2018 reflects an amount of KSh.244,838,105 in respect of proceeds from sale of assets. As disclosed under Note 4 to the financial statements, this amount relates to proceeds from sale of certified seeds and breeding stock by the National Irrigation Board (N.I.B.). However, the financial statements of the National Irrigation Board reflected related sales of KSh.282,567,355 during the year, resulting in unexplained variance of KSh.37,729,250 which was not included in the proceeds from sale of assets.

In addition, an amount of KSh.83,371,438 received by the National Irrigation Board from operations and other maintenance fees charged to farmers was not included in the receipts reflected in the statement of receipts and payments for the year ended 30 June 2018.

760. Grants and Transfers to Other Government Entities

The statement of receipts and payments for the year ended 30 June 2018 reflects payments totalling KSh.5,122,674,936 under grants and transfers to other Government entities. As disclosed in Note 7 to the financial statements, the payments include an amount of KSh.4,530,782,834 transferred to National Irrigation Board (N.I.B.) for recurrent expenditure and various development projects and schemes National Irrigation Board.

However, the financial statements of the National Irrigation Board reflect total receipts of KSh.4,511,537,309 from the State Department for Irrigation in the 2017/2018 financial year, resulting in an unexplained variance of KSh.19,245,525 between the two sets of records.

761. Construction and Civil Works

761.1 Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June 2018 reflects expenditure of KSh.5,187,675,452 on acquisition of assets and as disclosed in Note 8 to the financial statements include an amount of KSh.5,184,704,489 relating to construction and civil works. The expenditure on construction and civil works further includes payments totalling KSh.4,975,394,355 as captured in the IFMIS Appropriation Account Item 3110500 in respect of Thwake Multi-Purpose Water Development Program Phase I Project. However, the Project's financial statements for the year ended 30 June 2018 reflects receipts of KSh.4,926,717,779. Although

the resultant difference of KSh.48,676,576 was attributed to payments of GOK Counterpart funds not reflected in the financial statements of which an amount of KSh.26,915,000 was related to the expenditure incurred on the aborted launch of the Thwake Multi-Purpose Dam Project. Payment vouchers and supporting documentation for the balance of KSh.21,761,576 were not provided for audit review.

As a result, the validity and propriety of the expenditure of KSh.21,761,576 could not be confirmed.

761.2 Wasteful Expenditure Incurred on Aborted Launching of Thwake Multi-Purpose Development Project

The expenditure incurred on the aborted launching of Thwake Multi-Purpose Development Project of KSh.26,915,000 comprised payments relating to procurement of branded caps and tops, polo shirts, men's shirts and corporate uniform. The Project was to be launched in 2017/2018 financial year, but as at the date of this report, it had not been launched. A visit to the stores in December 2018 revealed that the procured items were still lying in the store and had not been issued. The expenditure of KSh.26,915,000 was, therefore, wasteful and could have been avoided.

762. Cash and Cash Equivalents

The statement of assets and liabilities reflects total cash and cash equivalents of KSh.88,317,851, as at 30 June 2018. As disclosed under Note 9A to the financial statements, the amount comprises balances of KSh.1,371,850, KSh.1,410,421 and KSh.85,535,580 held at the Central Bank of Kenya and relates to recurrent, development and deposit cash book balances respectively. Examination of individual cash books and bank reconciliation statements revealed the following matters:

762.1 Recurrent Bank Account

The recurrent bank certificate as at 30 June 2018 reflected an amount of KSh.52,002,266. However, the reconciling items were not explained and therefore their authenticity could not be ascertained.

Further, the recurrent bank reconciliation statement as at 30 June 2018 reflected long outstanding reconciling items which had not been recorded in the cash book and some of which related to exchequer issues from the National Treasury.

In addition, some of the reconciling items relating to receipts in the cash book not in the bank statements were explained as underpayments in the cash book not recorded in the bank.

In the circumstances, the completeness and accuracy of the recurrent cash book balance of KSh.1,371,850 as at 30 June 2018 could not be confirmed.

762.2 Development Bank Account

The development bank reconciliation statement as at 30 June 2018 reflected payments totalling KSh.1,485,808,890 in the cash book and not yet captured in the bank statement. The amount included KSh.74,754,086 payables to Kenya Revenue Authority as Value Added Tax and withholding taxes. Out of the balance owing to KRA, an amount of KSh.2,627,668 was outstanding for more than six months. In addition, an amount of KSh.2,509,772 in the reconciliation had simply been described as transfers, and consequently its validity could not be confirmed.

Further, the development bank account reconciliation statement further reflected payments totalling KSh.2,314,343 in the bank statements that had not yet been recorded in the cash book. The amounts, which were payments to staff members did not have respective reference numbers.

762.3 Deposits Bank Account

The bank reconciliation statement as at 30 June 2018 for the deposits bank account reflected a cash book balance of KSh.58,029,900, while the bank certificate reflected a balance of KSh.85,535,580, resulting in a difference of KSh.27,505,680.

In addition, the bank reconciliation statement reflected receipts of KSh.5,616,639 in the cash book that had not yet been recorded in the bank statement. The reconciling items had been outstanding for a long time, without any justifiable reason.

763. Accounts Payable – Deposits

The statement of assets and liabilities as at 30 June 2018 reflects accounts payables – deposits balance of KSh.85,535,580. However, Deposits totalling KSh.85,535,580 as disclosed in note 11 to the financial statements were supported with schedules amounting KSh.49,628,676 only and thus, resulting in an unexplained variance of KSh.35,906,904.

In the circumstances, the completeness and accuracy of the accounts payables - deposits balance of KSh.85,580,535 as at 30 June 2018 could not be confirmed.

764. Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2018 reflects an amount of KSh.631,351,573 in respect of fund balance brought forward and prior year adjustments of a similar amount. As disclosed in Notes 12 and 13 to the financial statements, the amounts relate to cash and cash equivalent balances brought forward from the previous year, which were reversed during the year under review. Although the amounts were attributed by the management to settlement of outstanding retention monies to the then existing contractors and amounts surrendered to the National Treasury upon the year end, no documentary evidence was provided to support the assertion.

Consequently, the validity of the transactions and prior year adjustments could not be confirmed.

765. Outstanding Imprests

The statement of assets and liabilities reflects a balance of KSh.1,078,411 under account receivables – outstanding imprests and clearance accounts as at 30 June 2018, which as disclosed in Note 10 to the financial statements relate to outstanding imprests. However, the outstanding imprests balance of KSh.1,078,411 was not supported with a schedule. Consequently, the completeness and accuracy of the outstanding imprests balance of KSh.1,078,411 could not be ascertained.

In addition, the State Department for Irrigation kept parallel records of imprests namely, manual imprests register and the IFMIS records. However, it was observed that the two registers were not being reconciled. A review of a sample of imprests amounting to KSh.9,764,875, recorded in the manual imprest register revealed that the amounts had been surrendered whereas the IFMIS records indicated that the imprests against the same individuals and totalling KSh.9,764,875 had not been surrendered. Further, an amount of KSh.5,571,340 had been captured in the manual register as outstanding but appeared as surrendered in the IFMIS records.

766. Summary of Fixed Assets Register

766.1 Failure to Record Assets

The statement of receipts and payments reflects an amount of KSh.5,187,675,452 under acquisition of assets and as disclosed in Note 8 to the financial statements includes an amount of KSh.68,000 spent on acquisition of ICT equipment, software and other ICT assets. This amount does not however, include an amount of KSh.1,804,000 incurred in the procurement of AutoCAD software. No explanation was given for failure to include the amount in the assets register and the financial statements.

766.2 Failure to Maintain a Complete Assets Register

As disclosed under Annex 4 to the financial statements, the State Department had assets with a historical cost value of KSh.6,221,276,816 as at 30 June 2018 including additions of KSh.5,187,675,452 in 2017/2018 financial year. However, a review of the assets register provided for audit verification indicated that the register was not completely updated with details such as the nature of asset, acquisition date, cost, serial/title number and location, and hence it was not possible to ascertain from the register the total acquisition cost for each class of assets and legal status.

Consequently, the completeness and accuracy of the summary of fixed assets register could not be confirmed.

Other Matter

767. Procurement of Construction and Civil Works-Small Dams and Water pans

In the report for 2016/2017, it was stated that the State Department had spent a sum of KSh.1,033,601,364 on acquisition of assets. Included in the amount was KSh.865,301,290 spent on the construction of small dams and water pans. However, the State Department did not provide an inventory of all the water pans and small dams indicating their physical location, the Contractor, when they were constructed and their status. There were also 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 and there was no evidence of individual evaluation score sheets of each contract for both technical and financial evaluation.

Further, there was no 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.

Consequently, it was not possible to confirm the propriety and value for money of the expenditure of KSh.865,301,290 for the year ended 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

768. Poor Record Keeping of Imprests

It was observed that officers in the State Department of Irrigation applied for imprest for field visits and inspections. Although these imprests could be traced to the IFMIS records and therefore had been approved for issuance for specific tasks, the following weaknesses were observed:

- (i) The Imprests Register was not up to date and thus could not be relied upon. Some imprests were also surrendered without the original approval documents.
- (ii) Some officers had been issued with more than one temporary imprests contrary to Regulation 93(4)(b) of the Public Finance Management (National Government) Regulations, 2015.
- (iii) Some officers had been issued with imprests on behalf of others.

- (iv) Imprests surrenders were not being supported with original request documents, which meant that imprest request documents could be used more than once.
- (v) The imprests surrenders were not supported with field inspection reports and findings.
- (vi) The imprest register would reflect some imprests as outstanding and others as surrendered while the opposite was actually true.
- (vii) Some imprest surrenders would be partially supported.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

769. Ineffective Audit Committee

The State Department for Irrigation constituted an audit committee during the year under review. However, the committee did not convene or hold regular meetings during the year contrary to the requirements under Regulation 179 of the Public Finance Management (National Government) Regulations, 2015.

DONOR FUNDED PROJECTS

SMALL-SCALE IRRIGATION AND VALUE ADDITION PROJECT (ID No. P-KE-AAZ-009: ADF LOAN NO. 2000130014530 & GRANT NO. 5570155000751)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

770. Differences Between Receipts as Per the Special Account Statements and Receipts as Per the Statement of Receipts and Payments

The statement of receipts and payments reflects receipts totalling KSh.66,218,300, made up of both foreign grants KSh.36,437,100 and loan from external development

partners amounting to KSh.29,781,200. However, the special account statements reflect amounts of KSh.9,781,200 (US \$95,000) grant and KSh.74,869,730.44 (US\$741,445.81) loan as having been withdrawn from the special accounts. No reconciliation or explanation has been provided for the difference of KSh.18,432,630.44 between the two sets of records. Consequently, the completeness and accuracy of the receipts disclosed in these financial statements cannot be ascertained.

771. Payment to a Consultant Without Deducting Retention Fee

The statement of receipts and payments reflects an amount of KSh.290,267,071 in respect of loan from external development partners that was paid directly for the acquisition of non-financial assets. Out of the total expenditure of KSh.290,267,071, an amount of KSh.102,501,613.60 was paid to consultants. Included in the amounts paid to consultants was an amount of KSh.19,285,590 paid to one consultant without deducting 5% retention fee of KSh.964,280.

No explanation has been given for the above omission.

772. Outstanding Imprests

The statement of financial assets as at 30 June 2018 shows imprests amounting to KSh.3,763,700 which ought to have been recovered or accounted for on or before 30 June 2018 but were still outstanding as at 30 June 2018.

No reason has been given for non-surrender of the same.

773. Unsupported Cash and Cash Equivalents

The statement of financial assets reflects a bank balance of KSh.50,018,319.95 as at 30 June 2018. Bank reconciliation statements and supporting documentation for the year ended 30 June 2018 and bank confirmation certificate as at that date were not however provided for audit verification. In the circumstance, the validity of cash and cash equivalent could not be ascertained.

774. Inaccuracies in the Financial Statements

The statement of receipts and payments, statement of financial assets and statement of cash flows for the year ended 30 June 2018 reflects some material differences between the amounts and balances reflected in the audited financial statements for 2016/2017 and the comparative amounts and balances shown in the financial statements for 2017/2018 as detailed below:

774.1 Fund Balance Brought Forward

The statement of financial assets as at 30 June 2018 reflects an amount of KSh.17,174,893 (cash balance 13,240,192 and outstanding imprests 3,754,700) which differs with the amount of KSh.117,985,356 reflected under comparatives (2016/2017) as net financial position brought forward by KSh.100,810,463. The

difference has not been reconciled or explained. Consequently, the accuracy of the amount of fund balance brought forward cannot be ascertained.

Further, no explanatory notes for the adjustments of prior year figures and balances have been given in the notes to the financial statements for the year ended 30 June 2018. Consequently, the validity of the adjustments of the comparative figures and balances cannot be confirmed.

774.2 Differences Between the Ministry's Ledger and the Project's Ledger

A review of the ledger record maintained by the Ministry of Agriculture, Livestock, Fisheries & Irrigation - State Department of Agriculture relating to the Small-Scale Irrigation and Value Addition Project (SIVAP) shows total expenditure of KSh.47,267,004 which, however, differs with the figure of KSh.33,374,873 recorded in the books of SIVAP as payments controlled by the Project. The resultant difference of KSh.13,892,131 has not been explained or reconciled.

774.3 Statement of Comparative Budget and Actual Amounts

The statement of receipts and payments for the year ended 30 June 2018 reflects actual total receipts and expenditure of KSh.356,485,371.56 and KSh.319,878,245 respectively, however the statement of comparative budget and actual amounts reflects nil amounts against transfer from Government Entities and Compensation of Employees. Further the statement of receipts and payments show KSh.28,417,173 while the statement of comparative budget and actual amount show actual expenditure of KSh.33,780,576. In the circumstance, accuracy of the statement could not be confirmed.

774.4 Cumulative Receipts

The statement of receipts and payments reflects cumulative receipts totalling KSh.573,161,297.86, while the funding summary, as described under Note 1.7. on Project Information and Overall Performance reflects an amount of KSh.533,058,574 resulting in a difference of KSh.40,102,723.86 between the two sets of records. No explanation or reconciliation has been provided for the difference.

775. Failure to Provide Accounting and Other records

The Project management did not provide an approved budget, Cash books, reconciliation, bank certificates and trial balance as requested by the audit team for 2017/2018 and prior year's for review and audit verification:

In the circumstance, it has not been possible to verify the extent to which the Project complied with budgetary and financial controls requirements.

776. Non-disclosure of Pending bills

Pending bills totaling KSh.1,080,000 had not been disclosed.

777. Misclassification of Assets

The statement of receipts and payments reflects expenditure totalling KSh.28,417,173 under purchase of goods and services, which includes an amount of KSh.1,194,000 incurred to acquire 10 No. laptops and 18 laptop bags. However, the purchase of laptops and laptop bags was erroneously classified under purchase of goods and services: routine maintenance- vehicles and other transport equipment instead of purchase of computers, printers and other IT equipment under acquisition of non-financial assets.

778. Lack of Fixed Assets Register

The Project did not maintain a fixed asset register to record details of its assets as should be the case. This is contrary to regulation 143 (1) of the Public Finance Management Act -National Government Regulations 2015, which requires the accounting officer to maintain a register of assets under his or her control or possession as prescribed by the relevant laws. In addition, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the summary of fixed asset register- Annex 3 attached to the financial statements was not duly completed. In the circumstances, the existence, location and value of the Project's non-current assets cannot be confirmed.

Other Matter

779. Delay in Completion of Various Irrigation Schemes

A review of various Project records and field inspections of five irrigation schemes revealed delay in execution of the schemes and a possible delay in both completion and in attaining the purposes of the Project. The five irrigation schemes inspected are spread in three Counties of Murang'a, Tharaka Nithi and Bomet.

Records available indicates that the Project management had entered into a one-year contract with various contractors for the five irrigation schemes. Although the contractual period had lapsed, most of the contractors had hardly done 50% of the work. It was noted that all the contractors sought extension periods of between three to six months'. Although the extensions have been granted, it is apparent that most of them may not complete the works even after the extensions thus casting doubt on their capacity to execute the contracts.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

780. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

781. Lack of Project Risk Register

The Project did not have a risk management framework, a project risk register or a risk management plan during the year under review. Consequently, the risks facing the Project were not identified, discussed, mitigated and documented. This is contrary to regulation 165 (1) of the Public Finance Management Regulations - National Government 2015, which requires the accounting officer to ensure that the national government entity develops:

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Fund, I report based on the audit that:

- i. The Project funds have been used in accordance with the conditions of Loan Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided;
- ii. Counterpart funds have been provided and used in accordance with the conditions of the Loan Agreement;
- iii. Goods and services financed have been procured in accordance with the Loan Agreement and the Funds' rules and procedures;
- iv. Necessary supporting documents, records and accounts have not been kept in respect of all Project activities;
- v. Adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets do not exist; and
- vi. Ledgers and fixed assets register for the Project's assets are not maintained as required.

THWAKE MULTI-PURPOSE WATER DEVELOPMENT PROGRAM PHASE I (PROJECT ID P-KE-E00-008: ADF LOAN No. 2100150029993 & GRANT No. 2100155025973]

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

782. Authority to Incur Expenditure

The Authority to Incur Expenditure (AIE) holder for project in the year under review was not part of the program management and as such there was limited control by the Program Coordinator of the expenditure totalling KSh.1,525,427,532 charged to the program under Government of Kenya counter part fund payments.

783. Unsupported Expenditure

The National Treasury's State Department of Irrigation IFMIS Appropriation Account Item 3110500 - Construction and Civil Works Thwake Multi-Purpose Water Development Program Phase I reflects payments totalling KSh.4,975,394,355, which differs with the receipts of KSh.4,939,830,867 recorded in the financial statements. The resultant difference of KSh.35,563,488 has not been supported by any documentation.

784. Pending Accounts Payable – Unremitted Tax

The financial statements reflects pending accounts payables amounting to KSh.18,197,208 as at 30 June 2018. Included in the pending accounts payables was an amount of KSh.5,146,125 owed to Kenya Revenue Authority which had accumulated since 2015/2016.

However, interest and penalties on the balance were not included or disclosed in these financial statements. In the circumstances, the pending accounts payable balance may not be fairly stated.

Further, the Program is likely to incur extra cost on penalty for the unpaid. No explanation has been provided for non-remittance of the taxes due to Kenya Revenue Authority.

Other Matter

785. Project Affected Persons Compensation

The Project catalogue register of Project Affected Persons(PAPS) prepared by National Land Commission(NLC) indicates there was a total number of 1,792 PAPS to be compensated. During the year under review, payments totalling

KSh.1,399,748,901 were made to National Land Commission for onward transmission to 1,606 Project Affected Persons. However, out of the 1,606 Project Affected Persons, 77 Project Affected Persons who were expected to be paid an amount of KSh.139,000,000 have not been compensated by National Land Commission. Further, full details of the remaining 186 Project Affected Persons with a compensation amount of KSh.676,000,000 have not been released by State department of Irrigation to National Land Commission. No explanation has been provided for the delay in release of the money to National Land Commission. A site visit revealed that some PAPs had not moved from the project site yet this should be a protected area. In the circumstances, non-remittance of Money to PAPs may affect timely implementation of the project, and issues of squatters may arise if PAPs do not relocate after compensation.

786. Funding and Continuity of the Program

Phase one of the project, which involves construction of the dam and associated structures, is currently under implementation. Preparation of detailed design review and procurement of a contractor have already been done and concluded. The Dam project has acquired 9,158 acres of land affecting 1,792 households in Makueni and Kitui Counties in Lower Eastern Kenya.

Although African Development Fund and Government of Kenya funding for the first phase of KSh.42.365 billion has been approved, the remainder of the phases with a budget of KSh.39.845 billion is yet to be financed or planned for. The State Department is yet to negotiate or look for financiers for the remaining phases. Consequently, it is not clear how the other phases will be financed to completion.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

787. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

788. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Fund I confirm that:

- i. The Program funds have been used in accordance with the conditions of Loan Agreement and Protocol of Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided;
- ii. Counterpart funds have been provided and used in accordance with the conditions of the Loan Agreement and protocol of Agreement;
- iii. Goods and services financed have been procured in accordance with the Loan Agreement, Protocol of Agreement and the Fund's rules and procedures;
- iv. Necessary supporting documents, records and accounts have been kept in respect of all Program activities;
- v. Adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets exist; and
- vi. Ledgers and fixed assets register for the Program's assets are maintained as required.

STATE DEPARTMENT FOR ENVIRONMENT VOTE 1105

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

789. Accuracy, Completeness and Presentation of Financial Statements

789.1 Comparative Figures

As previously reported, the financial statements of the State Department as at 30 June 2017 and 2018 reflected comparative figures that mirrored the closing balances of the defunct Ministry of Environment and Natural Resources. However, there was a separation in the financial year 2016/2017 separating the State Department of Natural Resources from the State Department of Environment. The effect and impact of the separation of the Ministry has not been considered in the comparative figures. Further, the comparative figures in the financial statements do not agree with the comparative balances of the audited financial statements.

789.2 Unsupported Prior Year Adjustment

As previously reported, included in the financial statements under note 15 in 2016/17 financial year (and note 26 in the year under review) is an amount of KSh.146,183,034 and KSh.8,397,829 respectively described as prior year adjustments on receivables and bank account balances which have not been explained or supported. The adjustments could therefore not be verified as no information was provided for audit review.

In view of the foregoing, it was not possible to confirm the accuracy and completeness of the financial statements for the year ended 30 June 2018.

790. Fixed Assets

790.1 Fixed Assets Register

During the year under review, assets worth KSh.577,379,181 were acquired. However, a summary of fixed assets register was neither annexed to the financial statements nor provided for audit review yet the State Department had various assets including land and buildings across the country as well as vehicles and other equipment of undetermined value. In addition, the fixed assets inherited by the State Department from the defunct Ministry of Environment and Natural Resources were not disclosed in the financial statements.

In the absence of a fixed assets register, it has not been possible to confirm the accuracy of the fixed assets balance of KSh.577,379,181 and that fixed assets of the State Department are properly safeguarded.

790.2 Loss of Government Vehicle

As previously reported, the State Department's vehicle valued at KSh.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 regulations on reporting of stolen vehicles were not followed while reporting the matter in the Ministry. Management had not initiated any measures to recover the loss of KSh.5,460,000 from the responsible parties as at the date of this report.

791. Outstanding Imprest Understatement

Management did not explain how District Suspense of KSh.5,680,515 in the financial statements for the prior year was cleared during the year under review.

In the circumstances, it was not possible to confirm whether the accounts receivables balance of KSh.1,115,326 as at 30 June 2018 was fairly stated.

792. Pending bills

The pending bills amounting to KSh.1,088,900,069 chargeable to both recurrent and development votes for the State Department as at 30 June 2018 were not paid in the year under review but were instead carried forward to 2018/2019. Had those bills been paid and expenditure charged, the statement of receipt and payments would have reflected a deficit of KSh.1,087,825,452. Failure to settle the 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.

793. Irregular Procurement and Payment - Construction of Embu County Office

Kenya Meteorological Department engaged a local firm to construct a model county office in Embu in 2009 through requests for quotations method of procurement contrary to the provisions of the Public Procurement and Disposal Act, 2015. Further, the contract signed between the two parties was not provided for audit review. In addition, available information indicated that the contract sum of KSh.11,532,396 was irregularly varied upwards to KSh.14,548,499. As at the date of this report in March 2019, the project had stalled casting doubt as to whether the payments were a proper charge to public funds.

Emphasis on Matter

794. Budget Analysis

794.1 Exchequer Releases and Revenue Shortfall

During the year under review, the State Department received exchequer amounting to KSh.4,209,800,166 while the approved budget was KSh.4,651,564,886 resulting to a shortfall of KSh.441,764,720. Further, the State Department had budgeted to receive KSh.3,750,000 from the sale of assets whose actual receipt was KSh.1,750,000 resulting to a shortfall of KSh.2,000,000.

794.2 Expenditure Budget Analysis

During the year under review, the State Department had a low absorption of the approved budget on the following items:

Expenditure Item	Approved Budget KSh.	Actual Expenditure KSh.	Under Expenditure KSh.
Use of goods and Services	581,189,895	434,650,661	146,539,234
Transfers to Other Government Units	2,389,711,960	2,135,837,390	253,874,570
Other Grants and Transfers	43,905,040	28,534,691	15,370,349
Acquisition of Assets	631,467,991	577,379,181	54,088,810
Total	3,646,274,886	3,176,401,923	469,872,963

In view of the foregoing, the State Department did not achieve its planned and budgeted activities and its objectives for the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

795. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

796. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

KENYA WATER TOWERS AGENCY PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

797. Cost of Seedlings, Seeds and Tree Planting

Included in purchase of goods and services under note 8.6 of KSh.49,219,409 is an amount of KSh.9,293,615 and KSh.5,452,635 for the cost of seeds, seedlings and planting costs respectively. Verification done during field inspection in the month of November 2018, revealed that although tree seedlings could have been planted, most of them were covered by other vegetation's making their survival doubtful. Further, some tree seedlings had dried up, and others were destroyed by either wild or domestic animals and contrary to the financing agreement requirement, casuals were not situated along the forest sites to maintain the seedlings planted.

In addition, the project implementation document required spot weeding and creeper/climbers cutting to minimize competition with the other vegetation done by way of hiring casual labour to conduct this activity.

Further, protection of the planted seedling was to be done either by fencing or policing of the planted area. The community through community scouts hired as casuals and paid for by the project were to police the planted sites to ensure that the planted area was protected against grazing (wild and domestic animals) or other detrimental actions that would affect the growth of the planted seedlings.

Additionally, replanting of dead seedling to ensure the final percentage survival was beyond 70% was to follow six months after the initial planting. The project was to avail the necessary funds to undertake this activity during the second-year work plan.

The above activities were not done due to lack of funds resulting in poor survival rate of the planted seedlings.

In the circumstances, the sustainability/maintenance of the trees planted was not secured and the stakeholders and the donors may not obtain value for money from the KSh.14,746,250 incurred.

798. Outstanding Imprest

Statement of financial assets as at 30 June 2018 shows outstanding imprest and advances of KSh.8,050,667 which ought to have been surrendered on or before 30 June 2018. Of this outstanding amount, Kenya Water Towers Agency holds KSh.5,491,916. No explanation was provided for the delay in accounting for the imprests by the project partners and ecosystem conservators to account for the imprests. The delay has a negative impact on Project implementation and achievements and the Project management is in breach of Section 71(2) of the Public Finance Management Act, 2012.

Emphasis of Matter

799. Material Uncertainty Related to Sustainability of Services

During the year under review, the Kenya Water Towers Project was suspended by the donor European Union citing violation of forests' people rights by Kenya Forest Service while implementing the project in one of the Kenya Water Towers. As the Project was being implemented in the Mau, the Ogiek community living in Mau Forest took the Republic of Kenya to the African Court on Human and Peoples' Rights claiming that they were being forcefully evicted from their ancestral land, the Mau Forest. The judgement of this case was delivered in the month of May 2017 where the Court found that Kenya had violated 7 provisions of the African Charter on Human and Peoples' Rights by evicting the Ogiek from the Mau Forest. In addition, the United Nation Committee on the Elimination of Racial Discrimination, expressed its' concerns about reports on the eviction in Embobut Forest. The committee called on Kenya to acknowledge the rights of the Sengwer, the Endorois, Ogiek and all other indigenous peoples.

It was concluded that Kenya ought to carry out effective consultations between relevant parties and communities likely to be affected by the Project with a view to obtaining free, prior and informed consent of indigenous communities before implementing future projects a material uncertainty exists with regard to sustainability of services as no funding has been forthcoming since then and the implementation of the project to its conclusion is doubtful.

Further, continued habitation of the communities in the affected forest may adversely affect the ecosystem and projected value for money may not be realized by the earmarked communities.

Other Matter

800. Pending Bills

Annex 2 relates to pending bills (accounts payables) of KSh.1,145,110 for the year ended 30 June 2018 and which had not been paid at the close of the year. The pending bills relates to payment due to suppliers and others staff payables.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

801. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

802. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

SOUND CHEMICALS MANAGEMENT MAINSTREAMING AND UPOPs REDUCTION IN KENYA PROJECT (GRANT NO. 99820)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

804. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

805. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

807. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

808. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

SYSTEM FOR LAND BASED EMISSIONS ESTIMATIONS IN KENYA (SLEEK)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

810. Under-Absorption of the Project Budget

The summary of comparative budget and actual amounts for the year ended 30 June 2018 reflects total approved final budget of the System for Land Based Emissions Estimations in Kenya (SLEEK) of KSh.18,594,000. During the year under review 2017/2018 total receipts amounted to KSh.6,754,306. Comparison of the approved estimates and the actual expenditures revealed under-expenditures in relation to various items. Compensation of employees' absorption was at 34% and purchase of goods and Services was at 43%. The budget absorption for the year under review stood at 36%. Cumulative funding of the project stands at KSh.31,046,327 accounting for 52% of the total foreign grant expected due to poor absorption rate.. The project was anticipated to close its activities not later than 31 December, 2018 according to the financing Agreement. Considering the remaining period, it may not be possible to receive and utilize the remaining 48% of the project's funds and therefore the project may not attain the intended objectives.

811. Ineligible Payments

An amount of KSh.2,396,400 was irregularly incurred on salaries and allowances to officers whose contract had expired. An officer in charge of ICT and another officer designated as administrative assistant were paid salaries and allowances even

though their contracts had expired in June 2017 and December 2017 respectively. All contracts had not been renewed at the time of audit.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

812. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

813. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR NATURAL RESOURCES VOTE 1106

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

814. Pending Bills

The pending bills amounting to KSh.33,812,512 chargeable to both recurrent and development votes for the State Department as at 30 June 2018 were not paid in the financial year 2017/2018 but were instead carried forward to 2018/2019. Had those bills been paid and expenditure charged, the statement of receipts and payments would have reflected a deficit of KSh.16,352,011. Failure to settle the 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.

815. Inadequate Support of Fund Balance

Fund balance in the financial statements consisted of bank accounts, cash in hand, receivables- outstanding imprests and deposits amounting to KSh.12,445,187.

However, bank statements were not provided for audit verification and it was therefore not possible to confirm the bank balances and the accuracy of the fund balance of KSh.12,445,187 as at 30 June 2018.

816. Unsupported Prior Year Adjustment

Reported in the notes to financial statements are prior year adjustments amounting to KSh.3,355,800. However, documents in support of the adjustments were not availed for the audit verification.

817. Prior Year Matters

817.1 Variance Between Notes to the Financial Statements and Notes as Per IFMIS Report

As reported in the prior year, it is a requirement that all the figures in the financial statements be expounded by way of notes. The financial statements and notes to the financial statements were presented together by 30 September 2017. However, it was noted that two sets of notes in support of financial statements had variances as analyzed below:

Item	Note as per Financial Statements	Notes as per IFMIS/IFMIS Statements	Amounts per Notes in the Financial Statements KSh.	Amount as per IFMIS Notes Attached in the Financial Statements KSh.	Variance KSh.
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)
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	(7,820,993,117)
Surplus for the Year			12,445,186	10,366,565	2,078,621

The reason given for these variances was that the State Department's cash book is still being reconciled in co-ordination with the Treasury's IFMIS team and the Financial Reporting Unit.

817.2 Undisclosed Prior Year Comparative Figures

As previously reported, comparative figures for 2015/2016 for the then Ministry for Environment and Natural Resources were not separated or re-stated to reflect what belongs to the State Department for Environment and State Department for Natural Resources. Hence, the State Department for 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.

In view of the above, the accuracy, completeness and presentation of the financial statements as at 30 June 2018 could not be confirmed.

Emphasis of Matter

818. Unverifiable Value of Assets

Annex 2 to the financial statements is a summary of fixed assets totaling KSh.297,357,773. However, audit review of the State Department's records revealed that accurate data for the assets of the department was not prepared since after the reorganization of the Ministry of Environment and Natural Resources to have two separate entities (State Department for Environment and State Department for Natural Resources) the vesting of the assets to the two entities was not done. In the circumstances, it was not possible to confirm the value of the assets relating to the State Department.

819. Projected Compensation Claims on Human Wildlife Conflict

Note 13.2 to the financial statements indicates that there are a total of 15,382 cases pending on human wildlife conflict for the years 2014 to 2017. It is estimated that the claims for compensation to the affected individuals amounts to KSh.6,969,515,712. The original budget for compensation in the year under review was KSh.630 million but was later reduced to KSh.153 million through a supplementary budget. However, the State Department received KSh.150 million which was transferred to KWS to compensate the claimants.

However, 2018 cases are still being evaluated. In the circumstances, the Department is at a high risk of facing litigation claims due to the pending compensation claims.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the State Department's financial statements. These matters were addressed in the context of the audit of the State Department's 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 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.	Transfers to other Government Agencies	
	The mandate of the state department included conservation and management of forests, wildlife and biodiversity resources. The objective was achieved through semi-autonomous government agencies. During the year under audit, Transfers were made to the agencies and other grants amounting to KSh.7,572,629,070 and KSh.14,019,846 respectively	<ul style="list-style-type: none"> • Reviewed the mandate and the strategic plan of the state department • Reviewed the approved budget for provisions for transfers to other government agencies • Verification of exchequer notifications for details on the transfers • Verified confirmations from the receiving government agencies • Verification on the disclosures related to grants and other transfers

No	Key Audit Matter	How the Audit addressed the key Audit Matter
2.	Compensation Claims by Individuals on Human Wildlife Conflict	
	Falling under the mandate of the state department for natural resources is the wildlife resources management and policy formulation. During the year under review claims against the government of Kenya by individuals arising from wildlife human conflict were projected to be about KSh.4.2 billion. Original budget for compensation on claims and administration of the same was set at Ksh.630 million. However the figure was revised downwards to ksh.153 million.	<ul style="list-style-type: none"> • Verification of the mandate of the state department as far as wildlife resource management is concerned • Reviewed data held at the state department regarding wildlife human conflict • Verification of the budgetary provision for compensations and adequacy of the budget • Reviewed historical records on claims
3	Fixed Assets Management	
	The statement of receipts and payments reflects acquisition of assets figure of KSh.15,249,827 and brought forward figure of KSh.282,107,946 and Annex 2 (summary of fixed assets register) discloses a figure of KSh.297,357,773.	<ul style="list-style-type: none"> • Verification of the asset register for status • Verification assets ownership • Verification of the assets valuation/measurement

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

820. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

821. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

INSTITUTIONAL STRENGTHENING OF THE OZONE DEPLETING SUBSTANCE PROJECT(UNEP PROJECT ACCOUNT NO.UNEP/KEN/SEV/62/INS)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

823. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

824. There were no material issues noted on effectiveness of internal controls, risk management and governance.

LAKE VICTORIA ENVIRONMENT MANAGEMENT PROJECT PHASE II(IDA CREDIT NO.4532-KE AND IDA CREDIT NO.5634-KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

825. Inaccuracies in the Financial Statements

The Financial statements for year ended 30 June 2018 presented for audit review had various differences noted between cumulative and additions for total Receipts

and Expenditure balances for the year of KSh.1,302,554,116 and KSh.1,305,375,480 respectively.

In consequence, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be ascertained

826. Purchase of Water Hyacinth Weed Harvester and Trucks

Included in the financial statements is acquisition of non-financial assets of KSh.106,777,894 which includes purchase of vehicles and other transport equipment of KSh.63,655,335 which in turn includes two trucks worth KSh.18,717,400, purchased with an aim of transporting the water hyacinth weed once harvested in fulfilment of mechanical water harvesting initiative which has not taken off as at the time of audit in October 2018. However, it was observed that project had purchased water hyacinth harvester in 2015/2016 at a contract price of Euro 680,000 equivalent to KSh.73,745,252, and had challenges of not having met Marine and Safety requirements, resulting to operational and safety challenges in actualizing the initiative. Contrary to section 43(d) of Public Finance Management Government Regulation 2015 stipulate that an Accounting Officer shall manage control and ensure that policies are carried out efficiently and wastage of public funds is eliminated and Section 71(1) (b) stipulate that the Accounting Officer confirms with the relevant Government entity that donations given in kind are in good and serviceable condition. The citizens have not got value for money on the purchase of the machine and trucks which were procured and are not in use and remain idle.

827. Pending Payables

The financial statements reflects a total of KSh.21,333,775 in relation to pending accounts payable and pending staff payables respectively for the year ended 30 June 2018.

The validity and completeness of the pending bills of KSh.21,333,775 could not be confirmed for the year ended 30 June 2018.

828. Information and Communication Technology (ICT) Policy

The audited entity has no ICT department of its own and lacks a formally documented ICT policy to act as a guiding framework for its ICT operations. Therefore, there's no assurance that its ICT resources are being utilized efficiently and effectively in accordance with the applicable ICT Standards as provided for by the regulating body.

Consequently, in the absence of a formally documented ICT policy, this could lead to lack of a clear direction on the management and use of the ICT systems in place and their related controls and also understate the assets of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

829. Delayed Counterpart Funding

Included in the financial statements is Counterpart funds; Analysis revealed that counterpart funding by the Government was not released in full and out of the amount of KSh.360,000,000, the unreleased balance amounted to KSh.160,141,649 which amounted to 44% of the expected release. Upon closure of the project on 31 December 2017 a total of KSh.210,841,567 remained undrawn/unreleased inclusive of KSh.50,699,918 IDA Credit being 1% of the IDA financing.

Consequently, delays by the Government in releasing counterpart funds impacts negatively on project implementation and development for the concerned citizen.

830. Nyakonya Self Help Group Land Ownership

Included in financial statements is other grants and transfers and payments of KSh.32,146,917 which includes KSh.1,500,000 for purchasing of plastic bottle molding machine and construction of molding room for Nyakonya Self Help Group. Site visit revealed that the piece of land where the bottling plant was constructed belonged to an individual and no title deed was availed for the group.

Consequently, the ownership of the land could not be ascertained despite the investment amount have been put on the land.

831. Purchase of Dairy Cows

Included in financial statements is other grants and transfers and payments of KSh.32,146,917 which includes KSh.1,207,300 disbursed to Openji/Budubusi Beach Management Unit for construction of dairy units and purchase of 12 in calf heifers. Our physical verification on the same revealed the following:

- i) No single dairy unit was physically verified and no list of beneficiary was availed
- ii) The chairman confirmed that seven (7) out of the twelve (12) dairy cows had died and yet there were no records to prove the same.
- iii) The ownership of one dairy cow that was shown was in doubt as it did not meet the specification of being with calf heifer and was not tagged.

Consequently, the regularity of the expenditure of KSh.1,207,300 could not be confirmed.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with

ethical requirements and plan and perform the review so as to obtain limited assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

832. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

WATER AND SANITATION SERVICE IMPROVEMENT PROJECT- ADDITIONAL FINANCE IDA CREDIT NO.5103-KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

833. Variance Between Special Account Statement and Project Account

According to the Special Account Statement for the Project, USD 14,223,000 equivalent to KSh.1,438,327,560 was withdrawn from the account and transferred to the Project account. However, the statement of receipts and payments reflects was KSh.700,000,000 equivalent to USD 6,916,586 as having been received into the Project, resulting to an unexplained variance of USD 7,306,414 equivalent to KSh.738,327,560. It was observed that this variance had earlier been reported in the Project's statement of receipts and payments for the year under review, as cash in transit of KSh.739,452,771. Management has not explained the above variance between the two sets of records.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

834. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

835. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NAIROBI RIVERS BASIN REHABILITATION AND RESTORATION PROGRAM: SEWERAGE IMPROVEMENT PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

837. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

838. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KWS-NORTHERN KENYA CONSERVATION PROJECT CREDIT FACILITY NO.CKE 1036 01 H

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

Other Matter

839. Under-Absorption of the Project Budget

During the year under review, the Northern Kenya Conservation Project had budgeted to receive KSh.553,367,191. However, only KSh.376,798,433 was received resulting to underfunding of KSh.176,568,758. Further, the expenditure for the period was KSh.224,778,449 resulting in under-absorption of KSh.152,019,984. In view of the foregoing, the Project may not have achieved its planned and budgeted activities and its objectives for the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

840. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

841. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

CAPACITY DEVELOPMENT PROJECT FOR SUSTAINABLE FOREST MANAGEMENT IN THE REPUBLIC OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

843. Pending Bills

Included in annex 2A & B to the financial statements is an amount of KSh.271,220 being pending bills for the year 2017/2018 which had not been paid as at 30 June 2018. The pending bills relates to payments due to suppliers and other staff payables. 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

844. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

845. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

INTERNATIONAL PARTNERSHIP PROGRAMME FOREST 2020

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Conclusion

847. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

848. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MINISTRY OF LANDS AND PHYSICAL PLANNING VOTE 1112

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

849. Inaccuracies in the Financial Statements

The following discrepancies were noted between the figures in the financial statements and the figures in the trial balance: -

Item Description	Balance in the Financial Statements (KSh.)	Balance in the Trial Balance (KSh.)	Difference (KSh.)
Recurrent bank account	1,981,923	1,850,997,643	(1,849,015,720)
Development bank account	1,941,231	2,629,063,120	(2,627,121,889)
Deposits bank account	197,263,116	34,881,306	162,381,810
Cash in hand	201,038	8,222,208,932	(8,222,007,894)
Domestic debtors and advances	308,748	313,726	(4,978)
Imprests	6,447,907	6,489,907	(42,000)
Other current assets	-	17,153,153	(17,153,153)
Deposits	-	6,559,229	(6,559,229)
Deposits	197,263,116	263,971,798	(66,708,682)
Other liabilities	-	2,604,481	(2,604,481)
Other liabilities	-	34,596,207	(34,596,207)
System required liabilities a/c	-	3,022,582	(3,022,582)
System required liabilities a/c	-	3,430,789,800	(3,430,789,800)

In the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

850. Purchase of Vehicles and other Transport Equipment

The statement of receipts and payments for the year ended 30 June 2018 is acquisition of assets amounting to KSh.1,256,719,593. Included in this figure is purchase of vehicles and other transport equipment of KSh.84,346,340 and KSh.1,396,350 is in respect of motor vehicle repairs which ought to have been classified under Routine Maintenance – Vehicles and other transport equipment.

Under the circumstances, the accuracy of purchase of vehicles and other transport equipment of KSh.84,346,340 could not be confirmed for the year ended 30 June 2018.

851. Bank Balance

The financial statements reflects bank balance of KSh.201,186,270 as at 30 June 2018. However, bank confirmation certificates for the three bank accounts as at 30 June 2018 were not provided. In addition, the clearance status of the reconciling balances listed below was not provided for audit verification.

Description	Recurrent (KSh.)	Development (KSh.)	Deposit (KSh.)
Payments in cash book not in bank	509,672	396,704.15	-
Receipts in bank not in cash book	1,470,561	-	455,933
Payments in bank not in cash book	2,449,684	2,539,300	287,500
Receipts in cash book not bank	864,377	-	708,780
Total	5,294,294	2,936,004.15	1,452,213

Further, cheques totalling KSh.285,776 for the recurrent account and KSh.280,604 for the development account were stale as at 30 June 2018 and had not been reversed in the cash books.

In the circumstances, the accuracy of bank balance of KSh.201,186,270 as at 30 June 2018 could not be confirmed.

852. Accounts Receivable – Outstanding Imprests

Note 10 to the financial statements reflects accounts receivable-outstanding imprest of KSh.9,606,874 as at 30 June 2018. Included in this amount are outstanding imprests of KSh.6,447,907 out of which KSh.6,025,607 had been outstanding for more than one year. In addition, an extract of IFMIS register reflected total imprests outstanding of KSh.12,141,952 while the financial statements reflected KSh.6,447,907 resulting in unexplained difference of KSh.5,694,045. Further, the manual register shows outstanding imprests of KSh.4,162,198 as at 30 June 2018. The Ministry did also not adhere to imprest controls on issue of multiple imprests since various officers were issued with more imprest before surrendering the previous ones. Consequently, the accuracy and recoverability of accounts receivable-outstanding imprests balance of KSh.9,606,874 reflected in the financial statements could not be confirmed.

853. Compensation of Employees

The statement of receipts and payments reflects compensation of employees amount of KSh.2,029,350,270. However, this amount excludes compensation of

employees expenditure amounting to KSh.29,341,555 charged to other expenditure items.

Consequently, the accuracy and completeness of compensation of employees expenditure of KSh.2,029,350,270 for the year ended 30 June 2018 could not be confirmed.

854. Research, Studies, Project Preparation, Design and Supervision

The statement of receipts and payments reflected a figure of KSh.1,256,719,593 relating to acquisition of assets which included research, studies, project preparation, design and supervision expenditure of KSh.621,224,359. The balance included payments totalling KSh.8,613,960 in respect of claims for refund of per diem and expenses incurred on the 4th joint Kenya – Ethiopia boundaries pillar’s inspection and maintenance conducted in April/ May 2017 for 30 days. The exercise was carried out in the previous financial year but reimbursements were done in January 2018. Approval for the team members to conduct the exercise without per diem and refunded later has not been availed for audit review. It was not clear on what basis the activities were allowed to be undertaken in the absence of funds.

855. Pending Bills

855.1 Pending Bills in the Financial Statements

The Ministry reported total pending bills of KSh.299,109,118 as at 30 June 2018 which were not settled but were carried forward to 2018/2019. Had the bills been paid and the expenditure charged to the respective accounts in 2017/2018, the statement of receipts and payments for the year would have reflected a deficit of KSh.293,732,682 instead of the reflected surplus of KSh.5,376,436 now shown.

855.2 Payment of Undisclosed Pending Bills

The Ministry’s audited financial statements for the financial year 2016/2017 disclosed pending bills of KSh.363,922,056. However, during the financial year under review, the Ministry made payments totalling to KSh.159,885,022 that related to goods and services delivered and invoiced in the previous year but not disclosed as pending bills in 2016/2017. As a result, the source of the pending bills could not be established and the regularity of the expenditure of KSh.159,885,022 for the year ended 30 June 2018 could not be ascertained.

855.3 Undisclosed Pending Bills

855.3.1 Legal

In 2017/2018, the Ministry had legal pending claims amounting to KSh.946,508,404 relating to cases determined against the Ministry. However, the claims were not disclosed in the financial statements and no budgetary provision were made to settle them.

855.3.2 Arrears for Land Board Members

Review of payments to land board members in Machakos, Kwale and Nyeri, revealed that allowances amounting to KSh.11,364,000 had not been paid.

The arrears were not disclosed in the Ministry's financial statements as pending bills.

Consequently, the accuracy of the pending bills figure of KSh.299,109,118 as disclosed at note 15.1 of the financial statements could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for conclusion

856. Summary of Fixed Assets

The financial statements for the year ended 30 June 2018 do not include a summary of fixed assets register as an annex contrary to the prescribed reporting template as issued by Public Sector Accounting Standards Board. In addition, the Ministry did not maintain an assets register in spite of the fact that assets worth KSh.1,256,719,593 were acquired in the year under review. Consequently, the financial statements were not in compliance with Section 143 of Public Finance Management (National Government) Regulations, 2015.

857. Other Operating Expenses

857.1 Interest on delayed Payment of Legal Claims

Other operating expenses figure of KSh.741,048,982 reflected at Note 4 to the financial statement includes KSh.13,839,467 relating to interest on legal claims. The interest was as a result of delay by the Ministry in paying the decretal sums for various cases against the principles of public finance on prudence and responsible use of public money as required by Article 201 (d) of the Constitution of Kenya.

857.2 Loss of Public Funds

Other operating expenses figure of KSh.741,048,982 in the financial statement includes expenditure of KSh.112,831,083 on legal claims arising from a Civil Case. The Commissioner of Lands was sued on the grounds that he prepared and executed a title deed in favor of the plaintiff with full knowledge that the same land was registered to another party. As a result, the government lost KSh.112,831,083.

857.3 Digitization of Land Registries

Contracts to digitize Machakos, Kajiado, Nakuru and Kisumu land registries were awarded to three local companies on 30 May 2015 at a combined contract sum of KSh.154,280,000. However, lack of appropriate scanners and internet has significantly affected the sustainability of digitization project in the four registries despite incurring significant expenditure. Consequently, it has not been possible to

ascertain if the citizens of the four counties are getting value for money on the expenditure of KSh.154,280,000 on the digitization process.

858. Renovation of Lands Office-Bungoma

Records availed for audit review indicated that a contract for renovation of Bungoma Lands Office was awarded at a sum of KSh.5,687,665 in 2016/2017 financial year and the total contract sum paid during that year. However, an audit inspection at the Bungoma land registry revealed discrepancies amounting to KSh.666,660 between the actual works performed and what was stipulated in the bills of quantities.

Consequently, it could not be confirmed that value for money was obtained in the renovation works.

859. Development of Sporting Facilities at the Kenya Institute of Surveying and Mapping

Included in acquisition of assets figure of KSh.1,256,719,593 is construction of civil works expenditure of KSh.5,700,000 which includes KSh.4,200,000 paid in respect of a contract for development of sporting facilities at the Kenya Institute of Surveying and Mapping awarded at a contract sum of KSh.21,550,776. The contract period was 26 weeks with the commencement date being 5 September 2017 and the completion date, of 15 March 2018. However, by the time of the audit in October 2018, the works had not been completed. Although the contractor had been paid KSh.4,200,000 against the first valuation No. 1 amounting to KSh.7,201,813.60 dated 12 October 2017, it was not confirmed whether there was approval for extension of the contract period. Site visit and physical verification revealed that the contractor had not established a site office as required. Further, performance security of 5% of contract price was not availed for audit review and therefore it could not be confirmed whether the contractor had provided the same.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Basis for Conclusion

860. Lack of an Audit Committee

In 2017/2018 financial year, the Ministry did not have an independent audit committee as required under Section 73 (5) of the Public Finance Management Act, 2012 which states that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. In the absence of a functioning audit committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of an audit committee did not occur which may have affected good corporate governance at the Ministry.

THE REVENUE STATEMENTS OF THE MINISTRY OF LAND AND PHYSICAL PLANNING

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

861. Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects actual revenue amount of KSh.786,517,922 against a revenue budget of KSh.841,297,579 resulting in under collection of KSh.54,779,657.

In addition, management did not provide explanations for the material variances as required by International Public Sector Accounting Standard 1.7.8. Non-compliance with this requirement affects understandability of the revenue statement by the users.

862. Transfers to Exchequer Account

The statement of revenues and transfers for the year ended 30 June 2018 reflects transfers to exchequer account of KSh.786,517,923. However, records maintained by the National Treasury indicate total receipts of KSh.856,030,095 from the Ministry resulting in a variance of KSh.69,512,172 which has not been explained or reconciled.

In the circumstances, the accuracy of the total revenue collected figure of KSh.786,517,923 included in the statement of revenues and transfers could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for conclusion

863. Collection of Revenue

Records availed for Machakos County indicate that as at 30 June 2018, KSh.4,869,706 had been collected from survey fees, registry index maps fees and sale of maps and remitted to the County Government in contravention of the National Treasury guidelines which requires that the revenue collected be transferred to the ministry's headquarters.

864. Non-maintenance of Cash book at Bungoma National Sub-County Treasury

Audit inspection at Bungoma National Sub-County Treasury, revealed that no cash book was maintained for the land revenues collected at the station thus casting doubt on the completeness of the revenues collected at the sub county treasury.

865. Shortages of Land Valuers in Counties

Audit inspection of the various land registries revealed a shortage of land valuers in the Ministry resulting in inefficiencies in service delivery and negatively impacting on revenues realized from stamp duties. For instance, Migori had only one land valuer based in Kisii County and covering Kisii, Nyamira, Migori and Homabay Counties while at the Bungoma Land Registry, the Assistant Senior Land Registrar in charge of the station performed valuation and assessment of stamp duty since the Regional Valuer was based in Kakamega. The shortage of land valuers has negatively affected revenue collection in the counties.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

866. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

LAND SETTLEMENT FUND TRUSTEES

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

867. Inaccuracies in the Financial Statements

The statement of cash flows reflects a decrease in cash and cash equivalent balance of KSh.19,638,256 instead of the re-casted increase of KSh.18,328,777 resulting in unexplained difference of KSh.37,967,033. Further, the statement reflects a negative balance of KSh.506,934,253 described as adjustment in working capital whose workings were not provided for audit review.

In the circumstances, the accuracy of these financial statements for the year ended 30 June 2018 could not be confirmed.

868. Unsupported Balances

The statement of changes in net assets as at 30 June 2018 reflects net transfers to/from accumulated surplus totalling to KSh.7,979,050,639. However, the management did not provide details on where the balances were transferred to/from, and supporting schedules for the balances transferred were also not availed for audit verification.

In the circumstances, the accuracy of net transfers to/from accumulated surplus of KSh.7,979,050,639 in the statement of changes in net assets as at 30 June 2018 could not be confirmed.

869. Receivables from Non-Exchange Transaction

Note 9 to the financial statements reflect receivables from non-exchange transaction balance of KSh.1,324,349,149. However, this balance excludes opening balances totalling to KSh.984,686,550 as summarized below.

Item	KSh.
Land Loans Issued	278,975,885
Rescue Loan Issued	550,019
Land Loans Principal Billed	(610,055,404)
Billed amount settlers	3,494,524,091
Development Loans Principal Billed	(189,149,529)
Rescue Loans Principal Billed	(240,198)
Cane Development Costs - Suspense	(5,139,967)
Other Recoverable expenses	9,820,460
General Debtors	32,353,374
Trade Investment	59,263,387
Advances	10,567,668
Suspense Debit Items	64,507,005
Loan Repayment Collection	(2,161,547,241)
Agency Accounts (debits)	257,000
Total	984,686,550

Further, receivables from non-exchange transactions of KSh.1,324,349,149 as disclosed at note 9 to the financial statements include imprest balance of KSh.41,908,095 out of which imprest totalling KSh.36,228,295 was due but had not been surrendered as at 30 June 2018. Further, included in the balance of KSh.36,228,295 due but not surrendered is a balance of KSh.3,041,780 that was carried forward from previous years and had not been surrendered or recovered as at 30 June 2018. This is contrary to Regulation 93 (5) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstance, the Fund was in breach of the law and recoverability of the receivables from non-exchange transactions balance of KSh.1,324,349,149 as at 30 June 2018 could not be confirmed.

870. Property, Plant and Equipment

The property, plant and equipment movement schedule at note 10 to the financial statements reflects transfer/adjustments totalling to KSh.7,432,839,874 made up of land and buildings - KSh.7,394,159,443 and fixed and loose assets - KSh.38,680,431. However, and as previously reported, schedules and reconciliations supporting the assets transferred/ adjustments amounting to KSh.7,432,839,874 were not availed for audit review.

In the circumstances, the accuracy of property, plant and equipment balance of KSh.6,727,780 as at 30 June 2018 could not be confirmed.

871. Trade and Other Payables from Exchange Transactions

Note 11 to the financial statements reflect trade and other payables from non-exchange transactions balance of KSh.4,723,898 as at 30 June 2018. However, the balance excludes unsupported opening balances totalling to KSh.14,118,126 as detailed below;

Item	Amount (KSh.)
Refundable Deposits from customers	93,343,385
Provisions	11,676
Agency Accounts (credits)	125,425
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	(14,118,126)

It was not clear and the management have not explained the circumstances which led to a debit balance in payables an indication that the creditors were over paid.

In the circumstances, the accuracy and validity of the trade and other payables from exchange transactions balance of KSh.4,723,898 as at 30 June 2018 could not be confirmed.

872. Statement of Comparison of Budget and Actual Amounts

As previously reported, the Fund financial statements presented for audit review did not include the statement of comparison of budget and actual amounts and therefore did not comply with International Public Sector Accounting Standards (IPSAS 24). 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

873. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

874. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR INFORMATION, COMMUNICATIONS AND TECHNOLOGY INNOVATION VOTE 1122

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

875. Accuracy of the Financial Statements

The financial statements for the year ended 30 June 2018 reflects balances that differed from the corresponding IFMIS ledger balances as detailed below:

Details	Amounts as per Financial Statements (KSh.)	Amounts as per IFMIS Reports (KSh.)	Difference (KSh.)
Total Payments	11,671,827,593	11,670,365,383	1,462,210
Total Financial Assets	5,856,970	2,772,992,950	(2,767,135,980)
Total Financial Liabilities	3,134,608	2,771,642,685	(2,768,508,077)
Fund balance brought forward	1,993,791	(930,814)	2,924,605

The two sets of balances has not been reconciled or differences explained. Consequently, the validity, correctness and accuracy of the figures in the financial statements for the year ended 30 June 2018 could not be ascertained.

876. Acquisition of Assets

876.1 Specialized Assets

The statement of receipts and payments reflects an amount of KSh.3,593,487,703 under acquisition of assets which includes purchase of specialized plant, equipment and machinery of KSh.630,275,441. The amount however includes KSh.5,440,000 relating to purchase of medium duty printer, Smart UPS 700KVA, extra-large volume photocopier and desktop computers all of which do not qualify to be in the class of specialized Plant, Equipment and Machinery.

In addition, the acquisition of specialized plant, equipment and machinery figure of KSh.630,275,441 includes an amount of KSh.624,835,441 which was paid to a vendor for which the details of the nature of assets procured, description of the assets and the location were not provided for audit examination. Further, the payment made was not supported by documentation to show that it was done in line with the conditions set on the contract allegedly supporting the procurement.

Consequently, the correctness and propriety of the KSh.3,593,487,703 under acquisition of assets could not be ascertained.

876.2 Domestic Public Non-Financial Enterprise

The acquisition of assets figure of KSh.3,593,487,703 also includes a figure of KSh.2,960,484,692 (2016/2017 – KSh.2,873,149,807) in respect of financial assets described as Domestic Public Non-Financial Enterprise whose nature of assets and breakdown was not made available for audit verification. The expenditure is allegedly in respect of the National Fibre Optic Backbone Infrastructure (NOFBI) whose first phase was initiated in 2010 and completed in 2012 with subsequent extensions automatically granted to the contractor without any procurement process some of which are yet to be completed and commissioned.

However, the payments were made directly by National Treasury who also approved the invoices and signed certificates of acceptances even though there was no evidence of inspection and acceptance committee in place.

No evidence of analysis of work done or details of the assets created that was being paid for were made available for audit review. Further, though the NOFBI project network is being used by most of the data service providers in the Country, there is no evidence of billing done for the last four years it has been operational neither has there been any service provision framework in place between NoFBI project managers and the service providers. The Government has therefore been funding the operation of commercial entities without recovering the cost which amounts to lack of prudence in the use of public resources.

Under the circumstances, it has not been possible to confirm the propriety of the expenditure on acquisition of non-financial assets totaling KSh.3,593,487,703 as at 30 June 2018.

876.3 National Optic Fibre Backbone Infrastructure (NOFBI) and County Connectivity Project (CCP) Structure

The State Department of Information Communications, Technology and Innovation was undertaking two projects namely National Optic Fibre Backbone Infrastructure (NOFBI) and County Connectivity Project (CCP). The projects do not have a defined structure that allocates responsibility of ensuring delivery by contractor. The contract is between the State Department and the contractor, the contractor bills ICT Authority for works done if any and the payments are made by the National Treasury. No documented inspection and acceptance report have been provided to support any of the payments made amounting to KSh.5,833,634,501 in respect of NOFBI and KSh.624,835,441 paid in respect of CPP over the last two years. No evidence has been provided for audit verification to show that Use Acceptance Testing (UAT) has ever been undertaken on the project. In addition, even though the two projects are presumed to have project managers, no appointment letters were availed for audit verification. Further, appointment letters for members of the inspection and acceptance committee for both projects were not provided for audit verification.

In view of the foregoing, governance, propriety and value for money for expenditure of KSh.6,458,469,942 incurred in these projects could not be confirmed.

877. Use of Goods and Services

The statement of receipts and payments reflects an amount of KSh.172,456,843 under use of goods and services which includes an amount of KSh.32,965,439 under domestic travel and subsistence which had the following anomalies:

- i. An amount of KSh.1,462,207 included in domestic travel and subsistence relates to imprests issued during the financial year which as per the IFMIS records had not been cleared as at 30 June 2018. However, the manual imprest register and the financial statements indicates that the outstanding imprests as at 30 June 2018 was KSh.260,600. No reconciliation between the two sets of records appear to have been done.
- ii. An amount of KSh.3,132,500 included in the domestic travel and subsistence allowances related to payments made to officers undertaking their normal daily duties/or for activities not in line with the mandate of the State Department of ICT and Innovation.

Consequently, the propriety and accuracy of the expenditure on use of goods and services of KSh.172,456,843 could not be confirmed.

878. Transfer to Other Government Units

The transfer to other government units figure of KSh.7,717,448,531 as reflected on statement of receipts are payments includes KSh.7,257,433,531 transfers to Information Communication and Technology Authority (ICTA). However, corresponding receipts reported in ICTA's Financial Statements for the year ended 30 June 2018 is KSh.6,846,818,478 resulting in a variance of KSh.410,615,053. Out of the variance KSh.370,000,000 was cash on transit thus leaving unexplained variance of KSh.40,615,054. Further, information available indicates that an amount of KSh.914,878,532 was disbursed to ICTA on 9 July 2018 which was nine days after the closure of the financial year. No explanation has been provided on the treatment of the transaction under bank since they do not feature in the bank reconciliation.

Consequently, the accuracy of the figure of KSh.7,717,448,531 in respect to transfers to Other Government Units for the year ended 30 June 2018 could not be ascertained.

879. Proceeds from Foreign Borrowings

The statement of receipts and payments reflect a figure of KSh.3,585,320,143 as proceeds from foreign borrowings for the year ended 30 June 2018. The borrowing are alleged to have been direct payments made by National Treasury to two contractors working on the National Optic Fiber Backbone Infrastructure (NOFBI) and on the County Connectivity Project. However, projects had no verification and acceptance committee to authenticate that the work done was in line with contract and met the user specifications.

Consequently, the accuracy, validity and completeness of the proceeds from foreign borrowings of KSh.3,585,320,134 could not be ascertained.

880. Fixed Assets Register

The financial statements indicates that the total fixed assets owned by the State Department of ICT and Innovation stood at KSh.6,853,982,467 as at 30 June 2018. However, no detailed fixed asset register was maintained by the State Department specifying date of acquisition, name, serial numbers and location of the individual assets/ item.

Consequently, it has not been possible to ascertain the completeness and accuracy of the fixed assets balance of KSh.6,853,982,467 as at 30 June 2018.

881. Pending Bills

The financial statements reflect pending bills amounting to KSh.21,401,924 as at 30 June 2018. 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 form first charge. Had the bills been paid and expenditure charged to the accounts for the year 2017/2018, the statement of receipts and payments for the year would have reflected a deficit of KSh.20,673,353 instead of the net surplus of KSh.728,571 reported.

882. The Year's Adjustment

The statement of assets and liabilities as at 30 June 2018 reflects the year's adjustment balance of KSh.(386,750) while 2016/2017 figure was KSh.2,666,805 whose nature and analysis was not made available for audit review.

883. Prior year issues

883.1 Acquisition of Assets

Included in the acquisition of assets figure of KSh.2,904,012,001 under note 6 to the financial statements was a figure of KSh.2,873,149,809 in respect of financial assets described as domestic public non-financial enterprises NOFBI (ERD) whose nature and breakdown was not availed for audit verification. Further, State department did not avail assets register for its acquired assets. Although the state department had explained that invoices, certificate of acceptance and payment notification from external resource department (ERD) had 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 totaling KSh.2,873,149,809 for the year ended 30 June 2017.

883.2 Transfers to other Government Units

Included in grants and transfers to other government entities figure of KSh.22,950,890,772 in the financial statements was an amount of

KSh.3,109,834,436 in respect of External Resource Department (ERD) direct payments whose nature and supporting documentation was not availed for audit review.

In the circumstances, it has not been possible to confirm the propriety of ERD payment totaling KSh.3,109,834,436 for the year ended 30 June 2017.

883.3 Withholding Tax on Payments

Included in the use of goods and services figure of KSh.277,099,982 as at 30 June 2017 in the financial statements was an amount of KSh.25,360,446 in respect of other operating expenses. The figure of KSh.25,360,446 also included an amount of KSh.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, has not been possible to confirm the authenticity of the payment of KSh.12,790,980 for the year ended 30 June 2017.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

884. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

885. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT CREDIT NO 5638-KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

887. Annual work Plan and Budget

Examination of the annual work plan and budget revealed that they were not submitted to the Donor for approval on 1 May before implementation as required by the Donor- (International Development Association-IDA) Finance Agreement-Schedule 2 F. The project was therefore operating on an unapproved annual work plan and budget thus in breach of the financing agreement.

888. Unrealistic Budget

Examination of the statement of comparison of the budget and actual amounts shows that the budget appears to have been unrealistic. For instance, budgeted project salaries and purchase of goods and services underperformed by 63% and 83% respectively. No plausible explanations have been provided for this anomaly.

889. Delayed Project Implementation

The project was started in November 2015 with an expected completion date of December 2021. The total estimated budget/funding for the project amounts to SDR 18,500,000 (USD 29,500,000) and equivalent to KSh.2,979,795,000. As at the time of audit, 50% of project time had elapsed. However, the accumulated expenditure as at 30 June 2018 amounted to KSh.58,405,735 which translates to approximately 1.7% of the estimated budget of the entire project. Consequently, expenditure level casts doubt on full absorption of the project funds within the project period and the project may not achieve its objectives within the stipulated time.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Except for the issues described in the Other Matter, there were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Basis for Conclusion

890. Lack of Segregation of Duties

An examination of the Internal Control System of the Project revealed an inadequacy in the internal control function. The person charged with the responsibility of inspection and approval of the design done by the consultant is the project manager, who also approves the payment. This is contrary to the requirement of segregation of duties as an internal check thus exposing the project finances to misappropriation.

STATE DEPARTMENT FOR BROADCASTING AND TELECOMMUNICATIONS VOTE 1123

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

891. Cash and Cash Equivalents

The cash and cash equivalents balance of KSh.58,707,018 as reflected on the statement of assets and liabilities includes deposit account balance of KSh.38,659,849, recurrent account balance of KSh.20,020,521, development account balance of nil and cash in hand amounting KSh.26,648. However, the bank reconciliation statement for the development bank account which had a nil balance reflected a payment of KSh.11,600,000 to Corporation on 30 June, 2018 that had not cleared as at the year end. Further, no documentation was made available to show when the amount was cleared neither was there any confirmation of receipt of the monies by Kenya Broadcasting Corporation.

In addition, the bank reconciliation statement for the recurrent bank account had unrepresented cheques amounting to KSh.66,491,679 all of which could not be matched to the amounts cleared subsequent to the year-end up to and including the time of the audit as the bank statements were not provided for audit examination. Out of the unrepresented cheques of KSh.66,491,679, KSh.241,269 were stale as at 30 June 2018. Further, the recurrent account bank reconciliation statement reflected payment in bank statements not in cash book totalling KSh.1,436,558 for which no explanation was provided for non-inclusion in the cash book. Also, the recurrent account reconciliation statement reflected uncredited receipts amounting to KSh.46,332,522 that had no proof of having been banked as at the time of the audit and no explanation was provided for non-banking of this cash.

As a result, the completeness and accuracy of the cash and cash equivalents balance of KSh.58,707,018 as at 30 June 2018 could not be confirmed.

892. Pending Bills

Note 19 to the financial statements indicates pending bills amounting to KSh.3,214,463,515 as at 30 June 2018. The balance, however, differs with supporting schedules balance of KSh.3,215,230,553. The resulting variance of KSh.767,038 has not been explained and/or reconciled. Further, the supporting schedule had bills totaling to KSh.633,748,800 that could not be authenticated since no details of the suppliers were included.

In view of the foregoing, it has not been possible to confirm the completeness, validity and accuracy of the pending bills balance of KSh.3,214,463,515 as at 30 June 2018.

893. Accounts Receivable

The statement of assets and liabilities as at 30 June 2018 reflects a balance of KSh.70,137,700 as accounts receivables. This balance is composed of outstanding government imprests of KSh.4,285,307 and unsupported district suspense totalling KSh.65,184,350. Also, included is salary advances of KSh.668,043 out of which KSh.505,363 belonged to officers who are deceased hence irrecoverable.

Under the circumstances, the accuracy and recoverability of the accounts receivables balance of KSh.70,137,700 as at 30 June 2018 could not be ascertained.

894. Accounts Payables - Deposits and Retention

The statements of assets and liabilities indicates KSh.38,659,849 as accounts payables balance as at 30 June 2018 all of which had been outstanding as at 30 June 2017 and earlier. The analysis provided in support did not include the date of contract and other supporting documents to authenticate the accuracy and validity of each of the disclosed balances.

Further, the cash book for deposit account reflected KSh.1,740,000 and KSh.792,440 paid to a Media company on 23 November 2017 and 7 February 2018 consecutively. However, the analysis of accounts payables showed the payments were made to WASREB:- KSh.1,740,000, EPZ Authority KSh.384,000 and Kenya Dairy Board KSh.408,440.

Consequently, the accounts payables balance of KSh.38,659,849 as at 30 June 2018 could not be ascertained.

895. Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2018 reflects expenditure of KSh.1,135,144,411 in respect to use of goods and services. However, procurement plan and corresponding payment vouchers were not provided to support the expenditure.

Consequently, the accuracy, validity and propriety of the expenditure of KSh.1,135,144,411 for use of goods and services could not be confirmed.

896. Transfers to Other Government Units

The transfers to other government units figure of KSh.1,378,175,000 could not be verified as the reported balance for individual agencies did not agree with the records of the corresponding agencies as shown below;

Name of Agency	Balance per Financial Statement KSh.	Balance per Agency Financial Statements KSh.	Difference KSh.
Kenya Broadcasting Corporation	854,100,000	842,500,000	11,600,000
Kenya Year Bank Edition Board	59,325,000	88,075,000	28,075,000
Kenya Institute of Mass Communication	207,455,000	207,487,527	32,527

The differences have not been explained or reconciled. Under the circumstance, the accuracy and completeness of the transfers to other government units could not be confirmed.

897. Prior Year Issues yet to be Addressed

897.1 Repetitive Employment and Retention of Casuals

As previously reported in the financial statements, the compensation of employees figure of KSh.434,092,363 includes an amount of KSh.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.

Further, available information indicates that the casuals were assigned with Integrated Financial Management Information Systems (IFMIS) numbers and paid through the G-Pay system. 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 totalling KSh.7,335,790 for the year ended 30 June 2017.

897.2 Partitioning and Refurbishment Work on 9th and 11th Floors Teleposta Towers

As previously reported, the Ministry used restricted tendering to award the tender for partitioning and refurbishment of 9th and 10th floors of Teleposta Towers to the lowest bidder at a contract sum of KSh.12,720,769. The tender was however awarded contrary to section 29(3) and 73(2) of the Public Procurement and Disposal Act 2005 on use of restricted tendering.

In addition, the contract price was varied by KSh.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 in breach of Section 31 of the Public Procurement and Disposal Regulations 2006

Perusal of the Bill of quantities indicated that a total of KSh.1,100,000 under project management expenses, contingencies and preliminary expenses was included of which no documentary evidence was provided for audit verification to show how the amounts were spent.

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.

897.3 Tender for Renovation and Refurbishment Works on the Ministry's Stand- Nairobi Show Ground

As previously reported, the Ministry used restricted tendering to award the tender to renovate and refurbish its stand at the Nairobi show ground to the lowest bidder at a cost of KSh.5,472,730. The tender was however awarded contrary to Section 29(3) and 73(2) of the Public Procurement and Disposal Act, 2005.

In addition, examination of the bill of quantities indicates that expenses amounting to KSh.2,425,000 were included in the bill of quantities but no supporting documents were provided for audit verification. The expenses included contingencies, landscaping, electrical work, insurance, drainage and mechanical works and stationery.

Further, 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. The propriety of expenditure totalling KSh.5,472,730 for the year ended 30 June 2016 could not be confirmed as at the date of this report.

897.4 Tender for Tilling Works to the Department of Information at Uchumi House

As previously reported, the Ministry used restricted tendering to award a contract for tilling works at the Department of Information at Uchumi House 5th floor to the lowest bidder at a cost of KSh.4,850,204. The contract was however awarded contrary to Section 29 (3) and 73(2) of the Public Procurement and Disposal Act 2005 on use of restricted tendering.

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.

897.5 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 KSh.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 KSh.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 KSh.4,000,000 was inordinately low and subsequently awarded the law firm KSh.25,000,000 as reasonable instructions fees for the legal services rendered by the Kenyan Law Firm. Although the Ministry paid KSh.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 KSh.25,000,000 was arrived at. In the circumstance, the propriety of expenditure of KSh.25,000,000 paid to the law firm could not be ascertained to date.

897.6 Transfers to Other Government Units

897.6.1 Transfer of Grants to Kenya Yearbook Editorial Board

As previously reported, examination of available records in the Ministry indicates that a total of KSh.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 KSh.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 KSh.27,000,000 and KSh.7,800,000 respectively. The payments were done contrary to Regulation 71 (5) and 54 of the Public Finance Management (National Government) Regulations, 2015.

The Ministry was therefore in breach of the law and no satisfactory explanations have been provided on how the amount of KSh.34,800,000 was utilized as at the date of this report.

897.6.2 Unclear Transfer of Grants to Ministry Departments

As previously reported, the statement of receipts and payments for the year ended 30 June 2015 reflects KSh.2,435,625,509 under grants and transfers to other Government Units. Included in the figure of KSh.2,435,625,509 are grants totalling KSh.110,000,000 transferred to two (2) Ministry Departments - Government Advertising Agency (GAA) KSh.83,000,000 and Kenya Institute of Mass Communication (KIMC) KSh.27,000,000 without budgetary provisions and approval contrary to Regulation 31 (1) of the Public Finance Management (National Government) Regulations, 2015. It was, however, observed that the two (2) Departments; Government Advertising Agency and Kenya Institute of Mass Communications are Departments operating under the Ministry of Information, Communications and Technology and therefore do not qualify for grants.

The Ministry has not explained the circumstances under which KSh.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 KSh.110,000,000 transferred to the two (2) Ministry's internal departments.

897.7 Acquisition of Assets

897.7.1 Un-authorized Expenditure on Purchase of Motor Vehicles

As previously reported, records available at the Ministry indicates that a total of KSh.104,335,548 was spent on purchase of motor vehicles during the year under review against a budgetary provision of KSh.91,200,000 resulting in unauthorized over expenditure of KSh.13,135,548. The Ministry obtained authority from the National Treasury for purchase of 12 four-wheel drive vehicles at a total cost of KSh.70,695,190.

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 KSh.104,335,548 resulting into an additional and unapproved expenditure of KSh.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 KSh.13,825,000 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 the Public Procurement and Asset Disposal Act, 2015 Section 56(1). In the circumstances, the state department was in breach of the law and the propriety of the over expenditure totalling KSh.13,135,548 in the year 2016 and current year's expenditure of KSh.13,825,000 on purchase of motor vehicles has not been ascertained as the date of this report.

897.7.2 Agency and Disbursement Fees

As reported in the previous year, examination of payment vouchers revealed that the Ministry paid KSh.28,218,313 to a firm 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 KSh.6,716,103 to the firm all totalling KSh.34,934,416 as at 30 June 2016. Although the firm was contracted to provide project management services on behalf of the Government of the Republic of Kenya through the Ministry 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 some 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 whether 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 totalling KSh.34,934,416 as at the date of this report.

897.8 Kenya Institute of Mass Communications (KIMC)

897.8.1 Construction of Men's Hostel at KIMC

As previously reported, examination of the Ministry records indicates that the Contract 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 KSh.188,858,602. However, scrutiny of the contract documents revealed that the contractor did not provide goods and services amounting to KSh.3,511,300 which were included in the bill of quantities.

Further, it was noted that although the Contractor was required to provide a performance bond of 5% of the contract sum or KSh.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 totalling KSh.4,511,300 were properly utilized.

897.8.2 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 totalling KSh.5,665,758 upon payment to the contractor contrary to 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

898. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

899. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

KENYA BROADCASTING CORPORATION DIGITAL TERRESTRIAL TELEVISION (DVB-T2 PLATFORM) COVERAGE ROLL OUT PROJECT

Basis for Disclaimer of Opinion

900. Non Existence of Accounting Records

Digital Terrestrial Television (DVB-T2 Platform) Coverage Roll Out Project does not maintain accounting records. There were no general ledgers, trial balance,

subsidiary ledgers, no cash books and bank accounts and as a result the basis for the preparation of financial statements could not be determined or supported.

Under the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be confirmed.

901. Late Submission of Financial Statements

The financial statements for Kenya Broadcasting Corporation-Digital Terrestrial Television Coverage Roll-Out Project was to be submitted to the Office of the Auditor-General on or before 30th September 2018 as required by the PFM Act, 2012. However, the financial statements were received on 5 October 2018. No explanation was provided for the late submission of the financial statements.

902. Presentation and Disclosure of financial Statements

The financial statements had the following anomalies:

- (i) The names of the officers who signed the financial statements have not been disclosed as required by the approved reporting framework and IPSAS 1.
- (ii) The date of approval of the financial statements has not been indicated.
- (iii) The cash and cash equivalents at the end of the year as per the statement of cash flow amounting to negative KSh.14,473,372 does not agree with cash and cash equivalents balance of negative KSh.48,489,592 as per the statement of assets and liabilities as at 30 June 2018.
- (iv) The financial statements do not contain the statement of comparison of budget verses actual amounts as required by IPSAS 24.
- (v) The receipts as reflected on the statement of receipts and payments of KSh.48,489,592 does not agree with the nil balance as disclosed under note 1.1 of the financial statements.
- (vi) The financial statements do not have the statement of progress on follow up actions on previous years' auditor's recommendations.

In view of the foregoing, the presentation and disclosure of the financial statements do not conform to IPSAS 1 and the reporting template issued by the Public Sector Accounting Standards Board and the National Treasury.

903. Unsupported Acquisition of Non-Financial Assets

The statement of receipts and payments and note 1.5 of the financial statements reflect an amount of KSh.38,039,961 in respect of acquisition of non-financial assets. The figure includes an amount of KSh.660,300 in respect of imprest issued to staff during the year for project related exercises. No explanation was provided as to why imprest was classified under acquisition of non-financial assets.

904. Unsupported and Misclassified Domestic Travel and Subsistence Expenditure

The statement of receipts and payments and note 1.3 to the financial statements reflects purchase of services amounting to KSh.10,449,631 all of which relate to domestic travel and subsistence. The amount however includes payments totaling KSh.3,190,961 paid to contractors for construction of perimeter wall and access roads and a further KSh.120,000 payment for cargo transportation and payments amounting KSh.8,052,950 which were not supported.

905. Unrecorded Project Expenditure

Payment vouchers amounting to KSh.8,713,668 in the project file and whose documentation clearly indicate they were for project related activities were not captured in the financial statements. Further, payments in respect of security services at four (4) APD transmitting stations amounting to KSh.256,130.25 per station thus totaling KSh.1,024,52 were not captured in the schedule for payments and the financial statements for the year ended 30 June 2018.

906. Domestic Funds Receipts

The statement of receipts and payments reflects an amount of KSh.48,489,592 as domestic funds. However, the financing agreement indicated that the project was scheduled to end on 31 March 2017 with an approved budget of euros 822,164 an equivalent amount of KSh.89,615,876 which had been received and utilized as at 30 June 2017. There was no evidence of project extension to cover the financial year ending 30 June 2018. No documentation was made available to support the receipt amounting to KSh.48,489,592 counterpart funds. Further, no approved budget or approved annual work plans were provided in support of activities undertaken using the receipts of KSh.48,489,592.

907. Construction of Perimeter Fence in Kilifi County

The project constructed a perimeter fence at Chonyi Galanema/25 in Kilifi County at a contract sum of KSh.4,961,980 in November 2017. During the year under review, payments totaling KSh.1,812,000 were paid in respect of the contract. However, the payments had the following anomalies:

- (i) Payment for KSh.1,212,000 was not included in the financial statements as a payment for acquisition of non-financial asset and the mandatory retention of 10% was not deducted from the payment.
- (ii) A further payment of KSh.600,000 had no retention of 10% deducted as required by the law.
- (iii) The works inspection committee meeting that authorized the payment of KSh.1,212,000 had three persons present two of them being from the contractor's side and the other one being the estates officer from Kenya Broadcasting Corporation. The composition of the committee was therefore inappropriate and even approved a retention level to be 5% instead of the statutory 10% as per law.
- (iv) The payment of KSh.600,000 did not have site inspection report even though the certificate was signed by the estates officer for Kenya Broadcasting Corporation.

Consequently, the accuracy, completeness and validity of the expenditure could not be confirmed.

908. Construction of Access Roads

The statement of receipts and payments includes payments totaling KSh.10,449,631 in respect of domestic travel and subsistence which include payments of KSh.3,190,961 in respect of construction of two site access roads under two contracts. The contract sum for the two contracts was KSh.3,647,836. However, the payments were made without deducting the 10% of the certified amounts as certified by the supervising engineers. In addition, although the amount paid indicate that 6% withholding VAT had been deducted, no evidence was produced to show that the withheld VAT amounting to KSh.165,053 had been remitted to the relevant authority.

Consequently, the financial statements do not reflect the complete expenditure on construction of access roads and the withheld VAT amount has not been remitted to Kenya Revenue Authority.

909. Acquisition of Land

During the year under review, the corporation acquired land as detailed in the table below:-

Date paid	Payment voucher number	Payee	Description	Amount paid KSh.
24/10/2017	599	Kinyenze Ngala	Payment for Kitui Digital TV Transmission Site Land Sale Agreement	600,000
13/10/17	563	John Muye Gambo	Payment of land at Kilifi Digital TV Transmission Site Land Sale Agreement	500,000
Total				1,100,000

The following anomalies were noted:

- i. These was not captured in the ledger or properly categorized in the financial statement.
- ii. The fixed assets register was not availed.
- iii. Since there was no cash book it was not possible to determine the actual value/price paid for these parcels of land acquired.
- iv. The title deeds were also not availed to confirm the actual size of the parcels and ownership status.
- v. The procurement process used in acquiring the parcels was not availed to confirm adherence to the Public Procurement and Assets Disposal Act, 2015 and Regulations.

910. Voidable Storage Expenditure

The acquisition of non-financial assets payments totaling KSh.38,039,961 includes amounts paid in respect of storage facilities totaling KSh.29,427,254 for storage of unidentified goods. No justification was provided for these payments all of which had no supporting documentation and were wrongly classified.

As a result, the storage expenditure is voidable and need to be recovered.

911. Unresolved Prior Year Issues

The following issues from the Auditor-General's Report for financial year ending 30 June 2017 have never been addressed:

(i) Late Submission of Financial Statements

The financial statements for Kenya Broadcasting Corporation - Digital Terrestrial Television Coverage Roll-out Project which were supposed to be submitted to the Office of the Auditor-General on or before 30 September 2017, were received six (6) months later on 29 March 2018. No explanation was given as to why the financial statements were not submitted on time. In the circumstances, the Corporation was in breach of the Constitution of Kenya, the Public Finance Management Act 2012 and Section 47(1) of the Public Audit Act of 2015.

(ii) Irregular and Unbudgeted Expenditure

As disclosed in Note 1.3 to the financial statements, the project management incurred expenditure of KSh.3,202,139 on domestic travel and subsistence KSh.9,934,616 on demurrage services and KSh.2,412,500 on NEMA all totaling KSh.15,549,255 without budgetary provision. This is contrary to Section 31 of the Public Finance Management Act and Regulation of 2015 which states that the Accounting Officer shall ensure that the draft estimates relating to her or his department are prepared in conformity with the Constitution, the Act and these Regulation. The demurrage charges of KSh.9,934,616 was incurred on the project transmission equipment valued at KSh.892,988,931 received from the Spanish Government on 28 January 2016 for installation in the designated project sites. Although the equipment were received two years ago, the same were not cleared from the warehouse on time but continued to incur demurrage charges totalling to KSh.9,934,616. No explanation was provided as to why the project management did not clear and transport the equipment to the designated sites in good time. In addition, the sites which had been identified were later changed resulting in other unbudgeted expenditures of KSh.2,532,000. Further, available information indicate that the financing Agreement between the Instituto de credito oficial of the Kingdom of Spain and The National Treasury of the Republic of Kenya dated 19 November 2014 provides that the loan facility shall be tied and equivalent to 100% of the Spanish official financing allocated to finance the Development of the Digital Terrestrial Television Network in the Republic of Kenya. It was however observed that the Project Management had spent internal funds totalling to KSh.18,081,255 on the project without budgetary provision during the year under review.

In the circumstances, it has not been possible to confirm the propriety of the unbudgeted expenditure totalling KSh.18,081,255 for the year ended 30 June 2017.

(iii) Failure to Remit Value Added Tax

The project management failed to remit VAT amounting to KSh.6,696,341 to Kenya Revenue Authority as disclosed in Note 1.7 to the financial statements. This is contrary to VAT Act Cap 476 which gives guidelines on ways in which VAT is charged on goods of KSh.15,549,255 and KSh.2,532,000 all totaling KSh.18,081,255. Failure to remit VAT may attracts heavy penalties and fines. No explanation was given for non-remittances of the VAT. The Project management was therefore in breach of law.

(iv) Fixed Assets Register

Available information revealed that the Project management did not maintain a fixed assets register to record details of the project assets, such as cost, date of purchase, rate of depreciation, net book value and other necessary information contrary to Section 68(2)(e) of the Public Finance Management Act, 2012 which states that the accounting officer should ensure that all applicable accounting and financial controls, systems, standards, laws and procedures are followed when procuring or disposing of goods and services and that, in the case of goods, adequate arrangements are made for their custody, safeguarding and maintenance of the assets. In addition, project equipment worth KSh.892,988,931 equivalent to Euros 8,192,559 shipped from Spain were not physically verified. In the circumstances, it has not been possible to confirm the existence and ownership status of the project assets worth KSh.892,988,931 as at 30 June 2017 and that the project management was in breach of the law.

(v) Procurement of Standby Auto Controlled Silenced Generators

As previously reported, the Corporation signed a contract agreement on 8 December 2015 for supply of twelve (12) standby auto controlled generators with a supplier at a contract sum of KSh.35,913,700 with a duration of six (6) weeks from the date of the Local Purchase Order (LPO) of 11 December 2015. On 5 February 2016, the supplier was paid advance payment of KSh.10,774,110 or 30% of the contract sum. Available information indicate that only three (3) out of the twelve (12) generators were delivered to Langata station which was not part of the initial stations identified for the project. A review of the matter in February 2018 revealed that the balance of nine (9) generators have not been delivered to the designated project sites. It is not clear and management has not explained if and when the nine (9) generators will be supplied and when the stakeholders will get the value for the public resources.

(vi) Perimeter Walls

In addition, and as previously reported, the Project management advertised and awarded the tenders to ten (10) firms to construct perimeter walls, concrete bases, civil works and other works in the following ten (10) Project stations: Hola, Lamu, Kitui, Maralal, Marsabit, Wajir, Nyandundo, Siaya, Kwale and Lowdar at a total

contract sum of KSh.33,310,312. Although available records indicate that Local Purchase Orders (LPOs) were processed and issued to the ten (10) firms on 1 March 2016, no signed contract agreements between the suppliers and the Corporation were availed for audit review. It has not been clear and management has not explained the above anomaly. A review of the matter in April 2018 revealed that two (2) years after the date of issuing LPOs, works in three (3) stations were still incomplete. No satisfactory explanations were provided for failure to execute these contracts. Further, the Project Management did not maintain individual project files for each contract as required by Section 34(3) of the Public Procurement and Disposal Regulations 2016 which states that 'a procuring entity shall maintain an individual file for each procurement requirement containing all information; documents and communications relating to that procurement and such file shall be marked with relevant procurement reference number. In the circumstances, it has not been possible to confirm the propriety of expenditure of KSh.33,310,312 as at 30 June 2017 and if and when the stakeholder will get value for money.

(vii) Failure to Maintain a Separate Cash Book and Open a Bank Account

As previously reported, the Corporation did not maintain a separate bank account for the Project contrary to Section 28(1) of the Public Finance Management Act, 2012, which requires that state corporations open and operate bank accounts with prior approval of the National Treasury. A review of the matter in March 2018 revealed that the project management had not opened a separate bank account for the Project. The management did not also maintain a Project cash book and therefore no bank reconciliation statements were availed for audit review. In the circumstances, the Corporation was in breach of the Law and it has not been possible to confirm that the project funds were properly utilized.

(viii) Incomplete Digital Terrestrial Television Coverage Sites

As previously reported, examination of the project contract agreement indicate that six (6) out of the initial ten (10) sites identified in the year 2015 for project implementation were disqualified in March 2016 by the Kenya Civil Aviation Authority because they were either near to the existing or planned Airports/Airstrips. As a result, the sites were re-located to Kwale, Kitui and Kilifi according to the status report. According to the contract agreement, Kenya Broadcasting Corporation project management was required to implement the following Primary infrastructure on the (10) identified sites at a total cost of KSh.89,615,876 equivalent to Euros 822,144. The primary infrastructure included:

- i. Acquisition of land.
- ii. Construction of access roads.
- iii. Design and construction of standby power generator shelters on the sites.
- iv. Design and Installation of electrical power supply on the sites.

- v. Acquisition and Installation of standby power generators on the sites.
- vi. Design, construction and equipping of amenities.
- vii. Landscaping of the sites.
- viii. Remodeling and Improvement of existing structures on the sites to suit DVB-T2 system installation requirements.
- ix. Design and Construction of warehouses on the ten (10) sites.
- x. Hiring of security services for the ten sites.

A review of the extent of project implementation in March 2018 indicates that the primary infrastructure works on three (3) sites was still incomplete. In the circumstances, it has not been possible to confirm the propriety of expenditure totalling KSh.89,615,876 on the primary infrastructure for the year ended 30 June 2017.

(ix) Status of Project Secondary Infrastructure

Further examination of the project status report in March 2018 revealed that only six (6) out of the initial ten (10) sites had secondary infrastructure installation complete and site acceptance test done as detailed below:

Secondary Infrastructure System Works Status 23/04/2018

Item	Site Name	Status
1	Hola	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air
2	Kilifi	Installation is 95% complete, SAT to be undertaken on 3/5/18 and Transmissio to commence immediately
3	Kitui	Installation is 50% complete, SAT to be undertaken on 25/5/18 and Transmissio to commence immediately
4	Kwale	Installation is 50% complete, SAT to be undertaken on 20/5/18 and Transmissio to commence immediately
5	Lamu	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air
6	Webuye	Installation is 10% complete, SAT to be undertaken on 10/6/18 and Transmissio to commence immediately
7	Maralal	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air.

Item	Site Name	Status
8	Nyadundo	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air.
9	Siaya	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air.
10	Wajir	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air.

In addition, the report includes six (6) station namely Hola, Lamu, Mararal Kilifi, Kitui, and Kwale that did not have power supply though it is indicated that three (3) of these sites Television transmissions are in air. In the circumstances, it has not been possible to confirm that the stakeholders have obtained the value for money from the Project resources.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

912. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

913. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR SPORTS DEVELOPMENT VOTE 1132

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

914. Unsupported Expenditure on Supply, Delivery and Installation of Security, Access Control, Communications, Audiovisual and Pitch Lighting Systems in Various Stadiums

On 14 September 2017 the State Department of Sports Development (SDSD) awarded a contract to a firm at contract sum of USD 15,892,980 (KSh.1,609,037,145). The contract was for the design, supply, testing, commissioning and supervision of security, access control, communications, audiovisual and pitch lighting systems.

The works were to be completed within a period of four (4) months and involved remodeling of five (5) No. Stadiums which included Jomo Kenyatta Stadium in Machakos, Moi Kinoru Stadium in Meru, Kipchoge Keino Stadium in Eldoret, Nyayo Stadium in Nairobi, Kasarani Stadium in Nairobi and ten (10) No. training pitches that were earmarked for use during the CHAN 2018 Championships.

A review of the State Department's payment records for the year ended 30 June 2018 disclosed that the firm was paid a 20% advance payment of USD 3,178,596 (KSh.330,537,997) vide P.V. No.0618 dated 30 January 2018.

The advance payment was based on a security guarantee issued by a Bank in Madrid -Spain dated 30 October 2017. It was however noted that the security guarantee was valid up to 28 February 2018 and had therefore expired at the time of the audit in November 2018 and no evidence was presented to confirm its re-validation.

In view of the foregoing, there is a risk of not recovering advanced amount of KSh.330,537,997 as the security guarantee had expired and had not been replaced. It is also not clear when and if the project will be completed considering that the funding was withdrawn by the National Treasury.

915. Irregular Payments to Members of Parliament (MPs)

An amount of KSh.2,461,872 was on 29 June 2018 transferred by the State Department to the National Sports Fund for the purpose of catering for MPs during the FIFA World Cup Games held in Russia in July 2018. The funds were meant to cater for two MPs expenses during the last two weeks of the games (1st – 17th July 2018). The payments were based on requests from the Clerk of the National Assembly vide letters Ref. No. KNA/DCS/SCT/2018 (023) of 14 June 2018 and Ref. No. NA/WCC/2018/VOL.1/02 of 18 June 2018.

The members of the National Assembly serve under Parliamentary Service Commission and all their expenses should be paid from there.

In the circumstances, the State Department should pursue the refund of the KSh.2,461,872 from the Clerk of the National Assembly.

916. Excess – Development Appropriation Vote

A review of the summary statement of development appropriation for the year ended 30 June 2018 revealed that development vote expenditure amounted to KSh.2,280,773,796 against a budget of KSh.2,246,899,981 resulting to an excess vote of KSh.33,873,815. The over expenditure was mainly attributed to acquisition of assets where a total of KSh.1,812,044,124 was spent against a budget of KSh.1,748,211,106 resulting in an over expenditure of KSh.63,833,018 or about 4%.

Though management has explained that this over utilization resulted from adjustments in the supplementary budget after expenditure had already been incurred, there was no evidence to show subsequent approval from the National Treasury or parliament as required.

917. Pending Bills

The financial statements for the year ended 30 June 2018 reflect pending bills totalling KSh.329,768,724 carried forward to 2018/2019 financial year. Had these bills been cleared and charged to the vote, the statement for receipt and payments for the year ended 30 June 2018 would have reflected a deficit of KSh.325,318,600 instead of a net surplus of KSh.4,450,124 now shown. The management states that the accumulation of the pending bills over last three financial years was mostly due to under exchequer issues and has engaged with the National Treasury for enhanced budgetary provision. It was however not clarified why the pending bills did not form the first charge in the subsequent year as required.

Consequently, the validity and propriety of the pending bills could not be ascertained.

918. Un-budgeted Disbursement and Excess Vote to National Sports Fund

An amount of KSh.404,444,538 was transferred by the State Department as special grants to National Sports Funds. However, the National Sports Fund had not budgeted for these funds. Further, the Fund's management were not involved in the procurement process for payments made from this funding. In addition, included in this amount was KSh.63,390,000 meant for the Commonwealth Games but the National Sports Fund spent a total of KSh.130,553,340 for this event resulting to unauthorized over expenditure of KSh.67,163,340. The over expenditure was funded through reallocation of funds meant for World Rally Championships held in Naivasha without approval of the National Treasury.

In the circumstances, it has not been possible to ascertain if transfer of special grants to National Sports Funds amounting to KSh.404,444,538 was lawful and whether the resultant expenditure on Commonwealth Games totalling KSh.130,553,340 was a proper charge to public funds together with the resulting excess vote of KSh.67,163,340.

919. Advance from the Anti-Doping Agency of Kenya

An amount of KSh.4,400,000 was in July 2017 advanced to the State Department of Sports Development by the Anti-Doping Agency of Kenya for the purpose of paying athletes who participated in the World Under 18 Championship held in Nairobi from 12th to 16 July 2017.

The amount was to be refunded immediately the State Departments books of account for the year 2017/2018 were opened. However, only KSh.2,000,000 has been refunded leaving a balance of KSh.2,400,000 outstanding.

Consequently, the settlement of the advance of KSh.2,400,000 remains doubtful.

920. Unresolved Prior Year Matters

920.1 Supply and Delivery of Petroleum Products in Bulk

As previously reported, during the IAAF World Under-18 Championships held in Nairobi from 12 July and 16 July 2017, a contract between the State Department of Public Works-Supplies Branch and a firm was adopted for the supply and delivery of petroleum products in bulk totalling KSh.11,123,960.

According to the adopted contract, a discount of KSh.4.25 on the Energy Regulatory Commission unit prices was to be offered for every liter of diesel or petrol supplied. A review of the fuel analysis indicate the Local Organizing Committee did not enjoy this discount, and yet it was in the contract. It was also not clear why the fuel was procured in bulk yet buses, minibuses, vans, saloon cars and luxury cars had been hired.

The management has stated that, “with regard to failure to enjoy the benefit in the contract, the supplier has been contacted with a view to agreeing on the contractual obligations of each party.” However, no evidence was produced to support this assertion.

920.2 Theft of Parking Lights at Kasarani Stadium

As previously reported, one hundred and thirty (130) parking lights installed at the Stadium with an estimated value of KSh.3,615,950 installed during the IAAF World Under-18 Championships-Nairobi 2017 were stolen. Although the security firm at the stadium acknowledged the theft and requested to replace the security lights, no

replacement had been done as at the time of audit in November 2018. The management has however stated that it has withheld retention money until replacement is done. However, no evidence was produced to support the withholding of the retention money.

920.3 Other Matters arising from the audit 2016/17 Report

The report for 2016/17 was discussed by the Parliament Accounts Committee and the Accounting Officer was requested to avail supporting documents to the Office of the Auditor-General for their verification.

Other Matter

921. Budget and Budgetary Performance

921.1 Receipts

The State Department of Sports Development had budgeted for receipts totalling KSh.4,831,669,152 but realised KSh.4,809,210,037 resulting to a shortfall of KSh.22,573,115 or 0.5%.

921.2 Expenditure

The Department had budgeted to spend KSh.4,831,669,152 but actual expenditure amounted to KSh.4,804,759,913 resulting to an under expenditure of KSh.26,909,238 or 1% .

The underutilization on other grants and transfers of KSh.3,101,600 or 15% was as a result of late submission of requests while the over-expenditure on acquisition of assets of KSh.61,594,500 or 4% was a result supplementary budget cut after expenditure had already been incurred.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

922. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

923. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL SPORTS FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

924. Budget and Budgetary Performance

924.1 Revenue

The Fund had budgeted for KSh.313,500,000 against actual receipts of KSh.347,013,821 resulting to excess revenue of KSh.33,513,821 or 10%.

The unbudgeted excess revenue of KSh.33,513,821 was mainly attributed to special grants transferred by the State Department for Sports Development to be utilized by the Fund on its behalf without the National Treasury's authority.

924.2 Expenditure

The Fund had budgeted to spend KSh.357,474,600 against actual expenditure of KSh.489,784,383 resulting to an over expenditure of KSh.132,309,783 or 37%.

It is not clear why the Fund budgeted for expenditure totalling KSh.357,474,600 while it had a revenue budget of KSh.313,500,000. This clearly indicates total lack of budgetary control. Further, no approval from the National Treasury was obtained for the over expenditure amounting to KSh.132,309,783.

925. Special Funds Reserve Account

Section 31 of the Sports Act No. 25 of 2013, states that “There shall be maintained a reserve account of the Fund into which shall be deposited:

- a) any special contribution paid into the Fund by the Government for the purposes of facilitating sportspersons; and
- b) any income of the Fund that the Board of Trustees determines should be set aside to support national sports organisations subject to a maximum of ten per cent of such income”.

Examination of receipt records for the year ended 30 June 2018 revealed that the Fund received special grants totalling KSh.404,444,540 from the State Department for Sports Development which were deposited in the operations bank account instead of a reserve fund account as provided in the Act.

No reasons were given for the failure to open a special fund reserve account as required.

926. Special Project Fund-Grants and Subsidies

The State Department for Sports Development made transfers totalling KSh.404,444,538 to the National Sports Fund stated as special grants for the purpose of payment of various activities on behalf of the Department as follows:

Special Project Funds

Amounts Transferred to:	Receipts	Expenditure	Balance
Funds Transfer Ministerial Team Building Nyeri	6,588,000	3,374,000	3,214,000
World Rally Championship Funds	187,500,000		
World Rally Project	38,300,000		
	225,800,000	144,996,500	80,803,500
Commonwealth Funds	50,000,000		
Commonwealth cash awards	13,390,000		
	63,390,000	130,553,340	(67,163,340)
Sports Federations			
Kenya Open Golf Sponsorship	30,000,000		
Kenya Amateur Wrestling Association Funds	3,104,510		

Amounts Transferred to:	Receipts	Expenditure	Balance
Kenya Rugby & Football	34,778,534		
Kenya Rugby	21,000,000		
World Under 18 Championship Supplier Funds	4,722,014		
	93,605,058	75,996,226	17,608,832
International Competitions	3,000,000		
International Allowances	<u>860,580</u>		
	3,860,580	-	3,860,580
Under 20 games Finland	1,600,000		
Under 20 Observer games & Allowances	9,600,900		
	11,200,900	-	11,200,900
Total	404,444,538	351,546,066	46,310,472

A review of support records for these grants revealed the following anomalies:

926.1 Commonwealth Games (2018)-Gold Coast

The statement of financial performance for the year ended 30 June 2018 reflects Grants and Subsidies figure of KSh.351,276,792 which includes KSh.130,553,340 for the Common Wealth Games. However, only KSh.63,390,000 was received by the Fund from the State Department for this event resulting a deficit of KSh.67,163,340 which was financed through reallocation of funds meant for World Rally Championships without approval from the National Treasury as required.

926.2 World Rally Championship Expenditure

The Fund received KSh.225,800,000 from the State Department for the World Rally Championships (WRC) out of which KSh.144,996,500 was spent on African Rally Championship held at Naivasha from 14 to 18 March 2018 in preparation for World Rally Championship 2020.

A review of the supporting documents in respect of the expenditure incurred therein disclosed that the procurement process was carried out by the State Department without involvement of the Fund. Further, procurement of goods and services totalling KSh.3,708,176 was done through direct procurement contrary to Section 103 of Public Procurement and Asset Disposal Act, 2015.

926.3 Un-budgeted for Expenditure

On 7 June 2018 the Fund contracted a supplier to provide event management services during a ministerial team building event held in Nyeri from 11 to 16 June

2018 at a fee of KSh.3,374,000. A part payment of KSh.1,687,000 was made on 14 June 2018. It was however noted that this event related to the State Department for Sports Development which has a separate budget for such activities.

In the circumstances, the propriety of the payment amounting to KSh.3,374,000 could not be confirmed.

927. Irregular Rent Security Deposit

The financial statements reflect a figure of KSh.4,744,440 described as rent security deposit paid to a firm. A review of the lease agreement signed between National Sports Fund and the property owner revealed that there was no requirement for rent deposit. Although the management has written to the lessor instructing that the deposit be utilized to offset future rent payments, as at the time of audit in December 2018 there was no response to show if the latter was in agreement.

928. Payment for Un-occupied Office Space

Included in the general expenses balance of KSh.58,093,119 is KSh.20,356,329 relating to office rent. Verification of records supporting this expenditure revealed that, National Sport Fund leased additional office space on the seventh floor Wing A measuring approximately 5,578 square feet at Flamingo Towers from 1 November 2017. It has however been observed that this office space has never been utilised since the lease date. As at the time of audit, the Fund had paid a total of KSh.10,653,811 for this unused space.

In view of the foregoing, the Fund has not obtained value for money from the payment of KSh.10,653,811.

929. Engagement of a Private Law Firm without Authority

During the year under review, the Fund engaged a Law firm for the purpose of rendering legal services and fees totalling KSh.2,288,000 was paid. However, no approval was obtained from the Office of the Attorney General to engage a private legal firm as required by circular AG/6/D/144 VOL.II dated 6 April 2017 from the same office. Further, it was not clear how the firm was identified or how the legal fee was arrived at contrary to article 227 (1) which requires that goods and services be procured in accordance with a system that is fair, equitable, transparent, competitive and cost-effective.

In the circumstances, the engagement of the private legal firm was irregular and the payment of KSh.2,288,000 should not remain a charge to public funds.

930. Negative Operating Results

A review of the statement of financial performance for the year ended 30 June 2018 showed that the Fund's expenditure totalled KSh.502,609,527 against revenue realized amounting to KSh.347,013,821 resulting to a net deficit of KSh.156,232,841. Further, the statement of financial position reflects total current assets of KSh.20,319,019 while the current liabilities totalled KSh.69,243,855 resulting to a negative working capital of KSh.48,924,836.

In the circumstances, the Fund is technically insolvent and its ability to sustain services is doubtful.

931. Prior Year Adjustments

The statement of changes in net assets for the year ended 30 June 2018 reflects two prior adjustments for KSh.1,940,057 and negative KSh.582,017 which are also shown in the property, plant and equipment schedule on note 22 of the financial statements as addition to computers and resultant depreciation respectively. The management has explained that the adjustment relates to computers and electronic equipment paid for by the Parent Ministry in the year ended 30 June 2017 but were omitted in the financial statements then. However, the prior year adjustments have not been disclosed in accordance with the requirements of IPSAS 3 which requires retrospective restatement of amounts in the year when the errors occurred.

Other Matter

932. Unresolved Prior Year Audit Matters

932.1 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 to a firm at a total contract sum of KSh.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 KSh.7,091,718 or 36% of the contract sum made to the contractor. No reasons were given for the delay in project completion and no approval for extension of time was seen.

A review of the matter during the year under audit showed that the project was about 90% complete.

933. 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 reflected under expenses a figure of KSh.19,121,080 in respect of office rent. Included in the figure was KSh.11,975,480 for 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 KSh.11,975,480 was expensed in the financial statements for the year ended 30 June 2017. No reasons were provided for the failure by the State Department to refund the amount paid on their behalf.

A review of the matter in the year under audit revealed that the amount was still outstanding.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

934. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for conclusion

935. Lack of Board of Trustees

The Fund operated without a Board from 12 June 2017 after expiry of the previous Board Members' term. Under the circumstances, the Fund was unable to constitute board committees such as the audit committee, finance committee, human resource committee, and sports evaluation committee to provide oversight to the management activities in line with good corporate governance practices.

936. Lack of Substantive Chief Executive Officer

The Fund has never had a substantive Chief Executive Officer since inception contrary to the provisions of Sports Act of 2013. All the officers who have ever occupied the position have been doing so in an acting capacity. It was noted that the current holder of the position has been acting since April 2017.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

STATE DEPARTMENT FOR CULTURE AND ARTS VOTE 1133

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

937. Accuracy of the Cash and Cash Equivalents Balance

The statement of assets and liabilities reflects a cash and cash equivalents balance of KSh.18,007,764 as at 30 June 2018. However, the following unsatisfactory matters were noted;

937.1 Recurrent Cash book

The bank reconciliation statement for the Recurrent cash book as at 30 June 2018 reflects payments totalling KSh.622,633 in respect of stale cheques. No explanation has been given for failure to reverse the stale cheques in the cash book. Further, the statement reflects direct bank debits amounting to KSh.4,439,410 which have been outstanding for a long time. The direct debits have not been investigated to establish what they related to. In addition, the Board of Survey Certificate as at 30 June 2018 reflects cash in hand balance for the recurrent cash book of KSh.232,979 which was omitted from the financial statements.

937.2 Development Cash book

The development account bank reconciliation statement for June 2018 reflects payments in cash book not in bank statement of KSh.1,595,042 that were outstanding for over 6 months but had not been reversed in the cash book. Included in this figure was KSh.1,505,042 relating to withholding tax deducted from suppliers that had not been remitted to Kenya Revenue Authority (KRA) as required. No explanation has been given for the failure to remit the withholding tax to the KRA.

937.3 Variance between IFMIS Generated Trial Balance and Financial Statements

The IFMIS generated trial balances differed with financial statements balances as follows:

Item	Codes		IFMIS Trial Balance KSh.	Financial Statements KSh.	Difference KSh.
Bank Balances	6530000	Recurrent	2,503,714,337	85,244	2,503,629,093
	6540000	Development	246,408,366	3,654,746	242,753,620
	6550000	Deposits	43,903,947	14,267,774	29,636,173

Item	Codes		IFMIS Trial Balance KSh.	Financial Statements KSh.	Difference KSh.
Cash Balances	6580000	Cash in Hand	5,944,468,394	-	5,944,468,394
Training Expenses	2210700		110,151,452	95,642,452	14,509,000
Imprests	6710000/6740000/ 6760000/6780000		3,790,355	477,591	3,312,764
Deposits	7310000		3,788,070	14,267,774	-10,479,704

In addition, district suspense amount of KSh.3,585,690 has been omitted from receivables under Note 11 on accounts receivables district suspense balance of KSh.125,418 to the financial statements.

The accuracy of the cash and bank, training expenses, imprest and deposit balances reflected in the financial statements of KSh.18,007,764, KSh.95,642,452, KSh.477,591 and KSh.14,267,774 respectively could not be confirmed.

Consequently, the accuracy, completeness and validity of the financial statements for the year ended 30 June 2018 could not be ascertained.

938. Pending Bills

Pending bills amounting to KSh.25,716,484 chargeable to both the Recurrent and Development were not settled during the year but were instead carried forward to 2018/2019 financial year. Had these bills been cleared and charged to the Vote, the statement of receipts and payments for the State Department for Culture and Heritage for the year 2017/2018 would have reflected a deficit of KSh.21,498,903 instead of a surplus of KSh.4,217,582 now shown.

939. Accounts Payable

Included in the account payable balance of KSh.14,267,774 is KSh.1,706,793 recorded as EFT collections whose creditor details were not disclosed. In the absence of proper details the existence of KSh.1,706,793 creditors is doubtful.

Further, the financial statement balance of KSh.14,267,774 differed with the IFMIS balance of KSh.3,131,795,830 resulting to unexplained variance of KSh.3,117,528,056

In the circumstances, the accuracy of the accounts payable balances reflected in the financial statements of KSh.14,267,774 could not be confirmed.

940. Transfers to Other Government Units

The statement of receipts and payments for the year ended 30 June 2018 reflect KSh.2,817,534,350 in respect of transfers to other government units. However, in

some of the entities, the confirmed receipts was KSh.1,463,898,100 against respective amounts disbursed of KSh.1,483,183,950. The variances of KSh.19,285,850 has not been reconciled or explained. Further, expenditure returns for the KSh.18,750,000 transferred to National Product Industry of have not been provided for audit review.

As a result, the accuracy and validity of the total transfers to other government units of KSh.2,817,534,350 reflected in the financial statements as at 30 June 2018 could not be confirmed.

941. Acquisition of Assets

The statement of receipts and payments reflects KSh.45,002,622 in respect of acquisition of assets for the year ended 30 June 2018. However, a review of the related payment records disclosed that only assets worth KSh.32,505,872 could be confirmed. Further, assets worth KSh.25,140,000 were omitted from the financial statements as indicated below:

942.1 33 Seater Bus

Note 9 of the financial statements reflect a nil balance in respect of additions of motor vehicles while a 33-seater bus was bought during the year under review at a cost of KSh.5,140,000. The existence, ownership, safety, valuation and custody of the bus remains doubtful as at 30 June 2018.

942.2 Integrated Records Management System (IRMS)

The State Department had a development budget of KSh.50,000,000 for the purpose of establishing an Integrated Record Management System (IRMS). Included in this amount were other equipment purchased such as a server, scanners, computers, laptops and furniture worth KSh.20 million which were not supported with itemized schedules to enable verification of same. Further, the amount of KSh.20 million was omitted in the acquisition of assets total balance of KSh.45,002,622 for the year under review.

In the circumstances, the accuracy, validity and completion of the acquisition of assets total balance of KSh.45,002,622 could not be confirmed for the year ended 30 June 2018.

943. Pan African Organization of Film Maker (FEPACI)

A Memorandum of Understanding (MOU) was signed on 23 December 2013 between the then Ministry of Sports, Culture and Arts and the Pan African Federation of Film Makers (FEPACI). According to the MOU, the Ministry was to provide financial resources of KSh.84,000,000 annually for four (4) years with effect from 2014/2015 for the management and operations of the Secretariat Office in Kenya.

The funds were to be disbursed and utilized under the terms and conditions governing the management of public funds.

As at the time of audit carried out in December 2018, the Ministry had disbursed a total of KSh.334,421,573 as shown below:

Financial year	Amount KSh.
2014/2015	85,985,637
2015/2016	64,000,000
2016/2017	84,681,554
2017/2018	99,754,382
Total	334,421,573

Accordingly, the Ministry was required to monitor and guide operations of FEPACI as per the addendum to the MOU. However, no evidence was made available indicating that the Ministry carried out its monitoring role. Consequently, the following anomalies were noted:

943.1 Unauthorized Bank Account

FEPACI operated a bank account with the a local bank without National Treasury approval contrary to Section 28(1) of the PFM Act, 2012. The Secretariat was in breach of the law.

943.2 Closure of FEPACI Operations in Kenya

FEPACI closed its operations in Kenya on 30 June 2018 and at the time of closure the federation had a bank balance of KSh.29,338,898 and cash in hand balance of KSh.45,526. No documentary evidence was made available to show that the balances were refunded back to the State Department of Culture and Heritage as required. Further, as at the date of closure of its operations in Kenya on 30 June 2018, an amount of KSh.1,858,640 being receivables due from unsurrendered imprests, rent, water and electricity deposits were still outstanding. The unsurrendered imprests included KSh.1,044,134 issued as per diem to the Secretary General and others. In addition, as at the closure of operations on 30 June 2018 FEPACI had accrued trade and other payables amounting to KSh.16,296,026. No explanation was given as to how these debts would be settled.

943.3 Procurement of Good and Services

An audit review of FEPACI expenditure revealed that an amount of KSh.22,799,908 was not supported. Further, FEPACI did not prepare procurement plans during the four years of operation as required by Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015. In the circumstances, the propriety of the expenditure incurred of KSh.22,799,908 could not be confirmed.

943.4 Irregular Per Diem Payments to a Consultant

An amount of KSh.928,881 was paid to an individual being per diem and airfare while attending FEPACI meetings in South Africa. However, it was noted that the payee was a consultant and therefore did not qualify for per diem payments as listed below:

Date	Cheque No.	Payee	Details	Amount KSh.
27/10/2015	509 & 483	Mr. Nderitu Muriithi	Travel to Johannesburg South Africa	579,627
25/9/2015	463	Mr. Nderitu Muriithi	Trip to South Africa	331,254
Total				910,881

The payment was therefore ineligible and should be refunded back to the State Department.

943.5 Audit of FEPACI Financial Statements by a Private Firm

FEPACI did not submit accounts for audit by the Auditor General as required by Section 81(4) of the PFM Act, 2012 despite a clear disclosure in the memorandum of understanding that funds so disbursed were to be utilized under the terms and conditions governing the management of public funds. As a result, during the four (4) years of operations, FEPACI hired a private firm and paid audit fees totalling KSh.3,289,594 without seeking approval of the Auditor General. The amount is not a proper charge to public funds.

In view of the foregoing, the four year operations of FEPACI have not been within the Public Finance Management Act, 2012 and the accountability of the KSh.334,421,573 disbursed to the secretariat could not be confirmed as at 30 June 2018.

944. Compensation of Employees

During the year under review, the compensation of employees costs increased from KSh.150,508,146 in 2016/2017 to KSh.270,004,366 resulting to an unexplained difference of KSh.119,496,220 or 79.3% increase. The huge increase has not been explained or justified by the management.

945. Unresolved Prior Year Audit Matters

945.1 Uzalendo Festival and Renovation of Three (3) Monuments

As previously reported, an amount of KSh.28 Million was disbursed to the National Museums of Kenya 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 KSh.20 Million while the balance of KSh.8 million was to cater for the renovation of several monuments.

The receipts and invoices to support the total expenditure of KSh.28 million were not availed for audit. A review of the position in 2017/2018 revealed that the supporting document were still outstanding.

946. Unsupported Pending Bill

As previously reported, an amount of KSh.6,782,758 was paid on 27 June 2017 to the Standard Group Ltd as balance for advertisement of the Smithsonian Kenya Mambo Poa Festival and hosting Radio Talk Shows held in May and June 2014. It was then noted that the invoices worth KSh.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.

To date, the validity and propriety of the expenditure of KSh.6,782,758 cannot be confirmed.

Other Matter

947. Budget and Budgetary Performance

947.1 Receipts

Actual revenue realized amounted to KSh.3,548,177,895 against a budget of KSh.3,580,611,123 resulting to a shortfall of KSh.32,433,228 or 1%.

The shortfall in budgeted receipts of KSh.32,433,228 implies that some activities of the State Department were not achieved as planned.

947.2 Expenditure

Actual expenditure amounted to KSh.3,543,960,313 against the approved budget of KSh.3,580,611,123 resulting in an under expenditure of KSh.36,650,810 or 1%.

The under expenditure implies that the budgeted activities of the State Department were not achieved as planned.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

948. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

949. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR ENERGY VOTE 1152

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

950. Land without Title Deeds

As reported in 2016/2017, the State Department for Energy does not have title deeds for eight (8) parcels of land it occupies totaling 21.42 hectares valued at approximately KSh.180,700,000. The parcels of land are located in various counties.

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 owners of these parcels as well as the risk of being encroached upon by squatters and land grabbers.

Other Matter

951. Unsurrendered Imprest

The financial statements reflect accounts receivables balance of KSh.139,114,483, as at 30 June 2018. This balance includes district suspense balance of KSh.137,586,321 which had not been surrendered to the head office by the time of concluding the audit. Under the circumstances, it was not possible to confirm that the district suspense is free from the risk of misappropriation.

952. Budget Performance – Use of Goods and Services

During the year under review, the approved final budget for use of goods and services was KSh.1,029,780,080. Out of this, only KSh.564,451,806 was absorbed, resulting in under absorption of KSh.465,328,274 or 45% of the total budget.

The under-absorption of the approved budget may have resulted to slowed down implementation of activities and projects in the Department's work-plan, for which the funds were budgeted. This may have impacted negatively on service delivery to the people of Kenya.

953. Pending Bills

The statement of receipts and payments reflects payments totaling KSh.75,051,315,555 for the year ended 30 June 2018. This amount excludes pending bills of KSh.133,684,202 which have been carried forward to 2018/2019 financial year. Had the pending bills been settled in the year under review, the financial statements would have reflected a reduced surplus of KSh.8,117,349

instead of the reported surplus of KSh.141,801,551. This is indicative of the State Department's failure to adhere to the Public Finance Management guidelines on budgeting by incurring expenditure in excess of the approved budget. In addition, failure to settle bills in the year to which they relate adversely affects the next year's budget provision to which they have to be charged.

954. Installed Solar DC Systems Not in Use

The State Department spent KSh.4,358,328 during the year under review to install solar DC systems in six (6) dispensaries in Kitui and Makueni Counties. Although the six solar DC systems had been tested and commissioned, they were yet to be utilized for the benefit of the local community because refrigerators which were to be energized were yet to be acquired. According to management, the responsibility for provision of the refrigerators to the dispensaries lies with the Ministry of Health, as per an undertaking made by the latter.

Under the circumstances, it has not been possible to confirm there was value for money in the expenditure of KSh.4,358,328 incurred by the State Department on the solar power systems.

955. Construction of Twin Biogas Digesters

As reported in 2016/2017, the State Department entered into a local contract on 29 June 2016, for an amount of KSh.7,923,405 for the supply, construction, testing and commissioning of twin biogas digesters plant in Siana Primary School - Narok County. The objective of the digester was to generate biogas using cow dung and sewage for use by the school. The contract provided for twenty (20) weeks for construction and eight (8) weeks for testing to its functional use. Available records at the State Department indicate that the contractor had been paid KSh.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 plant construction and installation was completed in January 2017, it was yet to be tested. The delay in testing arose 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 with cow dung. The implementation of this project is therefore significantly behind schedule.

Under the circumstances, it has not been possible to confirm whether there was value for money in the expenditure of KSh.7,923,405 on the biogas project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

956. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

957. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

PETROLEUM DEVELOPMENT LEVY FUND-STATE DEPARTMENT FOR ENERGY

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

959. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

960. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

KENYA ENERGY-SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

962. Interest on Bank Deposits

The financial statements reflect interest income of KSh.12,971,469 under revenue from exchange transactions. The bank computed interest at the rate of 2.5% p.a. But the agreement entered into between the management of the Fund and the bank which stipulated that deposits in bank accounts held at the bank shall earn interest at the rate of 4% p.a. effective from 15 November, 2007. Had the interest on the Fund's deposits been calculated using the agreed rate of 4% p.a, the Fund would have earned interest income of KSh.20,753,995 instead of KSh.12,971,469. The Fund was therefore underpaid by KSh.7,782,526.

Further, as reported in my 2016/2017 audit report, the Fund received interest amounting to KSh.92,623,311 on account of its deposits placed with the bank between 2007 and 2016. Included in this figure is an amount of KSh.80,017,446, for which management is yet to provide satisfactory evidence of how it was computed. Consequently, it has not been possible to confirm whether the Fund received value for its deposits with the local bank in the prior years.

Other Matter

963. Tender for the Exploratory Coal and Coal Bed Methane Drilling Services in Kwale, Kilifi and Taita Taveta Counties

963.1 Background

A local contractor was awarded Lot 1 of the above tender on 19 May 2015 at a sum of KSh.322,839,600. The scope of work included mobilizing drilling equipment and personnel to the contract site; drilling fifty-four (54) wells across nine (9) coal blocks within the sedimentary basins for coal exploration in Kwale County as per the sites selected by the client. The Contract was to run for a period of fifteen (15) months, from 29 June 2015 to 29 September 2016. The contractor commenced work after

drilling sites were identified in a kick-off meeting held on 16 January 2018 and was expected to complete the work in a period of eighteen (18) months.

963.2 Payments

During the year under review, the contractor was paid KSh.22,272,000 (inclusive of 16% VAT) vide voucher No.166, dated 14 December 2017. However, management did not avail certificates of work done as evidence that it was done to the agreed standards. Under the circumstances, it was not possible to confirm the validity of the payment of KSh.22,272,000 made to the contractor.

Further, according to documents supporting the payment, the KSh.22,272,000 was part of pending bills totaling KSh.71,987,853 brought forward from the 2016/2017 financial year and payable from this Fund. However, the Fund's financial statements under review and those for the previous year do not disclose any pending bills.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

964. Expenditure not Included in the Annual Work Programme

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflect total expenditure of KSh.451,007,436 against an approved budget of KSh.202,720,000 shown in the Fund's annual work programmes for the year under review. The Fund, therefore, incurred excess expenditure of KSh.248,287,436 double the budget.

965. Ineligible Expenditure

Included in the afforestation – tree planting expenses of KSh.364,784,387 are legal fees amounting to KSh.256,387,419 (KSh.32,864,585 in 2016/2017), relating to Wind Power Project Vs Government of Kenya and Energy and KSh.22,272,000 relating to a contract for exploratory coal diamond core drilling services in Kwale County. The National Treasury advised the State Department for Energy to realign its 2017/2018 approved budget with a view to identifying savings to cater for expenditure on legal/arbitration fees relating to the above mentioned cases. The Fund, therefore, incurred expenses amounting to KSh.278,659,419, which were not in pursuance to the objects and purposes for which the Fund was established.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

966. Except for the issues described in Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

**BOGORIA SILALI GEOTHERMAL PROJECT (LOAN NO.
2013.66.103)**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Conclusion

968. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

969. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MULTINATIONAL – KENYAN SECTION OF INTERCONNECTION PROJECT OF ELECTRIC GRIDS OF NILE EQUATORIAL LAKES COUNTRIES (ADF LOAN NO. 2100150022643)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

971. Delay in Projects Deliverables

The project's original contract amount was KSh.4.2 billion out of which a total of KSh.3 billion had been spent as at 30 June 2018. However, implementation of the project is behind schedule due to non-performance by the initial contractor whose services were terminated in the 2015/2016 financial year, and failure by the contractor and sub-contractors to deliver materials as scheduled. Further, information available indicates that the Loan Agreement between the Republic of Kenya and African Development Fund which expired in December 2017 had not been renewed as at 30 June 2018. In the circumstances, and as reported in my 2016/2017 it was not possible to confirm when the project will be completed.

Other Matter

972. Expenditure not Included in the Annual Estimates

The statement of comparative budget and actual amounts reflects expenditure totaling KSh.15,689,352 (equivalent to 20% of the project's budget for the year under review) that was not included in the annual estimates for the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

973. Except for the issues described in the Emphasis of Matter and Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

974. Except for the issues described in Emphasis of Matter and Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

LAST MILE CONNECTIVITY PROJECT (LOAN NO. 2100150032195)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC
RESOURCES

Conclusion

976. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

977. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KENYA ELECTRICITY EXPANSION PROJECT (IDA CR. NO. 4743-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

979. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

980. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KENYA ELECTRICITY MODERNIZATION PROJECT (IDA CR. NO. 5587-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

982. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

983. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

EASTERN ELECTRICITY HIGHWAY PROJECT (IDA CR. NO. 5148-KE, AFD CR. NO. CKE 1030 01B AND ADF LOAN NO. 2100150027845)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

985. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

986. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

MOMBASA-NAIROBI TRANSMISSION LINE PROJECT (AFD CR. NO. 6012 01G; ADF LOAN NO. 2100150019893 AND EIB CR. NO. 25367 KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

988. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

989. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KENYA ELECTRICITY EXPANSION PROJECT (IDA CR. NO. 4743 KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

991. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

992. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

RURAL ELECTRIFICATION IN FIVE REGIONS *PROJECT* (CR. NO. 11/597, 1407P)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

994. Delays in Project Implementation

According to information reflected in the annual report and financial statements, the Project's expected commencement date was 23 September 2012 and expected completion date is 30 September 2019. However, this project's only activity in the year 2016/2017 amounted to KSh.812,169,818 and there was no activity in the current financial year due to delays in implementation. According to management, the delays arose from challenges related to conditions set out by the financier.

Under the circumstances, the objectives of the project may not be achieved and the intended beneficiary may take longer to derive the benefits.

995. Budget Shortfall

The Project's budget for the 2017/2018 financial year was KSh.2,062,700,000, comprising Government of Kenya counterpart funding KSh.292,700,000 and External financing of KSh.1,770,000,000. However, no funding was received during the year under review, resulting to 100% variance between the budget and actual amounts. Under the circumstance, the Project objectives have not have been achieved during the year under review, and it is not clear if the Government and the donors are desirous to implement the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

996. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

997. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT (JICA LOAN NO. KE-P28)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter -Basis of Accounting and Restriction on Distribution and Use

The statements of expenditure and related reconciliation statements are prepared to help Kenya Electricity Transmission Company (KETRACO) in complying with the financial reporting provisions of the Financing Agreement and the SOE Procedure for the Japanese ODA loans, Guidance of Borrowers referred to above. As a result, the report may not be suitable for other purposes.

Other Matter

999. Unsupported Withdrawals from Designated Account No. 478-3009198

The reconciliation statement for the project's designated account reflects withdrawals totaling JPY.265,332,924, equivalent to KSh.243,147,642. The withdrawals are eligible for refinancing but documentation to justify the respective claims had not been submitted as at 30 June 2018 .

220KV AND 132KV TRANSMISSION LINES AND SUBSTATIONS (EXIM BANK OF INDIA FUNDED) PROJECTS

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1000. There were no material issues noted during the audit of the financial statements of this Project.

Other Matter

1001. Delay in Project Deliverables

The projects, comprising Turkwel-Ortum-Kitale and Machakos-Konza-Kajiado-Namanga Transmission Lines and Substations were behind schedule as at 30 June 2018 even though KSh.3.8 billion out of the contract sum of KSh.7.3 billion had been paid to the contractors. The delays in execution of the projects were mainly caused by wayleaves acquisition issues whereby landowners in Pokot County failed to agree with the County Government of West Pokot on who should be compensated, while those along Isinya-Namanga Section demanded exorbitant compensation sums in order to allow work to proceed. Other causes of delay included inadequate budgetary allocation from National Treasury to pay out compensations, and poor

performance by the contractor for the substations whose services were terminated in September 2018. Under the circumstances, it is not possible to confirm when the two projects will be completed.

1002. Expenditure not Included in the Annual Estimates

The statement of comparative budget and actual amounts for the year ended 30 June 2018 reflects expenditure totaling KSh.15,787,092 that was not budgeted for in the annual estimates for the year under review contrary to Section 12 of the State Corporations Act.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1003. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1004. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR PETROLEUM VOTE 1153

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1005. Difference Between Financial Statement and Cash book Ledger Balance

The statement of assets and liabilities as at 30 June 2018 reflects bank balances of KSh.138,453,176 which however, differ by KSh.17,542,677 with the balance of KSh.155,995,853 recorded in the cash books.

In view of the anomaly, it is not possible to confirm that the bank balances of KSh.138,453,175 shown in the financial statements as at 30 June 2018 are fairly stated.

Other Matter

1006. Under-absorption of Budget

The State Department's summary statement of appropriation: recurrent and development combined for the year under review, reflects total approved budget of KSh.4,145,007,740. Out of this amount, KSh.209,309,740 and KSh.3,935,698,000 were allocated to recurrent and development expenditures respectively representing 5% and 95% of the total budget respectively. Further, the total actual expenditure for the year amounted to KSh.3,034,472,729 equivalent to 73% of the budget, resulting in under-absorption of KSh.1,110,535,011 or 27% of the total budget. The under-absorption mainly resulted from three items namely use of goods and services, social security benefits and acquisition of assets.

The under-absorption of KSh.1,110,535,011 slowed down implementation of activities and projects in the Department's annual workplan that the funds were budgeted to finance and thus constrained delivery of the Department's services to the Public. Consequently, not all Department's objectives for the year ended 30 June 2018 could be achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1007. Implementation of Mwananchi Gas Project

The State Department is implementing the Mwananchi Liquefied Petroleum Gas (LPG) Project initiated by the defunct Ministry of Energy and Petroleum during the 2016/2017 financial year. The project is intended to promote use of modern cooking fuels among low income households. It entails supply and distribution of Liquefied

Petroleum Gas (LPG) cylinders, grills and burners to households at subsidized prices, and erection of facilities to store the cylinders at local distribution points. The Department has engaged National Oil Corporation of Kenya to supply the gas to households.

Audit of the project revealed the following anomalies:

1007.1 Incomplete supply of components

In May 2017, the Ministry contracted 10 firms to supply various components of the project at an aggregate cost of KSh.999,975,230. Available records indicate that as at the close of the year under review, fulfilment of the supplier contracts was as follows:

Item	Quantity Ordered	Quantity Supplied	Balance	Ratio Supplied
Gas Cylinders	357,355	150,768	206,587	42%
Grills	357,355	272,567	84,788	76%
Burners	357,355	357,355	0	100%
40Ft Containers	258	161	97	62%

Further, evidence indicates that the contracts signed between the suppliers and the Ministry did not specify contract performance durations. Therefore, it is not clear whether the Department has proper recourse to enforce the contracts in the event the firms delay or fail to deliver the components altogether.

In addition, out of the 150,668 cylinders supplied only 66,103 had been inspected and an undisclosed number distributed to consumers in two counties. An estimated 88,565 cylinders were held at National Oil Corporation stores in Nairobi pending inspection and certification for conformity with the supply requirements.

1007.2 Possible loss of funds

One of the two suppliers contracted to supply 148,898 cylinders delivered 23,873 cylinders in July 2017 at a cost of KSh.52,496,727 but 15,350 of the cylinders valued at KSh.33,754,650, equivalent to 64% of the number supplied, were found to be faulty. Attempts by the Department to enforce the performance bond of KSh.40,344,393 provided by the supplier were unsuccessful. According to the bond issuer, the performance bond was not of first-demand category and therefore did not cover liability for the faulty supplies. Apparently, the firm was awarded the contract in spite of having provided a performance bond issued by an insurance company even though the special and general conditions of the supply contract required the firm to provide performance security in form of a bank guarantee or an irrevocable letter of credit issued by a reputable bank acceptable to the Ministry. In the circumstance, the sum of KSh.33,754,650 paid to the supplier for the faulty cylinders is at risk of loss as it was not secured.

1007.3 Pending bills

As at 30 June 2018, the State Department had incurred expenditure amounting to KSh.870,339,283. However, only KSh.481,178,433 had been paid resulting to pending bills balance of KSh.389,160,850 as at 30 June 2018.

1007.4 Sustainability of the Project

The status of the project remains unclear as its implementation appears to have stalled. Further, budgetary allocations to the project were reduced by 50% from the initial two-billion to one-billion shillings in 2016/2017 financial year.

It is doubtful whether the Department will implement the project to the scale envisaged at its inception.

Consequently, value-for-money has not been obtained on expenditures totaling KSh.870,339,283 incurred on the project as at 30 June 2018.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1008. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

PETROLEUM DEVELOPMENT LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1009. There were no material issues noted during the audit of the financial statements of this Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1010. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1011. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

PETROLEUM TRAINING LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1012. Non-Conformity with the State Department's Financial Statements

International Public Sector Accounting Standards (IPSAS)18-Segment Reporting requires audited entity segment information to conform to the accounting policies used in preparing and presenting the financial statements of the consolidated entity. The financial statements of Petroleum Training Levy Fund for the year under review have been prepared on Accrual Basis of Accounting under IPSAS, a change from the Cash Basis of Accounting used in prior years. Since the Fund's financial performance and financial position are also disclosed in the State Department's financial statements for the year under review, the respective statements should conform to the reporting format applied by the State Department which manages the Fund in accordance with IPSAS 18.

1013. Overstatement of Revenue

The statement of financial performance reflects revenue from non-exchange transactions totaling KSh.451,594,351. Although, the Petroleum (Exploration and Production) Act, Cap 308 provides that only monies remitted by contractors as training contribution are to be paid into the Fund, the sum of KSh.451,594,351 includes KSh.176,656,640 relating to oil-block surface fees. Apparently, the State Department accounted for the whole income received, including the surface fee component, as training levy. As a result, the revenue collected in the year under review is overstated by KSh.176, 656,640.

In addition, an undetermined amount of oil-block surface fees was incorrectly expended as appropriations-in-aid under the authority of the Cabinet Secretary contrary to provisions of the Public Finance Management Act, 2012 and the Appropriation Act, 2017. The State Department has acknowledged the anomaly and has indicated its intention to report the two revenue streams separately starting from the 2018/19 financial year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1014. Unaccounted for Grants and Subsidies

The statement of financial performance for the year under review reflects expenditure totaling KSh.227,080,300 under grants and subsidies which includes KSh.120,000,000 being transfers made from the Fund to National Oil Corporation of Kenya (NOCK). However, the purpose of the grants provided by the Department to the Corporation has not been disclosed. In addition, National Oil Corporation (NOCK) did not acknowledge the receipt of the amounts. In view of these anomalies, it is not possible to confirm whether the grants were remitted in accordance with public finance management regulations.

1015. Difference between Training Fund Budget and Voted Provisions

The statement of comparison of budgeted and actual amounts for the year under review reflects budgeted training and oil-block surface fee receipts totaling KSh.375,000,000. However, the voted appropriations for Vote D1153 - State Department of Petroleum for the year under review had provided for Appropriations-in-Aid (A-I-A) totaling KSh.255,000,000 in royalties on oil exploration and training fees. As a result, there is an unexplained difference of KSh.120,000,000 between the two budget estimates. In addition, receipts totaling KSh.308,693,141 were collected during the financial year, resulting in excess A-I-A amounting to KSh.164,653,567. However, the excess A-I-A balance was not surrendered to the National Treasury as required by the Public Finance Management Act, 2012. Instead, the sum was held in a local bank account operated by the State Department. The financial statements indicate that as at 30 June 2018, the Fund had since its inception accumulated cash surpluses totaling KSh.943,906,947, inclusive of bank interest earned on the deposits.

1016. Underutilization of Training Levy Funds

The Exploration and Production Act, Cap 308 provides for establishment of the Petroleum Training Levy Fund for the purpose of training Kenyans on petroleum operations. Examination of training programs carried out in 2016/2017 and 2017/2018 financial years revealed that expenditures totaling KSh.320,764,864 were incurred on training 55 staff drawn from the State Department of Petroleum. The staff were trained on financial as well as human resource management and oil exploration activities, although some of the trainees had previously attended similar courses. However, no trainees were drawn from Universities and Colleges or other learning and research institutions and there is no indication that any support was provided by the Department to these or other institutions well-placed to enhance knowledge and skills on petroleum operations among Kenyans.

In addition, the cumulative training expenditure amounting to KSh.320,764,864 as at 30 June 2018 accounted for a lowly 22% absorption ratio for the fees totaling

KSh.1,484,234,905 collected from oil and gas exploration companies in the two financial years ended 30 June 2018.

The narrowed selection of training beneficiaries and low rate of absorption of the funds has cast doubt on the State Department's capacity and preparedness to effectively use monies collected into the Fund.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1017. Uncollected Training Levy

The statement of financial position as at 30 June 2018 reflects accounts receivable balance amounting to KSh.1,021,813,827 being outstanding levies owed by oil exploration companies and out of which a sum of KSh.230,960,649 is for the year under review. The debts have accumulated over several years in spite of demand notices issued by the State Department to the seven oil companies that hold active licenses in eleven (11) oil exploration blocks. Inability by the Department to collect all the levies due from the companies as provided for in the respective Production Sharing Contracts (PSCs) has denied the Government revenue to finance delivery of services to citizens.

1018. Weaknesses in Revenue Budgeting, Collection and Recording

The statement of financial performance reflects revenue totaling KSh.496,693,141 being training levy and oil-block surface fees collected or due from oil exploration companies. However, audit review of internal controls on revenue collection revealed that procedures for identifying, collecting and accurately recording revenue from oil companies for reporting in the State Department's annual financial statements have not been established as the Department's system cannot accurately determine levies and fees due from contractors. Instead, the Department relies on voluntary reporting by the companies.

In addition, a functional system has not been established to raise fee notes when payments from the companies are due. Instead the finance and accounts sections of the Department rely on the Fund's bank statements as their primary source of data on revenue collections. However, the bank statements do not provide details on the category of revenues deposited or the periods to which the revenues relate. The Department, therefore, may not reliably determine revenues due from the oil-exploration companies.

Consequently, it is not possible to confirm that the Fund has accounted for all revenue due.

DONOR FUNDED PROJECTS

KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CREDIT NO.55260-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1019. There were no material issues noted during the audit of the financial statement of this Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1020. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1021. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR AGRICULTURE VOTE 1161

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1022. Acquisition of Assets

The statement of receipts and payments for the year ended 30 June 2018 reflects an expenditure of KSh.11,010,139,696 on acquisition of assets. However, the accuracy of the amount could not be confirmed due to the following anomalies:

1022.1 Purchase of Motor Vehicles

The expenditure of KSh.11,010,139,696 on acquisition of assets and as disclosed in Note 11 to the financial statements includes expenditure on construction and civil works amounting to KSh.312,920,670. Included in the expenditure on construction and civil works is an expenditure of KSh.34,517,100 incurred by the State Department in procuring three motor vehicles, a Subaru outback and two Toyota Land Cruisers. The management explained that the three vehicles were procured to facilitate the offices of the Cabinet Secretary and the Principal Secretary. However, the expenditure on the motor vehicles is an irregular charge to public funds since it was not included in the annual budget and procurement plan for the year ended 30 June 2018. In addition, it was charged to the wrong account.

1022.2 Procurement of Agriculture Data and Information Management System

The expenditure of KSh.11,010,139,696 under acquisition of assets as disclosed in Note 11 to the financial statements includes an amount of KSh.278,786,348 incurred on research, studies, project preparation, design and supervision. Included in the expenditure on research, studies, project preparation, design and supervision, is an amount of KSh.11,659,600 equivalent to 40% of the contract price of KSh.29,149,000 that was paid to a company for supply, delivery, installation, testing and commissioning of a web based Agriculture Data and Information Management System. The contract between the State Department and the company was entered into during the year 2016/2017, and the supplier has been paid KSh.26,137,600, or 90% of the contract price as of 30 June 2018.

The contract provided that the supplier was to receive the payment upon training, implementation, pilot rollout and commissioning of the system. Although the company has already been paid 90% of the contract price, implementation and commissioning of the system has not been undertaken. In addition, partial training and piloting was only done in Bungoma County. The minutes and correspondences to show which other counties were to benefit were not provided for audit review. As a result, the propriety of the payment of KSh.26,137,600 could not be confirmed.

1023. Use of Goods and Services

1023.1 Procurement, Delivery and Distribution of Fertilizer

The statement of receipts and payments for the year ended 30 June 2018, reflects an expenditure of 6,258,483,629 under use of goods and services and as disclosed under Note 6 to the financial statements, includes an amount of KSh.4,883,928,284, under operating expenses. The latter in turn includes an amount of KSh.3,639,979,568 incurred in the procurement of fertilizer. The State Department advertised an open national tender no. MALF/AGRIB/02/2016-2017 for procurement of various types of fertilizer. Contracts were signed on 17 January 2017 between a Trading Company and nine firms registered under the Access to Government Procurement Opportunity (AGPO) Program, for delivery of imported and locally blended fertilizer, respectively on “as and when required” basis.

1023.1.1 Budget and Budgetary Allocation for the Fertilizer

The total budget for 2017/2018 financial year was 168,480 metric tonnes of fertilizer worth KSh.5,038,730,000, comprising 38,000 metric tonnes worth KSh.1,294,500,000 for the 2017 short rains season and 130,480 metric tonnes worth KSh.3,744,230,000 for the 2018 long rains season. The budget was later revised upwards to KSh.5,569,300,200. However, there was no revision in the quantity of fertilizer required. The reason given for the revision of the financial budget was that the State Department had earmarked to clear National Cereals and Produce Board (NCPB) debts which amounted to KSh.7.99 billion as at 30 June 2018. However, no documentary evidence was provided to indicate that the revision of the budget upwards was related to amounts owing to National Cereals and Produce Board (NCPB).

1023.1.2 Amount and Value of Fertilizer Ordered

The State Department ordered 932,000 bags of various types of fertilizer of 50 kilograms each, with the total weightage of 46,600 metric tonnes. Out of these amounts, 40,000 metric tonnes were ordered from a Trading Company, while the balance of 6,600 metric tonnes were ordered from Access to Government Procurement Opportunities (AGPO) firms. The total value of fertilizer ordered by the State Department was KSh.2,393,092,810.

In addition, the National Cereals and Produce Board (NCPB) was assigned to order 115,700 metric tonnes of various types of fertilizer by the State Department in the year. The State Department had already in the meantime entered into a contract with the Supplier, the Trading Company at a cost of KSh.5,509,776,750. However, the National Cereals and Produce Board (NCPB) ordered 103,183.5 metric tonnes of fertilizer only, leaving a balance of 12,516.5 tonnes outstanding at a cost of KSh.5,719,134,745. No reasons were given for the revision of the contract prices by KSh.209,357,995 considering the order was less by 12,516.65 tonnes.

Further, out of the 46,600 metric tonnes procured by the State Department from the Trading Company, 9,991.75 metric tonnes of Diamonium Phosphate (DAP 18:46:0) fertilizer worth KSh.562,190,809.60 were procured on 8 May 2018 as per Invoice No. ML 780150. However, details of Local Purchase Orders raised by either the State Department or National Cereals and Produce Board were not seen. It is, therefore, not clear which of the two entities was responsible for the procurement. The State Department paid for the consignment through payment voucher number 0255 dated 8 November 2018. This amount was not included in the pending bills for the year 2017/2018.

The total fertilizer ordered by the two entities in the period amounted to 149,775.25 tonnes, all at a cost of KSh.8,112,227,555 which was shared between the State Department KSh.2,393,092,810 and National Cereals and Produce Board KSh.5,719,134,745, respectively. This procurement exceeded the budget amount of KSh.5,569,300,200 by KSh.2,542,927,355.

No reason was given for failure by the State Department to order the full amount of 168,480 tonnes of fertilizer as in the approved budgeted. No explanation was provided for the revised cost of the fertilizer.

1023.1.3 The Amount of Fertilizer Delivered in the Year Under Review

During the year under review, the State Department received 920,274 bags of various types of fertilizer, while the National Cereals and Produce Board received 1,619,178 bags. All these were handled by NCPB in Mombasa. All the bags were said to weigh 50 kilogrammes each, which translates to 126,972.60 tonnes. The delivery was therefore short by 22,802.65 metric tonnes or 456,053 bags of the order. No reasons were given for the failure to deliver the order in full. No sanctions were imposed on the suppliers for the failure to deliver the full contracted amount.

1023.1.4 Amount Paid for the Fertilizer

The State Department paid an amount of KSh.1,491,656,363 to various suppliers for the delivery of 29,187.35 metric tonnes of fertilizer or 583,747 bags of fertilizer each weighing 50 kilogrammes.

Out of the fertilizer procured, ordered and delivered to the State Department of Agriculture of 46,013.70 tonnes, only 29,187.35 tonnes were paid for, while 16,826.35 tonnes had not been paid for according to the information provided for audit review.

It was explained that the expenditure of KSh.175,811,328 incurred by the State Department of Agriculture to procure 3171.2 metric tonnes of UREA fertilizer from the Trading Company was not settled due to lack of funds and management further explained that the payment was voided in the IFMIS on 30 June 2018. However, the cancelled payment voucher was not provided for audit and the expenditure was not

reversed in the IFMIS general ledger. Further, in a letter dated 18 October 2018 another company resubmitted an invoice No 11025 requesting to be paid KSh.175,811,328 for the UREA fertilizer.

In addition, the ledgers indicate that an amount of KSh.3,639,979,569, was paid in respect of the fertilizer delivered, while other records available shows an amount of KSh.1,491,656,363 only as having been paid, resulting in unreconciled and unexplained difference of KSh.2,148,323,206.

Consequently, the accuracy of operating expenses of KSh.4,883,928,284 as disclosed under Note 6 to the financial statements could not be ascertained.

1023.1.5 Distribution of Fertilizer to NCPB Depots

Records provided for audit on proposed distribution of fertilizer revealed that 1,200,000 bags of DAP, 1,014,000 bags of CAN, 100,000 bags of NPK, 50,000 bags of Blend 4 and 24,000 bags of Blend 9 fertilizers were distributed to various counties for both the short rains in October 2017 and long rains in February 2018. The distribution schedule provided by the State Department, showed that 1,200,000 bags of DAP and 1,014,000 bags of CAN were delivered to NCPB and the State Department required NCPB to have the fertilizer distributed to various depots spread across the Country. Records at NCPB on the other hand shows that NCPB was required to distribute 1,400,000 bags of DAP and 1,014,000 bags of CAN of the fertilizer supplied. In addition, it was noted that NCPB could only account for 1,398,977 bags of DAP fertilizer as 1,013 bags had not been delivered to the NCPB. No reconciliation was provided between the data provided by the State Department and the data provided by the NCPB in respect of the same supply of fertilizer.

Further, it is not clear how the additional 200,000 bags of DAP fertilizer were introduced into the system. It is also not clear how the 100,000 bags of NPK, 50,000 bags of Blend 4 and 24,000 bags of Blend 9 fertilizers were distributed.

In addition, the CAN fertilizer delivered by the Trading Company was said to be of poor quality and at one time its loading and distribution had been suspended until quality issues had to be sorted out. The fertilizer was said to be caked and attempts to make it free flowing was unsuccessful. It was not clear how the quality issue was sorted out as it was eventually distributed.

Further the DAP fertilizer was observed to have inconsistent weights which ranged between 46 and 51 kilogrammes. However, this was eventually sorted out and a minimum average weight of 49.5 kilogrammes was agreed upon.

In addition, NCPB had hired an independent company to carry out weights and quality survey on the fertilizer. It is not clear why NCPB had failed to seek the services of the Kenya Bureau of Standards. It is also not clear why the independent company failed to raise the observed weaknesses of weight and quality on time.

Although the roles of handling the fertilizer at the port of entry, its distribution to the depots and the sale to farmers was vested in the National Cereals and Produce Board, the State Department failed to monitor and obtain feedbacks on the intended impact of the procured fertilizer. It is also not clear, how much of the fertilizer that was procured by both the State Department and the National Cereals and Produce Board on behalf of the State Department was sold to farmers.

1023.1.6. Unaccounted Revenue from Sale of Fertilizer

The State Department for Agriculture did not prepare a Statement of Revenue during the year. It was indicated that the National Treasury had not appointed the Accounting Officer, State Department for Agriculture as a Receiver of Revenue. However, the National Cereals and Produce Board was to bank all revenue realized from sale of local blends of fertilizer that were procured by the State Department from Access to Government Procurement Opportunities firms in Kenya Commercial Bank for onward transmission to the State Department's account at the Central Bank of Kenya.

The State Department indicated that NCPB had an accumulated sales receipt of KSh.1,137,911,500 as at 30 June 2018, while NCPB reported revenue amounting to over KSh.1,400,000,000. It was indicated that the amount was used to offset debts owed to the NCPB as the State Department had failed to settle its obligations related to subsidy claims by NCPB.

Further, the State Department indicated that as at 30 June 2018, it had 236,217 bags of various types of fertilizer outstanding in the depots of NCPB. This implies that at least 2,303,235 bags of various types of fertilizer had been sold, which would mean that the NCPB had collected over KSh.2.3 billion on sale of the fertilizer. Under the circumstances, the total revenue collected could not be confirmed.

1023.1.7. Formal Agreement Between the State Department and the National Cereals and Produce Board on Distribution of Fertilizer

The assignment contract provides that the State Department is to refund the Cereals Board and Produce Board the subsidy on imported fertilizer. The National Cereals and Produce Board sold fertilizers to farmers at subsidized prices of KSh.1,500 for a 50kg bag of all planting fertilizer (DAP, NPK 23:23:0, NPK 17:17:17) blends and all top dressing fertilizer (CAN, UREA): and KSh.1,300 for a 50Kg bag of Sulphate of Ammonia (SA). Although the imported fertilizer for the short rains as well as the blended fertilizers that the State Department procured from AGPO firms were delivered directly to the depots of National Cereals and Produce Board located in various parts of the Country, it was noted that no agreement was signed between the State Department and National Cereals and Produce Board about the handling of the fertilizer stocks as well as the sales proceeds. No evidence was provided to show that the State Department carried out any reconciliations for sales made and

quantity delivered by, or outstanding from each of the suppliers as at 30 June 2018. However, it was indicated that as at 30 June 2018, there were 236,217 bags of various types of fertilizer in various depots.

1024. Proceeds from Domestic and Foreign Grants

The statement of receipts and payments reflects an amount of KSh.246,998,224 under proceeds from domestic and foreign grants for the year ended 30 June 2018. As disclosed in Note 1 to the financial statements, the amount relates to grants received from both bilateral donors and multilateral donors for various projects in the Country. However, a review of financial statements of Kenya Cereals Enhancement Project showed an amount of KSh.657,772,072, as having been received as grants from the donors. No explanation or reconciliations were provided for variance of KSh.410,776,848.

1025. Grants and Transfers to Other Government Entities

The statement of receipts and payments reflects an expenditure of KSh.4,603,016,987 under grants and transfers to other government entities for the year ended 30 June 2018. However, this figure differs with the supporting documentation that reflects an amount KSh.4,641,464,175 resulting in an unreconciled and unexplained difference of KSh.38,447,188.

In addition, as disclosed in Note 8 to the financial statements, the expenditure of KSh.4,603,016,987 was net of a credit amount of KSh.4,483,585 indicated to have been received from Small Scale Irrigation and Value Addition Project (SIVAP). However, the SIVAP financial statements indicates that the project received an amount of KSh.36,437,100 from the State Department as proceeds from domestic and foreign grants. Consequently, the credit of KSh.4,483,585 said to have been received from SIVAP could not be confirmed.

The expenditure of KSh.4,603,016,987 also includes KSh.1,100,000,000 relating to Headquarters Administrative Services and an amount of KSh.2,497,500,955 indicated as Agriculture. The amount indicated as headquarters administrative services relates to amounts disbursed to three sugar companies namely; Mumias - KSh.500,000,000, Chemilil- KSh.300,000,000 and Nzoia - KSh.300,000,000, respectively. Further, the amount of KSh.2,497,500,955 described as Agriculture refers to transfers to Agriculture Food Authority - KSh.2,423,500,960 and Pyrethrum Processing Company - KSh.73,999,995. However, records at the Pyrethrum Processing Company shows that it received KSh.99,000,000 and thus resulting in an unaccounted for difference of KSh.25,000,005.

No reasons were given for failure to describe the above amounts correctly in the Notes to the financial statements. No reconciliation was also provided between the amounts indicated as disbursed by the State Department, and the amounts reflected

in the respective entities financial statements. Further, the comparative figures were not given and only the total was disclosed in Note 8 to the financial statements. Consequently, the total expenditure of KSh.4,603,016,987 under grants and transfers to other government entities for the year ended 30 June 2018 could not be confirmed.

1026. Subsidies (Government Counterpart Funds)

The statement of receipts and payments reflects an amount of KSh.264,034,891 under subsidies for the year ended 30 June 2018. The amount relates to government counterpart funds disbursed to Kenya Cereal Enhancement Project, which was co-financed by both a multi-lateral development agencies and the Government of Kenya. The amount of KSh.264,034,891 under subsidies includes KSh.180,641,646 described as subsidies to financial institutions under grant Appropriation in Aid and KSh.83,393,245 described as subsidies to financial institutions under grant revenue. The amount of KSh.83,393,245 has, however, not been captured in the records of Kenya Cereal Enhancement Project.

1027. Accounts Payables – Deposits and Retentions

The statement of assets and liabilities as at 30 June 2018 reflects a balance of KSh.188,077,485 under accounts payables, which relates to deposits and retentions. It was, however, observed that deposits and retentions balances had a variance of KSh.653,365 which was not reconciled or explained. As a result, the accuracy of the deposits balance of KSh.188,077,485 could not be confirmed.

1028. Pending Bills

Disclosed under Annex 1 to the financial statements are pending bills amounting to KSh.1,013,115,765 as at 30 June 2018 which were not settled in 2017/2018 but carried forward to 2018/2019 financial year. However, supporting documents for the pending bills, including invoices, Local Purchase Orders and/or Local Service Orders as well as contract agreements were not provided to support the list of the pending bills. In addition, pending bills of undetermined value, relating to procurement and receipt of various types of fertilizer in the year under review, have not been disclosed in the Annex.

Further, out of an amount of KSh.418,184,136 that was disclosed in the pending bills balance as at 30 June 2017, payments amounting to KSh.72,211,928 were made in the year 2017/2018 leaving an outstanding balance of KSh.345,972,208. The management did not explain the status of this balance of KSh.345,972,208 which was not carried forward in the list for 2017/2018.

Consequently, the accuracy and validity of the disclosed pending bills balance of KSh.1,013,115,765 as at 30 June 2018 could not be confirmed.

1029. Summary of Fixed Assets Register

Annex 4 attached to the financial statements is a Summary of Fixed Assets Register with nil balances. The attached Accounting Officer of the State Department did not maintain a fixed assets register as required under regulation 143 of the Public Finance Management (National Government) Regulations, 2015. As a result, the breakdown of the assets was not disclosed in the summary of fixed assets register as required under the International Public Sector Accounting Standards (IPSAS) and as prescribed by the Public Sector Accounting Standards Board.

Consequently, the existence, ownership and completeness of the non-current assets held by the State Department as at 30 June 2018 could not be ascertained.

1030. Prior Year Matters

Several matters raised in the audit report for 2016/2017 have not been addressed as shown below:

1030.1 Budget Performance

It was noted that several expenditure items recorded disproportionate comparative increase/decrease when compared with the previous audited financial statements.

No explanations have been provided so far for the variances.

1031. Procurement of Subsidized Fertilizer

The statement of receipts and payments for the year ended 30 June 2017 reflected an amount of KSh.5,878,925,563 under use of goods and services, which included as disclosed under Note 7 to the financial statements an amount of KSh.4,998,996,937 described as other operating expenses. This amount included expenditure on the procurement of subsidized fertilizer.

A review of the records provided 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 cost of US\$4,434,734 (KSh.456,777,551), did not deliver 17,060 bags costing US\$441,001 (KSh.45,423,103), in the period under review. The firm was, however, paid the full amount of the contract.

1032. Receipts

The statement of receipts and payments for the year ended 30 June 2017 reflected amounts of KSh.287,284,417, KSh.145,968,360 and KSh.4,729,258 under proceeds from domestic and foreign grants; proceeds from foreign borrowings; and proceeds from sale of assets, respectively. However, these receipts had not been supported with authentic documents, including cash book entries, bank statement entries or any other verifiable documentation.

1033. Voidable Expenditure – Procurement of Subsidized Fertilizer

In the audit report for 2015/2016, it was indicated that the expenditure of KSh.5,691,502,730 shown in that year's statement of receipts and payments under use of goods and services included, as shown under Note 13 to the financial statements for that year, expenditure of KSh.5,368,529 relating to other operating expenses, out of which, payments totalling KSh.4,189,820,270 were made to National Cereals and Produce Board (NCPB) to meet expenses relating to procurement, handling, storage, transportation, commissions and other charges for subsidized fertilizer. However, included in the payments of KSh.4,189,820,270 made to NCPB was KSh.147,574,229 relating to interest on Post Import Facility which arose from a 2013/2014 contractual obligation the State Department failed to honour.

The State 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 KSh.3,782,845,939. The State 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.

1034. Unsupported Expenditure

1034.1 Procurement of Seed Potato

The State Department paid an amount of KSh.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 Disposal Act, 2005. Further, no invoice, delivery note or any other documentary evidence was provided to support the payment of KSh.25,000,000 and to confirm that the seeds were indeed received.

1035. Procurement of Certified Seeds, Breeding Stock and Live Animals

The expenditure of KSh.700,718,840 for purchase of certified seeds, breeding stock and live animals incurred during the year 2014/2015 included an amount of KSh.300,000,000 that was not supported with payment vouchers and related documents.

1036. Purchase and Transportation of Subsidized Fertilizer

The State Department disbursed an amount of KSh.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 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 propriety of the expenditure of KSh.2,129,128,558 on subsidized fertilizer could not be ascertained.

1037. Bulking of Traditional High Value (Orphaned) Crops

In 2015/2016, it was also reported that the State Department entered into a KSh.30,095,000 Memorandum of Understanding (MOU) with Kenya Agricultural and Livestock Research Organisation (KARLO) in which KARLO 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 KSh.30,095,000 was released in 2014/2015, to KARLO to undertake the project, no evidence has been produced to date to confirm that the project was carried out, completed and distribution done to the intended areas.

1038. Purchase of Tablet Gadgets

The State Department incurred an expenditure of KSh.5,584,025 to purchase 413 tablet gadgets in the financial year 2014/2015. However, no evidence has been produced to date to confirm the requisition for the tablets; whether the gadgets were delivered, received, and taken on charge in the stores; and to whom they are distributed.

1039. Procurement of Fertilizer

(i) It was further 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 KSh.2,655 per 50 Kg bag being the lowest evaluated bidder, at a total of KSh.265,500,000. Lot 2 was also won by bidder No. 4 at a price of KSh.2,430 per 50 Kg bag being a total price of KSh.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 KSh.320,000,000 and KSh.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.

(i) 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 KSh.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	<u>364,500,000.00</u>	<u>436,850,000.00</u>	<u>72,350,000.00</u>
	<u>630,000,000.00</u>	<u>756,850,000.00</u>	<u>126,850,000.00</u>

1040. Funds Disbursed to Establish Revolving Funds

(i) 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 KSh.200,789,325 to the two organizations to carry out Potato Seed Multiplication (Bulking). ADC received KSh.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 KSh.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 State Department also disbursed another KSh.55,400,000 to the same institutions: KSh.50,400,000 to ADC and KSh.5,000,000 to KALRO for the same purpose but charged the expenditure under the item of specialized materials and services.

(ii) 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 State Department having disbursed the total amount of KSh.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 2017/2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1041. Management of Imprests

The statement of assets and liabilities as at 30 June 2018 reflects accounts receivables - outstanding imprests balance of KSh.3,732,177 relating to temporary imprests issued to various officers between 1 July 2017 to 31 December 2017 which had not been surrendered or accounted for by 30 June 2018.

1042. 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. However, the following unsatisfactory matters, like in previous years, have not been resolved:

- (i)** Since 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 were not submitted to the Auditor-General for audit.
- (ii)** As reported in 2015/2016 and 2016/2017, 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 KSh.3,131,420 paid to the firm as audit fees (KSh.1,610,892 for 2012/2013 and KSh.1,520,528 for 2011/2012) constituted an irregular expenditure.
- (iii)** 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.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1043. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STRATEGIC GRAIN RESERVE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1044. Statement of Comparison of Budget and Actual Amounts

The Fund's management did not prepare and submit for audit the statement of comparison of budget and actual amounts for the year ended 30 June 2018. However, records available indicates that the Fund had budgeted to procure 2 million bags of local maize and procured 3.7 million bags of 90 kg at a cost of KSh.11,282,483,469.

A review of available records also indicate that the Fund had budgeted for 50 kg jute bags at a cost of KSh.408 million, management fees to NCPB at KSh.700 million, Board visits at KSh.5 million and annual stock takes at KSh.4 million. However, it is not clear how the budgeted amounts were arrived at as no basis was provided.

Further, even for the budgeted items, no record was provided to indicate how the expenditure were incurred.

1045. Revenue from Exchange Transactions

The statement of financial performance for the year ended 30 June 2018 reflects an amount of KSh.20,353,837,593 under revenue from exchange transactions. This revenue relates to sale of maize by the Fund during the year. A review of available records indicate that the Fund sold 8,832,452 bags of 90 kg of maize in the year under review. It was noted that the price at which the maize was sold varied from one depot to another and from one grade to the other. No reason was provided for the varied prices, which ranged from KSh.1,245 to KSh.2,300. It was not clear how the buyers of the maize were identified.

The audit also revealed that no local maize was sold, and all sales in the year were related to sale of imported maize. Records available indicate that the Fund bought 15,597,871 bags of imported maize and the closing stock amounted to 287,431 bags only as at 30 June 2018. It is not clear whether the remaining bags were sold thereafter as they could not be accounted for as at the time of the audit.

Consequently, the completeness and accuracy of the sales figure provided could not be ascertained.

1046. Cost of Sales

1046.1 Overstated Cost of Imported Maize

The statement of financial performance reflects an amount of KSh.37,222,645,795 under cost of sales. This amount, as disclosed in Note 6 to the financial statements

relates to the cost of stock of maize sold in the year. As disclosed in Note 6 to the financial statements, the Fund imported maize at a total cost of KSh.34,822,028,282. This amount, however, differs with the amount of KSh.31,288,225,350 reflected in the records maintained by the National Cereals and Produce Board (NCPB), by KSh.3,533,802,932. No reconciliation or explanation was provided for the variance.

In addition, Note 6 reflects an amount of KSh.3,061,708,813 as opening stock of maize in the year ended 30 June 2018. However, records available shows that only imported maize was sold and the closing stock does not comprise any of the old stock brought forward in the year. Further, payment vouchers totalling KSh.9,521,226,296 relating to procurement of imported maize were not provided for audit scrutiny.

Under the circumstances, the completeness and accuracy of the cost of sales figure of KSh.37,222,645,795 could not be confirmed.

1046.2 Missing Payment Vouchers for Local Suppliers of Maize

The cost of sales figure of KSh.37,222,645,795 and as disclosed in Note 6 (i) to the financial statements includes an amount of KSh.11,282,483,469 incurred on procurement of local maize. However, the Fund management did not provide for audit verification payment vouchers amounting to KSh.1,660,487,233, in respect of the payments made to local farmers for supply of maize to various NCPB depots during the year under review. Although the management explained that these vouchers had been taken by the Ethics and Anti-Corruption Commission for investigations, it was not possible to confirm the propriety of the expenditure as tabulated below:

Name of Depot	Amount KSh.
Eldoret	1,264,342,807
Kisumu	51,276,040
Kitale	81,097,976
Bungoma	263,770,410
Total	1,660,487,233

Consequently, the completeness and accuracy of the cost of sales of KSh.37,222,645,795 for the year ended 30 June 2018 could not be confirmed.

1046.3 Procurement of Maize

1046.3.1 Budget

During the year under review, the Fund had budgeted to purchase 2 million bags of local maize at a cost of 6 billion shillings. However, the Fund procured 3.7 million bags of 90kgs local maize at a cost of KSh.11,282,483,469, which resulted in a budget over run by KSh.5.1 billion. In addition, the Fund procured maize from maize importers valued at KSh.34,822,028,282 without any prior budget provision for the same.

1046.3.2 Vetting of Farmers

In eleven sampled depots, the audit revealed that the forms used for vetting of farmers were similar. It was further observed that some of the forms had preprinted serial numbers while others were inserted by hand. In other cases, some forms required the signature of the name of the group, agricultural officer and the assistant chief while others required the signature of the assistant chief, ward administrator and agricultural officer. In addition, the forms had no section for evidence of size of land owned or leased by the farmers to show how much each farmer was capable of producing.

1046.3.3 Procurement of Maize without Required Approval Documents

Out of the total maize procured of KSh.11,282,483,469 from local farmers, it was observed that maize valued at KSh.288,692,553 was purchased by the Fund before the farmers had obtained all the required approval documents. Some of the forms were not approved by the assistant chief, chief, ward administrator or agricultural officer, contrary to the guidelines issued by the NCPB Managing Director.

1046.3.4 Farmers who Supplied Over 10,000 Bags of Maize

Examination of records maintained by NCPB in the eleven sampled depots, and a review of guidelines issued by the Ministry referenced MOA/LCD/9/12/8018 and dated 1st October 2017 on purchase of maize, did not reveal the maximum bags of maize to be purchased from an individual farmer. There was no requirement for the farmers to provide title deeds, lease agreement or size of the land under cultivation. Although there were no set maximum limits of maize delivery, the practicability of delivering 10,000 bags and above from a single farmer could not be verified given the average production per acre. A sample of farmers provided over 10,000 bags of 90kgs bags each. Therefore, It was not possible to ascertain if these farmers owned land that could be able to produce more than 10,000 bags of maize.

1046.3.5 Out-sourcing of Procurement Function

During the year under review, the Fund procured imported maize worth KSh.34,822,028,282 from various importers. However, the function of receiving and inspection of the maize was done by the NCPB. There was no evidence that the Accounting Officer responsible for the Fund and NCPB entered into an agreement on the performance of its procurement function of receipt, inspection, and recording to ensure the right quality and quantity were received, and to ensure adherence to Public Procurement and Asset Disposal Act, 2015 on receipt and inspection of procured maize. This resulted in payment of maize suppliers without the certificate of inspection and acceptance certificate or report.

In the absence of any legal agreement, it was not possible to confirm that the quality and quantity of maize received by NCPB was as per the specification of the Ministry.

1047. Other Expenditure

The statement of financial performance reflects an amount of KSh.6,780,698,646 under other expenditure and as disclosed in Note 7 to the financial statements, the expenditure relates to transport and handling costs, storage and fumigation, sales commissions, drying charges, purchase commissions, gunny bags and import costs. Included in the other expenditure figure of KSh.6,780,698,646 is an amount of KSh.3,904,916,013 incurred on storage and fumigation costs, which was an increase of 25 times over the previous year amount of KSh.153,531,615. No explanation was provided for such a huge increase in the expenditure over the previous year.

In addition, included in the expenditure is an amount of KSh.436,244,000 paid to both staff of the parent Ministry and suppliers that was not supported with documentary evidence.

Further, the cash book reflects payments for travelling and accommodation, board expense, repair of motor vehicles and payment to the taskforce members all totalling KSh.41,831,286, which have not been included in these financial statements. no explanation was provided for the exclusion of these payments in the financial statements.

Consequently, the completeness and accuracy of the KSh.6,780,698,646 expenditure for the year ended 30 June 2018 could not be ascertained.

1048. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 and as disclosed in Note 8 to the financial statements reflects a balance of KSh.3,901,065 under cash and cash equivalents. However, a review of the expenditure records revealed payments amounting to KSh.1,346,079,257 that had not been posted in the cash book. In addition, there were no bank reconciliations during the year under review. Further, as was reported in the previous year, the opening cash balances had been overstated with an amount of KSh.95,881,170.

Consequently, the completeness and accuracy of cash and cash equivalents balance of KSh.3,901,065 as at 30 June 2018 could not be confirmed.

1049. Inventories

The statement of financial position reflects a balance of KSh.12,643,574,769 under inventories and as disclosed under Note 9 to the financial statements the inventories comprise of maize stock as well as powdered milk. However, the following unsatisfactory matters were observed:

1049.1 Condemned Maize

Disclosed in Note 6 to the financial statements is an amount of KSh.11,282,483,469 under closing stock of local maize. However, this includes maize valued at

KSh.342,482,895 stored in various NCPB depots which was found to contain high levels of aflatoxin by the Ministry of Health and are therefore not fit for human consumption.

In addition, the opening stock of KSh.3,061,708,813 has not been accounted for in these financial statements. It is not clear how the amount was written off from the records of the Fund.

1049.2 Un Accounted for Bags of Maize

The statement of financial position's inventories figure of KSh.12,643,574,769 includes, and as disclosed in Note 6 to the financial statements, 3,913,098 bags of maize comprising of 287,431 bags and 3,625,667 bags of imported maize and local maize, respectively. However, this differs with the store records maintained by NCPB, which shows 6,521,481 bags of maize as at year end.

The figure of 3,913,098 bags of maize also differs with the record of maize procured during the year, which indicated that none of the locally procured maize was sold but out of the imported bags of maize, which totaled, 15,597,871 bags, only 8,832,452 bags were sold, leaving a balance of 6,765,419 bags unsold. In addition, Note 6 to the financial statements shows that only 287,431 bags of the imported maize remained unsold, leaving a balance of 6,477,988 unaccounted for.

Further, the stores records provided by the NCPB shows that the Board had an opening stock of 1,358,678 bags, and procured 22,174,062 bags, then it sold 15,898,455 bags leaving a closing stock of 6,521,481 bags of maize. These figures were not reconciled with the figure of sales and closing stock.

Under the circumstances, the accuracy, completeness and existence of the stock of maize balance of KSh.11,943,574,769 as at 30 June 2018 could not be confirmed.

1049.3 Maize in Silos

According to the oversight board minutes of 6 April 2018, Minute No. 4/04/2018, it was indicated that it is not suitable for maize to be stored for more than six months in the silos to avoid deterioration and loss in value. It was, however, observed that as at 30 June 2018, 2,098,516 bags of 90kg valued KSh.4,077,416,588 were stored in silos in various NCPB depots. The maize had been held in the stores for more than six months.

The Fund had a budget provision for 2017/18 financial year of KSh.408,000,000 for purchase of 2,718,000 jute bags. It was not clear why the maize was not bagged and transferred to the conventional stores.

In addition, a visit to Shimanzi and Changamwe depots revealed that there were 200,262 bags of maize which were stored in polypropylene bags. The maize is likely to deteriorate in quality due to high level of humidity in the Coast region.

1049.4 Powdered Milk

Disclosed in Note 9 to the financial statements is powdered milk stock from Kenya Creameries Cooperative (KCC) amounting to KSh.700,000,000, that has been outstanding in the records for over two years. No documentary evidence was however produced to confirm its existence as at year end or its suitability for human consumption. Under the circumstances, the existence of the powdered milk stock could not be confirmed.

1049.5 Annual Stocktaking and Maintenance of Stock Records

It was noted that Article 8 of the 5th agreement signed on 10 August 2016 between Strategic Grain Reserve Fund and NCPB stated that the Principal and Agency should conduct joint annual stocktaking to establish the stocks levels. Further, examination of the Fund's 2017/2018 budget shows that there was a budget provision of KSh.2 million for an independent stock taking through a consultant. However contrary to the requirements of the Agreement, no report of joint annual physical stocktaking was provided for audit verification.

In addition, the Agent was supposed to keep separate records at all times for stock of the Principal held in its stores. The records are expected to have the date of purchase, general quality condition and other relevant information for continuous assessment of the Principal's stock position. In the sample of twelve depots visited, there was no evidence that the Agent, NCPB had maintained separate records, contrary to the agreement. In the absence of the reports, it was not possible to confirm if annual joint stocktaking was done as required by the agency agreement.

1050. Receivables

The statement of financial position reflects receivables balance of KSh.18,160,523,581 as at 30 June 2018. As disclosed under Note 10 to the financial statements, the amount includes KSh.6,865,220,613 brought forward from the previous year and due from the State Department for Special Programmes. It was however indicated in the previous year that an amount of KSh.5,849,677,056 was not supported by documentary evidence. In addition, the debtors' ledger for State Department of Special Programmes maintained by the National Cereals and Produce Board reflected a balance of KSh.90,427,573, resulting in a variance of KSh.6,774,793,040 that was not reconciled or explained.

In addition, Note 10 to the financial statements discloses receivables from exchange transaction in respect of subsidy component on imported maize amounting to KSh.11,295,302,968. However, this amount was not supported.

Under the circumstances, the validity and accuracy of the receivables balance of KSh.18,160,523,581 could not be confirmed.

1051. Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and other payables from exchange transactions balance of KSh.13,181,494,364. The amounts include VAT payable amounting to KSh.400,295,571, other creditors of KSh.1,138,494,057 and prior year adjustments of KSh.1,228,212,674 that were not supported with documentary evidence. It was observed that some of the creditors balance were contra to receivables.

In the absence of supporting documentations, the completeness and accuracy of trade and other payables from exchange transactions balance of KSh.13,181,494,364 as at 30 June 2018 could not be confirmed.

1052. Reserves

The statement of financial position also reflects a balance of KSh.64,874,935,811 under reserves. This was an increase from last year's balance of KSh.36,593,162,751 by KSh.28,281,773,060. The increase was attributed to government exchequer releases of KSh.9,994,000,000 and proceeds from sale of maize KSh.18,287,773,060. However, the amount of KSh.18,287,773,060 in respect of proceeds from sale of maize was double counted as it is part of the sales figure of KSh.20,353,837,593. In addition, the exchequer release of KSh.9,994,000,000 was to procure maize and therefore should have been accounted for under revenue from non-exchange transactions.

Further, the reserves balance brought forward from previous years were not supported either with documentary evidence or any corresponding assets. Consequently, the reserves balance reported as at 30 June 2018 could not be confirmed.

1053. Differences Between the Trial Balance and Supporting Schedules Balances

The trial balance figures differed with the figures reflected in schedules presented for audit as detailed below:

Component	Amount in Trial Balance KSh.	Amount in Schedule KSh.	Difference KSh.
Drying charges	881,220,177	109,978,618.11	771,241,559
Purchases commission	109,978,619	492,671,106.53	(382,692,487)
accumulated loss as at 1st July	23,598,923,911	47,248,430,759	(23,649,506,848)

Under the circumstance, the accuracy and completeness of the financial statements presented for audit could not be ascertained.

1054. Presentation of Financial Statements

1054.1 Title of the Fund on the Financial Statements

A review of the financial statements presented for audit by the Fund revealed that although the Legal Notice No.15 of February 2015 created Strategic Food Reserve Trust Fund, the financial statements title reads Strategic Grain Reserve Fund on the cover page.

1054.2 Statement of Trustees Responsibilities

Paragraph 3 of the statement of trustee responsibilities, states that the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) while the cover page shows that the financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) accrual.

1054.3 Statement of Comparison of Budget and Actual Amounts

According to the guidelines issued by the Public Sector Accounting Standards Board on the revised International Public Sector Accounting Standards (IPSAS) Accrual template dated 30 June 2017, the statement of comparison of budget and actuals should form part of the financial statements submitted for audit. However, the financial statements submitted for audit did not include the statement of comparison of budget and actual amounts.

1054.4 Principal Secretary Statement

The statement by the Principal Secretary highlighted various key activities of the Fund during the year under review which included the purchase of 3.8 million bags of local maize and one million bags of imported maize. This differs with Note 6 to the financial statements that reflect that 3.6 million bags of local maize were purchased at a cost of 11.2 billion while 9.7 million bags of maize were imported at a total cost of 34.8 billion. Other available records indicate an amount of 15.6 million bags were imported and 3.7 million bags were bought from local farmers.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1055. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1056. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

AGRICULTURAL INFORMATION RESOURCE CENTRE REVOLVING FUND ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1057. Accumulated Surplus

The statement of financial position reflects an accumulated surplus of KSh.12,115,374 as at 30 June 2018 (2017: KSh.18,003,893). However, the decrease of KSh.5,888,519 from the previous year's balance has not been supported by any movement schedule or other documentary evidence.

In addition, the statement of changes in net assets for the year ended 30 June 2018 shows accumulated surplus balance of KSh.19,460,906 as of that date, which differs with the balance of KSh.12,115,374 reflected in the statement of financial position as at 30 June 2018. The resulting difference of KSh.7,345,532 has not been reconciled or explained.

Under the circumstances, the accuracy of the accumulated surplus of KSh.12,115,374 as at 30 June 2018 could not be ascertained.

1058. Statement of Changes in Net Assets

The statement of changes in net assets for the year ended 30 June 2018 reflects total net assets balance of KSh.58,377,628 as at 30 June 2018 which differs with the balance of KSh.15,744,051 shown in the statement of financial position by KSh.42,633,577. The difference has not been reconciled or explained.

The statement further shows capital replacement reserve balance of KSh.19,458,361 comprising of depreciation reserve of KSh.13,569,842 and transfer to /from accumulated surplus of KSh.5,588,519. However, the same have not been supported with analysis and explanatory notes.

1059. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects a balance of KSh.10,505,140 in respect of receivables from exchange transactions as at 30 June 2018, which includes an amount of KSh.2,808,559 relating to the period from November 1993 to June 2017. No documentary evidence has been provided by management to show efforts made to recover these long outstanding debts. In addition, no provision for bad debts was made in the financial statements for the long outstanding amount.

In the above circumstances, receivables from exchange transactions balance of KSh.10,505,140 as at 30 June 2018 could not be confirmed.

1060. Unsupported Decrease in Government Grants

The statement of cash flows for the year ended 30 June 2018 reflects an amount of KSh.12,600,998 in respect of decrease in government grants. However, the management did not provide supporting documents to show what the amount represents.

Under the circumstances, it was not possible to confirm the validity and completeness of KSh.12,600,998 as at 30 June 2018.

1061. Inaccuracies in the Financial Statements

The following inaccuracies were noted in the financial statements presented for audit:

Element of the Financial Statements	Component Affected	Observation	Balance as per Financial Statements KSh.	Correct Balance KSh.	Variance KSh.
Note 14	Surplus/Deficit for the year before tax	Previous year's comparative balance differs from 2016/2017 audited account balance	1,346,547	Audited 2016/2017 account balance 1,842,267	495,720

Element of the Financial Statements	Component Affected	Observation	Balance as per Financial Statements KSh.	Correct Balance KSh.	Variance KSh.
Note10	Total Cash and Cash Equivalents	Previous year's comparative balance not correctly stated	13,815,020	Audited 2016/2017 account balance 9,135,207	4,679,813
Note13	Total Net Book Values-Property Plant & Equipment	Previous year's comparative balance inaccurately stated	1,582,031	Audited 2016/2017 account balance 1,630,827	48,796
Statement of Financial Position	Total Net Assets & Liabilities	Incorrect total stated	Balance indicated 15,744,051	Correct balance 16,769,197	1,025,146
Statement of Financial Performance for the Year	Revenue from Exchange Transactions	Incorrect total revenue stated	Amount indicated 27,672,728	Correct amount 24,864,169	2,808,559
Statement of Changes in Net Assets	Accumulated Surplus	Previous year's balance incorrectly stated	Previous year's balance 32,567,104	audited 2016/2017 accounts balance 31,385,588	1,181,516

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be confirmed.

1062. Incorrect Classification of Expenditure on Purchase of Curtain and Fittings

Note 13 to the financial statements reflects additional assets during the year of KSh.810,825 under plant and machinery. This amount includes KSh.676,250 incurred on purchase of curtains and fittings which should have been classified under furniture and fittings, and depreciated at 12.5 % per annum instead of the rate applied of 10 % for plant and machinery. Thus the accuracy of the depreciation charge for the year of KSh.410,381 could not be confirmed.

1063. Inaccuracies in the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects total budgeted expenditure of KSh.30,604,000, while the approved budget for the year ended 30 June 2018 reflects total budgeted expenditure of KSh.29,244,360, resulting in an unexplained variance of KSh.1,359,640.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1064. Under-collection of Revenue

According to the statement of comparison of budget and actual amounts, the Fund budgeted to collect revenue totalling KSh.41,400,000 in 2017/2018 financial year but the actual amount collected was KSh.27,672,728, resulting in an under-collection of KSh.13,727,272 or 33% the budgeted amount. This is an indication that the public resources were not efficiently and effectively used to achieve the planned budget target during the year under review.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1065. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUND PROJECTS

KENYA CEREAL ENHANCEMENT PROGRAMME (IFAD GRANT NO.20000000623, IFAD LOAN NO.2000001121,ASAP TRUST GRANT NO.2000001122)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1066. There were no material issues noted during the audit of the financial statements of this Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1067. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1068. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOOD PROGRAMME (ADF LOAN NO.2100150028345)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1069. Variances Between Audited Financial Statements for 2016/2017 and Comparative Figures in the Financial Statements for 2017/2018

The following variances were noted between the audited financial statements for 2016/2017 and comparative figures in the financial statements for 2017/2018

Item	Audited Figure in Financial Statements for 2016/2017 KSh.	Comparative Figure in Financial Statements for 2017/2018 KSh.	Variance KSh.
Loans from External Partners	410,388,669.15	398,800,811.80	11,587,857.35
Purchase of Goods and services	66,843,704.25	78,758,135.55	(11,914,431.30)
Acquisition of non-financial assets	350,855,239.15	332,839,511.00	18,015,728.15

The management has not provided any explanations, reconciliations or supporting documentary evidence for the variances. Consequently, the validity and accuracy of the comparative figures could not be confirmed.

1070. Failure to Capture Transactions in the Ledger and Lack of a Trial Balance

Examination of documents and records produced for audit revealed that the figures reflected in the programme's financial statements and supporting schedules were not captured in the Ministry's Intergraded Financial Management Information System (IFMIS) Ledger. In addition, no trial balance was provided in support of the financial statements. Consequently, the completeness and accuracy of receipts and payments presented and disclosed in these financial statements could not be confirmed.

1071. Acquisition of Non-Financial Assets

The statement of receipts and payments reflects an amount of KSh.422,897,157 under payments made by third parties in respect of acquisition of non-financial assets. The payments relate to construction of civil works. The management did not, however, provide information relating to the construction progress reports and site meeting minutes.

Consequently, the accuracy and completeness of KSh.422,897,157 as at 30 June 2018 could not be confirmed.

1072. Purchase of Goods and Services

The statement of receipts and payments reflects payments totalling KSh.50,177,608 in respect of purchase of goods and services, and include an amount of KSh.35,250,973 for domestic travel and subsistence allowance. However, the expenditure of KSh.35,250,973 relating to domestic travel and subsistence allowance further includes an amount of KSh.2,945,420 that was not supported with any documentary evidence.

The payments totalling KSh.50,177,608 also includes an amount of KSh.1,797,714 relating to routine maintenance of vehicles and other transport equipment for which an amount of KSh.43,900 was similarly not supported with any documentary evidence.

Consequently, the completeness and accuracy of KSh.50,177,608 expenditure as at 30 June 2018 could not be confirmed.

1073. Cash and Cash Equivalents

1073.1 Unsupported cash balances

The statement of financial assets as at 30 June 2018 reflects cash balances of KSh.21,477,511 under cash and cash equivalents. However, out of the total cash balances, an amount of KSh.16,576,145 was not supported with any documentary evidence. As result, the completeness and accuracy of the cash balances of KSh.21,477,511.25 could not be confirmed.

1073.2 Bank balances

The statement of financial assets as at 30 June 2018 reflects bank balances of KSh.26,866,690. Review of project's bank reconciliation statement as at 30 June 2018 revealed payments totalling KSh.2,143,900.00 that had not been recorded in the cash book. Similarly, the statement reflects cash deposits of KSh.194,174.00 relating to receipts in the bank not yet recorded in the cash book. However, no analysis or supporting documents were provided to support the reconciling amount.

Consequently, the accuracy and completeness of the bank balances of KSh.26,866,690 as at 30 June 2018 could not be confirmed.

1074. Statement of Comparative Budget and Actual Amounts

The statement of Comparative Budget and Actual amounts reflects nil amounts contrary to the requirements of International Public Accounting Standards Financial Reporting under Cash Basis of Accounting, Paragraph 1.9 and the guidelines prescribed by the Public Sector Accounting Standards Board. No explanation has been provided for this anomaly.

1075. The Special Account Statement (Designated Account)

The special account statement reflects an amount of KSh.44,042,119.09 (US \$424,490.55) as having been withdrawn during the year under review. This amount differs with the loan from external development partner of KSh.42,586,397 (UA 3,549,841) reflected in the statement of receipts and payments. The resultant difference of KSh.1,455,722, has not been explained or reconciled.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1076. Budgetary Control

The statement of receipts and payments reflects an expenditure of KSh.422,897,157 under acquisition of non-financial assets against a budgetary provision of KSh.408,148,722, leading to an over-expenditure of KSh.14,748,435.

1077. Acquisition of Non-Financial Assets

Audit verification revealed the following irregularities in respect of construction of civil works under acquisition of non-financial assets:

1077.1 Construction of Loosuk Earth Dam

1077.1.1 Failure to Levy Liquidated Damages

According to project records, the contract was awarded to a company at a sum of KSh.11,555,327.60 and the contract agreement was signed on 1 April 2016 with a project duration of four months and an expected completion date of 14 August 2016. Information available, however, indicate that the project was handed over on 13 June 2017, ten months after the expected completion date. In addition, verification of the latest payment to the Contractor showed that no liquidated damages had been charged on the Contractor for the delayed works. Had the employer recovered the amount from the contractor, the project would have realized an additional KSh.577,766.

1077.1.2 Irregular Extension of Contract Period

The project period was extended from 14 August 2016 to the date the dam was handed over to the employer on 13 June 2017. No documentary evidence was provided to confirm request by the Contractor for extension of the contract period and approval of the same by the employer.

1077.1.3 Overpayment of Contract Sum

Audit examination of the latest payment certificate revealed that the contractor had been paid a total sum of KSh.11,865,594, which exceeded the contract sum of KSh.11,555,328 by KSh.310,266.

1077.2 Construction of Maralal Livestock Market

1077.2.1 Failure to Levy Liquidated Damages

The project was awarded to a company at a contract sum of KSh.13,431,486. The project had an expected date of completion of December 2015. However, the project completion and handing over certificates were both dated 16 May 2017. No documentary evidence was provided to confirm that the employer levied liquidated damages amounting to KSh.671,574 on the contractor.

1077.2.2 Irregular Extension of Contract Period

Although the project was slated for completion by December 2015, it was handed over on 16th May 2017, no records were made available for audit scrutiny to confirm that an approval from the employer for extension of the contract period was obtained.

1077.2.3 Overpayment of Contract Sum

An examination of the last payment certificate revealed that the contractor had been paid a total sum of KSh.13,593,269 instead of the contract sum of KSh.13,431,486. The overpayment of KSh.161,784 was not explained.

1077.3 Construction of Kilimani Game Galana Irrigation Scheme

1077.3.1 Slow Progress of Works

The construction contract was awarded to a contractor at a sum of KSh.186,882,322. An examination of the projects latest payment certificate revealed that the overall progress made as at 10th September 2018 was 55% against an elapsed time of 123%.

1077.3.2 Failure to Levy Liquidated Damages

An examination of the latest payment certificate disclosed that no liquidated damages had been charged on the Contractor for the delayed works. Had the employer recovered the amount from the contractor, the project would have realized an additional KSh.9,344,116.

1077.3.3 Irregular Extension of Contract Period

The expected completion date was set as 13 June 2018 but the works are still on-going. However, documents to confirm approval of extension of the contract period were not provided for audit scrutiny.

1077.4 Construction of Loweinyang Water Pan

1077.4.1 Failure to levy liquidated damages

The contract was awarded to a company at a sum of KSh.10,985,704.00. The project's contract agreement was signed on 1 April 2016, with a stipulation that the project commencement date would be fourteen days after the contract signing date. The project duration was four months, thereby rendering the expected completion

date as 14 August 2016. However, the project's hand-over certificate is dated 15 June 2017, twelve months after the expected completion date. An examination of the latest payment certificate revealed that the employer did not levy any liquidated damages. Had the employer recovered the amount from the contractor, the project would have realized an additional amount of KSh.549,285.

1077.5 Drilling and Equipping Chepropogh Borehole

1077.5.1 Failure to Levy Liquidated Damages

The contract was awarded to a company at a sum of KSh.10,315,165. The project's contract agreement was signed on 27 January 2017, with a stipulation that the project commencement date would be fourteen days after the contract signing date. The project duration was four months, thereby rendering the expected completion date as 9 June 2017. However, the project's hand-over certificate is dated 9 July 2018, thirteen months after the expected completion date. An examination of the latest payment certificate revealed that the employer did not levy any liquidated damages. Had the employer recovered the amount from the contractor, the project would have realized an amount of KSh.515,758 in savings.

1077.6 Construction Works for Kamina Irrigation Scheme

1077.6.1 Slow Progress of works

The contract was awarded to a company at a sum of KSh.261,592,025 and the project's contract agreement signed on 31 May 2017. The agreement had a stipulation that the project commencement date would be fourteen days after the contract signing date. The project duration was twelve months, thereby rendering the expected completion date of 13 June 2018. However, the project had not been completed as of November 2018.

1077.6.2 Failure to Levy Liquidated Damages

An examination of the latest payment to the Contractor disclosed that no liquidated damages had been charged on the Contractor for the delayed works. Had the employer recovered the amount from the contractor, the project would have realized an amount of KSh.13,079,601 in savings.

1077.6.3 Irregular Extension of Contract Period

An examination of the September 2018 project progress report indicated that the Contractor had been issued with a time extension up to 21 November 2018. However, documentary evidence to confirm request and reasons for extension as well as approval by the employer was not provided for audit review.

1077.6.4 Irregular Contract Award

A perusal of the tender evaluation report disclosed that the lowest bidder had offered a contract price of KSh.236,970,202, but he was eliminated at the preliminary evaluation stage for failure to attach a pre-bid site visit certificate. Had the lowest bidder been awarded the contract, the employer would have made a savings of KSh.24,621,823.

1077.7 Drilling and Equipping of Lbukoi Borehole

1077.7.1 Slow Progress of Works

The contract was awarded to a company at a contract sum of KSh.7,741,646. An examination of the projects latest payment certificate revealed that the overall progress made as at 30 September 2018 was 30% against an elapsed time of 425%.

1077.7.2 Failure to Levy Liquidated Damages

An examination of the latest payment to the Contractor disclosed that no liquidated damages had been charged on the Contractor for the delayed works. Had the employer recovered the amount from the contractor, the project would have realized an additional amount of KSh.425,791.

1077.7.3 Irregular Extension of Contract Period

The contract completion date was slated for 18 September 2017 and the works are still on-going. However, no records have been made available for audit scrutiny to confirm that the Contractor had requested for an extension and that approval had been granted by the employer.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1078. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Bank, I confirm that:

- i. The programme`s funds have not been used in accordance with the conditions of Loan Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided;

- ii. Counterpart funds have been provided and not used in accordance with the conditions of the Loan Agreement;
- iii. Goods and services financed have not been procured in accordance with the Loan Agreement and the Funds' rules and procedures;
- iv. Necessary supporting documents, records and accounts have not been kept in respect of all programme activities;
- v. Adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets do not exist; and
- vi. Ledgers and fixed assets register for the programme's assets are not maintained as required.

RICE BASED MARKET ORIENTED AGRICULTURE PROMOTION PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1079. Unsupported Accumulated Receipts

The statement of receipts and payments reflects cumulative receipts of KSh.130,980,000 (US\$1,271,650) in respect of proceeds from domestic and foreign grants (JICA) and KSh.60,070,000 (US \$575,922) relating to transfer from the Government of Kenya. However, no supporting documentation has been provided for receipts of KSh.750,000 for the year under review.

1080. Unsupported Accumulated Expenditure

The statement of receipts and payments reflects cumulative payments totalling KSh.191,049,861 out of which an amount of KSh.749,930 relates to the year under review. However, no supporting documentation was provided for payments of KSh.749,930 during the year under review.

1081. Failure to Provide Accounting and Other Records

The Project management did not provide key information, documents and records for audit verification.

In the circumstances, it was not possible to verify the extent to which the Project has achieved its objectives; extent of compliance with the financing agreement if any; and whether budgetary and financial controls existed and were effective.

In addition, it has not been possible to confirm the existence and proper management of the Project's assets and accuracy and completeness of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1082. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1083. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

SMALL SCALE HORTICULTURE DEVELOPMENT PROJECT (ADF LOAN NO. 2100150014943)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1084. Cash and Cash Equivalents

1084.1. The statement of financial assets and liabilities reflects a bank balance of KSh.333,295.80 as at 30 June 2018, compared to the last year's closing balance of KSh.670,018. Transactions in the year under review amounted to KSh.9,031 and were related to bank charges only, resulting in a difference of KSh.660,987 which ought to have been the closing balance as at 30 June 2018. However, an amount of KSh.327,692 of the remainder of the cash difference of KSh.660,987, has been

disclosed as a prior year adjustment. The amount (KSh.327,692) is claimed to be related to unsupported payments made for undisclosed prior year pending bills in July 2017.

1084.2. The bank statement reflects a balance of KSh.118,369.70, while the financial statements show a balance of KSh.333,295.80 as at 30 June 2018. The resulting difference of KSh.214,926.10 between the financial statements and the bank statement has not been reconciled. In addition, bank reconciliation statements for the year ended 30 June 2018 and bank confirmation certificate as at that date were not provided for audit verification.

The validity, completeness and accuracy of the bank balance of KSh.333,295.80 as at 30 June 2018 cannot therefore be confirmed in the above circumstances.

1085. Loan from External Development Partners

The statement of receipts and payments reflects a cumulative amount of KSh.2,094,558,220 in respect of loan from external development partners (African Development Bank) while the funding summary, of the Project Information and Overall Performance reflects an amount of KSh.2,025,723,363. The resulting difference of KSh.68,834,857 has not been explained or reconciled.

Other Matter

1086. Failure to Close the Project Upon its Completion

Project Information indicates that the project started on 20 May 2008 and ended on 31 December 2015. However, the Project has been active as evidenced by the special account statement balance of KSh.18,038.76 (US\$178.69) as at 30 June 2018. However, no documentary evidence was provided to show that the project had been granted extension beyond December 2015. In addition, no Project Completion Report has been produced for audit verification.

1087. Late Submission of the Financial Statements

The financial statements of Small Scale Horticulture Development Project for the year ended 30 June 2018 were submitted for audit late on 3 December 2018. Further, the financial statements submitted were not signed by the accounting officer.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1088. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1089. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

SMALLHOLDER DAIRY COMMERCIALIZATION PROGRAMME (IFAD LOAN NO.678-KE AND GRANT NO.815 KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1090. There were no material issues noted during the audit of the financial statements of this Project.

Other Matter

1091. Delayed Supply of Refrigerated Bulk Milk Cooling Tanks

The programme invited through international tender, sealed bids for project No. MOAL/SDCP/ICB/01/2017 – 2018. This project, whose budget was KSh.189,000,000 involved the supply, installation, testing and commissioning of 10 No. 3000 litres and 20 No. 2000 litres of refrigerated bulk milk cooling tanks and associated accessories. The tenders were opened on 12 March, 2018 and thirteen (13) tenders were received and opened on 12 March 2018. Nine (9) of the tenders were rejected by the evaluation committee for failing to conform to the eligibility and mandatory requirements while the following four (4) proceeded to financial and technical evaluation.

Further evaluation revealed that only two firms were responsive on both technical and economic requirements. The lowest bidder amongst the two was awarded the tender on 04 March 2018 at the quoted price KSh.186,605,100. On 04 June, 2018 one of the unsuccessful firm filed with Public Procurement Administrative Review Board (PPARB) a request for review on the tendering process. The firm sighted claims of flawed technical evaluation criteria and non-adherence to the provisions of the tender document. A fresh financial evaluation of the responsive bidders was undertaken as per the recommendation of PPARB and the appellant declared the

lowest bidder and awarded the tender on 17 July 2018. This triggered an appeal at the High Court for a judicial review by the earlier awarded bidder. At the time of this audit, the case was still pending hearing before the court. This legal process exposes the Programme to a possible contingent liability resulting from litigation costs. In addition, the delay is likely to escalate the project implementation costs attributed to increase in the market prices. In view of the Programme's completion date of 30 September 2019 and closing date of 31 March 2020, the supply, installation, testing and commissioning refrigerated bulk milk cooling tanks and associated accessories may not be undertaken.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1092. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1093. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by International Fund for Agricultural Development, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.
- iv. All International Fund for Agricultural Development funds have been provided and used in accordance with the conditions of the Loan Agreement, with due attention to economy and efficiency and only for the purpose for which the fund was provided;

- v. Counterpart funds have been provided and used in accordance with the conditions of the Agreement, with due attention to economy and efficiency and only for the purpose for which they were provided;
- vi. Goods and Services financed have been procured in accordance with the Agreement and in compliance with the Fund's rules and procedures.

STANDARDS AND MARKET ACCESS PROGRAMME (EU CREDIT NO. KE/FED/023-566)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1094. Receipts

The statement of receipts and payments reflects receipts of KSh.45,643,862 and KSh.348,114,694 relating to transfer from Government entities and proceeds from domestic and foreign grants respectively. However, no documentary evidence was provided to support the amounts. Consequently, the validity of the amounts recorded and presented cannot be ascertained.

1095. Purchase of Goods and Services

In addition, the statement of receipts and payments reflects payments totalling KSh.411,259,325 which were not adequately supported as explained below:

1095.1 The financial statements reflects an amount of KSh.95,244,770 relating to purchase of goods and services. The amount figure includes expenditure of KSh.54,845,077 and KSh.1,057,550 relating to utilities, supplies & services and printing, advertising & information supplies & services, respectively for which no documents and records were produced for audit verification.

1095.2 In addition, the amount of KSh.95,244,770 includes an expenditure of KSh.605,194 relating to routine maintenance- vehicles and other transport equipment. The expenditure of KSh.605,194 further includes an amount of KSh.334,228 that was not supported with any documentary evidence.

1095.3 The amount of KSh.95,244,770 also includes expenditure of KSh.2,150,000 relating to training. However, out of the training expenditure, payments totalling KSh.1,497,835.00 were not supported with any documentary evidence.

1095.4 The expenditure of KSh.95,244,770 also includes an amount of KSh.14,448,209 relating to domestic travel and subsistence for which an expenditure of KSh.7,348,489 was not supported with any documentary evidence. In addition, an expenditure of KSh.74,240 was recorded twice in the books of account. Further, an amount of KSh.1,269,616 relating to foreign travel was also not supported with any documentary evidence.

Under the circumstances, it has not been possible to confirm the validity, completeness and accuracy the total payments of KSh.95,244,770 for the purchase of goods and services.

1096. Acquisition of Non-Financial Assets

The statement of receipts and payments reflects payments totalling KSh.314,863,005 in respect of acquisition of non-financial assets. However, out of the total amount, expenditure of KSh.33,251,689 was not supported with any documentary evidence. In view of the foregoing, it has not been possible to confirm the propriety of the expenditure of 33,251,689.

In addition, payment Voucher No. 2209 for KSh.12,233,074.87 paid to a company on 15/3/2018 was recorded as KSh.12,246,241. The resultant variance of KSh.13,166.13 has not been explained or reconciled.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1097. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1098. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL AGRICULTURAL AND RURAL INCLUSIVE GROWTH PROJECT (IDA CREDIT NO. 5900-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1099. There were no material issues noted during the audit of the financial statements of this project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1100. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1101. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KENYA CLIMATE SMART AGRICULTURE PROJECT (IDA CREDIT NO. 5945-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1102. There were no material issues noted during the audit of the financial statements of this Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1103. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1104. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

CENTRE OF EXCELLENCE IN SUSTAINABLE AGRICULTURAL AND AGRIBUSINESS MANAGEMENT CREDIT NO. 5798-KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1105. There were no material issues noted during the audit of the financial statements of this Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1106. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1107. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

STRENGTHENING FERTILIZER QUALITY AND REGULATORY STANDARDS IN KENYA PROJECT (AGRA GRANT NO. 2013 SHIP 001)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1108. There were no material issues noted during the audit of the financial statements of this Project.

Other Matter

1109. Project Completion Status and Delays in Processing Transactions

According to the financing agreement dated 23 July 2014, (page 4 schedule II-conditions in the grant agreement) the project ought to have been completed by 30 June 2017 but was extended to 31 December 2018.

Further, a review of the Project's receipts and bank statements confirmed that the second disbursement of KSh.13,084,658 (\$126,178) was received on 5 January 2018 while the third and last tranche of \$77,939 had not been received from the National Treasury as of 30 October 2018. The second and the third (last) disbursement ought to have been made on July 1, 2015 and July 1, 2016 respectively as per the project financing agreement dated 23 July 2014.

The project is in the final phase of implementation but a number of activities are yet to be completed, including the purchase of laboratory equipment and reagents without which the project would be unable to meet some of its objectives and have impact as envisaged in the project proposal.

In the circumstances, it may not be possible for the project to achieve some of its objectives by the end of 31 December 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1110. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

1111. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR LIVESTOCK VOTE 1162

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1112. Inaccuracies in the Comparative Amounts and Balances

The comparative amounts and balances under 2016/2017 reflected in the statement of financial position as at 30 June, 2018 and the statement of receipts and payments for the year ended 30 June 2018 differs with the closing amounts and balances reflected in the audited financial statements for 2016/ 2017.

In addition, the figures reflected under the 2016/2017 comparative amounts in the statement of cash flows varies materially with the audited figures reflected in the financial statements for 2016/ 2017. As a result, the statement of cash flows for the year ended 30 June 2018 reflects cash and equivalents balance of KSh.19,817,299 at the beginning of the year, which differs with the closing balance of KSh.39,801,797 reflected in the audited financial statements for 2016/2017.

No explanations or reconciliations have been provided for the variances between the 2016/2017 comparative balances and the audited balances for the year ended 30 June 2017.

1113. Trial balance

The trial balance as at 30 June 2018 reflects total debit balances of KSh.52,053,201,675.50 and total credit balances of KSh.52,934,738,634, thus resulting in un-explained difference of KSh.881,536,958.

1114. Unsupported Expenditure

The statement of receipts and payments reflects total receipts of KSh.11,295,816,224 and total payments of KSh.11,077,643,258 in the year under review. However, most of the expenditure was not supported with documentary evidence as enumerated below:

1114.1 Acquisition of Assets

The statement of receipts and payments reflects an amount of KSh.1,106,493,864 under acquisition of assets which, as disclosed under Note 9 to the financial statements includes several components as follows:

(i) Construction of Civil Works

The expenditure of KSh.321,693,250 on construction and civil works disclosed in Note 9 to the financial statements includes an amount of KSh.56,863,538 that was

not supported by payments vouchers or any other documentation and whose validity is therefore doubtful.

(ii) Construction of Building

Note 9 to the financial statements also discloses an amount of KSh.83,445,805 as having been incurred on construction of buildings. However, included in the expenditure is an amount of KSh.26,681,026.40 that was not supported by payment vouchers or any other documentation and whose authenticity is therefore doubtful.

(iii) Purchase of Vehicles and Other Transport Equipment

Note 9 to the financial statements further discloses an amount of KSh.33,555,600 as having been incurred on procurement of vehicles and other transport equipment. However, out of the expenditure, an amount of KSh.32,684,600 was similarly not supported by payment vouchers and other supporting documentation. In addition, log books for the vehicles were not provided for audit verification. Further, the vehicles were not made available for physical inspection. Consequently, the validity of this expenditure could not be ascertained.

(iv) Rehabilitation and Renovation of Plant, Machinery and Equipment

Included in the acquisition of assets figure of KSh.1,106,493,864.00 and as disclosed under Note 9 to the financial statements, is an amount of KSh.35,553,313 relating to rehabilitation and renovation of plant, machinery and equipment. This amount was equally not supported with documentary evidence. In addition, information on the plant, machinery or equipment rehabilitated was not provided for audit review. As a result, the propriety of the expenditure could not be ascertained.

(v) Purchase of Specialized Plant, Equipment and Machinery

Note 9 to the financial statements also reflects an amount of KSh.457,597,704 relating to purchase of specialized plant, equipment and machinery. The expenditure includes an amount of KSh.255,970,129 that was not supported by payment vouchers and underlying documentation, and whose authenticity could therefore not be ascertained.

(vi) Purchase of Certified Seeds, Breeding Stock and Live Animals

Included in the acquisition of assets figure of KSh.1,106,493,864.00 and as also disclosed, under Note 9 to the financial statements, is an amount of KSh.131,440,334 relating to purchase of certified seeds, breeding stock and live animals. However, out of the latter, an amount of KSh.113,546,997.00 was not supported by documentary evidence including payment vouchers. Consequently, the validity and propriety of the expenditure could not be confirmed.

1114.2 Use of Goods and Services

The statement of receipt and payments reflects an amount of KSh.3,013,499,458 in respect of use of goods and services. The following anomalies were observed in regard to the expenditure:

(i) Foreign Travel

Note 6 to the financial statements discloses that an expenditure of KSh.25,930,521 was incurred on foreign travel and subsistence. Included in foreign travel expenditure is an amount of KSh.7,000,000 that was not supported with any documentary evidence. Consequently, the validity of the expenditure could not be confirmed.

(ii) Rental of Produced Assets

As also disclosed in Note 6 to the financial statements, included in the use of goods and services is an expenditure of KSh.50,972,287 incurred on rentals of produced assets. The latter in turn includes an amount of KSh.12,000,000 that was not supported with any documentary evidence and whose validity could therefore not be confirmed.

(iii) Insurance Costs

Note 6 to the financial statements discloses that an expenditure of KSh.254,853,630 was incurred on insurance, while in the previous year, only an amount of KSh.164,000 had been incurred on insurance costs. Out of the expenditure on insurance, KSh.246,557,230 was not supported by payment vouchers and underlying documentation. In addition, no explanation was provided for the insurance payment. Under the circumstances, the validity of the expenditure on insurance could not be confirmed.

(iv) Other Operating Expenses

Note 9 to the financial statements discloses that an expenditure of KSh.149,720,922 was incurred on other operating expenses. Out of the total expenditure on operating expenses, an amount of KSh.109,659,426 was not supported with payment vouchers and other documentation. Therefore, the validity and propriety of the expenditure totalling KSh.109,659,426 charged to other operating expenses could not be ascertained.

1114.3 Compensation of Employees

The statement of receipts and payments reflects an expenditure of KSh.1,567,658,576 on compensation of employees and as disclosed under Note 5 to the financial statements includes; basic salary of permanent employees, basic wages of temporary employees and personal allowances paid as part of salary. The following anomalies were noted under compensation of employees:

(i) Basic Salaries of Permanent Employees

Note 5 to the financial statement discloses an expenditure of KSh.793,598,723 in respect of basic salaries of permanent employees. However, the Integrated Personnel and Payroll Database (IPPD) and supporting payment vouchers indicates that a total of KSh.784,094,689.95 was spent on basic salaries of permanent employees. The resulting variance of KSh.9,504,033 was not reconciled or explained. As a result, the accuracy of the basic salaries of permanent employees figure of KSh.793,772,284 disclosed in the Notes to the financial statements could not be confirmed.

(ii) Personal Allowances Paid as Part of Salary

Note 5 to the financial statements further discloses an expenditure of KSh.417,482,906 in respect of personal allowances paid as part of salary. However, the Integrated Personnel and Payroll Database (IPPD) schedules provided indicated that an amount of KSh.415,518,365.75, was paid for the same. The resulting difference of KSh.1,964,540.25 between the financial statements and the Integrated Personnel and Payroll Database (IPPD) schedules was not reconciled or explained. Consequently, the accuracy of the personal allowances paid as part of salary could not be confirmed.

(iii) Basic Wages of Temporary Employees

Included in the employee costs and as disclosed in Note 5 to the financial statements is an expenditure of KSh.356,576,947 in respect of basic wages of temporary employees. However, the schedules provided to support the expenditure reflected an amount of KSh.356,528,329, resulting in a difference of KSh.48,618 between the two sets of records. No explanation or reconciliation was provided for the variance.

In addition, included in the basic wages of temporary employees figure of KSh.356,576,947 are amounts related to payments of interns' casual wages. A comparison between the actual amounts paid to the interns as per the schedules provided and the amounts that ought to have been paid as per payment vouchers for the year ended 30 June 2018 revealed the following anomalies:

Description	Schedules Amount KSh.	Payment Vouchers Amount KSh.	Payment Voucher No.	Variance KSh.
DVS-Casuals-May 2018	1,759,628.50	755,239	3167	1,004,389.50
DVS-Casuals-Nov 2017	1,898,151.95	602,981	1258	1,295,170.95
DLP Casuals-June 2018	117,711.70	41,928	3935	75,783.70
Rabbit Bleeding-Nov-2017	189,710.00	186,600	1326	3,110.00
Rabbit Bleeding-April 2018	181,901.10	186,600	3025	(4,698.90)
Ahiti- Kabete-Nov 2017	357,059.00	354,947	1296	2,112.00

Description	Schedules Amount KSh.	Payment Vouchers Amount KSh.	Payment Voucher No.	Variance KSh.
Ahiti- Kabete-may 2018	192,820.00	357,059	3255	(164,239.00)
Bee keeping-June 2018	107,095.75	108,849	3379	(1,753.25)
Total	211,269,142.15	209,059,267		2,209,875.00

The accuracy and completeness of the payments made in respect of the interns' casual wages could not therefore be confirmed under the circumstances.

(iv) Commutation of Leave for Cash

A review of payroll expenditure revealed that payment vouchers numbers 4815 and 4816 dated 27 June 2018 were used to process commutation of leave days for cash amounting to KSh.5,172,870. No evidence was provided to indicate that the commutation of leave days was justified as per regulations. In addition, no evidence was provided to indicate that the commutation of leave days for cash was approved by the Accounting Officer. Consequently, the validity of the expenditure of KSh.5,172,870 could not be ascertained.

1114.4 Transfers to Other Government Units

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an expenditure of KSh.5,312,212,500 in respect of transfers to other Government units. Included in the amount is KSh.137,500,000 indicated to have been transferred to Agricultural Development Corporation (ADC). However, a review of available records held by ADC revealed that the amount was not received by the latter. Consequently, the authenticity of the amount indicated to have been transferred to ADC is doubtful.

1114.5 Other Grants and Transfers

The statement of receipts and payments and as also disclosed in Note 8 to the financial statements reflects an amount of KSh.67,250,425 relating to other grants and transfers. However, no documentary evidence or explanation was provided as to the nature of the grant and to whom it was transferred. Consequently, the validity of the grant could not be ascertained.

1114.6 Other Expenses

The statement of receipts and payments and disclosed in Note 11 to the financial statements reflects an amount of KSh.4,068,297 under other expenses, which was similarly not supported with documentary evidence.

1115. Misallocation of Expenditure

A review of the State Department of Livestock ledger and the financial statements revealed that the following items were wrongly charged and misallocated under Specialized, Materials and Equipment instead of Insurance and Construction and Civil Works:

Date	Details	Amount KSh.
Jun 30, 2018	Being direct payment for Insurance	20,920,328
Jun 30, 2018	Being direct payment for civil works	15,749,073
Jun 30, 2018	Being direct payment for civil works	11,493,073
Jun 30, 2018	Being direct payment for civil works	12,306,690
Jun 30, 2018	Being direct payment for civil works	12,343,126
Total		<u>72,812,290</u>

1116. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 reflects cash and cash equivalents balance of KSh.16,213,371, which includes bank balances totalling KSh.15,684,906. However, the cash book reflects a balance of KSh.15,511,761 as of that date which differs with the figure of KSh.16,213,371 reflected in the financial statements. The resulting difference of KSh.701,610 was not reconciled or explained. Consequently, the accuracy and completeness of the cash and cash equivalents balance of KSh.16,213,371 could not be confirmed.

In addition, bank reconciliation statement as at 30 June 2018 reflects reconciling items which have been outstanding for over a year.

No reason was given for failure to clear the long outstanding reconciling items.

1117. Accounts Receivables

The statement of financial position and as disclosed under Note 14 to the financial statements reflects accounts receivables totalling KSh.283,787,267. This amount comprises outstanding imprests – KSh.5,112,265, district suspense – KSh.12,027,942 and project account – KSh.266,647,060. However, no documentary evidence was provided for audit scrutiny to confirm the existence and authenticity of the balances. Consequently, the validity of these receivables could not be confirmed.

1118. Accounts Payables – Deposits

The statement of receipts and payments reflects and as disclosed in Note 15 to the financial statements an amount of KSh.15,413,228 relating to deposits. However, the amount was not supported with an analysis or any other documentation. Consequently, the validity and accuracy of the balance could not be confirmed.

1119. Outstanding Imprests

The disclosure under Note 14 to the financial statements shows that imprests totalling KSh.5,112,265 were outstanding as at 30 June 2018. The amount includes multiple imprests totalling KSh.1,666,800 that had been issued to six officers before accounting for the previous ones in contravention of regulation 91(4) of the Public Finance Management (National Government) Regulations, 2015.

The manual imprests registers were also not updated, as a result the accuracy of the outstanding imprests balance of KSh.5,112,265 could not be confirmed.

1120. Pending Bills

(i) As disclosed under Note 17.1 and Annex 1 to the financial statements, the State Department of Livestock had pending bills totalling KSh.499,103,271 as at 30 June 2018 that were not settled during the year 2017/2018 but were instead carried forward to 2018/2019. Had the bills been paid and expenditure charged to the accounts for 2017/2018, the statement of receipts and payments for the year ended would have reflected a deficit of KSh.280,930,305 instead of the surplus of KSh.218,172,966 now shown.

(ii) Further, included in the figure of the pending bills of KSh.499,103,271 is an amount of KSh.14,300,000 payable to a company that was awarded a contract on 12 February, 2016 for the proposed completion of Biosafety Level 3 Laboratory at Kabete Veterinary Farm at a contract sum of KSh.69,012,866.

The project's initial completion date was 20/12/2016 which was subsequently revised to 30/5/2018. However, at the time of the audit, the works had not been completed and handed over to State Department for Livestock. No satisfactory reason was given for failure to complete the works within the period stipulated in the contract.

1121. Other Unexplained Variances

The summary statements of appropriation for recurrent, development and combined reflects a final budget and total actual expenditure of KSh.14,216,918,610 and KSh.11,077,643,258, respectively. However, the summary of budget performance indicates a total allocation of KSh.11,184,806,110 and total actual expenditure of KSh.9,968,659,827 for the year ended 30 June 2018, and thus, resulting in unexplained difference of KSh.3,032,112,500 and KSh.1,108,983,431, respectively between the two sets of records.

1122. Land

The financial statements reflects fixed assets with a balance of KSh.1,048,739,963 as at 30 June 2018. However, the balance excludes undetermined value of land. As a result, the completeness and accuracy of the assets balance of KSh.1,048,739,963 could not be ascertained.

As reported in the previous years, the Government, through Gazette Notice No. 890 dated 5 March 1957, allocated 1,400 acres of land in Ngong, Kajiado County, to the Department of Veterinary Services for construction of a veterinary training school, establishment of a veterinary farm and installation of related facilities. However, information and documents available indicate that the land measures 1,500 acres.

Further, information and records at the Ministry of Agriculture, Livestock, Fisheries and Irrigation and Ministry of Land and Physical Planning indicate that some Government agencies and private organizations have irregularly taken possession of 509 acres of the land. The State Department has to-date not obtained title of ownership of the land from the Ministry of Lands and Physical Planning. In the above circumstances, the ownership, actual size and value of the land could not be confirmed.

As a result, the completeness and accuracy of the assets balance of KSh.1,048,739,963 could not be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1123. Budget Performance

The summary statements of appropriation for recurrent, development and combined reflects several revenue and expenditure heads/items with huge variances between the budgeted and actual expenditure amounts.

The overall under-expenditure of 22% during the year means that the State Department did not execute some of its intended activities in the year and thus failing to deliver services effectively to the public. No satisfactory reasons were provided for the failure by the State Department to implement the budget as approved by the National Assembly.

1124. Disproportionate Comparative Increase in Revenue and Expenditure

A review of the actual receipts and expenditure during the year revealed that several items recorded a disproportionate increase compared to the previous financial year.

A further scrutiny of the expenditure on use of goods and services and acquisition of assets under specific sub-components also revealed material disproportionate increase compared to the previous financial year.

Although the amounts had been budgeted for, the increase in expenditure does not appear to correlate directly to the other expenditure items under the Ministry. In addition, no proper explanation was given for the significant increases.

1125. Pending Legal Litigation

A review of legal files revealed that the State Department for Livestock had two protracted legal suits which have led to significant outstanding bill, interest and penalties. The two cases can be summarized as follows:

- i. A Meat Products Company Vs Ministry of Agriculture, Livestock, Fisheries and Irrigation: State Department for Livestock - High Court Civil Case whose court determination amounted to KSh.5.242 billion and out of court negotiations final amount of KSh.4 billion after cap on interests. However, contract documents for the Meat Product Company were not provided for audit review.
- ii. An Architects Company Vs Ministry of Agriculture, Livestock, Fisheries and Irrigation: State Department for Livestock - High Court Civil Case whose accrued interest balance is KSh.25 million. Contract agreement provided for audit review dated 4 February 2019 indicate that the Architects Company was awarded a contract through direct procurement for consultancy services on construction of Mifugo House for Ministry of Livestock Development at a contract sum of KSh.84,505,999.99. However, it is not clear and no satisfactory explanation was provided as to why the consultant should be paid the contract sum, yet no construction was under taken.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1126. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

VETERINARY SERVICES DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1127. Employees' Costs

The employees' costs of KSh.590,258 reflected in the statement of financial performance for the year ended 30 June 2018 were not supported by payrolls or schedules showing the names and particulars of the employees who were paid. As

a result, the validity, completeness and accuracy of the expenditure could not be ascertained.

1128. Property, Plant and Equipment

The property, plant and equipment balance of KSh.34,457,123 as at 30 June 2018 reflected in the statement of financial position. Consequently, the completeness and accuracy of the property, plant and equipment balance of KSh.34,457,123 could not be confirmed.

1129. Inconsistencies in Presentation of Financial Statements

A review of the Fund's financial statements for the year ended 30 June 2018 revealed that various budget line items were inconsistent with those indicated in the accompanying notes to the financial statements, statement of financial performance and other financial statements. Under the circumstances, comparison and analytical reviews on item basis could not be carried out on the revenue and expenditure items reflected in the statement of financial performance vis-à-vis the revenue and expenditure items reflected in the statement of comparison of budget and actual amounts.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1130. Budget Performance and controls

1130.1 Budget under- Performance

Analytical review performed on the approved budget versus actual amounts for the year ended 30 June 2018 revealed material variances between the budgeted and actual amounts representing under-performance of the budget.

There was under collection of revenue by 54% and under expenditure of 57%.

No explanations were provided for the Fund's failure to meet the revenue targets or to incur the expenditure fully on some of the items as approved in the budget.

Further, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the Fund failed to provide explanations in the notes to the financial statements for material variances above / below +/- 10% between the budgeted and actual amounts for the year ended 30 June 2018.

1130.2 Disproportionate Comparative Increase in Expenditure

A review of the statement of financial performance and statement of financial position revealed some revenue and expenditure items that recorded a disproportionate increase compared to the previous year.

A further scrutiny of revenue and expenditure items on specific sub-components revealed disproportionate increase (decrease), over/ (under) 100% compared to the previous financial year.

No proper explanation was given for the significant increases or decreases indicated above.

1131. Non- Compliance with Procurement Laws

Section 54(1) of the Public Procurement & Asset Disposal Act, 2015, provides 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.” However, an examination of a sample of payment vouchers and supporting documents relating to procurement of goods and services for the year under review revealed incidences of splitting purchases orders contrary to this requirement as shown below:

1131.1 Specialized Material and Services

Date	Ref:	Amount KSh.
29-06-2018	33525	900,000
29-06-2018	33526	900,000
29-06-2018	33527	992,815
29-06-2018	33528	700,000
29-06-2018	33529	700,000
29-06-2018	33530	704,604
Total		4,897,419

1131.2 Office and General Supplies

Date	Ref:	Amount KSh.
28-02-2018	33407	1,640,000
28-02-2018	33408	1,236,250
Total		2,876,250

Under the circumstances, the Fund was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1132. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

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DONOR FUNDED PROJECTS

REGIONAL PASTORAL LIVELIHOOD RESILIENCE PROJECT (IDA CREDIT NO.KE53880KE)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1133. There were no material issues noted during the audit of the financial statements of this Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1134. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1135. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR FISHERIES AND THE BLUE ECONOMY VOTE 1164

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1136. Presentation and Disclosure of Proceeds from Foreign Borrowings

The statement of receipts and payments for the year ended 30 June 2018 reflects a nil amount under proceeds from foreign borrowings. However, the special accounts statements reflect payments relating to two projects under the Kenya Marine Fisheries Research Institute amounting to KSh.62,012,285.18 as detailed below:

Project Name	Credit/Grant No.	Amount in US \$	Amount in KSh.
Kenya Marine Fisheries & Social Economic Development Project	Cr. V1310-KE	199,950	20,186,952
Kenya Coastal Development Project	TF 097578	46,494	4,814,919
Kenya Coastal Development Project	Cr. 4801-KE	357,544.44	37,010,415
Total			62,012,285

A review of available records revealed that the whole amount of KSh.62,012,295 was received by the State Department of Fisheries and the Blue Economy. However, of the total of KSh.41,825,333 received under the Kenya Coastal Development, only KSh.40,000,000 was transferred to Kenya Marine Research Institute, as disclosed under Note 5 to the financial statements. The remainder of KSh.1,825,333.18 due to the Project was spent on activities unrelated to the Project.

In addition, the amount KSh.20,186,952 due to a new Project -Kenya Marine Fisheries & Social Economic Development Project, was spent by the Ministry apparently due to lack of the Project's Bank Account. No satisfactory reason has been given for failure to open an account on behalf of the project.

1137. Acquisition of Assets

The statement of receipts and payments reflects an amount of KSh.116,378,882 under acquisition of assets. However, this amount differs with the corresponding amount of KSh.37,732,780 disclosed under Note 8 to the financial statements. No explanation was given for the difference.

Consequently, the accuracy of the amount of KSh.116,378,882 as at 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1138. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1139. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REVENUE STATEMENT- STATE DEPARTMENT OF FISHERIES AND THE BLUE ECONOMY

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1140. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1141. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

1142. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR INVESTMENT AND INDUSTRY

VOTE 1172

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1143. Accounts Receivables – Outstanding Imprests and Clearance Accounts

The statement of assets and liabilities as at 30 June 2018 reflects receivables balance of KSh.40,453,082. This balance includes KSh.38,298,082 relating to the District suspense which has not been adequately supported with the relevant supporting documents or schedules. In the circumstances, it was not possible to confirm the accuracy of KSh.38,298,082 for district suspense accounts balance as at 30 June 2018.

1144. Transfer to Other Government Units and Other Grants and Transfers

The financial statements as at 30 June 2018 indicate that the State Department transferred KSh.3,835,242,202 and KSh.140,771,700 under transferred to other government entities and other grants and transfers respectively all totaling to KSh.3,979,013,902. However, comparison with financial statements of the respective Government units revealed that only a total of KSh.3,857,791,878 was received resulting in unexplained and unreconciled variance of KSh.121,222,024.

In the absence of any reconciliation, it has not been possible to confirm the accuracy and validity of the figure for transfer to other Government units and other grants and transfers as at 30 June 2018.

1145. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June 2018 indicate a balance of KSh.906,492,460 under cash and cash equivalents which includes bank balances amounting to KSh.906,420,029. However, examination of the board of survey reports revealed cash book balances amounting to KSh.968,343,742 as at 30 June 2018. The resulting variance of KSh.61,923,713 has not been explained. In addition, no signed or approved bank reconciliation statements for the year ended 30 June 2018 were availed for audit review.

Further, and as previously reported in 2016/2017, the statement of assets and liabilities reflects cash and cash equivalents balance of KSh.2,991,694 which comprise 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 cash books do not agree with the balances disclosed in the financial statements as at 30 June 2017.

No reasons have been provided for the variances between the two sets of records. Consequently, the accuracy of the cash and cash equivalents balance of KSh.906,492,460 as at 30 June 2018 cannot be confirmed.

1146. Restatement of Opening Balances - Construction and Civil Works and Rehabilitation of Civil Works

As previously reported in the 2016/2017, to the financial statements reflect an opening balance of KSh.175,750,000 under construction and civil works and KSh.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 KSh.29,471,569 under rehabilitation of civil works. Journal entries passed to approve and support the re-statement of the opening balances have not been availed for audit verification and as a result, the accuracy and validity of the opening balances amounting to KSh.175,750,000 for construction and civil works and KSh.42,499,998 for rehabilitation of civil works cannot be confirmed. Further, the accuracy of the aggregate acquisition of assets opening balance of KSh.239,702,126 for the year ended 30 June 2017 could not confirmed.

1147. Pending Bills

Bills amounting to KSh.17,836,013 for the State Department were not paid in the financial year 2017/2018 but were instead carried forward to 2018/2019. Had those bills been paid and expenditure charged, the statement of receipt and payments would have reflected a surplus of KSh.922,884,472. Further, 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 form first charge.

Other Matter

Other Unresolved Matters in the Report for 2016/2017

1148. Irregular Procurement Practices

1148.1 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 private university at a cost of KSh.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 KSh.5,940,000. No evidence was availed to explain why the consultant commenced work before the contract was signed and awarded and for the use of direct procurement method which defeated fair competition and pricing of the tender award.

1148.2 Ease of Doing Business Improvement Programme – Phase II

A private university was awarded contract for provision of consultancy services for Ease of Doing Business Improvement Programme – Phase II at a cost of KSh.5,127,200. Similarly, the invoice was raised before the two parties signed the contract agreement. 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.

1148.3 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 KSh.348,000,000. Clause 2 of the contract agreement under sub-section 2.1 and 2.2 had indicated that the contract was to be effective from 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 KSh.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 and Asset Disposal Act, 2015. The signing of the contract was only intended to rectify the irregularity.

Under the circumstances, the propriety of the expenditure of KSh.69,827,963 incurred on the contract in the year under review could not be confirmed

1149. Irregular Re-allocation of Development Grants to Recurrent Expenditure

As previously reported in, during the year ended 30 June 2015, the then Ministry of Industrialization and Enterprise Development sought and was granted authority by the National Treasury to transfer KSh.200 million to 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 KSh.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 of the National Treasury was sought and obtained to allow MSEA to divert KSh.50 million meant for the textile programme towards payment of security services. This resulted to diversion of development funds to recurrent expenditure without Treasury's approval and thus contravened the Public Finance Management Act, 2012.

1150. Textile and Leather Working Machinery and Equipment

As previously reported, the then Ministry of Industrialization and Enterprise Development procured textile and leather workshop machinery and equipment for Kenya Industrial Training Institute in Nakuru worth KSh.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 KSh.214,899,000 incurred by the Ministry on purchase of these industrial assets.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1151. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1152. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

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

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1153. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1154. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1155. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT (IDA CREDIT NO. 5812- KE) - MICRO AND SMALL ENTERPRISES AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1156. Un-reconciled Receipts

During the year under review, an amount of US\$832,899.12 (KSh.84,034,451) was deposited into the project special (designated) account by the world bank while an amount of US\$ 832,928 (KSh.83,687,141) was withdrawn from the special account

to finance project activities. However, project financial statements for the period ended 30 June 2018 reflect receipts of KSh.142,666,091. The resulting variance of KSh.58,978,950 has not been explained or reconciled.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1157. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1158. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR COOPERATIVES VOTE 1173

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Other Matter

1159. 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 and submit the financial statements of the fund at the end of each fiscal period to the Auditor-General for audit. Further, Rule 18 and 49 of the Co-operative 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 six financial years ended 30 June 2013 to 30 June 2018 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 circumstances, the Department was therefore in breach of the law.

1160. Differences Between the Financial Statements and the Trial Balances

During the year under review following differences between financial statement balances and IFMIS trial balances were noted;

Item	Financial statements balance KSh.	IFMIS Trial Balance figure KSh.	Difference KSh.
Cash at Bank	28,599,395	1,322,399,006	1,293,799,611
Cash in Hand	247,060	6,627,068,990	6,626,821,930
Government Imprest	147,350	2,585,487	2,438,137

Although the management explained that the variances were as a result of an interface problem between IFMIS system and internet banking platform that picked transactions that did not relate to the State Department, the discrepancies had not been reconciled.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1161. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1162. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR TRADE VOTE 1174

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1163. Outstanding Temporary Imprests

The statement of assets and liabilities as at 30 June 2018 reflects accounts receivables' balance of KSh.1,090,028 which includes outstanding temporary imprests of KSh.1,065,678. These imprests ought to have been surrendered or accounted for on or before 30 June 2018. However, review of the position as at November 2018 revealed that out of the figure of KSh.1,065,678, imprests amounting to KSh.505,824 had been surrendered or accounted for, leaving a balance of KSh.559,854 outstanding.

Further, the Integrated Financial Management System (IFMIS) generated imprest register and financial statements reflecting outstanding imprests of KSh.26,839,052 and KSh.1,065,678, respectively as at 30 June 2018. The resulting difference of KSh.25,773,374 between two (2) sets of records has not been reconciled.

1164. Cash and Cash Equivalents

Examination of the reconciliation statements for the month of June 2018 revealed existence of long outstanding items some dating back to the year 2016. It was also noted that trial balance availed for audit review reflected cash in bank (recurrent account) amount of KSh.846,981,841 while trial balance attached to the financial statements indicated KSh.806,817,726. This resulted in an unexplained variance of KSh.40,164,115 thereby casting doubt on accuracy and completeness of the financial statements.

1165. Variances in financial statements

A review of balances in financial statements and trial balance and IFMIS financial statements revealed that some balances were not in agreement as shown below:

Details	Financial statements KSh.	Trial balance/ General ledger- KSh.	IFMIS financial statements- KSh.	Remarks
Exchequer releases	2,033,155,388	5,475,749,569	2,033,155,388	Trial balance not in agreement with financial statements

Details	Financial statements KSh.	Trial balance/ General ledger- KSh.	IFMIS financial statements- KSh.	Remarks
Cash and bank balances	16,303,422	4,530,255,729	4,513,952,307	Balances in the three sets of documents not in agreement
Accounts receivable	1,090,028	12,320,050	11,230,022	IFMIS reports not in agreement with financial statements
Accounts payable	14,961,567	4,575,283,005	4,575,283,005	IFMIS reports not in agreement with financial statements

1166. Unsupported of Expenditure

1166.1 Scholarship and Other Educational Benefits

An expenditure amount of KSh.28,040,000 was incurred on education allowances, scholarships and other educational benefits-secondary which were not supported with requisite schedules. Consequently, it was not possible to confirm the purpose and validity of the grants totalling KSh.28,040,000.

1166.2 Authority to Incur Expenditure (AIEs) to Foreign Missions

As reported in 2016/2017, the statement of receipts and payments reflects use of goods and services figure of KSh.370,929,815 as at 30 June 2018. An examination of sample financial transactions obtained from the general ledger and cash books revealed that the Department disbursed KSh.85,484,187 to foreign missions. However, the entire amount was expensed instead of being reported as accounts receivables until they are accounted for by the missions.

Further, examination of a sample of transactions recorded in the general ledger revealed that part of the AIEs to foreign missions amounting to KSh.52,467,412 were charged to use of goods and services.

The Department is therefore in breach of the Public Finance Management National Regulations, 2015. Consequently, the propriety of expenditure totalling KSh.85,484,187 expensed during the year under review could not be confirmed.

1167. Pending Bills

Note 15.1 to the financial statements reflects bills totalling KSh.43,205,958 that were not settled during the year 2017/2018 but were instead carried forward to 2018/2019.

The Department has cited liquidity problems due to inadequate exchequer as the main reason for these pending bills. However, out of the KSh.43,205,958, bills amounting to KSh.28,261,329 were not supported with the relevant documents such as invoices, local purchase orders, date, nature of goods supplied/services offered and delivery notes. In the circumstances, it was not possible to ascertain the correctness, legality and validity of the pending bills balance of KSh.43,205,958.

1168. Prior Year Adjustments

Note 13 to the financial statements indicates an amount of KSh.1,242,988 referred to as prior year adjustments. The amount includes adjustment on receivables of KSh.1,126,953. The management has however not provided analysis of the prior year adjustments and supporting documents. Consequently, the accuracy of the balances reflected in the financial statements cannot be ascertained.

Other Matter

1169. Budgetary Control and Performance

The statement of receipts and payments for the year ended 30 June 2018 reflects expenditure totalling KSh.370,929,815 under use of goods and services. The amount includes KSh.39,800,242 incurred in respect of routine maintenance - other assets in comparison to an approved budget of KSh.2,325,310, resulting in an over-expenditure of KSh.37,474,932 or 1612%. Although The National Treasury vide letter referenced ES 1174/17/01/(3) dated 25 August 2017, approved re-allocations of KSh.44,500,000 to cater for office partitioning and refurbishment, it is not clear why these re-allocations were not regularized during the financial year 2017/2018 supplementary estimates.

Further, the financial statements for the year ended 30 June 2018 include a summary of appropriation in respect of development account which reflects exchequer releases of KSh.39,863,100 against actual expenditure of KSh.42,598,727 thus resulting in an excess expenditure of KSh.2,735,627.

The management has explained that excess expenditure was due to the State Department having an opening balance of KSh.2,142,555 in the bank. However, the amount was omitted from the current year's financial statements because it was not captured in the recurrent budget.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1170. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1171. Internal Controls

1171.1 Information Technology (IT) Service Continuity

The State Department did not have a formal, documented and tested disaster recovery plan/emergency procedure in place in terms of information technology and therefore in the event of an emergency, the personnel involved might not be aware of what is expected of them.

1171.2 Audit Committee

There is an internal audit department headed by the Senior Assistant Internal Auditor General who is supposed to report directly to the Audit Committee. Although the Cabinet Secretary of Ministry of Industry, Trade and Cooperatives appointed the chairperson and members of Audit Committee in September 2017 for a term of three years, the committee has not been commissioned.

STATE DEPARTMENT FOR EAST AFRICAN INTEGRATION

VOTE 1183

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1172. Pending Bills

A review of pending bills records indicate that the Department had pending bills totalling to KSh.128,493,984 as at 30 June 2018 as compared to KSh.6,246,965 in 2016/2017 representing an increment of KSh.122,247,019 or 1957%. However, the pending bills were not supported with details of contract, invoices and payment vouchers. Further, had the pending bills been paid in the year under review, the statement of receipts and payments would have reflected a deficit of KSh.127,995,610 instead of the surplus of KSh.498,374 reported. The management has attributed the pending bills to shortfall in exchequer receipts.

Consequently, the validity and legality of the pending bills amounting to KSh.128,493,984 could not be ascertained.

1173. Payments for Services not Rendered

A review of records revealed that the management planned a retreat for the Parliamentary Committee on Regional Integration to develop an operational framework for engagement between the National Parliament, East Africa Legislative Assembly and the State Department from 24 to 26 November 2016 which was later postponed to between 1 and 4 December 2016 but eventually took place from 24 to 25 March 2017. However, before postponement of the retreat, the management had procured return air tickets for travel to Mombasa at a cost of KSh.1,541,700 and since the postponement was communicated to the service provider in less than 24 hours before the travel date, the State Department became liable to pay the full cost of the air tickets. The service provider later agreed to reduce the claim to KSh.1,249,200 after negotiations with the pending bills committee. Further, the Department paid an amount of KSh.98,000 in respect of late cancellation of hotel room booking and a fee of KSh.141,000 for late conference package cancellations.

In the circumstances, the State Department of East Africa Integration did not obtain value for money from payments totalling KSh.1,488,750.

1174. Unresolved Prior Years Issues

1174.1 Voidable Somali IGAAD Peace Talks Pending Claim

As previously reported a local firm was in October 2002, requested by the Government of Kenya 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 KSh.65,000,000. The Court ruled in favour of the claimant and the State Department was directed to pay the hotel a sum of KSh.65,000,000 within 60 days failure to which interest would accrue until payment was made in full.

The decretal amount of KSh.65,000,000 was finally settled on 19 April 2013 upon which it had attracted interest totalling KSh.20,991,905. A review of the matter in the year under review revealed that the accrued interest had not been settled despite of several reminders from the Attorney General.

In the circumstances, the unpaid amount is likely to attract more interest claims which are voidable.

Other Matter

1175. Budget and Budgetary Performance

1175.1 Receipts

A review of the summary statement of appropriation: recurrent and development combined showed that the Department had budgeted for receipts totalling KSh.1,713,754,559 but actual receipts amounted to KSh.1,521,825,165 resulting into a shortfall of KSh.191,929,394 or 11.2% under realization.

The shortfall was mainly attributed to failure to receive the budgeted exchequer of KSh.134,684,488. from the National Treasury and KSh.57,244,906 in respect of proceeds from domestic and foreign grants.

1175.2 Payments

The State Department had budgeted to spend KSh.1,713,754,559 but actual expenditure amounted to KSh.1,521,326,789 resulting to an under expenditure of KSh.192,427,769 or 11.2%.

The under expenditure was mainly attributed to inadequate exchequer funding totalling KSh.192,427,770 or 11.2% which implies that the goals and objectives of the Department may not have been achieved as planned.

1176. Lack of Audit Committee

Regulation 174 and 175 of the Public Finance Management (National Government) Regulation (PFM(NG)) Regulation, 2015 requires every National Government entity to establish an audit committee to provide oversight and assurance over issues of risk, control and governance. However, it was observed that the State Department operated without an audit committee. The management has explained that the process of establishing the Audit Committee which started in 2017 was affected by reorganization of the then Ministry of East African Community Integration, Labour and Social Protection and that the process has started in the year 2018/19.

Consequently, the state department has contravened the PFM(NG), 2015 regulations and absence of audit committee implies that the activities of the Management were not independently appraised.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1177. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1178. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

KIMIRA OLUCH SMALL HOLDER FARM IMPROVEMENT PROJECT (ADF LOAN NO.2100150012296) - MINISTRY OF EAST AFRICAN COMMUNITY AND REGIONAL DEVELOPMENT STATE DEPARTMENT OF REGIONAL AND NORTHERN CORRIDOR DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1179. There were no material issues not during the audit of the financial statements of this project.

Emphasis of Matter

1180. Pending Bills

Included in the financial statements is an amount of KSh.1,180,492,625 in respect of pending bills. However, the funding summary reflects undrawn balance to date of KSh.518,094,904 and the funds in bank accounts amounts to KSh.231,209 resulting in a shortfall of KSh.662,166,512 Thus the project does not have enough funds to clear the pending bills.

Consequently, the project might have incurred ineligible expenditure of KSh.662,166,512.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1181. Payment of Field Allowances

Included in compensation of employees' balance of KSh.58,511,015 is KSh.7,812,125 paid as field allowances in the year under review to eighteen (18) officers seconded to the project. However, the management approved the allowances on the basis of an approval made in the year 2007 for top-up allowance subject to available budgetary provision. Consequently, the management was in breach of the law.

1182. Irregular Use of Imprests

Included under purchases of goods and services balance of KSh.32,628,377 was KSh.1,723,000 and KSh.1,686,369 spent on purchase of airtime and fuel respectively. However, the purchases were made through imprests contrary to the provisions of the Public Finance Management Act, 2012.

Consequently, the management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1183. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Fund (ADF), I report based on my audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by the Kimira Oluch Smallholder Farm Improvement Project so far as appears from the examination of those records; and,
- iii. The Kimira Oluch Smallholder Farm Improvement Project financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR LABOUR VOTE 1184

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1184. Other Grants and Transfers

The statement of receipts and payments for the year ended 30 June 2018 reflects other grants and transfers figure of KSh.27,849,904 which includes KSh.22,349,904 in respect of membership fees. However, a review of records supporting this amount revealed that a total of KSh.6,762,246 charged to international organizations for membership fees and subscriptions related to foreign travel. The balance also includes scholarships and other educational benefits of KSh.5,500,000 not supported with records to show criteria of identifying the beneficiaries, list of beneficiaries, level of education and accountability of the amounts.

In the circumstances, it was not possible to confirm that Other Grants and Transfers totaling to KSh.12,262,246 were applied to the purposes for which they were appropriated by the National Assembly.

1185. Un-Surrendered Bank Balances

A review of receipt records for the State Department of Labour disclosed that unspent balance of KSh.5,684,232 received from the former Meru District was receipted on 31 October 2017, and on 29 March 2018 transferred to State Department's deposit account. It is not clear and the state department has not explained why the amount was transferred to the deposit account instead of surrendering the funds to the National Treasury as required.

1186. Accounts Payables

1186.1 Accounts Payable- Clearance

The statement of assets and liabilities as at 30 June 2018 reflects accounts payable and deposits of KSh.122,176,772. However, Note 12 to the financial statements shows a balance of KSh.73,069,995 described as clearance which has not been analysed or supported.

Consequently, accuracy and completeness of the accounts payables balance of KSh.122,176,772 could not be confirmed.

1186.2 Pending Bills

The financial statements reflects pending bills totaling KSh.55,120,444. However, had the bills been cleared by 30 June 2018, the statement of receipts and payments

would have reflected a deficit of KSh.30,197,933 instead of a surplus balance of KSh.24,922,511 reported. No reason has been given for accumulating pending bills and committing the State Department's resources beyond the available funds.

A review of the status during the audit in November 2018 indicated that out of KSh.55,120,444 outstanding as at 30 June 2018, bills totaling KSh.45,517,642 had been settled leaving a balance of KSh.9,602,802. However, it has not been clarified why the pending bills did not form the first charge in the subsequent year as required.

1187. Un-accounted for Disbursements to Consulate Offices

During the year under review, the State Department made disbursements totalling KSh.110,137,669 through A.I.E.'s to Consulate Offices in Qatar, Saudi Arabia, Geneva and the United Arab Emirates (UAE) amounting to KSh.27,675,950, KSh.27,65,950, KSh.30,197,794 and KSh.24,587,975 respectively.

However, respective expenditure returns were not availed for audit review. In the circumstances, it has not been possible to confirm that the public funds amounting to KSh.110,137,669 disbursed to Consulate Offices were utilized for intended purposes and accounted for.

1188. Acquisition of Assets

The statement of receipts and payments for the year ended 30 June 2018 reflects KSh.71,183,883 in respect of acquisition of assets. Included in this amount is KSh.6,101,000 relating to receipts from sale of inventories, stocks and commodities realized by the Directorate of Occupational Safety Health (DOSHS). No explanation was given as to why receipts from sale of assets were expensed or paid as acquisition of assets. Further, the Summary of fixed assets shows acquisition of intangible assets of KSh.17,474,994 while note 9 indicates that the figure relates to research studies, project preparation, design and supervision casting doubts on what the amount really represents in the financial statements. In addition, the summary fixed assets register remains incomplete as was reported in the previous year.

In the circumstances, acquisition of assets figure of KSh.71,183,883 as at 30 June 2018 is not fairly stated.

Other Matter

1189. Budget and Budgetary Performance

1189.1 Receipts

The State Department had budgeted for receipts totalling KSh.2,223,560,463 but actual receipts amounted to KSh.2,024,237,952 resulting to a shortfall of KSh.199,322,511 or 9%.

The failure to receive the budgeted receipts adversely affected implementation of planned activities for the year under review.

1190. Payments

The State Department had budgeted to spend KSh.2,467,468,511 but total payments during the year amounted to KSh.1,999,315,441 resulting to under expenditure of KSh.468,153,070 or 19%.

The under expenditure implies that the goals and objectives of the State Department were not achieved as planned for the fiscal year 2017/2018.

1191. Unresolved Prior Years Issues

1190.1 Construction of the National Employment Promotion Centre Kabete

As was previously reported, the construction of the proposed National Employment Promotion Centre Kabete awarded to a local firm on 15 May 2015 at a contract sum of KSh.442,723,947 had stalled after payment of KSh.117,998,228. The contractor has since abandoned the site. The contract period of 78 weeks had also expired.

Consequently, it has not been possible to determine if and when the project will be completed.

In addition, ownership documents for the land on which the Project was being constructed were not availed for audit verification 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1192. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1193. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

NATIONAL SAFETY NET PROGRAMME

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1194. Unconfirmed Beneficiary Payments

During the year under review, the National Safety Net Program made transfer payments to Equity Bank service provider for onward transmission to beneficiaries. However, the management did not provide bank statements relating to the funds transfers to the beneficiaries under the Hunger Safety Net Programme for audit review. As a result, it was not possible to confirm the balances KSh.2,119,239,700 and KSh.2,744,213,700 reflected in the financial statements relating to the Government of Kenya and Donor funding respectively for the program. Consequently, the propriety and validity of the payments of KSh.4,863,453,400 to beneficiaries as at 30 June 2018 could not be ascertained.

Other Matter

1195. Budget and Budgetary Performance

1195.1 Receipts

The actual receipts amounted to KSh.27,568,067,143 against the budgeted amount of KSh.29,137,450,207 resulting to a shortfall of KSh.1,569,383,064 or 5%.

1195.2 Payments

Overall, the Programme under-spent its budget by KSh.4,438,303,063 or 15%. The under expenditure mainly occurred under old persons cash transfer programme KSh.2,732,727,671 or 19%, persons with severe disabilities KSh.430,339,951 or 25%, orphans and vulnerable children KSh.1,878,523,050 or 22% and social protection Secretariat at KSh.76,766,647 or 22%. However, the variances relating to each of the components were not explained by way of notes in the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1196. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1197. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT NO: IDA – 5812 - NATIONAL INDUSTRIAL TRAINING AUTHORITY (NITA)

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1198. There were no material issues noted during the audit of financial statements of this project.

Other Matter

1199. Budget and Budgetary Performance

1199.1 Receipts

The Project had budgeted for receipts totalling KSh.217,980,963 but actual receipts amounted to KSh.221,497,266 resulting in excess receipts of KSh.3,516,303 or 2%. The excess receipts were attributed to foreign exchange gains.

1199.2 Payments

The Project had budgeted to spend KSh.217,980,963 but actual payments totalled KSh.133,310,259 resulting to an under expenditure of KSh.84,670,704 or 40%. The under expenditure of KSh.84,670,704 or 40% of the budget implies that planned activities, objective and goals of the Project were not achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1200. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1201. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- i. As required by International Development Association (IDA) and the financing agreement No.5812-KE, I report based on my audit, that:
- ii. 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;
- iii. in my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iv. The Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR SOCIAL PROTECTION

VOTE 1185

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1202. Assets Management

1202.1 Grounded Motor Vehicles

Examination of motor vehicles register and subsequent verification revealed that a total of fifty-eight (58) motor vehicles with undetermined values were packed at various yards for several years with no indication as to whether there were plans to repair or dispose-off the vehicles.

1202.2 Lack of Land Ownership Documents

The State Department occupies numerous parcels of land spread across the country which did not have ownership documents while on some, buildings had been erected. No efforts seem to have been made to secure these properties.

1203. Cash Transfer Agreements with Payment Service Providers (PSP)

1203.1 Unfavorable Agency Agreements

During the year ended 30 June 2018, the State Department of Social Protection transferred a total of KSh.13,088,588,000 to a local bank for onward payment to beneficiaries under the three cash transfer programs out of which a commission of KSh.167,745,360 was paid to the Bank. Further, KSh.4,513,036,000 was transmitted through another local bank for onward payment to beneficiaries and a bank commission of KSh.75,795,840 was paid. However, a balance of KSh.2,864,456,000 remained unpaid to the beneficiaries beyond the stipulated 14 days' period and the State Department of Social Protection did not earn any interest on the balances as the agency agreements only provided for commission payable to the banks but did not have a clause on interest accruing on the funds held by the two banks.

As previously reported, the State Department continues to be deprived of interest which could have been earned.

1203.2 Low Absorption Rate of Cash Transfers to Beneficiaries

A review of cash transfers records for the year ended 30 June 2018 showed that in the six transaction cycles for July 2017 to June 2018, a total of KSh.13,088,588,000

was sent to a local bank for onward transmission to the beneficiaries out of which KSh.11,313,640,000 was paid out leaving a balance of KSh.1,774,948,000 translating to an absorption rate of 86%. In the same period, KSh.4,513,036,000 was sent through another local bank out of which KSh.3,423,528,000 was paid to the beneficiaries leaving a balance of KSh.1,089,508,000 translating to an absorption rate of 76% of the total funds disbursed.

No reasons were given for the lack of full absorption of cash transfers to the beneficiaries yet the cash payments were based on registered beneficiaries.

1204. Pending Bills

The financial statements reflects pending bills totalling KSh.33,125,571. Had the bills been charged and paid in the year under review, the statement of receipts and payments would have reflected a surplus of KSh.176,161,933 instead of a surplus of KSh.209,287,504 now shown. A review of the position as at the time of audit in November 2018 revealed that out of KSh.33,125,571, bills totalling KSh.24,629,136.00 had been settled leaving a balance of KSh.8,496,435.

1205. Outstanding Imprests

The statement of assets and liabilities as at 30 June 2018 reflects outstanding imprests balance of KSh.3,584,940 which had not been surrendered by the due dates. A review of the position in November 2018 showed that an amount of KSh.1,420,050.00 had been surrendered leaving a balance of KSh.2,164,890.

Other Matter

1206. Budget and Budgetary Performance

1206.1 Receipts

The State Department had budgeted for receipts totalling KSh.28,193,083,580 but actual receipts amounted to KSh.22,821,553,372 resulting to a shortfall of KSh.5,371,530,208 or 19%.

However, the variances relating to each of the components were not explained in the financial statements as required by the Public Accounting Standards Board template.

1207. Payments

The State Department had budgeted to spend KSh.28,191,231,369 but total payments amounted to KSh.22,612,265,867 resulting to under expenditure of KSh.5,578,965,502 or 20%. The under expenditure mainly occurred under use of goods and services, grants and transfers to other Government units and acquisition of assets at KSh.648,895,545 or 34%, KSh.4,740,092,167 or 19% and KSh.120,531,896 or 49% respectively.

The failure to spend KSh.5,578,965,502 or 20% of the budget implies that the State Department's planned activities were not achieved.

1208. Unresolved Prior Year Matters

1208.1 Lack of Comparative Balances in 2016/2017 Financial Statements

As previously reported, the financial statements for the year ended 30 June 2017 did not include 2015/2016 comparative balances. 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 carved out of the former Ministry of Labour, Social Security and Services which was then split into two State Departments and allocated new votes (Vote 1184 - State Department of Labour and Vote 1185 – State Department for Social Protection).

A review of the position in 2017/2018 revealed that the 2016/2017 had not been revised to incorporate the comparative balance.

1209. Kabete / Getathuru Land - Directorate of Children Services Department

As previously reported, ownership documents for Nairobi Children's Remand Home were not availed for audit review despite the fact that the institution has existed since 1957 with only an allotment letter. Further, information available indicate that part of the land measuring 4.579 HA was being claimed by a private entity which was also in possession of a title deed dated 31/12/2002. In addition, several other claimants to the land had also occupied portions of the land.

As previously stated, it has not been clarified how individuals and these companies acquired Government land.

1210. Unpaid Cash Transfers Balances still held by Service provider - Postal Corporation of Kenya

As previously reported, the State Department 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 KSh.169,300,000 remained unpaid. As at 30 June 2017, the agent had not refunded the unpaid balances. A review of the matter during the 2017-2018 audit revealed that the status had not changed.

1211. Stalled Rehabilitation Dagoretti Girls School Dormitory

As previously reported, rehabilitation of Dagoretti Girls School Dormitory which was awarded to a firm at a contract sum of KSh.21,370,279.80 had stalled at the upper slab level and the contractor had by September 2017 abandoned the site . At the

time the project stalled, the contractor had received payments totalling KSh.9,731,997 or 45% despite completion level of only 20%. A review of the matter in 2017/2018 revealed that the position had not changed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1212. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1213. Lack of Audit Committee

Regulation 74(1) of the Public Finance Management Act, 2012 requires every National Government entity to establish an audit committee to provide oversight over management activities. It was observed that in the year under review, the State Department operated without an audit committee implying that the activities of State Department were not independently appraised.

In the circumstances, the State Department has not complied with the provisions of the PFM Act, 2012 as regards establishment of audit committee.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

DONOR FUNDED PROJECTS

KENYA YOUTH EMPLOYMENT AND OPPORTUNITY PROJECT CREDIT NO.58120KE

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1214. There were no material issues noted during the audit of the financial statements of this Project.

Other Matter

1215. Budget and Budgetary Performance

1215.1 Receipts

The project had budgeted to receive KSh.146,000,000 as proceeds from borrowings. However, actual receipts amounted to KSh.129,990,741 resulting in a shortfall of KSh.16,009,259 or 11%. The shortfall was attributed to the underutilization of funds in various activities by the project management and hence the non-reimbursement by the financiers. This trend if it continues may impact negatively the achievement of project objectives and goals.

1215.2 Payments

The project had budgeted to spend KSh.146,000,000 but actual expenditure for the year amounted to KSh.58,557,680 resulting in underutilization of KSh.87,442,320 or 60%.

The low absorption of funds was attributed largely to delay in the kickoff of the informal sector survey which was stated as the main activity of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1216. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1217. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

CASH TRANSFER PROGRAM FOR ORPHANS AND VULNERABLE CHILDREN - IDA GRANT NO.TF097272

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1218. Assets Management

A review of the project's financial statements for the year ended 30 June 2018 revealed that non-financial assets procured during the year amounted to KSh.65,995,380. However, the project did not have a complete fixed asset register. Further, as reported in 2016/2017, cash receipts of KSh.66,9689,173 transferred from the closed IDA counterpart project and assets procured in its lifetime have not been disclosed. It was not possible to physically verify the existence and location of the assets bought under the project.

1219. Failure to Provide Cash Transfer Reconciliation Reports by the Service Providers (PSPs)

In accordance with the contract agreements signed between the State Department of Social Protection and the individual service providers. The service providers were required to provide reconciliation reports for the funds received and disbursed to the beneficiaries. However, three banks did not provide reconciliations as required.

Further, the service providers did not show the status of State Department's dedicated bank account into which the beneficiaries' funds were transferred.

Consequently, accountability of the project funds given to the service providers and timeliness of payments to beneficiaries could not be ascertained.

1220. Deceased Beneficiaries

Examination of payroll records for the year under review disclosed that some deceased persons were retained in the list of beneficiaries for prolonged periods before being removed from the payrolls as their caregivers continued to draw funding totalling KSh.184,000 in various sampled sub-counties. The management has explained that it has embarked on a strategic intervention to clean up the payroll through a new payment solution and enhanced management information system (MIS). However, it has not been possible to confirm the extent of payments made on account of deceased beneficiaries or if the Project will be able to recover such payments. As a result, undeserving persons may have benefited at the detriment of deserving households from the grant project.

1221. Failure by Service Providers to Submit Reports on Time Barred Transfers to Beneficiaries

A review of the project payrolls and the available bank returns showed incidences where beneficiaries had failed to collect cash transferred in their account for a maximum of four cycles which totalled KSh.16,000 for each. In accordance with the rules and procedures of the project operations, when funds remain uncollected for more than four cycles, the same are supposed to be swept back to the State Department's holding account in the respective banks. However, it was observed that the management did not avail for audit verification a report on the funds swept back after expiry of the collection window as well as a reconciliation showing how such funds were dealt with.

In the circumstances, it was not possible to confirm if the time barred cash transfers were dealt with in accordance with the project operating procedures.

1222. Over-Payment of Bank Commission to a Local Bank

The contract between a local bank and Government of Kenya in October 2017 stipulates that a commission per transaction of disbursement shall be 2% of the payroll amount and shall be non-refundable. This means that commissions paid to the bank are not based on the actual funds transferred to the beneficiaries but on the total funds received from the State Department as per the payrolls. A comparison between the funds disbursed to the banks against the actual payments to the beneficiaries revealed that the bank may have been overpaid commissions by KSh.35,498,960 due to the wrongfully drafted agreement.

Other Matter

1223. Budget control and Performance

1223.1 Receipts

The project had budgeted for grants amounting to KSh.480,648,000 against actual receipts realized from proceeds from domestic and foreign grants totalling KSh.392,537,200 resulting in a shortfall of KSh.88,110,800 or 18%.

1223.2 Payments

The project had budgeted to spend KSh.480,648,000 but actual payments for the year under audit totalled KSh.310,294,337 resulting to underutilization of KSh.170,353,663 or 20%.

The underutilization which mainly occurred under the purchase of goods and services was attributed to closure of the project midway in the financial year and transfer to grants through supplementary budget.

1223.3 Unresolved Prior Year Matter

1223.3.1 Unverified Sub-County Treasuries Expenditures

As previously reported out of KSh.304,770,157 relating to purchase of goods and services a total of KSh.191,418,427 stated as relating to District operational expenditures was only supported with returns from the Districts but the original documents were retained in various Sub-County Treasuries across the Country.

Consequently, it has so far not been possible to confirm the validity of the expenditures incurred therein.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1224. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

1225. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

MINISTRY OF MINING VOTE 1191

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1226. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1227. Undisclosed Accounts Payable

Annex 1 to the financial statements reflects pending bills totalling KSh.118,055,019 out of which KSh.33,357,885 was brought forward from the previous financial year. However, the bills were neither disclosed in the audited financial statements for 2016/2017, nor settled during the year under review. Management have explained that failure to disclose the bills resulted from lack of sufficient evidence to confirm their validity.

Had the bills been paid and the expenditure reflected in financial statements for the year under review, the statement of receipts and payments for the year would have reflected a deficit of KSh.151,350,343 instead of the surplus amounting to KSh.62,531 now shown.

1228. Unsupported Donor Funded Project Expenditure

The proceeds from domestic and foreign grants reflects KSh.22,321,429 (2017: KSh.10,000,000) and equivalent expenditure incurred on acquisition of assets. The expenditure was incurred by the United Nations Development Programme's (UNDP) under a project named Extractive Industry for Sustainable Development financed by the Fund in the Department. However, the expenditures have not been supported with payment vouchers, expenditure returns and schedules showing the activities funded and the reporting currency's conversion rates. The UNDP only provides the Department with summaries of expenditures incurred and keeps details such as payment vouchers.

In the absence of payment documents, it has not been possible to confirm the validity of foreign grants and equivalent expenditure of KSh.22,321,429 reflected in the statement of receipts and payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1229. Irregular Legal Costs and Allowance Payments

The statement of receipts and payments for the year under review reflects use of goods and services expenditure totalling KSh.1,023,365,624. Included in the amount are operating expenses totalling KSh.844,342,711 which in turn include KSh.401,367,055 incurred on legal costs and associated expenses for a case that pitted mining companies against the Republic of Kenya and which was heard and determined in Kenya's favor at the International Centre for Settlement of Investment Disputes (ICSID) in Dubai.

In the suit, the mining companies sought compensation of between US \$2Billion and US \$5Billion (KSh.200 billion and 500 billion), after the Government cancelled their licence for exploration and development of minerals at Mrima Hills, Kwale County. The Government of Kenya was represented by two legal firms of advocates engaged by the Office of the Attorney-General.

Prior to the hearing on 15 to 26 January 2018, the State Department of Mining issued imprests of KSh.29,735,381 to three staff members to cater for legal costs and other travelling expenses. However, examination of the expenditures incurred from the imprests revealed several irregularities as follows:

- i. The engagement agreement between the Government of Kenya and two legal firms provided for reimbursement of expenses on expert fees, travel, translation services, hotel expenses, meals, taxis, photocopying, telephone calls and facsimile transmission incurred by the advocates, provided such expenses were invoiced along with fees incurred for the month in question. In addition, the agreement provided that any expenses in excess of US \$5,000(KSh.500,000) would only be incurred after the written consent of the client is obtained. However, payments totaling KSh.7,501,500 were made to the advocates in January 2018 through imprests issued to the staff members. The payments were for hotel accommodation, subsistence allowances, and expert refresher fees. Whereas the rest of the expenses had been provided for in the engagement agreement, the subsistence allowance payments totaling KSh.749,700 paid to the advocates were not.
- ii. The legal firms were paid KSh.4,410,000 to hire a trainer to induct the firm's advocates on the case. It is not clear why the cost was borne separately from the fee paid by the Government to the firm.
- iii. All expenditures totaling KSh.7,501,500 paid from imprests were not invoiced and there was no evidence to show that written consent was obtained from the Office of Attorney-General before the payments were made. In the

circumstance, the validity of the payments totaling KSh.7,501,500 made to the advocates cannot be confirmed.

Management have indicated that they have requested the Office of the Attorney-General to provide details of the contract agreements signed with the two law firms to help in reconciliation of payments made directly to the firms.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1230. Lack of Risk Management and Information Communication Technology (ICT) Policies

Assessment of the internal control system in place at the State Department during the year review revealed that the management has not established a risk management policy to identify, mitigate and control operational and other risks that the Department may face from time to time. In addition, the Department has never carried out risk assessment to identify and address key areas of concern and document specific controls in response to any risks identified.

The audit also revealed that the management is yet to establish an Information Technology strategic plan to leverage the Department's operations on information technology. Also, there is no documented and tested disaster recovery plan in place to provide guidance in the event of an ICT-related emergency. Further, there is no established information technology strategic committee to oversee its ICT operations.

These omissions have compounded exposure of the Department's operations to random and systemic risks. Management has indicated that they are set to establish structures to oversee risk and information technology management matters of the Department before the end of the 2018/2019 financial year.

REVENUE STATEMENTS – MINISTRY OF MINING

Unqualified Opinion

1231. There were no material issues noted during the audit of the financial statements of this Project.

Emphasis of Matter

1232. Shortfall in Revenue Collection

The statement of comparison of budget and actual amounts reflect an aggregate shortfall in revenue collection amounting to KSh.195,861,414 equivalent to 21% of the budgeted receipts from three revenue streams during the year under review as shown below:

	Revenue stream	Budget (KSh.)	Actual (KSh.)	Variance (KSh.)	Variance (%)
1	Cement Levy	742,108,192	597,066,815	(145,041,377)	(20%)
2	Mineral Export Levy	8,437,105	5,852,050	(2,585,055)	(31%)
3	Mining Royalties	143,188,548	94,953,566	(48,234,982)	(34%)
	Total	893,733,845	697,872,431	(195,861,414)	(21%)

According to management, the shortfall resulted from difficult market conditions which were further worsened by slow economic activities after 2017 General Election, cessation of operations by one of the major mining companies and delay in publication of regulations for licensing mineral dealings, which however, have since been published.

1233. Unconfirmed Royalties Income

The statement of receipts and transfers as at 30 June 2018 reflects royalty receipts from Base Titanium Company Limited amounting to KSh.490,949,539 on account of titanium mineral exports. However, as in the previous financial year, data on the receipts was derived from the company's self-declared export quantities and income records rather than assessment of actual mineral export consignments by the Department.

Management has indicated that officers of the Department have since been deployed at the Company's mining sites in Kwale County and the Likoni Port in Mombasa to verify production output and sample mineral exports made by the Company.

Other Matter

1234. Inconclusive Negotiations on Review of Titanium Royalties Regime

The Special Mining Lease No.23 granted to Base Titanium Company Limited provides for review, on request of the Commissioner or the Lessee, of the conditions of the lease with a view to bring them in line with any changed circumstances whether due to economic, technical or other reason, and ensure better control of mining operations.

The Government entered into a deed agreement with Base Titanium Company Limited in February 2014 and undertook to negotiate and review upwards, royalty rates prescribed in the Special Mining Lease within one month. Negotiations commenced soon thereafter and a number of proposals were advanced by both parties with Base Titanium eventually making its final proposal ("Bridge Proposal") that called for the royalty rate to be increased from 2% to 5%, and backdated to 2014.

However, as at the time of concluding the audit in December 2018, a final decision had not been arrived at. The inordinate delay in concluding the matter has deprived the State Department of higher revenue receipts expected when the deed agreement was signed five years ago.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1235. Except for the issues described in Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1236. Except for the issues described in Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

MINISTRY OF TOURISM VOTE 1201

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1237. Inaccurate Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June 2018 reflects cash and cash equivalents of KSh.32,545,359. However, the supporting trial balance indicated a balance of KSh.14,450,735,288 resulting to an unreconciled difference of KSh.14,418,189,929.

In view of the above unreconciled differences, it has not been possible to confirm the accuracy and completeness of the cash and cash equivalents balance of KSh.32,545,359 as at 30 June 2018.

1238. Wasteful Expenditure on Payment of a Pending Bill and Non-Disclosure in the Financial Statements

As reported in the previous year's audit, the Ministry made a payment of KSh.150 million during the year 2015/2016 to a local law firm in respect of a pending bill from the former Ministry of Trade. Available information indicates that the payment was in respect of an initial bill of KSh.12 million payables 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 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 KSh.52,606,872 being outstanding amount plus 3% interest since 2004.

In August 2011, the Attorney General advised the Ministry of Trade and Industry to pay the contractual amount but negotiate the interest payable even though there was no formal contract for Phase II. However, the 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 KSh.110,061,691 being the initial KSh.12 million plus 26% interest since April 2004. Part payment of the court award of KSh.65 million was made in July 2013 as interest continued to accumulate. As at December 2016, the outstanding bill had accumulated to KSh.210 million.

It was noted that there was lack of diligence on the side of the then Ministry's officials in allowing the company to continue offering the services 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 KSh.198 million.

In the year under review, a further payment of KSh.70 million was made. Despite the fact that the Ministry to date has paid KSh.285 million against KSh.210 million as per December 2016 accumulated balance, the Ministry has since received an estimation statement from the Attorney General instructing the Ministry to pay a further amount of KSh.62 million arising from the accrued interest. The same has not been disclosed on the face of the financial statements nor by way of notes.

Consequently, there is risk of further loss of public funds through continued accumulated interest and penalties occasioned by the Ministry's officials. The Ministry should, therefore, fast track settlement of this issue to avoid further interest and penalties.

Other Matter

1239. Budget Under Absorption

Review of the budget and actual expenditure of the Ministry revealed that the following expense items had significant under absorption;

Expense Item	Final Budget KSh.	Actual Expense KSh.	Variance KSh.	Variance %
Subsidies	116,600,000	-	116,600,000	100%
Transfer to other Government Units	2,729,868,517	2,253,782,739	476,085,778	17%
Acquisition of Assets	253,021,941	189,904,622	63,117,319	25%
Goods and Services	361,586,673	343,049,093	18,537,580	5%
Total	3,689,008,614	3,015,059,025	673,971,828	18%

The under-absorption of KSh.673,971,828 slowed down implementation of activities and projects in the Ministry's annual work plan that the funds were budgeted to finance and thus constrained the delivery of the Ministry's services to the public.

Consequently, the Ministry may not have achieved its objectives for the year ended 30 June 2018.

1240. Expenditure Not Related to the Ministry's Mandate

Included in the use of goods and services figure of KSh.343,049,093 for the year ended 30 June 2018 is KSh.63,731,876 spent on various items detailed below:

Nature of Item	Specific Expenditure	Amount KSh.
Hospitality Supplies and Services	Token of Appreciation Task Force	720,000
Specialized materials and services	Task force	5,001,600
Foreign Travel	Task Force	320,100
Operating Expenses	Task Force	3,753,000
Acquisition of Assets-Tourism Recovery	Task Force (Various)	18,172,627
Acquisition of Assets-Tourism Recovery	Imprest Surrender	35,764,550
Total		63,731,876

However, it was not possible to establish how the expenditure of KSh.63,731,876 spent on these items was related to the Ministry's mandate of tourism recovery and development.

1241. Unresolved Prior Year Issue

As previously reported in the year ended 30 June 2017, the Ministry spent an amount of KSh.1,042,214,337 on acquisition of assets (tourism recovery) sub-item; research, studies, project preparation, design and supervision. The scrutiny of the expenditure in the previous year revealed that an amount of KSh.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 was not possible to confirm propriety of funds amounting to KSh.206,569,933 as then reflected in the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1242. Except for the issues described in the Basis for Qualified Opinion there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

1243. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR PUBLIC SERVICE AND YOUTH AFFAIRS VOTE 1211

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1244. Cash and Cash Equivalents

1244.1 Bank Balances

The statement of assets and liabilities as at 30 June 2018 reflects total financial assets of KSh.1,356,002,372 comprising of KSh.1,347,099,137, KSh.1,040,770 and KSh.7,862,465 relating to bank balances, cash on hand and outstanding imprests respectively. However, the following anomalies were observed in relation to the balances;

- i.) The financial statements reflect an account balance of KSh.704,956,228 held at a local bank relating to Huduma Cohorts Saccos' outstanding balances whose detailed analysis provided supports KSh.438,834,280 leaving an unreconciled and unsupported balance of KSh.266,121,948.
- ii.) The Board of Survey Certificate for Central Bank of Kenya Deposits account dated 1 July 2018 shows a bank balance of KSh.416,412,170 as at 30 June 2018 while the reported cash book balance is KSh.420,082,870 leading to an unexplained and unreconciled variance of KSh.3,670,700.
- iii.) The bank reconciliation statement for Director General's NYS account held at a local bank, reflects payments totaling to KSh.241,350,937 relating to payments in the cash book not in bank statement all of which are over six (6) months old and hence stale. No explanation has been provided for failure to reverse the stale cheques.

Further, the bank reconciliation statement includes payments in the bank statement not reflected in the cash book totaling to KSh.283,926,488 which have been outstanding for more than six (6) months. No explanation has been given for failure to reconcile the outstanding items.

- iv.) The bank reconciliation statement for Central Bank Development account reflects payments in cash book not in bank statement of KSh.11,020,767 out of which payments amounting to KSh.145,727 are over six (6) months old hence stale. No explanation has been provided for failure to reverse the stale cheques. Further, included in the payments in the bank statement not in the cash book are payments totaling to KSh.1,173,573 which have been outstanding for more than six (6) months hence stale. No explanation has been given for failure to reconcile the items.

In addition, receipts in the cash book not in bank statements of KSh.1,194,232 which have been outstanding for more than six (6) months. No explanation has been provided for failure to clear the items.

- v.) The cash and cash equivalents balance of KSh.1,348,139,907 excludes National Youth Service Huduma Academy, Yatta which had an opening balance of KSh.10,674,804 as at 1 August 2017 and for which the bank statement provided shows several withdrawals and zero deposits. No cash book, bank reconciliation, certificate of bank balance and board of survey report have been provided for audit review. Although management indicate that it is a public school run by an Independent Board of Governors, no evidence in support of this assertion has been provided for audit review.

1244.2 Unrecorded Receipts on Authority to Incur Expenditure (AIEs) Balances

The State Department of Public Service and Youth Affairs issued Authority to Incur Expenditure (AIEs) to various field stations and charged the expenditure returns to various expenditure item codes in line with the budget. However, analysis of AIE returns and field inspection reports for seven sampled stations shows unspent balances as follows;

Station	Amounts Received KSh.	Expenditure KSh.	Balance KSh.
Yatta field unit	151,832,442	150,842,141	990,301
Athi River Station	60,206,690	59,267,329	939,361
Tumaini field unit	25,882,450	25,614,864	267,586
Total			2,197,248

Although the amount represented cash and bank balances at the field stations, the balances were not disclosed as cash and cash equivalents as at 30 June 2018.

1244.3 Undisclosed Bank Accounts

- (i) The statement of cash flows reflects cash and cash equivalents account balance as at 30 June 2018 of KSh.1,348,139,907 as analyzed under notes 10A and 10B to the financial statements. The certificate of bank balances issued to the State Department by Central Bank of Kenya had a balance of KSh.1,400,000 held at Central Bank of Kenya account as at 30 June 2018 which was not included in the bank balances reflected on the financial statements.

Although management has explained that the account is a holding / suspense account and the amounts were transferred to the recurrent account as at 30 June 2018 and included in the reported balance for recurrent account, no evidence has been provided to show that the amounts had been swept to the recurrent account as at 30 June 2018 and included in the reported account balance.

- (ii) Further, the balance of KSh.1,348,139,907 under cash and cash equivalents as disclosed under note 10 to the financial statements excludes unquantified transactions and account balance for an account at a local bank with a closing bank balance of KSh.1,901,179.

In view of the foregoing, the accuracy and completeness of the cash and cash equivalents balance of KSh.1,348,139,907 as at 30 June 2018 could not be ascertained.

1245. Unsupported Expenditure

The statement of receipts and payments reflects total payments totaling to KSh.21,063,019,625 which include payments amounting to KSh.182,718,344 whose payment vouchers were not made available for audit verification since they were being held by various investigating agencies.

Under the circumstances, the payments as reflected on the statement of receipts and payments could not be confirmed to the extent of KSh.182,718,344 represented by the missing payment vouchers.

1246. Accounts Payables

1246.1 Unsupported Staff Accounts Payables

As reported in 2016/2017, the statement of assets and liabilities reflects a balance of KSh.1,300,474,422 (2016/2017- KSh.789,066,011) against accounts payables as disclosed under note 12 to the financial statements. The balance consists of outstanding payables for deposits, National Youth Service- Service men and women savings and allowances, and NYS – Huduma Cohorts totaling KSh.416,412,170 (2016/17-KSh.231,544,785), KSh.71,661,430 (2016/17-KSh.114,630,549) and KSh.812,400,822 (2016/17 KSh.442,890,677), respectively.

However, the listings in support of amounts owing to National Youth Service – service men and women savings and allowances and National Youth Service – Huduma Cohorts of KSh.71,661,430 (2016/2017 KSh.114,630,549) and KSh.812,400,822(2016/17 KSh.442,890,677) respectively have not been provided for audit review.

Consequently, the accuracy and completeness of the account payables balance of KSh.1,300,474,422 could not be confirmed.

1246.2 Accounts Payables - Hire of Equipment

The statement of assets and liabilities reflects a balance of KSh.1,300,474,422 against accounts payables as disclosed under note 12 to the financial statements which relates to amounts payable to youths engaged in the Youth Empowerment Programme for the services rendered and deposits owed to contractors. However, the balance excludes amounts owed to the Mechanical and Transport Fund for services rendered of KSh.1,361,855,934 relating to hire of equipment charge and borrowing from the fund.

Consequently, the accuracy and completeness of the accounts payables balance of KSh.1,300,474.422 as at 30 June 2018 could not be confirmed.

1247. Unreported and Unsupported Pending Bills

Note 16.1 on other important disclosures to the financial statements reflects a balance of KSh.967,434,265 disclosed as outstanding pending bills as at 30 June 2018. However, Field verification at sampled stations inspected during the Month of April 2019 relating to outstanding pending bills as at 30 June 2018 revealed that bills totaling to KSh.1,586,208,155 are held at seven (7) stations as compared to the reported balance in the financial statements of KSh.384,682,494 relating to the National Youth Service (NYS) resulting to an unexplained variance of KSh.1,201,525,661.

Consequently, the accuracy and completeness of the pending accounts payables of KSh.967,434,265 as at 30 June 2018 could not be confirmed.

1248. Proceeds from Sale of Assets - Unrecorded Revenue

The statement of receipts and payments and note 3 to the financial statements reflects proceeds from sale of assets balance of KSh.11,465,422 as at 30 June 2018. However, analysis of revenue collected at four (4) field stations during field inspection carried out in the month of April 2019 revealed that KSh.41,207,405 was received during the financial year ended 30 June 2018 as detailed below:

Station	AIA Collected/Revenue (KSh.)
Gilgil College	5,795,075
Yatta field unit	241,775
Athi River field unit	22,189,005
Tumaini farm unit	12,981,550
Total	41,207,405

These revenue has not been disclosed in the financial statements for the State Department for the financial year ended 30 June 2018. In addition, examination of official receipt books maintained at the State Department revealed that KSh.978,498

received in relation to revenue were omitted from the reported balance for sale of assets.

In consequence, the accuracy and completeness of the figure for total receipts from sale of assets of KSh.11,465,422 could not be ascertained as at 30 June 2018.

1249. Unauthorized, Unreported and Unaccounted for Borrowing

The State Department borrowed KSh.1,114,827,220 from the Mechanical and Transport Fund. The amounts were borrowed in two batches of KSh.478,927,907 and KSh.635,899,313 during the year under review. The first batch of KSh.478,927,907 has since been refunded to the Mechanical and Transport Fund bank account. However, the second batch of KSh.635,899,313 which was borrowed to settle outstanding tuition fees and accommodation claims from various Technical and Vocational Training Institutions (TVET's) for January and September 2017 in respect of trainees all totaling to KSh.635,899,313 has not been reported in the statement of receipts and payments and the statement of assets and liabilities have not disclosed these receipts and corresponding expenditures neither has the outstanding amount been disclosed as a liability.

Consequently, the accuracy and completeness of the total receipts figure of KSh.21,020,670,673 and total payments figure of KSh.21,063,019,625 could not be confirmed.

1250. Wrong Account Charge and or Unauthorized Excess Vote

During the year under review, the statement of receipts and payments reflects a figure of KSh.5,850,009,548 under use of goods and services. The accounts balance relates to various expenditure account codes as disclosed under 5 to the financial statements. However, analysis of the various transactions as recorded in ledgers reveals that the State Department charged expenditure items to other account codes other than the codes as per the approved budget contrary to the requirements of Section 43(2)(c) of the Public Finance Management Act 2012 as tabulated below:

Description	Account Balance KSh.	Wrong Account Charge KSh.	% Wrong Charge
Communication supplies and serviced	55,371,414	5,090,552	10
Domestic travel and subsistence	131,694,936	19,272,793	15
Foreign travel and subsistence	19,603,279	3,737,595	19
Printing, advertising and information supplies and services	15,670,300	2,352,846	16
Office and General supplies	31,095,644	7,246,870	23
Routine maintenance – other assets	169,930,360	167,450,385	97

Description	Account Balance KSh.	Wrong Account Charge KSh.	% Wrong Charge
Utilities, Supplies and services	184,311,698	128,698,354	70
Rentals of produced assets	528,405,650	373,377,327	71

No satisfactory explanation has been provided for failure to obtain approval for reallocation of funds as required under law.

1251. Consultancy Services at National Youth Service

1251.1 Systems Development Consultancy Services by a Firm

The State Department contracted a consultancy firm for provision of consultancy services in systems development for the National Youth Service at a contract sum of KSh.243,160,464. The firm executed the project and exited, however, no documentation in relation to the milestones achieved and outputs from the execution have been provided for audit review.

Further, it was not possible to confirm and evaluate how the contract was concluded, proof of deliverables achieved and approved by inspection and acceptance committee relating to the payments of KSh.112,826,454 so far made and outstanding amounts of KSh.56,413,228 listed in pending bills for the financial year 2017/2018.

1251.2 Consultancy Services by Individuals

The State Department engaged three (3) consultants for a duration of three years to provide services on legal, ICT and internal audit at contract sums of KSh.19,404,000, KSh.27,324,000 and KSh.19,404,000 respectively. As at 30 June 2018, a total of KSh.23,926,224 had been paid in respect of these contracts notwithstanding the fact that the State Department had an internal audit department, an ICT department and legal office section as well as advice provided by the Attorney General's Office. The contacts were clearly duplication of existing roles that had existing employees undertaking the same duties.

Further, no evidence of milestones and any outputs achieved from the above consultancies have been provided for audit verification and therefore casts doubts on value for money received from these contracts.

Consequently, it was not possible to confirm whether public funds were spent in a lawful and effective way as required under Article 229(6) of the Constitution of Kenya, and non-compliance with Article 232(1)(b) of the Constitution on utilization of public resources.

1252. Rehabilitation of Civil Works - Unjustified Procurement of Building Materials

The rehabilitation of civil works expenditure of KSh.1,052,626,086 as reflected on note 9 to the financial statements include purchase of building materials worth KSh.532,950,990 procured in the financial year 2016/2017 but paid for in the current financial year. However, physical inspection at the stores undertaken in January 2019 showed that materials worth KSh.506,630,090 which included 357 Jericans of white spirit valued KSh.649,740 already expired at the date of verification remained unutilized over two years with no indication of when they were to be utilized.

Consequently, no justification of the procurement, payment and non-use of building materials worth KSh.532,950,990 which have remained unused for more than two years has been provided.

1253. Unsupported, Unaccounted and Lack of Value for Money on Field Stations Expenditure

The audit field inspection and verification exercise was undertaken in seven (7) field stations namely; Naivasha, Gilgil, Tumaini, Yatta, Mavoloni, Mombasa and Mwatate in April 2019 and the following were the findings:

1253.1 Yatta Field Station – Unsupported and Unaccounted Materials Expenditure

The station constructed six temporary hostels, two classrooms and three kitchen at a cost of KSh.27,814,990 during the financial year 2017/2018. The station procured materials from various suppliers prequalified at the sub-county and engaged servicemen and servicewomen to provide labour for construction works. However, the bills of quantities provided for audit verification showed that each hostel was supposed to cost KSh.1,319,070. Excluding labour giving a total of KSh.7,914,420 while each classroom was to cost KSh.640,650 excluding labour giving a total of KSh.1,281,300 and each kitchen was to cost KSh.333,700 excluding labour giving a total KSh.1,001,100. The total cost of the constructions as per the approved bill of quantities was KSh.10,196,820 resulting in unexplained variance of KSh.17,618,170.

No explanation has been provided for the high cost above the engineers estimate from Ministry of Public Works.

In addition, the management indicated that all the projects were complete and in use, however, it was observed that the kitchen floors and the external works were still incomplete raising doubt as to the quality of workmanship and if the services of county public works officers were utilized to supervise and certify the construction projects.

As a result, it was not possible to confirm whether there was value for money on the expenditure of KSh.27,814,990.

1253.2 Mwatate Field Station

1253.2.1 Construction of Barracks and Latrine

During the financial year 2017/2018 the Station constructed four (4) Barracks at a cost of KSh.9,857,150 and a three door pit latrine and a bathroom at a cost of KSh.2,000,000. However, physical inspection of the buildings revealed that the latrine with three (3) doors and a bathroom with two (2) doors which were constructed at a cost of KSh.2,000,000 had not been fixed with doors as per the bills of quantities yet the contractor had been paid the full amount including retention monies despite the works being incomplete.

Further, the barracks had fallen windows and doors and the quality of materials used and workmanship is doubtful.

Consequently, it was not possible to confirm whether public funds were applied lawfully and in an effective manner on the expenditure of KSh.9,857,150 as required under Article 229(6) of the Constitution of Kenya 2010.

1253.2.2 Stalled Water Borehole Project

The station incurred KSh.1,740,000 for purchase of water, which the field station has to track from 120 kilometers daily using a water bowser. It was observed that two hydrological surveys for sinking a borehole were done by Kenya Water Institute and a consultant in December 2017 and 2 February 2018 which identified the locations for the well at cost of KSh.65,000. The site identified by Kenya Water Institute was drilled and found to be dry while the second site is yet to be drilled. Additional surveys had been done and possible locations for the well identified. However, field inspection carried out in the month of April 2019 revealed that no work had started at the second identified site yet the station continues to incur heavy expenditure on purchase and transportation of water.

Consequently, it was not possible to confirm that public funds are being utilized in an efficient, effective and in an economical manner as required under Article 232 (1) (b) of the constitution of Kenya 2010.

1253.3 Gilgil Field Station-Payment of Mileage Allowance for Recruits

The Gilgil college paid mileage allowance for recruits first batch course 2/2017 totaling to KSh.3,636,459 and supported the payment voucher by a letter dated 30 October 2017. However, there was no evidence of authorization of the payments of the mileage allowance as required.

In addition, the list of payees provided for audit review showed that most of the recruits had not received their allowances despite the whole amount being expensed as paid in the accounting records. No explanation has been provided for the anomaly.

Consequently, the expenditure of KSh.3,636,459 on mileage allowance for recruits could not be ascertained.

1253.4 Capital Expenditure on Rehabilitation and Civil Works at Tumaini Farm Unit

Tumaini Field Unit received development expenditure of KSh.22,100,308 under item code other infrastructure and civil works. The amounts were utilized on construction of two (2) eighty (80) bed capacity barracks and construction of kitchen cum dining hall at a cost of KSh.8,781,737 and KSh.15,818,546 respectively.

1253.4.1 Construction of the Kitchen and Dining Hall

Review of payment voucher Nos.1030252 and 1030229 shows that the payments were supported by two certificates both serialized as No. 3, dated 25 June 2018 with an amount of KSh.2,249,979 and 21 June 2018 with an amount of KSh.4,935,785 respectively. The certificates have differing amounts despite having been written only four (4) days apart and bearing the same certificate number.

In addition, although the certificates have been stamped by the County Works department they are not signed by the responsible officer hence their authenticity could not be confirmed.

1253.4.2 Construction of the 2 No. 80 Beds Capacity Barracks

Review of payment voucher Nos.1030228 and 1030185 shows that the payments are supported by two certificates both serialized as No.02 dated 12 June 2018 with an amount of KSh.2,490,025 and 12 June 2018 with an amount of KSh.2,571,935 respectively. The certificates have differing amounts despite having been written on the same day and bearing the same certificate number.

In addition, although the certificates have been stamped by the County Works department they are not signed by the responsible officer hence their authenticity could not be confirmed.

Under the circumstances, the expenditure in the inspected field stations have not been supported, accounted for or the state department gotten value for money as at 30 June 2018.

1254. Procurement, Supply and Delivery of Construction Materials for Construction of Karen and Ngong Road Furniture Market

The statement of receipts and payments and reflects a balance of KSh.2,847,106,725 under acquisition of assets. Included in the figure under the rehabilitation of civil works balance of KSh.1,052,626,086 is KSh.532,950,990 relating to procurement of construction materials for Karen and Ngong furniture markets. However, examination of records relating procurement and payment for the materials revealed that:

1254.1 Unexplained Excess Expenditure

The materials ordered were in excess of the estimate materials cost of KSh.53,495,950 for Karen and KSh.143,000,000 for Ngong Road Market which amounted to KSh.196,495,950. The excess of KSh.336,455,040 has not been explained.

As a result, it was not possible to determine how the quantity of materials required was arrived at and if the materials procured and received were of the right quantity and met specifications as per the approved designs and engineer's estimates.

1254.2 Procurement Method

The materials were procured using framework contracting. Documents relating to the procurement process were not availed for audit verification. In addition, market survey reports used to guide on pricing have not been availed for audit verification.

Consequently, it was not possible to confirm whether the procurements were done as required.

1254.3 Bills of Quantities

Although the bills were provided by the State Department of Public Works which totalled KSh.239,522,781 inclusive of labour costs amounting KSh.39,026,831 and project manager expenses of KSh.4,000,000. The management procured materials worth KSh.532,950,990 without any documented basis.

Based on the total materials cost of KSh.532,950,990 and the proposed number of stalls to be constructed of six hundred and two (602), this translates to cost per stall of KSh.906,132 excluding labour and supervision costs as compared to estimate all inclusive cost per stall of KSh.264,678 and KSh.395,887 for Karen and Ngong road markets respectively.

1254.4 Incomplete Works

Physical inspection of stores carried out on 8 January 2019 revealed that the materials are yet to be utilized and management indicated that the construction

works have stalled due to legal claim on the land on which the Ngong road furniture market was to be constructed leading to a potential loss of KSh.532,950,990 incurred on procurement of materials. Further, no site handing over minutes have been provided to show that management had conducted due diligence and secured the land before committing public resources and exposing the public to loss of funds.

As a result, it is not possible to confirm that public funds were applied lawfully and in an effective way as required.

1254.5 Unused Materials

Field inspection carried out in the month of January 2019 showed that materials worth KSh.506,630,090 remain unused two (2) years after they were procured and supplied and are lying at NYS Headquarters yard at Ruaraka. No explanation has been provided for failure to utilize the materials.

In view of the foregoing, the propriety of the expenditure of KSh.532,950,990 on the construction of both Ngong Road and Karen markets could not be ascertained.

1255. Specialized Materials and Services - Supply of Cooking Fat to National Youth Service (NYS)

The statement of receipts and payments reflects a figure of KSh.5,850,909,548 under use of goods and services, which as per note 5 of financial statements reflect a balance is KSh.2,260,767,007 for specialized materials and services. Included in the figure is KSh.36,288,000 paid to a contractor for supply of eight thousand four hundred (8,400) 20Kg tins of cooking fat to National Youth Service at a unit price of KSh.4,320. examination of the payment voucher and the contract document revealed the following;

1255.1 The Payment Voucher shows that the supplier was paid KSh.36,288,000 for supply and delivery of eight thousand four hundred (8400) 17kgs tins at a unit price of KSh.4,320 thereby short delivery of 3kgs by 8400 tins (25,200Kgs) for a cost of KSh.5,443,200.

1255.2 Documents availed for audit showed that the delivery was made in the financial year 2016/2017. However, the supplier was not included in the list of pending bills disclosed in the financial statements for the period ended 30 June 2017.

Consequently, it is not possible to establish the authenticity of the claim paid during the financial year 2017/2018 which was never declared in the previous period.

1255.3 The Ministry entered and signed a contract with the supplier, a limited liability company whereas the actual supplier was a sole proprietor as per certificates of registration from the Registrar of Companies and Youth Access to Government Procurement Opportunities (YAGPO) and Business questionnaire form dated 11

November 2015, 20 January 2016 and 16 June 2017 respectively. No explanation was provided for the contradicting information.

1255.4 The Ministry signed a contract for supply of twenty (20) kg tins of cooking fat at a unit price of KSh.4320. However, the supply was made in quantities of seventeen (17) Kg tins at the same unit price resulting in a loss of KSh.1,814,400.

1255.5 The requisition from the Quarter Master dated 19 December 2016 shows six thousand nine hundred (6,900) tins of cooking fat were required while the approved quantity of the professional procurement opinion twenty-one thousand (21,000) tins resulting in an extra fourteen thousand one hundred (14,100) tins without requisition all valued at KSh.60,912,000.

Consequently, the propriety of the expenditure of KSh.60,912,000 on supply and delivery of cooking fat could not be ascertained as at 30 June 2018.

1256. Supply and Delivery of Expired Chemicals at National Youth Service

A scrutiny of stocks records, labels and subsequent verification of Insecticides in stock at National Youth Service (NYS) Central Stores "A" revealed that between June and August 2017 the State Department procured and received one thousand seven hundred and fifty (1750) litres of expired Actellic which was manufactured in September 2014 with a shelf life of two (2) years (Expiry period September 2016) valued at KSh.13,846,250. No explanation has been provided for this anomaly leading to loss of KSh.13,846,250 worth of public funds and contravening Article 232(1)(b) of the Constitution of Kenya 2010 on economical, effective and efficient utilization of public resources.

1257. Expired Stocks - White Spirit

The Ministry procured three hundred and fifty-seven (357) five litre tins of white spirit from a supplier at a unit price of KSh.1,820 totaling KSh.649,740. The items were received at the National Youth Service Stores on 26 June 2017 and all were still in the stores as at January 2019. Inspection of the stores revealed that the white spirit was manufactured in the year 2015 and had expired in the year 2018.

No reason has been provided for failure by the Management to utilize the procured items within the stipulated time leading to loss of KSh.649,740 incurred on unutilized items.

1258. Stock Movement between NYS Headquarters and Gilgil College

Stores records maintained at Gilgil College showed stock inward entries relating to food and rations that were received from Headquarters and captured in the station's stores records. However, the corresponding dispatch records at Head Office had not captured these movements in the stores records at the Headquarters. As a result, it

was not possibly to confirm how such items were procured, received at NYS Headquarters and dispatched to the Gilgil station:

Stores Issue and Receipts Voucher (S11 and S12 Nos.)	Item Description	Quantity	Value (KSh.)
011845,011849,0353207,0353231	Army biscuits	810,000 packets	103,680,000
8779076,8779078,8779074,8779069,8779072	Baked beans	84,216 tins	11,874,456
8779199,8779643,8779644 and other 3 receipts without documentation (1488 bags)	Powdered milk	2,488 bags (25kgs)	
8779352,8779362,8779359,	Corned beef	60,624 tins	22,734,000
Stores Issue and Receipts Voucher (S11 and S12 Nos.)	Item Description	Quantity	Value (KSh.)
8779378,8779377,8779387	Canned pineapples	60,624 tins	10,487,952
8779651	Cooking fat	300 tins (17Kgs)	1,296,000
Total			150,072,408

Consequently, the accuracy and completeness of the stores records and in particular the expenditure on food and rations valued at KSh.150,072,408 charged to specialized materials and services could not be confirmed.

1259. Rentals of Produced Assets

The statement of receipts and payments reflects a figure of KSh.5,850,009,548 under use of goods and services. Included in the figure is KSh.528,405,650 relating to rentals of produced assets. The account balance includes KSh.7,739,513 paid to a service provider for provision of helicopter services to the National Youth Services staff travelling to various destinations. A review of the quotations attached to these payments show that two of the three service providers were managed by the same person who submitted the quotations implying that the procurement process did not comply with Section 106(2)(b) of the Public Procurement and Assets Disposal Act 2015 which require that request for quotations shall be given to as many persons as necessary to ensure effective competition and shall be given to at least three persons, unless it is not possible.

In addition, no contract signed between the service provider and the State Department has been provided for audit verification as required under Section 44(2)(f) of the Public Procurement and Assets Disposal Act, 2015.

Further, the invoices billed and paid include an invoice for "Windsor" as part of the itinerary covered which was not in the approved itinerary that was requisitioned and approved by the Accounting Officer.

1260. Supply and Delivery of Water Melons

Examination of documents maintained at Gilgil college relating to supply of goods revealed that an enterprise was contracted for supply of five thousand (5000) kilograms of water melons at a price of KSh.100 per kilo all totaling to KSh.500,000. The local purchase order was issued on 5 January 2016 approximately four (4) months before the enterprise was registered on 28 April 2016.

As a result, it was not possible to determine how the non-existing firm was identified, contracted and paid KSh.500,000 and if the procurement was done as required by law.

1261. Acquisition of Assets

The statements of receipts and payments reflect a figure of KSh.2,847,106,725 under acquisition of assets. Included in this balance is KSh.1,052,626,086 for rehabilitation of civil works. Analysis of sampled payment vouchers charged to the vote for rehabilitation of civil works revealed a charge of recurrent expenditure in respect of specialized materials and supplies, supply of training materials, supply of spare parts amounting to KSh.255,390,101. No reallocation approvals were availed for audit review.

Further, included in the balance of KSh.2,847,106,725 in respect of acquisition of assets is purchase of specialized plant and equipment totaling KSh.647,863,150. However, the amount includes KSh.647,863,150 recurrent expenditure in nature for specialized materials and services. Although this constitutes reallocation of funds from development vote to recurrent vote, no approvals in line with Section 43 of the Public Finance Management Act, 2012 were availed for audit verification.

No explanation has been provided for the failure to adhere to the budget or seek approval for reallocation of funds as required under Section 43 of the Public Finance Management Act, 2012.

1262. Noncompliance with the budget at Gilgil College

Information availed for audit in respect of payments at Gilgil field station showed that during the year 2017/2018, the station received KSh.610,648,119 being development and recurrent expenditure of KSh.15,684,960 and KSh.594,963,159 respectively. However, included in the recurrent expenditure of KSh.594,963,159 is an amount of KSh.4,000,000 incurred on communication supplies and services which had no approved budget. No evidence has been provided for audit verification to show that the reallocation was requested and approved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1263. Hospitality Supplies and Services - Contracted Professional Services - Consultancy Services for Capacity Assessment And Rationalization of Public Service (CARPS) Programme

The State Department entered into a contract worth KSh.130,095,828 on 14 July 2014 to undertake the capacity assessment and rationalization of public service. The contract was to run from 14 July 2014 to 31 October 2014. Although there is no evidence of contract extension, during the year, the consultant was paid KSh.15,024,688 arising from three (3) contract price variations totaling to KSh.26,788,808 that was granted on 16 December 2014, of KSh.7,033,660 on 16 February 2015 and KSh.15,024,688 on 24 February 2016. The total contract price variation was 20% which was above the 15% maximum price variation.

The payment of KSh.15,024,688 was supported by a Ministerial Tender Committee minutes for meeting held on 8 June 2016 which again approved the contract price variation which was seventeen (17) months after the initial price variation on 16 February 2015.

In the absence of the contract extension documents it is not possible to confirm the price variations have been done in line with the section 139(4)(d) that requires any price variations to be done within the period of the contract.

1264. Specialized Materials and Services

1264.1 Non-compliance with Section 114 of the Public Procurement and Assets Disposal Act, 2015

The statement of receipts and payments reflects a figure of KSh.5,850,909,548 under use of goods and services, included in the accounts balance is KSh.2,260,767,007 for specialized materials and services. The figure includes KSh.222,363,000 (sampled payment vouchers) for various supplies of goods as tabulated:

Product	Quantity	Unit Price	Amount (KSh.)
Corned beef	256,000	375	96,000,000
Corned beef	187,000	375	70,125,000
Cooking fat	8,400	4,320	36,288,000
Foam mattresses	5000	3,990	19,950,000
Total			222,363,000

The goods were procured through mini competition under contractual framework. However, no framework contract was produced for audit verification. In addition, no evidence has been provided to show that the bidders invited to the mini competition were under framework contract. Consequently, it was not possible to confirm whether the method for bidders identification, selection, and contracting for the supply of goods valued KSh.222,363,000 was done in compliance with all the relevant laws and regulations.

Further, the stores record S.13 No. 8591799 used to receive the 187,000 tins of corned beef to central store at National Youth Service Headquarters was not dated making it difficult to match it with the delivery note and inspection and acceptance certificate.

1264.2 Non-compliance with Section 44(2) (h) of the Public Procurement and Assets Disposal Act, 2015

The statement of receipts and payments reflects a figure of KSh.5,850,909,548 under use of goods and services, included in the accounts balance is KSh.2,260,767,007 for specialized materials and services. The figure for specialized materials and services include KSh.156,353,460 paid for supply of goods as tabulated below:

Product	Quantity	Unit price KSh.	Amount (KSh.)
Pineapple in syrup	405,000	173	70,065,000
Pineapple in syrup	289,000	173	50,000,460
Cooking fat	8,400	4,320	36,288,000
Total			156,353,460

Examination of requisitions, tender evaluation committee minutes and inspection and acceptance certificates showed that the officer who made the requisition participated in tender opening, tender evaluation and award the entire process and chaired the inspection and acceptance committee. This was a non-compliance with Section 44(2) (h) of the Public Procurement and Assets Disposal Act, 2015.

1265. Non-compliance with Section 135 (1) of the Public Procurement and Assets Disposal Act, 2015

The statement of receipts and payments reflects a figure of KSh.5,850,909,548 under use of goods and services, included in the accounts balance is KSh.2,260,767,007 for specialized materials and services. Examination of sampled payment vouchers charged to the item code totaling to KSh.101,141,400 showed that the State Department did not comply with Section 135(1) of the Public Procurement and Assets Disposal Act, 2015 by entering into contract for supply and delivery of goods and services before expiry of the 14 days period after notification of award as tabulated below;

Items Supplied	Date Contract was Signed	No. of Days	No. of Days Due	Amount (KSh.)
NYS Logos for Shirts and Caps	28/02/17	13	1	15,435,000
White Socks	28/02/17	13	1	5,898,400
Webbing Equipment	28/02/17	13	1	10,010,000
Foam Mattresses	28/02/17	13	1	19,950,000
Sanitary towels	21/04/17	11	3	13,560,000
Cooking Fat	21/04/17	11	3	36,288,000
			Total	101,141,400

Consequently, it was not possible to confirm whether the expenditure of KSh.101,141,400 was lawful and that funds were utilized in an effective manner as required under Article 229(6) of the Constitution of Kenya 2010.

1266. Specialized materials and services - Provision of Consultancy Services for Event Management, Publicity and Mobilization

The State Department awarded a one (1) year contract to a service provider for provision of communication, research and audience analysis, public relations and event management for implementing the Communication/Media Strategy for the Ministry at a contract price of KSh.139,905,976.

The terms and conditions of the contract provided that the Consultant shall not sub-contract any portion of the contracted services without the client's prior written consent. However, information availed for audit showed that the service provider engaged several other sub-contractors without prior approval as stipulated in the contract who were paid a total KSh.5,211,440. No evidence has been provided to confirm that payments totaling to KSh.5,211,440 made to subcontractors were approved as per the contract.

In addition, although Section 135 (3) of Public Procurement and Asset Disposal Act,2015 provides that the written contract shall be entered into within the period specified in the notification but not before fourteen (14) days have elapsed following the issuance of the letter of notification of award, the Accounting Officer signed and issued notification of award letter to the service provider on 20 July 2016 while the contract was signed 27 July 2016 being seven (7) days later which is contrary to the requirements of Section 135(3) of the Public Procurement and Assets Disposal Act 2015.

No satisfactory explanation has been provided by management for noncompliance with Section 135(3) of the Public Procurement and Assets Disposal Act, 2015.

1267. Contracted Professional Services - Provision of Public Relations Services

The State Department awarded a communication consultancy contract to a consultancy firm for an amount of KSh.47,270,000 effective 12 January 2015 for a period of twelve months with an auto written notice which is against Public Procurement and Assets Disposal Act, 2015 Section 139(2). Examination of the Payment Voucher No.0739 dated 26 September 2017 and attached supporting documentation shows that Information availed for audit indicated that the service provider was paid KSh.9,722,032 for second quarter invoice dated 6 May 2016 in respect of this service. However, examination of the documentation in support of the payment showed the following:

1267.1 Contrary clause 2.3 of Special Conditions to the Contract-Amendments and supplements to clauses in the General Conditions to the Contract which stated the contract period was twelve (12) months starting 12 January 2015 and ending 12 January 2016 the service provider issued second quarter invoice dated 6 May 2016 approximately five (5) months after the scheduled expiry date of the contract period. No evidence was provided to show the contract period had been extended.

1267.2 Clause 6.2 (b) of special conditions to the contract further outlined the contract price shall be paid in four (4) schedules/tranches which emphasized on condition that the payments shall be made upon submission of acceptable reports. However, no evidence has been provided to show that the second quarter report (as an agreed deliverable) paid for was inspected, accepted and approved for payment in line with Section 48 of Public Procurement and Asset Disposal Act, 2015.

1267.3 Section 139 (2) of Public Procurement and Asset Disposal Act,2015 provides that an Accounting officer of a procuring entity, on the recommendation of an evaluation committee, may approve the request for extension of contract that is accompanied by a certificate from the tenderer making a justification for such cost. However, no minutes or recommendation from the evaluation committee on the extension of the contract has been availed for audit verification.

1268. Direct Procurement of Goods and Services at Mwatate Field Station

A total of KSh.18,604,950 was disbursed to Mwatate field station in form of recurrent AIE (Authority to Incur Expenditure). Out of this figure KSh.145,150 was paid in cash to the Station Commanding Officer for purchase of goods and services in cash contrary to Section 91 (1) of the Public Procurement and Assets Disposal Act, 2015 as follows;

	KSh.
1. Supplies and production	100,000
2. Fungicides, insecticides and spray	228,000
3. Agricultural Material and small equipment	234,650

4. Maintenance of motor vehicles	200,000
5. Other fuels	60,000
6. Water and sewerage	40,000
7. Purchase of certified crop seeds	90,000
8. Agricultural Materials	<u>468,500</u>
Total	<u>1,451,150</u>

Consequently, there is non-compliance with Article 227(1) of the Constitution of Kenya 2010 which requires procurement for goods and services that be competitive.

1269. Direct Procurement of Goods and Services Using Standing Imprests at Gilgil College

Payment voucher for imprests taken during the financial year 2017/2018 amounting to KSh.8,216,756 being standing imprest of KSh.400,000 issued on reimbursement basis for office use revealed that the station procures items through direct procurement over and above the minimum allowed threshold of KSh.30,000. No explanation has been provided for the non-compliance with Section 91(1) of the Public Procurement and assets Disposal Act, 2015 and Article 227(1) of the Constitution of Kenya 2010.

1270. Procurement of Catering and Mobile Toilets Services at Gilgil College

The Gilgil National Youth Service College paid KSh.2,330,000 to a service provider for provision of catering and mobile toilets for a one day cabinet secretary's meeting with Sacco members workshop. However, no documentation was availed for audit review to show how the service provider was identified and awarded the contract for the services. As a result, it was not possible to confirm whether the process was competitive and if the College received value for money on the expenditure of KSh.2,330,000.

In addition, the expenditure was charged to account code 2211015 – specialized materials and services implying that the expenditure was not budgeted for under the correct account code being 2210800 - hospitality, supplies and services. No explanation or approval for reallocation has been provided to justify the reallocation of funds.

Further, the letter of invitation listed the attendees from various stations whose attendance registers have not been provided in support of the expenditure of KSh.2,330,000.

As a result, it was not possible to confirm whether the expenditure was lawful and if public funds were spent in an effective manner.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1271. Poor Maintenance of Stores Records

A physical verification of stores carried out in the stores in January 2019 revealed that the State Department procured and stored four (4) types of Chemicals at National Youth Service (NYS) stores whose details in regard to date of delivery, quantity delivered, unit price, unit of issue, value among others could not be verified as there were no records maintained. The items are as listed below;

S/No.	Type of Chemical	Manufacturer	Expiry Date	Quantity
1.	Alpha Insecticide	Osho	12/2017	308 Litres
2.	Karate 2.5 WG Insecticide	Syngenta	12/2016	18 Kilogrammes
3.	Acaricide Ex-Kupe	Osho-Sulphur Mills, India	06/2016	960 Millilitres
4.	Henkel's pool Chlorine/Pool latrine	Henkel	06/2016	1220 Kilogrammes

Further, scrutiny of the chemicals revealed that they had expired having exhausted their useful life of two (2) years as shown in the table above. No explanation has been given for failure to utilize the resources before expiry or dispose them off.

1272. Store Records

1272.1 Fire Extinguishers

Inspection and verification of stores records carried out in the Month of January 2019 showed that the State Department procured twenty-six (26) foam fire extinguishers from three (3) different suppliers in the month of June 2017 as at a cost of KSh.895,200 but of which ten (10) of them were issued to Mechanical and Transport Board (MTB) leaving a balance of sixteen (16) in the stores.

However, the following anomalies were observed;

- i. The actual number of the extinguishers in stores physically was twelve (12) units against the respective stock card which had sixteen (16) resulting to unexplained variance of four (4).
- ii. The fire extinguishers were indicated to have been manufactured in 2008. It is however not clear why the Ministry opted to procure fire extinguishers which

had lasted for nine (9) years at the point of purchase yet the indicated useful life of the items was estimated to be seven (7) years from the date of manufacture.

- iii. Some of the fire extinguishers in the stores had disintegrating nozzles resulting from rust an indication of poor maintenance and therefore cannot be used.
- iv. The labels attached to the Foam extinguishers clearly indicated that these extinguishers required to be serviced at least once in a year using only products and spare parts from the Manufacturer. However, there was no evidence of maintenance attached to the products to show there was compliance with the manufacturer's maintenance instruction.
- v. Examination of Stock ledger card and Stock Control Card indicated that ten (10) fire extinguishers were issued to Mechanical and Transport Board (MTB) on 29 November 2016, Seven (7) months before they were procured and received in stores.

1272.2 Calcium Hypochlorite 65% Chlorine

Inspection of Central Stores at National Youth Service (NYS) revealed that the State Department procured and received seven thousand (7000) Kilogrammes of Chlorine at a unit price of KSh.975 with a total cost of KSh.6,825,000 on 7 June 2017. The respective Stores Ledger card indicated that between 8 June 2017 and 4 November 2017 only one thousand six hundred (1600) Kilogrammes had been issued leaving a balance of five thousand four hundred (5400) Kilogrammes in the store which had not been issued since November 2017.

The labels attached to the holding containers indicated that the Chlorine had shelf life of two (2) years and therefore expired on 25 April 2019.

NATIONAL YOUTH SERVICE MECHANICAL AND TRANSPORT FUND (MTF)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1273. Late submission of financial statements

The financial statements ought to have been submitted not later than three (3) months after end of the financial year (as at 30 September) to the Auditor – General for audit but were submitted on 26 October 2018 contrary to Section 81(4)(a) of the Public Finance Management Act, 2012.

1274. Accuracy and Completeness of Financial Statements

1274.1 Unsupported Financial Statements Adjustments

The financial statements submitted on 26 October 2018 was subsequently revised and a new set issued and submitted together with the responses to draft audit report received on 26 March 2019. However, various adjustments processed between the two sets of financial statements were not made available for audit review as tabulated below:

Account description	Balances as per 26 October 2018 Financial Statements (KSh.)	Balances as per 8 April 2019 Financial Statements (KSh.)	Difference (KSh.)
Hire of equipment	51,106,902	55,589,912	4,483,010
Personnel allowances	0	13,161,230	(13,161,230)
Maintenance expenses	98,150,456	0	98,150,456
Repairs of machines and vehicles	0	637,377	(637,377)
Office equipment	0	229,223	(229,223)
Administration	0	74,350	(74,350)
Receivables from NYS	1,361,855,934	1,334,105,603	27,750,331
Receivables from external operations	187,126,801	191,906,306	(4,779,505)
Plant and machinery	3,476,830,795	3,460,298,753	16,532,042
Clients deposits B/F	96,646	40,996	55,650
Embu County	3,329,750	8,896,520	(5,566,770)
Accumulated surplus/ Deficit	(898,982,396)	(797,289,882)	(101,692,514)

Under the circumstance, the accuracy and completeness of the financial statements as at 30 June 2018 could not be confirmed.

1274.2 Unexplained and Unreconciled Errors and or Variances in the Statement of Financial Position

The following errors were noted on the statement of financial position; -

- i) The total current assets in the statement of financial position casts to KSh.2,176,796,855 while the figure reflected in the statement of financial position is KSh.2,306,628,736 resulting to an unexplained variance of KSh.129,831,881.
- ii) The total assets figure on the statement of financial position casts to KSh.7,542,131,249 while the figure as per the statement of financial position is KSh.7,671,963,130 resulting to unexplained variance of KSh.129,831,881.
- iii) The total assets casted figure in the statement of financial position of KSh.7,542,131,249 does not agree with total liabilities of KSh.7,671,963,130 resulting in unexplained variance of KSh.129,831,881.
- iv) The comparative figure on the statement of financial position does not balance as the net liabilities cast to KSh.7,812,406,554 while the total assets cast to KSh.7,806,515,544 resulting in unexplained variance of KSh.5,891,000.
- v) The statement of cash flows reflect a balance of KSh.348,440,699 in relation to net cash flows from operating activities which differs with the casted balance of KSh.325,949,890 resulting in unreconciled variance of KSh.22,490,809.
- vi) A comparative figure of KSh.1,600,372 described increase/decrease in difference in the previous year has been omitted in the statement and hence the opening balance figure does not agree with the audited balance as at 30th June 2017.
- vii) The total casted figure for debit side of the trial balance of KSh.8,863,649,035 does not agree with the reported figure of KSh.8,807,428,968 resulting to unexplained variance of KSh.139,351,417.

- viii) Cash and bank balance of KSh.214,012,630 as per note 1 of the financial statements does not agree with the casted figure of KSh.211,056,630 resulting to unexplained variance of KSh.2,956,000.
- ix) As per note 3 of the financial statements the comparative non-current assets balance of KSh.4,779,547,213 does not agree with the casted balance of KSh.5,779,547,212 resulting to unexplained variance of KSh.1,000,000,000.
- x) The fund balances for the year under review as per note 5 of the financial statements of KSh.8,351,764,013 and KSh.8,409,522,779 brought forward from 2016/2017 financial year do not agree with the casted balances of KSh.8,434,951,013 and KSh.1,137,522,779 respectively resulting to unexplained variance of KSh.83,187,000 and KSh.7,272,000,000.
- xi) As per note 7 of the financial statements, sundry creditors balance of KSh.8,579,223 do not agree with the casted balance of KSh.18,579,223 resulting to unexplained variance of KSh.10,000,000.
- xii) As per note 9 of the financial statements, the comparative client's deposits of nil balance does not agree with the casted balance of KSh.4,499,460 resulting to unexplained variance of KSh.4,999,460.
- xiii) As per note 10 of the financial statements the comparative client's deposits (Kerra Marakwet) balance of KSh.16,785,260 do not agree with the casted balance of KSh.16,807,260 resulting to unexplained variance of KSh.22,000.

As a result, the completeness and accuracy of the statement of financial position remains in doubt.

In view of the foregoing, it has not been possible to ascertain the accuracy and completeness of the financial statements as at 30 June 2018.

1275. Cash and Cash Equivalents

The cash and cash equivalents balance of KSh.214,012,630 as at 30 June 2018 includes long outstanding reconciling items dating back to the year 2016 amounting to KSh.2,202,585 in respect one of the bank accounts. No explanation has been provided for failure to clear the long outstanding items from the books.

As a result, the accuracy and completeness of cash and cash equivalents balance of KSh.214,012,630 as at 30 June 2018 could not be confirmed.

1276. Non-Current Assets

The statement of financial position as at 30 June 2018 reflects total non-current assets balance of KSh.5,365,334,394 which include an amount of

KSh.3,460,298,753 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 KSh.5,365,334,394 as at 30 June 2018 is therefore not, fairly stated under the circumstances.

In addition, 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 KSh.6,263,076,867 while the computed figure using appropriate rates showed a balance of KSh.6,366,028,632. The resulting variance of KSh.102,951,765 has not been analyzed or explained to date.

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

In view of the foregoing, the accuracy of non-current assets brought forward balance of KSh.6,263,076,867 as at 1 July 2016, of KSh.5,779,547,213 as at 30 June 2017 and the closing balance KSh.5,365,334,394 as at 30 June 2018 cannot be confirmed.

1277. Non-Current Liabilities Sundry Creditors Reclassification

The statement of financial position as at 30 June 2018 reflects under non-current liabilities sundry creditors balance of KSh.8,579,223. However, the balance was previously classified as a current liability. Further, 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.

1278. Costs of Operations

The statement of financial performance reflects revenue amounting to KSh.351,337,186 (2016/2017- KSh.235,386,086) and total operating expenses of KSh.504,227,904 (2016/2017 - KSh.483,547,363) for the year ended 30 June 2018. However, the management of the Fund has only included depreciation and amortization expenses, bank charges and maintenance expense in the reported total operating expenses of KSh.504,227,904 (2016/2017- KSh.483,547,363), and excluded all other costs and expenses in relation to the operations of the Fund. The excluded costs and expenses are undetermined value of personnel emoluments, spares and other repairs of KSh.126,163,421 (2016/2017 - KSh.1,156,942,596) and fuel and lubricants- KSh.892,123,498 (2016/2017 KSh.776,524,309) all totaling to KSh.1,018,286,919 (2016/2017- KSh.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 correct amount of loss for the period.

Consequently, the reported loss for the period of KSh.152,890,718 (2016/2017 - KSh.248,161,278) and the cumulative deficit of KSh.797,289,882 as at 30 June 2018 are not fairly stated.

1279. Non – Current Liabilities Sundry Creditors

The statement of financial position reflects non-current sundry creditors balance of KSh.8,579,223 as at 30 June 2018. However, the balance has been long outstanding for over five years and there is no clear justification as to why the amounts have not been settled.

In consequence, the long outstanding sundry creditors may attract penalties and or interest charges and risk of court suits.

1280. Long Outstanding Unsupported Domestic and Commercial Debts

1280.1 Domestic Debts

As disclosed under Note 4(a) to the financial statements, gross domestic debts of KSh.1,334,105,603 (KSh.429,523,206 for the year 2016/2017) as at 30 June 2018 includes balance brought forward of KSh.299,503,490 in 2016/2017. The balance brought forward include unsupported Director General National Youth Service debt of KSh.18,380,963 in respect of financial year 2013/2014 and an amount of KSh.124,600,000 borrowed from the Fund's Account at a local bank 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 2016/2017, an amount of KSh.58,839,952 was repaid leaving a balance of KSh.429,523,206 in 2016/2017. No proper justification has been provided for non-settlement of the balance of KSh.635,899,313 (2016/2017 - KSh.429,523,206) relating to Director General National Youth Service all totaling to KSh.1,065,422,519 as at 30 June 2018.

1280.2 Commercial Debts

Disclosed under Note 4(b) to the financial statements are commercial debts totaling KSh.191,906,306 made up of Tana Road Project debt of KSh.173,326,190 and other debts of KSh.13,800,611 all being more than four years old. No provision for impairment has, been made against the long outstanding debts even though the recovery is clearly uncertain. Under the circumstances, the commercial debts balance of KSh.191,906,306 as reported in the financial statements is not fairly stated.

Under the circumstances, the accuracy, completeness and recoverability of the domestic and commercial debts cannot be ascertained.

1281. Hire of Equipment Income

The financial statements for Mechanical and Transport Fund are prepared in accordance with International Public Sector Accounting Standards (IPSAS) accrual basis. The statement of financial performance reflects an income of KSh.351,337,186. Included in this amount is KSh.55,589,912 as income from hire of equipment and heavy machines. However, information presented for audit indicated that invoices amounting to KSh.18,491,360 were for services delivered in the financial year 2016/2017 and the invoices raised in 2017/2018 financial year. This contradicts the matching concept under accrual basis of accounting and no explanation has been provided for the omission.

In the circumstances, the accuracy of hire of equipment revenue totaling KSh.55,589,912 for the year ended 30 June 2018 could not be ascertained.

1282. Hire of Small Vehicles/Lorries

The statement of financial performance reflects an income of KSh.351,337,186. Included in this is KSh.265,727,084 as income from hire of small vehicles/ lorries. The following anomalies were observed in relation to this revenue;

- i) The amounts comprise of domestic hire and hire of small equipment. The schedule provided in support of domestic hire indicated that the income is a receivable from all the NYS Units which used Mechanical Transport Fund machinery and motor vehicles. However, no contract or service agreements were provided in support of the billed amounts or detailed basis of the billing.
- ii) The Mechanical and Transport Fund has been invoicing itself and as at 30 June 2018 the total outstanding debt was KSh.146,339,884. The nature of services offered and billed have not been supported neither is it clear who is supposed to pay for the service rendered if any, and it has not been explained why the self-consumed services have not been expensed rather than recognizing them as debt.
- iii) The total income on domestic hire of small vehicles/lorries amounting to KSh.265,727,084 which is the total figure given on hire of small vehicles/lorries excluded an amount of KSh.588,360.

Consequently, the accuracy and validity of revenue on hire of small vehicles/lorries balance of KSh.265,727,084 for the year ended 30 June 2018 could not be ascertained.

1283. Direct Procurement of Spares

During the year under review, the fund procured spare parts of KSh.355,279 through direct procurement contrary to the requirements of Section 91 of the Public Procurement and Assets Disposal Act, 2015. No explanation has been provided for the noncompliance.

1284. Unauthorized Lending

The NYS – Mechanical Transport Fund was established under Legal Notice No. 15 of 30th January 2011. The purpose of the Fund is to ensure sufficient funds needed for maintenance, repair and service of the Motor vehicles, plant and equipment is achieved. However, an amount of KSh.1,114,827,220 was borrowed by the State Department for Public Service and Youth without appropriate authority. The State Department is yet to refund KSh.635,899,313 to date and the amounts have not been reflected in the financial statements for the State Department for the year ended 30 June 2018.

In consequence, the recoverability of the debt of KSh.635,899,313 as at 30 June 2018.

1285. Sustainability of Okoa Abiria Programme

During the year under review, the Mechanical Transport Fund started Okoa Abiria Programme. The programme was to alleviate transport crisis in some high population density areas within the city during the peak periods by charging Kenya Shillings twenty (20) to the passengers using the service. The charge is standard.

However, the programme had twenty seven (27) buses earmarked for its implementation but as at the time of audit only nine (9) of the buses were still operational while eighteen (18) had broken down and were grounded. the programme further had no budgetary provision to fund the maintenance of the buses and other operational costs, and no subsidy funds have so far been received for the project.

Under the circumstances, the sustainability of the Okoa Abiria Programme is highly uncertain.

1286. Fund Balance – Unsupported Adjustments

As reported in the previous year, the fund balance of KSh.8,434,951,013 as at 30 June 2018 comprise of various adjustments passed in the previous years all of which have not been supported to date as highlighted below:

Year ended	Amount KSh.	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	Changes in Net Book Value
30 June 2017	1,488,772	Prior year adjustment

Further, the balance includes an amount of KSh.327,993,842 reflected as addition to the fund balance during the year 2016/2017 and KSh.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 KSh.8,450,439,839 as at 30 June 2018 cannot be confirmed.

1287. Inventory

As previously reported, the statement of financial position reflects an inventory balance of KSh.436,772,316 (2016/2017-KSh.503,774,082) as at 30 June 2018. However, part of the stock balance relates to spare parts procured in year 2014/2015 financial year amounting to KSh.175,780,240 which have had no movement or consumption during the year 2017/2018. 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 KSh.436,772,316 as at 30 June 2018 is not fairly stated.

1288. Unresolved prior year issues

The following issues reported in the 30 June 2017 audit report remained unresolved as at 30 June 2018;

1288.1 Costs of Operation

Statement of financial performance reflects revenue amounting to KSh.235,386,086 and total operating expenses of KSh.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 KSh.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- KSh.1,156,942,596 and fuel and lubricants- KSh.776,524,309 all totalling KSh.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 KSh.248,161,278 and the cumulative deficit of KSh.644,399,164 as at 30 June 2017 are not fairly stated.

1288.2 Non-Current Assets

The statement of financial position as at 30 June 2017 reflects total non-current assets balance of KSh.5,779,547,213 which include an amount of

KSh.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 KSh.5,779,547,213 as at 30 June, 2017 is not, therefore, fairly stated under the circumstances.

In addition, it was indicated in the report for 2015/2016 that, the non-current assets movement schedule under Note 3 and the statement of position reflected a net book value of KSh.6,263,076,867 while the computed figure using appropriate rates showed a balance of KSh.6,366,028,632. The resulting variance of KSh.102,951,7645 has to date not been analyzed or explained.

Further, and as previously reported in 2015/2016, the accumulated depreciation brought forward as 1 July 2016 of KSh.2,178,510,682 included unsupported adjustments of KSh.3,662,814 relating to plant and heavy machinery and unaccounted for depreciation of KSh.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 KSh.6,263,076,867 as at 1 July 2016 and the closing balance of KSh.5,779,547,213 as at 30 June 2017 cannot be confirmed.

1288.3 Domestic Debts

As disclosed under Note 4(a) to the financial statements, gross domestic debts of KSh.429,523,206 includes balance brought forward of KSh.299,503,490. The balance brought forward include unsupported Director General National Youth Service debt of KSh.18,380,963 in respect of financial year 2013/2014 and an amount of KSh.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 KSh.58,839,952 was repaid leaving a balance of KSh.429,523,206. No proper justification has been provided for non-settlement of the outstanding balance of KSh.429,523,206 as at 30 June 2017.

1288.4 Commercial Debts

Disclosed under Note 4(b) to the financial statements are commercial debts totalling KSh.438,787,714 made up of Tana Road Project debt of KSh.424,987,103 and other debts of KSh.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 KSh.438,787,714 as reported in the financial statements is not fairly stated.

1288.5 Non-Current Liabilities Sundry Creditors

The statement of financial position reflects as at 30 June 2017 under non-current liabilities sundry creditors balance of KSh.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.

1288.6 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 KSh.1,600,372 and a comparative figure of KSh.47,310,811. These figures have not been supported with any documentation. Consequently, the accuracy of the statement of cash flows cannot be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1289. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1290. Except for the issues described in the Basis for Disclaimer of Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

**STATE DEPARTMENT FOR GENDER
VOTE 1212**

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1291. Presentation of the Financial Statements - Unsupported Adjustments

Adjustments were made between the first submitted financial statements and second set of amended financial statements.

These adjustments were however not supported and therefore it was not possible to ascertain whether the financial statements present a true and fair view as at 30 June 2018. Further, the comparative balance for the proceeds from foreign borrowings is not consistent with the previous year audited financial statements and the balance is not reflected in the statements under review. Under the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be ascertained.

1292. Social Security Benefits - Misstatement of Account Balance

Included in the total payments amount of KSh.3,931,970,274 is an amount of KSh.6,820,000 disclosed under Note 17 as Social Security Benefits. The amount refers to service gratuity paid to the former Accounting Officer after termination of contract. The officer was appointed as a Principal Secretary effective from 27 June 2013 to 30 June 2018 (both days inclusive) and hence the payable gratuity was KSh.6,095,773.

Records held by the Department shows that gratuity paid to the officer amounted to KSh.7,845,269 whereas the financial statements reflect an expenditure of KSh.6,820,000 for the same item. The account balance is therefore understated by KSh.1,025,269. Further, the gratuity payment of KSh.1,025,269 was wrongly charged to the basic wages.

1293. Acquisition of Assets - Misclassification of Expenditure

The statement of receipts and payment reflect KSh.482,888,200 in respect of acquisition of assets during the year. Included herein is an amount of KSh.477,000,000 being disbursement to Women Enterprises Fund under Domestic Lending and On Lending. The transfer in the year under review appears as an item of acquisition of assets. Examination of the budget, the trial balance and the payment vouchers relating to the disbursements reveals that the transfers were correctly

reflected under Domestic lending and on lending but wrongly reflected in the financial statements under Acquisition of Assets. Consequently, the accuracy of the acquisition of assets expenditure of KSh.482,888,200 could not be confirmed.

1294. Cash and Cash Equivalents

Included in the statement of assets and liabilities and statement of cash flows is a bank balance of KSh.166,852 as cash and cash equivalents. Both the Central Bank Certificate of balance and the bank statement shows a figure of KSh.986,547 while the cash book as at 30 June 2018 reflects a balance of KSh.166,852. The variance has not been reconciled or explained. Further, receipts amounting to KSh.139,799 in the cash book comprising of R/D Loan Agencies of KSh.50,970, unspent balance surrender of KSh.67,465 and unspent AIE balances of KSh.21,364 have not been supported. Consequently, the accuracy of the Cash and cash equivalents balance of KSh.166,852 as at 30 June 2018 could not be confirmed.

1295. Summary Fixed Asset Register

The department did not maintain a Summary fixed asset register during the year under review. Therefore, the completeness and accuracy of the fixed asset balance of KSh.38,692,930 as reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

1296. Communication Supplies and Services

During the year under review, the Department procured calling cards for the officers worth KSh.1,335,000. Out of this payment, airtime worth KSh.141,000 was procured through temporary imprest in contravention of the regulations on control over imprest. Airtime worth KSh.1,194,000 for the months of July to September 2017 was done through direct procurement method but the Department has not provided evidence to show that the procurement was reported to the Public Procurement Regulatory Authority as required. Further, out of the total of KSh.1,335,000 airtime given to officers, airtime worth KSh.627,000 was provided to officers above their applicable entitlement contrary to regulations. As a result, the propriety of the airtime expenditure of KSh.1,335,000 and recovery of the overpayment of KSh.627,000 could not be ascertained.

1297. Domestic Travel and Subsistence

Included in the domestic travel and subsistence allowance balance of KSh.41,394,453 are irregular taskforce allowances payments amounting to KSh.5,028,000. The officers were paid when performing various tasks that were under their normal work obligations and in line of their duties and hence mandated to perform. Further, the payments were made without necessary authority from the Accounting Officer as required. Also included in the domestic travel and subsistence is an amount of KSh.500,000 paid to one thousand participants during a Women

Enterprise Fund (WEF) capacity building program as fare refunds. It was not explained which criteria was applied to identify the participants and why an expense relating to WEF was included in the Department financial statements and not Women Enterprise Fund's financial statements. In consequence, the propriety of the total expenditure of KSh.5,528,000 could not be confirmed

1298. Outstanding Imprests

The statement of assets and liabilities reflects a balance of KSh.4,040,670 as outstanding imprest for the year ended 30 June 2018. These imprests should have been surrendered or otherwise recovered in full from the salaries of the defaulting officers with interest. The non-recovery or non-surrender has not been explained.

The figure for outstanding imprests of KSh.4,040,670 as per the financial statements does not agree with the balances reflected in the trial balance and imprest register of KSh.6,851,199 and KSh.11,414,313 respectively. The resultant variances of KSh.2,810,529 and KSh.7,373,643 between the three sets of records have not been reconciled. Further, analysis of the imprest register showed that contrary to regulations and procedures, the Department issued officers with multiple imprests amounting to KSh.10,905,525 and on some instances failed to record in the imprest register the details of imprests holders and the respective amounts issued totalling KSh.787,182.

In view of the foregoing, the completeness, accuracy and recovery of the outstanding imprests of KSh.4,040,670 could not be confirmed.

1299. Pending Bills

The financial statements under Note 28.1 and Annex 1, reflects pending bills amounting to KSh.222,945,974 as at 30 June 2018. The following issues were noted;

1299.1 Procurement

During the year under review the Department contracted various suppliers for the supply and delivery of sanitary towels to public primary, special primary and secondary schools at a total cost of KSh.420,618,059. The contracts were signed on 27 and 28 March 2018 with deliveries expected between 27 April and 15 June 2018. The expenditure on sanitary towels of KSh.218,421,103 was reported as pending bills and paid in the subsequent financial year, 2018/2019. Further, some contractors were overpaid and others underpaid by KSh.6,189,081 and KSh.5,273,863 respectively. The overpayments and under payments were not explained.

1299.2 Deliveries

Records held by the Department showed that for the contractors paid, out of the expected quantities of 7,451,146 units only 7,050,460 units were supplied. The

under supply of 449,186 units worth KSh.12,447,742 which are past the due dates of deliveries as per the contracts have not been explained.

In view of the foregoing, the completeness and accuracy of the pending bills balance of KSh.218,421,103 could not be confirmed as at 30 June 2018.

Matter

1300. Fuel, Oils & Lubricants - Un-accounted Expenditure

The Department paid for supply of fuel worth KSh.10,921,980 in the year under review. Although the procurement was done procedurally, the procured fuel was not accounted for in both the fuel registers and the motor vehicles work tickets. As a result, the expenditure of KSh.10,921,980 on fuel, oils and lubricants has not been accounted for as at 30 June 2018.

1301. Progress on follow up of auditor recommendations financial year 2016/2017

In the previous financial year 2016/2017 audit, several issues were raised which formed the basis for the audit opinion. In the year under review, under Note 29 to the financial statements, the status of all these issues remains unresolved yet it is indicated that they were expected to have been resolved by 30 September 2018. The positions of these issues have not changed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1302. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1303. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

STATE LAW OFFICE AND DEPARTMENT OF JUSTICE VOTE 1252

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1304. Inaccuracies in the Financial Statements

There were discrepancies between balances in the financial statements and the integrated Financial Management Information System (IFMIS) and also discrepancies between balances in the financial statements and balances in the ledger.

There were also variances between the financial statements and notes to the financial statements including casting errors.

1305. Unsupported Expenditure

1305.1 Use of Goods and Services

The statement of receipts and payments reflects an expenditure of KSh.470,673,571 under use of goods and services which as disclosed at note 3 to the financial statements includes an amount KSh.59,330,844 incurred on rentals of produced assets. However, out of the later balance of KSh.59,330,844, an amount of KSh.15,331,647 was not supported with payment vouchers and other necessary documents.

Further, included in the total expenditure of KSh.470,673,571 under use of goods and services is an amount totalling KSh.29,841,959 incurred in regional offices. The expenditure of KSh.29,841,959 though captured in the ledger was however not supported by expenditure returns from the regional offices.

In addition, review of Authority to Incur Expenditure (A.I.E's) revealed that out of the KSh.42,930,144 disbursed to regional offices, only KSh.29,841,959 was captured in the ledger leaving a balance of KSh.13,088,185 un-accounted for resulting in understatement of use of goods and services expenditure by the KSh.13,088,185.

In the circumstances, the accuracy of use of goods and services expenditure of KSh.470,673,571 for the year ended 30 June 2018 could not be confirmed.

1305.2 Compensation of Employees

The statement of receipts and payments reflect an expenditure balance of KSh.1,011,528,083 in respect of compensation of employees while Integrated

Payroll and Personnel Database (IPPD) reports and payment vouchers availed reflected a total of KSh.1,142,432,220 resulting in un-explained difference of KSh.130,904,137.

In the circumstances, the accuracy of compensation of employees expenditure of KSh.1,011,528,083 for the year ended 30 June 2018 could not be confirmed.

1305.3 Acquisition of Assets

The statement of receipts and payments reflects expenditure on acquisition of assets totalling to KSh.5,279,049. However, supporting documents for the expenditure amounting to KSh.5,279,049 was not availed for audit verification.

Under the circumstances, it has not been possible to confirm the propriety, accuracy and completeness of acquisition of assets figure of KSh.5,279,049 for the year ended 30 June 2018.

1306. Bank Balances

1306.1 Recurrent Cash book

The statement of assets and liabilities reflects bank balance of KSh.331,029,439 which include KSh.4,095,482 under recurrent cash book. However, a review of the cash book revealed that the closing balance of KSh.140,089,488 as at 30 June 2017 was not carried forward to 2017/2018 financial year.

Further, the recurrent bank reconciliation statement reflects payments in the cash book not in bank statement (unpresented cheques) totalling KSh.110,052,357 out of which cheques totalling KSh.11,720,224 were stale as at 30 June 2018 and had not been reversed in the cash book. No justification was provided by the management for failure to reverse the same.

In addition, the recurrent bank reconciliation statement also reflects receipts in bank statement not in cash book totalling KSh.8,233,656 which remained uncleared as at 30 June 2018. Further, the reconciliation statement reflects payments in bank statement not recorded in cash book totalling to KSh.28,002,636 and receipts in cash book not recorded in bank statement totalling to KSh.6,282,241 both of which the clearance status as at 28 February 2019 had not been disclosed.

1306.2 Development Cash book

The statement of assets and liabilities reflects bank balance of KSh.331,029,439 which include a bank balance of KSh.11,715,065 under development bank account which differ with the reconciled cash book balance of KSh.10,392,823 resulting in un-explained difference of KSh.1,322,242.

Further, the development bank reconciliation statement reflects payments in the cash book not reflected in the bank statement (unpresented cheques) totalling KSh.2,556,443 all of which were stale as at 30 June 2018 and had not been reversed in the cash book. In addition, the reconciliation statement reflects payments in bank statement not recorded in cash book totalling to KSh.1,234,200 for which clearance status as at 28 February 2019 was not disclosed.

1306.3 Deposits Cash book

The statement of assets and liabilities reflects bank balance of KSh.331,029,439 which include a deposit bank balance of KSh.315,218,891 that differed with the reconciled cash book balance of KSh.343,925,416 resulting in un-explained difference of KSh.28,706,525.

Further, the deposit bank reconciliation statement reflects payments in the cash book not in the bank statement totalling KSh.368,852 and receipts in cash book not recorded in bank statement totalling KSh.29,073,488 for which clearance status as at 28 February 2019 was not disclosed.

A review of the deposits cash book revealed that payments totalling KSh.420,506,285 were made from the deposits account through various Payment Authorities (PA's).

However, although the management explained that the payments related to legal fees paid to international firms for handling international cases on behalf of the Government, details on how the law firms were procured and their fees determined were not provided for audit review. In addition, out of the total payments of KSh.420,506,285, only Payment Authorities (PA's) amounting to KSh.25,703,123 were availed for audit verification, leaving a balance of KSh.394,803,162 unsupported.

In the circumstances, the validity, accuracy and completeness of the bank balance of KSh.331,029,439 as at 30 June 2018 could not be confirmed.

1307. Outstanding Imprests

The statement of assets and liabilities reflects accounts receivable balance of KSh.5,894,960, being outstanding imprests which ought to have been surrendered or accounted for on or before 30 June 2018. This is contrary to Section 93 (5) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstance, the Office is in breach of the law and the, recoverability of the outstanding imprest balance of KSh.5,894,960 as at 30 June 2018 could not be ascertained.

1308. Pending Bills

As disclosed at note 14.1 and Annex 1 to the financial statements, the Office of the Attorney General and Department of Justice reported total pending bills of KSh.411,771,557 as at 30 June 2018, which were not settled but were carried forward to 2018/2019. Had the bills been paid and the expenditure charged to the respective accounts in 2017/2018, the statement of receipts and payments for the year would have reflected a deficit of KSh.411,758,218 instead of the reflected surplus of KSh.13,339 for the year ended 30 June 2018.

Other Matter

1309. Budgetary Performance

During the financial year ended 30 June 2018, the Office of the Attorney General and Department of Justice received exchequer releases totalling KSh.3,440,331,860 against estimated receipts of KSh.4,667,737,965 resulting in a shortfall of KSh.1,227,406,105 equivalent to 26% of the total budget. Further, actual expenditure for the year amounted to KSh.3,440,318,521 against a budget of KSh.4,667,737,965 resulting in under expenditure of KSh.1,227,419,444 or 26%.

The under expenditure occurred in all expense components. The management has attributed the under expenditure to non-release of all exchequer allocations by the National Treasury which impacted negatively on service delivery.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1310. Irregular Payment of Un-taxed Airtime Allowances

The accounting officer paid untaxed allowances to staff amounting to KSh.3,440,000 during the financial year 2017/2018 instead of procuring the cards and issuing out. This is contrary to 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 letter 1005/2 from Kenya Revenue Authority dated 22 August 2012. Further, there was no list prepared showing how the allowances were paid per officer in accordance with the ceilings set by the circular. Consequently, management was in breach of the above guidelines.

1311. Transfers to Other Government Entities

Note 4 to the financial statements indicates that a total of KSh.1,951,440,250 was transferred to ten (10) entities.

However, confirmations from the beneficiary institutions as at 30 June 2018 were not attached as appendices to the financial statements contrary to the Public Sector Accounting Standards Board requirement contained in the revised reporting template dated 30 June 2018 that require duly signed confirmations to be obtained from the beneficiary institutions. No explanation has been provided for the omission.

REPORT ON EFFECIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1312. Lack of an Audit Committee

In 2017/2018 financial year, the Office of the Attorney General and Department of Justice did not have an independent audit committee as required by Section 73(5) of the Public Finance Management Act, 2012. In the absence of a functioning audit committee, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions of an audit committee did not occur which may have affected good corporate governance at the Office.

1313. Lack of well Documented Enterprise Wide Risk Management Process and IT Strategic Committee

During the year under review, the Office of the Attorney General and Department of Justice did not have a well-documented enterprise wide risk management process and policies in place to effectively guide the enterprises risk management processes at large. This is contrary to the Public Finance Management regulations, 2015. The Office also did not have an IT strategic committee, an IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan, formally approved IT security policy to ensure data confidentiality, integrity and availability, formal documented and tested emergency procedures, copies of the IT continuity plan and disaster recovery plan kept off-site and no backups stored in a secure off site location.

STATE LAW OFFICE AND DEPARTMENT OF JUSTICE – OFFICIAL RECEIVER

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1314. Inaccuracies in the Financial Statements

1314.1 Comparative Figures

The financial statements availed for audit review reflected variances KSh.9,993,623 between comparative figures in the statement of assets and liabilities and comparative figures in the notes to the financial statements

The differences totalling KSh.9,993,623 have not been explained or reconciled.

1314.2 Casting Error

The statement of assets and liabilities as at 30 June 2018 reflects total cash and cash equivalents balance of KSh.327,126,251 made up of bank balance of KSh.57,187,550 and cash equivalent (short term deposits and treasury bills) balance of KSh.269,939,201 which amounted to KSh.327,126,751 resulting in a casting error of KSh.500. In addition, the comparative figure of total financial assets in the statement of assets and liabilities cast to KSh.427,094,984 but not KSh.438,326,315 as reflected resulting in a casting error of KSh.11,231,331. No explanation was provided for these casting errors.

1314.3 Statement of Cash Flows

The statement of cash flow reflects cash and cash equivalent balance at the end of the year of KSh.452,553,594 which differ with the balance reflected in the statement of assets and liabilities of KSh.327,126,251 resulting in a difference of KSh.125,427,343 which was not explained or reconciled.

In the circumstances, the accuracy of the statement of cash flows for the year ended 30 June 2018 could not be confirmed.

1315. Receivables

The statement of assets and liabilities reflects receivables balance of KSh.125,426,843 as at 30 June 2018. As disclosed at note 11 to the financial statements, the receivables balance is made up of KSh.77,144,260 due from a commercial bank and KSh.48,282,583 due from Deposit Protection Fund Board. However, confirmation certificate from the Deposit Protection Fund Board was dated 7 September 2013 and the one from the Bank was dated 3 June 2009. The

management did not explain why confirmation certificates as at 30 June 2018 were not availed for audit verification.

In the circumstances, the accuracy and completeness of the receivables balance of KSh.125,426,843 as at 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1316. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1317. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

THE REVENUE STATEMENT – STATE LAW OFFICE AND DEPARTMENT OF JUSTICE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1318. Inaccuracies in the Financial Statements

A review of the financial statements availed for audit indicated that the comparative balances were at variance with the previous year's audited financial statements as summarised below;

Item	2016/2017 Comparative Figure KSh.	2016/2017 Audited Figure KSh.	Difference KSh.
Fees on use of goods and services	584,814,308	585,063,916	(249,608)
Transfers to Exchequer	453,484,622	531,547,618	(78,062,996)

In the circumstances, the accuracy of comparative balances could not be confirmed for the year ended 30 June 2018.

1319. Unsupported Balances

1319.1 Unremitted Revenue

The statement of revenues and transfers reflects balance carried forward of KSh.188,505,997 as at 30 June 2018 which represents revenue collected but had not been transferred to the exchequer as at the close of the year. However, no bank confirmation certificate was availed to confirm that the funds were in existence as at 30 June 2018. Further, and as disclosed at note 4 to the statement of revenues and transfers, the balance carried forward of KSh.188,505,997 was made up of KSh.168,776,500 due from Huduma Centre, KSh.1,099,057 due from Public Trustee and KSh.18,630,440 due from Kenya Commercial Bank. However, and as reported in the previous year, no explanation was provided as to why revenue totalling KSh.188,505,997 was not remitted to the Exchequer as at 30 June 2018.

In the circumstances, the accuracy and completeness of the balance carried forward of KSh.188, 505,997 as at 30 June 2018 could not be confirmed.

1319.2 Balance Brought Forward

The statement of revenues and transfers availed for audit review indicated that balance brought forward from the previous year was KSh.264,269,237. However, the audited comparative amount for year 2016/2017 indicate a balance of KSh.217,838,420 as carried forward to year 2017/2018 resulting in un-reconciled or explained variance of KSh.46,430,817. Consequently, the accuracy of the balance brought forward figure of KSh.264,269,237 as at 30 June 2018 could not be confirmed.

1320. Revenue from Regional Offices

Included in the revenue figure of KSh.173,630,814 for the year under review is KSh.55,260,019 or approximately 32% collected in regional offices. However, a summary of returns of the revenue collected from the regions was not availed for

audit verification contrary to Section 65 (1) of Public Finance Management (National Government) Regulations, 2015. Further, no analysis of revenue collected from regional offices was availed.

In the circumstances, it was not possible to confirm completeness and accuracy of the revenue balance of KSh.55,260,019 collected in regional offices.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for conclusion

1321. Non-Tax Revenue Receipts

Note 1 to the revenue statement on non-tax revenues reflects actual revenue of KSh.173,630,814 against a revenue budget of KSh.539,325,842 resulting in under collection of KSh.365,695,028. However, the management did not provide explanations for the material differences between approved estimates and the actual revenue collected as required by Section 65(1)(c) of Public Finance Management (National Government) Regulations, 2015. Non-compliance with this requirement affects understandability of the revenue statement by the users.

1322. Bank Reconciliation Statements

Bank reconciliation statements for two bank accounts where the revenue collected in cash was being banked were not availed for audit review. The Office of the Attorney General and Department of Justice was therefore in breach of Section 90 (1) of Public Finance Management (National Government) Regulations, 2015. No explanation has been provided for the omission.

In the circumstances, management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1323. Except for the issues discussed in the Basis for Adverse Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

PUBLIC TRUSTEE OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1324. Deposits

The statement of financial position as at 30 June 2018 reflects a deposits balance of KSh.122,400,000 which includes a balance of KSh.85,000,000 held in Imperial Bank Limited.

However, information available indicate that Imperial Bank Limited was placed under receivership by the Central Bank of Kenya on 13 October 2015 and Kenya Deposit Insurance Corporation (KDIC) appointed the receivers. Additional information indicate that out of the deposits of KSh.85,000,000 held at Imperial Bank Limited, an amount of KSh.13,000,000 was recovered on 31 December 2018 leaving an outstanding balance of KSh.72,000,000 whose recoverability could not be ascertained as at 30 June 2018.

1325. Investments

The statement of financial position reflects investments balance of KSh.253,660,000 as at 30 June 2018, which as disclosed at note 14 to the financial statements, include a balance of KSh.165,598,000 described as deposits in financial institutions under the management of Kenya Deposit Insurance Corporation (KDIC) and the Official Receiver. However, as reported in the previous year, no explanation was provided for failure to seek refund of these dormant deposits. In addition, the dormant deposits of KSh.165,598,000 include investments amounting to KSh.51,193,938 held in some three (3) institutions which were not supported by confirmations from the holding institution.

Under the circumstances, the accuracy and completeness of investments balance of KSh.253,660,000 as at 30 June 2018 could not be confirmed.

1326. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalent balance of KSh.6,282,557,000 as at 30 June 2018. However, bank reconciliation statements for the various bank accounts reflects outstanding reconciling items whose clearance status as at the time of the audit in March 2019 was not disclosed as tabulated below;

Account	Payments in Cash book not in Bank (unpresented Cheques) KSh.	Receipts in Bank Statement not in Cash book KSh.	Payments in Bank Statement not in Cash book KSh.	Receipts in Cash book not in Bank Statement KSh.
Administration Account- Nairobi	21,403,403	50,192,662	-	64,870,241
Investment Account	-	-	-	427,152,354
Trust Estate Account	3,787,430	-	-	28,288,432
Sundry Expenses Account	-	-	-	267,848,848
Administration Account-Regional Offices (Sub-total)	66,376,856	59,699,435	847,555	16,767,155
Total	91,567,689	109,892,097	847,555	804,927,030

No explanation was provided for failure to clear the outstanding reconciling items reflected in the bank reconciliation statements as at 30 June 2018.

In the circumstances, the accuracy of cash and cash equivalent balance of KSh.6,282,557,000 as at 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1327. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1328. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

THE JUDICIARY VOTE 1261

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1329. Lack of Fixed Asset Register

The statement of receipts and payment as at 30 June 2018 reflects KSh.608,853,469 in respect of acquisition of assets. However, the Judiciary does not maintain a fixed assets register and, only an inventory listing of assets without values was provided for audit review. Further, no summary of fixed assets register was included in the financial statements as required by the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).

Under the circumstances, it was not been possible to confirm the ownership, existence, location, safety, valuation of fixed assets as at 30 June 2018.

1330. Unrecognized and Uncertified Contractors Expenditure

During the year under review, the statement of receipts and payment as at 30 June 2018, reflected KSh.608,853,469 in respect of acquisition of assets, out of which KSh.182,855,299 relating to construction of buildings was paid. However, information available indicate that thirty nine (39) law courts construction contracts worth KSh.3,491,859,987 funded by the Government of Kenya awarded between 2013 and 2017 across the country have to date not been completed. Analysis of the project's status report provided by the Judiciary indicated that works valued at KSh.1,587,836,185.95 had been certified for payment, however, details of certificates issued and total amount paid for each of the projects were not made available for audit review.

In the absence of works completion certificates and payment reconciliations, it was not been possible to confirm that works/the contracts paid were works certified and were in accordance with the provisions of the signed contract agreements.

1331. Unsupported Tribunals Expenditure

The statement of receipts and payments for the year ended 30 June 2018 reflects transfer to other Government entities of KSh.876,890,288 disclosed under note 5 to the financial statements as relating to transfers to twenty-one (21) tribunals. However, no actual transfers to the entities was done but the funds were utilized at the Judiciary. Further, expenditure details for each of the tribunals were not made available for audit review.

In the circumstances, the propriety and validity of the KSh.876,890,288 expenditure could not be ascertained.

1332. Pending Bills

During the year under review, pending bills amounting to KSh.613,798,064 chargeable to both the recurrent and development vote were not settled but were instead carried forward to 2018/2019 financial year. Had these bills been cleared and charged to the vote, the statement of receipts and payments for the year 2017/2018 would have reflected a net deficit of KSh.517,383,468 instead of the net surplus of KSh.96,414,596 now shown. Further, the pending bills were not supported with contracts, invoices, works completion certified certificates, payment vouchers except for a listing of amounts outstanding. In addition, no explanation was provided for failure to pay the pending bills as they fell due.

In view of the forgoing, the propriety and validity of the pending bills of KSh.613,798,064 could not be confirmed.

Other Matter

1333. Budget and Budgetary Control

1333.1 Receipts

The Judiciary had budgeted for receipts totalling KSh.14,651,893,728 but actual amount realized was KSh.13,896,458,457 resulting to a shortfall of KSh.1,127,809,998 or 8%.

1333.2 Payments

The Judiciary had an expenditure budget of KSh.14,651,893,728 against actual payments for the year totalling KSh.13,800,043,861 resulting to an under expenditure of KSh.851,849,868 or 6%.

The under expenditure of KSh.851,849,868 or 6% implies that the judiciary did not implement some of the planned activities for the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1334. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1335. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

RECEIVER OF REVENUE – THE JUDICIARY

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

1336. Accuracy, Completeness and Presentation of the Revenue Statement

1336.1 Inaccuracies in the Revenue Statements

The opening balances of fees on use of goods or services and, fines, penalties and Forfeitures in the statement of receipts and transfers for the year under review, was KSh.470,931,785. However, audit review and summation of all opening balances reflected on all active courts stations' revenue accounts indicated that the opening balances ought to be KSh.703,507,022 resulting to a difference of KSh.232,575,237 which has not been explained and reconciled.

Further, note 1(a) and (b) reflect closing balance of fees on use of goods or services and, fines, penalties and forfeitures, as KSh.582,062,448. However, bank collection account for the same revenue reflected a closing balance of KSh.769,984,838 resulting to a variance of KSh.187,922,390.

1336.2 Unsupported Revenue Statement - Fees and Fines

Financial statement reflect fees on use of goods or services and fines, penalties and Forfeitures amounting to KSh.954,904,031 and KSh.1,123,835,935 respectively. However, it was not possible to confirm the accuracy and correctness of the figures due to the following observations;

1336.2.1 Unexplained Revenue Variances

Audit review of the Judiciary revenue schedule supporting the statement of receipts and transfers figure for courts visited reflected revenue collected of

KSh.1,172,172,681. However, amounts collected as per the Collection Control Sheets was KSh.1,146,393,353 resulting in a difference of KSh.25,779,327 that has not been reconciled.

Further, the Judiciary revenue schedule supporting the statement of receipts and transfer for 2017/2018 indicates fines, penalties and forfeitures as KSh.1,129,476,603. This differed from the amount reflected in statement of receipts and transfer of KSh.1,123,835,935 by KSh.5,640,668 that resulted from refund of fines to deposit account upon successful appeal of cases. However, Judiciary did not provide for audit review list of cases which were successfully appealed and the bank statement reflecting the refunds for review.

In the absence of the list of cases and bank statement reflecting refunds, the difference of KSh.5,640,668 could not be verified.

1336.3 Revenue Not Supported by Daily Cash Collection Schedule - Milimani Law Courts

The Milimani Law Courts did not provide daily cash analysis sub schedules to support fees and fines for the months of July to March 2018 totaling KSh.83,924,475 and KSh.99,349,749 respectively. In the absence of daily cash analysis sub schedules, fees and fines totaling KSh.83,924,475 and KSh.99,349,749 respectively all totaling to KSh.183,274,224 could not be verified.

1336.4 Fraud at Milimani Law Courts

Audit review revealed that Milimani Law Courts lost KSh.9,341,228 through receipting of fees using parallel and fake receipts in Environment and Land Registries. The receipts were neither reflected in the bank statements, recorded in the cash book nor the Counter Receipt Book registers maintained at both Head Office and Milimani Law Courts.

1336.5 Un-receipted Tribunal Courts Fees

Audit review revealed that over 8,000 pieces of tribunal fees banking slips from Tribunal Courts spread across the Country and whose revenue were deposited in Milimani Law Courts revenue account were not presented for receipting. On inquiry, only 1,300 pieces of tribunal fees banking slips representing fee collected of KSh.596,575 were presented for audit review. The rest of 6,700 pieces of tribunal banking slips were not availed for review. Therefore, it was not possible to establish the total amounts of fees collected by the Tribunal Courts in 2017/2018.

1336.6 Misstatement of Fees and Fines – Milimani Law Courts

Milimani Law Courts collected KSh.246,526,472 in 2017/2018 as per the availed Judiciary revenue schedules. However, the amounts banked as per the bank statement was KSh.324,129,910 resulting in a difference of KSh.77,603,438. The difference was caused by deposits of tribunal fees collected from courts across the country into the Judiciary revenue account without presenting the deposit slips for receipting as per the revenue collection report for Milimani Law Courts. Similarly, the tribunal court fees bank slips were not recorded in cash book nor disclosed in the Judiciary statement of receipts and Transfers for 2017/2018. In addition, the fees were neither included in the Judiciary fees balance nor disclosed in the Judiciary statement of receipts and Transfers for 2017/2018.

1336.7 Recurring Items in the Bank Reconciliation Statement for More Than Three Months

Examination of bank reconciliation statement as at 30 June 2018 for various court stations revealed transactions that had recurred in the reconciliation for more than three months as detailed below. No explanation has been provided for this anomaly.

Analysis of Recurring items in the Bank Reconciliation Statement

Court Stations	Receipts in the cash book not recorded in the bank statement	Payments in the Bank Statement not yet recorded in the cash book	Receipts in the Bank Statement not in the cash book	Payments in the Cash book not in the bank statement
Milimani Commercial Courts	27,725.00	-	1,461,459.80	-
Meru Law Courts	70,230.00	27,382,180.00	74,940.00	26,626,609.00
Machakos Law Courts	1,347,234.00	20,590.00	-	-
Nyeri Law Courts	-	-	-	90,185.00
Totals	1,445,189.00	27,402,770.00	1,536,399.80	26,716,794.00

1336.8 Unsupported Clearance of Receipt in Bank Not in Cash Book - Milimani Law Courts

A review of July 2017 and August 2017 bank reconciliation statements revealed reconciliation differences amounting to KSh.1,204,443 being historical receipts in the bank not in the cash book cleared in September 2017. However, the supporting receipts or documents used to clear the reconciliation difference were not availed for audit review and therefore it is not clear how those historical receipts were cleared.

1336.9 Long Outstanding Miscellaneous Receipts for Fees and Fines - Milimani Law Courts

A review of Counter Receipt Book register and cash book revealed that there were thirty (30) long outstanding un-surrendered Miscellaneous Receipt books used for receipting forfeitures, utilization of fines and fees. In addition, some of the cashiers were holding more than one receipt book. The receipted amounts using receipt books not surrendered though banked were neither recorded in the cash book nor reflected in the 2017/2018 Statement of Receipts and Transfers. It was not clear why it had taken long to surrender the miscellaneous receipt books.

Further, it was noted that only fourteen (14) receipt books with a total collection of KSh.17,856,765, being KSh.492,265 in fees and KSh.17,364,500 in fines were availed for audit review. Sixteen (16) receipt books were not availed and it was not possible to establish the amounts collected using the missing receipt books.

In addition, from the Courts visited it was observed that, in some instances, the miscellaneous receipt total amounts differed with the Collection Control Sheets, Surrenders and Receipt Vouchers (FO17) amounts.

1336.10 Reporting of Revenue in Incorrect Accounting Period

Examination of accountable documents revealed that revenue collected in 2016/2017 totaling KSh.13,459,312 was accounted and reported in 2017/2018 revenue statements. This resulted in misstatement of statement of receipts and transfers for 2017/18.

1336.11 Un-receipted Transactions – Eldoret Law Courts

Analysis of daily collections revealed that there were no fines collected, recorded and receipted on; 14 August 2017 and 12 September 2017 to 14 September 2017. However, during the same dates, a total of KSh.144,000 was recorded as collections in the traffic case register. This mix-up may have resulted into possible processing of irregular revenue transactions.

1336.12 Overstated Revenue – Thika Law Courts

The collection control sheets prepared by Thika Law Court indicated that fees amounting to KSh.25,789,612 was collected during the year. However, the fees surrendered and reflected in the miscellaneous receipt totaled KSh.23,436,534. variance of KSh.2,362,078 has not been explained.

1336.13 Unexplained Variances between Collection Control Sheet and Bank Statements

All fees and fines collected by the courts are recorded daily in the collection control sheets and subsequently banked. However, comparative analysis of revenue collection control sheets versus revenue banked and reflected in bank statements revealed variances of both over and under banking that was explained and reconciled as detailed below. Consequently, the accuracy and completeness of revenues, fees and fines, reflected in revenue statement could not be confirmed.

Analysis of unexplained variances between Collection Control Sheets and Bank Statements.

Court Station	Collection Control Sheets (KSh.)	Bank Statement (KSh.)	Variance (KSh.)
Thika	55,336,887.00	56,258,294.00	-921,407.00
Kitale	5,968,690.00	5,921,025.00	47,665.00
Shanzu	29,580,613.00	28,494,473.00	-1,086,140.00
Naivasha	48,558,572.00	49,568,304.00	-1,009,732.00

1336.14 Revenue Not Banked – Machakos Law Courts

Audit review of bank reconciliation statement revealed that a total amount of KSh.1,176,713 that was shown in the previous bank reconciliation statement as receipt in cash book not recorded in bank statement had been cleared in the bank reconciliation statement for June 2018. However, the transaction to clear this amount were not reflected in the bank statement. Therefore, the clearance of KSh.1,176,713 from bank reconciliation statement could not be confirmed.

1336.15 Unaccounted for Collections of Court Revenue

Analysis of revenue collection account revealed that Mombasa Law Courts failed to account for revenue totaling KSh.757,185 collected during the year. As a result, fees and fines reflected in statement of receipts and transfers is misstated. No explanations have been provided for the omission.

1336.16 Inaccurate Accounting Records

The Machakos Law Courts in carrying out bank reconciliation statement for 30 November 2017 used a bank balance of KSh.544,130 as opposed to KSh.70,694 reflected in the bank statement and certificate of balance thereby resulting to a variance of KSh.473,436 that has not been explained.

Similarly, the closing cash book balance of KSh.15,304,129 reflected as at 30 June 2017 was carried forward and misrepresented as opening balance on 1 July 2017 in the cash book as KSh.16,206,105 resulting to a variance of KSh.901,976. No explanation was been provided for this anomaly.

1336.17 Unsupported Fines-Mavoko Law Courts

Audit review of schedule supporting statement of receipts and transfers in 2017/2018 for Mavoko Law Courts reflect fines collected as KSh.42,192,369. However, the collection control sheets reflect total fines collection of KSh.29,145,323 resulting in an unexplained difference of KSh.13,047,046. No explanations was received for the differences.

1336.18 Misstatement of Transfers to Exchequer

Audit review of CBK Judiciary revenue collection account number 1000352043 revealed that the total revenue collected in 2017/2018 and transferred to Exchequer was KSh.1,606,395,575. However, statement of receipts and transfers reflect KSh.1,967,607,303 resulting in an excess of KSh.361,211,728 that has not been explained.

1336.19 Unaccounted Revenue Transfers

Audit verification revealed that revenue totaling KSh.84,033,694 transferred from respective Court Station bank accounts to Head Office revenue collections accounts, could not be traced in Judiciary revenue collection account. No further was provided for the missing revenue.

1336.20 Unexplained Transfers - Machakos Law Courts

Analysis of Machakos Law Courts revenue bank statement for 2017/2018 revealed unexplained outward transfers amounting to KSh.93,489 from the account. The transfers were suspicious and may have resulted in loss of revenue.

1337. Inadequate Utilization of the Judiciary Financial Management Information System(JFMIS)

Judiciary Financial Management Information System (JFMIS) was procured and implemented to enable Court Stations manage their financial processes efficiently. However, some shortcomings in relation to use were identified as discussed below;

1337.1 Inadequate Utilization of JFMIS system

Our visit to the Court Stations revealed that Judiciary is abandoning and/or underutilizing JFMIS by reverting to manual processing when collecting and accounting for revenue in 2017/2018 thereby not getting value for money on investment.

1337.2 Lack of Integration of the System

Each court runs a separate interface of JFMIS that are manually interfaced. This may result in lack of integration of the System thus hindering prompt decision making brought about by readily available information.

1337.3 Inadequate Audit Trail

From the sample of courts visited, audit trail module was not activated as witnessed in Mombasa, Shanzu and Nyeri Law Courts. This may result in lack of accountability of the JFMIS system making the system vulnerable to fraudulent activities and data manipulations.

1337.4 Inadequate segregation of duties

A review of access rights as mapped in the JFMIS systems revealed inadequate segregation of duties in some of the Courts. For instance, in Mombasa Law Courts, the Accountant had been allocated following system roles; Data entry, Data modification, Data verification, Posting and approval of transactions. This makes the system vulnerable to manipulations by the user whose system roles are not restricted. This may result in commissioning of errors and fraud.

1337.5 Inadequate data validation

The system does not enforce data validation and therefore, duplicate entries were noted in courts like Mombasa. Further, incomplete entries for Miscellaneous Receipts was observed in Eldoret Law Courts raising concerns of data integrity that may impact negatively on the reliability of the information generated by the system. This may have resulted in misstatement of revenue.

1338. Prior Year Issues

1338.1 2015/2016 Issues

1338.1.1 Financial Anomalies at Kericho Courts

Examination of financial records maintained at the Kericho Law Courts disclosed the following unsatisfactory matters;

1338.1.2 Unaccounted for Court Deposits

Examination of the deposit ledger and other Court records indicated that deposits and bonds paid to the Court by convicts totalling KSh.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 KSh.5,478,737 as at the same date. The resulting difference of KSh.8,100,802 represents unaccounted for convict's deposits and bonds.

1338.1.3 Bank Reconciliations

The Kericho Law Courts did not prepare bank reconciliation statements for the deposit and revenue cash books as at 30 June 2015 contrary to Section 5.9.2 of the Government Financial Regulations and Procedures. Although it was indicated that monthly bank reconciliation statements had been prepared, none was provided for audit verification. In the circumstances, it was not possible to confirm the completeness of cash balances for the deposits and revenue cash books.

1338.2 Fraud at Baricho Law Courts

An audit inspection done during the year under review revealed that the Judiciary had lost a total of KSh.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 12(twelve) months receipts were missing at the District Treasury at Baricho and addition 30(thirty) traffic case files were missing without trace in addition to the personal file of the accountant involved.

In addition, Baricho Law Courts did not maintain a deposit cash book and no monthly reconciliation statements were prepared. No explanation was provided for this irregularity.

1338.3 Discrepancies in Revenue Records

1338.3.1 Naivasha Law Courts

Records maintained at the station reflects the amounts of surrender to the Headquarters for Court Fines and Court Fees of KSh.100,923,964 and KSh.11,612,408 respectively. However, records maintained at the Headquarters had surrenders amounting to KSh.110,192,341 and KSh.10,583,445 for court fines and fees respectively and hence a difference of KSh.9,268,377 for court fines and KSh.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 would not be confirmed.

1338.3.2 Eldoret Law Courts

i. Fines

An audit inspection at Eldoret Law Courts indicated that fines collected in the financial year 2016/2017 were KSh.51,984,727. However, the amount of fines surrendered at Headquarters totalled KSh.38,070,330 resulting to an unexplained difference of KSh.13,914,397. Further, the revenue Collection Control Sheet number 0192365 collected two different amounts of KSh.522,360 and KSh.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 Courts could not be ascertained.

ii. Fees

The fees collected and surrendered by Eldoret Law Court was KSh.11,070,708 while fees collection schedule maintained at the Judiciary headquarters showed KSh.38,070,330. The difference of KSh.26,999,622 was not been explained.

1338.4 2016/2017 Issues

1338.4.1 Inaccuracies in the Revenue Statement

The opening balance for fines, penalties and forfeitures was indicated as KSh.1,470,152,225 whereas the 2015/2016 audited closing balance was KSh.1,470,054,680 resulting in unexplained difference of KSh.97,545. The revenue statement reflects an un-analyzed fine, penalty and forfeiture balance of KSh.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 of revenue collected from Tribunals.

1338.5 Balances Carried Forward Not Yet Transferred

An amount of KSh.470,931,785 reflected 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.

1338.6 Fees on Use of Goods or Services

The statement of receipts and transfers reflects the figure for Fees on Use of Goods and Services amounting to KSh.847,031,435 as at 30 June 2017. However, the supporting schedule from the Headquarters shows an amount of KSh.846,724,458 resulting into a variance of KSh.306,977. No reconciliation or explanation was given for the variance.

1338.7 Unreconciled Balance Shown as Surrender to Exchequer Account

The statement of receipts and transfers reflects an amount of KSh.1,677,279,261 as transfers to exchequer account. However, the analysis of Central Bank Revenue statements account 1000209569 reflects an amount of KSh.1,268,734,712. The resultant variance of KSh.408,544,712 was not reconciled or explained.

Further, the audit review revealed that there was no bank reconciliation statement prepared for the Judiciary revenue main account number 1117161749 and the cash book for revenue account number 111761811 was also not maintained.

In view of the above, the accuracy, completeness and presentation of the revenue statement balances for the year ended 30 June 2017 could not be ascertained.

Other Matter

1339. Unrealistic Budget on Fees from Use of Goods and Services

The previous year's budget for fees use of goods or services and fines, penalties and forfeitures was KSh.1,067,605,749 and KSh.1,839,982,386 respectively. However, the actual revenue collected was KSh.954,904,031 and KSh.1,123,835,935 respectively. This resulted in an overall under collection of 11% equivalent to KSh.112,701,718 for fees and 39% equivalent to KSh.716,146,451 for fines. The under collection was due to unrealistic budgeting.

1340. None Provision of Documents

The Judiciary did not provide all supporting documents for amounts reported in Statement of Receipts and Transfers as fees on use of goods and services and fines, penalties and forfeitures. The Judiciary only provided the collection control sheets for Nairobi region while bank statements for the months of November 2017 to June 2018 for 107 Courts were not provided. Further, Miscellaneous Receipts for fines were similarly not provided for Court stations other than for Nairobi region.

In addition, management at Milimani Law Courts provided only bank reconciliation statements for July 2017 to September 2017 and March 2018. Under the circumstances, revenues collected and disclosed in statement of receipt and transfers could not be adequately ascertained.

1341. Internal Control Deviations due to Financial Malpractices by the Judiciary

Documents reviewed revealed that there were internal control deviations due to various malpractices perpetuated by the Judiciary in 2017/2018 as detailed below;

1341.1 Cash book Not Updated

Review of Cash books in various Court Stations revealed that they were not updated accordingly as detailed below:

1341.1.1 Thika Law Courts

It was observed that the station did not record transactions in its revenue and deposit cash books for the month of April 2018. Further, receipts amounting to

KSh.3,406,573 surrendered to the Judiciary Headquarters during the financial year 2017/2018 were not posted to the cash book.

1341.2 Eldoret Law Courts

Eldoret Law Courts did not maintain a cash book between July 2017 and October 2017. The Court recorded only the balance brought forward as at 1st November 2017 of KSh.2,806,874 and it was therefore not possible to verify amounts collected during this period.

1341.3 Milimani Law Courts

The Cash book for Milimani Law Courts was not updated with the receipted amount from receipt books not surrendered by the revenue cashiers. Further, the Cash book was not updated with revenue collected using the 8,000 tribunal fees bank slips not receipted. Without updating the cash books, it was not possible to do bank reconciliations that determines the accuracy of revenue collected.

1342. Variances Between Receipt Voucher(FO17) and Banked Collections-Shanzu Law Courts

Review of receipt vouchers (FO17) for Shanzu Law Courts revealed that KSh.22,536,613 was collected. However, the bank statement reflects banking of KSh.28,494,473 resulting in a difference of KSh.5,957,860. Therefore, the accuracy and completeness of the total surrenders of revenue for Shanzu Law Courts for 2017/2018 could not be confirmed.

1343. Delayed Issuance of Miscellaneous Receipt by Judiciary – Shanzu Law Courts

Amounts collected in September 2017 of KSh.4,148,784 as per Collection Control Sheet number 248424 compared with KSh.1,760,784 as per Receipt Vouchers(FO17), resulted in a difference of KSh.2,388,000. This was due to delayed issuance of Miscellaneous Receipt done in May 2018 eight months later. The cause of the delay in issuing miscellaneous receipt has not been explained.

1344. Variances Between Collection Control Sheets and Cash book–Nyeri Law Courts

Examination of the financial records maintained at Nyeri Law Courts revealed an unexplained variance of KSh.160,747 between Collection Control Sheet figure of KSh.508,188.00 and cash book figure of KSh.668,935 for August 2017. In the circumstances, the accuracy and completeness of the collected and surrendered revenue could not be confirmed.

1345. Variance Between Statement Revenue Figure and Collection Control Sheet Figure for Fines and Forfeitures-Mombasa Law Courts

The statement of revenue and revenue supporting schedule indicate that the total revenue for fines and forfeitures collected during the year totalled KSh.33,923,326 while revenue from collection control sheets for the same period totaled to KSh.32,980,002 resulting to an unexplained variance of KSh.943,324.

1346. Inadequate Data to Identify Source and Destination of Funds Transfer

The transactions in the bank statements lacked references to the payees. This made confirmations of receipts to the bank statement difficult leading to lack of audit trail.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1347. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1348. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

JUDICIAL PERFORMANCE IMPROVEMENT PROJECT - IDA CREDIT NO. 5181- KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1349. Special Account Reconciliation

The special account reconciliation statement prepared by the National Treasury shows total withdrawals from the projects account maintained at the Central Bank of Kenya was USD 14,351,126 equivalent to KSh.1,477,294,687. However, projects financial statement shows total receipts from IDA for the year as USD 11,935,651 or KSh.1,227,551,278 resulting in unexplained difference between the two sets of records of USD 2,415,475 (KSh.249,743,409).

In addition, the Special Account statement for the year ended 30 June 2018 reflects USD2,172,378.47 under amounts withdrawn and not yet claimed. No explanation has been provided as to why the expenditure returns for USD 2,172,378.47 have not been submitted to the National Treasury.

In the circumstances, the accuracy of the Special account balances as at 30 June 2018 could not be confirmed.

1350. Understatement of Rent Payments

The statement of receipts and payments reflects KSh.19,157,021 as payment for rental of produced assets and pending bills on the same account of KSh.244,272 giving a total expenditure on rent for the year of KSh.19,401,293. However, a review of related records showed that the Project had engaged an insurance company for rental of office premises and also paid rent for the National Council of Law Reporting at other premises with annual rent cost for the two offices amounting to KSh.30,711,063. Consequently, the rental expenditure for the year reflected in the financial statements is understated by KSh.11,309,770

1351. Fixed Asset Register

The statement of receipts and payments for the year ended 30 June 2018 reflects a cumulative expenditure on acquisition of non-financial assets of KSh.1,710,120,609. It was however, noted that the Project did not maintain a fixed asset register making it difficult to verify the physical existence of assets or confirm the value, location,

ownership and security of the assets acquired under the project over the years. Also, the project financial statement did not include a summary of the fixed assets register as is required under the reporting template issued by the Public Sector Accounting Standards Board.

No explanation has been given for the failure to maintain a fixed asset register.

1352. Low Absorption of Project Funds

The financing agreement Credit No.5181 between the Republic of Kenya and International Development Association(IDA) was signed on 5 December, 2012 and revised on 16 May 2016. The objective of the project is to improve the performance of the Judiciary to provide services in the project areas in a more effective and accountable manner. The project consists of three parts namely, court administrative and case management, Judicial training and staff development and court infrastructure. The total project funding was USD 120,000,000 (approximately KSh.10,500,000,000).

The closing date for withdrawal of the project funds as per the financing agreement was 31 December 2018 but was later extended to 30 October 2020. However, as at the time of the audit only KSh.5,160,969,500 or 49% out of the total available funds under the project of KSh.10.5 billion had been withdrawn to finance project activities. In spite of this poor absorption of the project's funds, there were contractors' certificates totalling to KSh.113,679,607.35 which had been approved for payments but were yet to be settled.

It was not clarified why the management has not utilized the available project funds to implement the project activities and settle the pending claims which may attract interest and other claims. Further, considering that it has taken about six years to utilize approximately half of the funds available under the project, it is unlikely that the remaining balance will be utilized within the remainder of the extended credit period which is less than two years.

In addition, a review of the project's payments records showed that cumulatively a total of KSh.5,109,197,658 had been paid under the project comprising of KSh.2,584,951,229 for purchase of goods and services and KSh.2,524,246,429 for construction costs. This shows that the ratio of purchase of goods and services to construction costs is about 1:1. If this trend continues, the remaining fund balance of KSh.5,390,802,342 may not be adequate to finance the remainder of the project activities.

As a result, the project objectives and goals may not be achieved as planned.

1353. Construction and Refurbishment of 28 Law Courts

During the year ended 30 June 2018, the Judiciary had entered into contracts for construction and renovation of 28 Law Courts across the country at a total contract sum of KSh.6,948,681,943. As at the time of the audit, a total of KSh.2,258,293,896.35 had been paid to the contractors. A review of the project files and physical verification of selected law courts construction projects revealed the following unsatisfactory matters:

1353.1 Invalid Performance Security Bonds

1353.1.1 Expired Performance Security Bonds

In accordance with the terms and conditions of the contract, each contractor was supposed to submit a performance bond to secure the employer in case of failure to implement the project as provided in the signed contract agreements. However, a review of the project records revealed that a total of thirteen (13) performance bonds submitted by the contractors had expired and were yet to be renewed.

1353.1.2 Performance Security Bonds Issued by a Bank under Receivership

In addition, ten (10) performance bonds valued at KSh.216,491,929 that were availed for audit review were issued by a local bank under receivership and its subsidiary, a microfinance, their validity is therefore doubtful.

In the circumstances, the contractors did not comply with Section 50.1 of the signed contract agreements and Section 142(1) and (2) of the Public Procurement and Assets Disposal Act, 2015 on performance bonds and the employer was also at fault for accepting invalid bond and may not be able to recover the KSh.216,491,929 guaranteed in case of default.

1353.2 Delayed Completion of the Projects

A physical verification of sampled projects carried out in October 2018 and a review of the project's files showed that there has been delay in project completion affecting the projects.

Construction of the first batch of nine (9) law court projects commenced in 2015 and were expected to be completed by September 2016 but at the time of the audit, only two projects i.e. Kigumo and Makindu Law Courts had been completed.

Construction of the second batch of six (6) projects started in 2016 and were to be completed by September 2017 but none had been completed by the time of the audit. Similarly, construction of the rest of the projects except Kajiado Law Courts, which was awarded in 2018, commenced in 2017 and all should have been completed by October 2018 but by the time of the audit none had gone beyond 50% overall progress. In addition, most contractors were not on site.

The management has explained that the delay is attributed to failure to pay certified works on time owing to delays in release of exchequer funds from the National Treasury. It was noted that the contract period for most of the projects has been extended following the extension of Project end date to October 2020. However, delayed project completion has denied the Judiciary the benefits envisaged under the project and could also lead to cost overruns due to time driven costs.

1354. Irregular Engagement of a Legal Counsel

The statement of receipts and payments for the year reflects a figure of KSh.63,181,280 for consultancy services. Included in this figure payments in respect of legal fees of KSh.5,400,000 paid to a legal counsel to Deputy Chief Justice (DCJ). It was however noted that the engagement was not subjected to a competitive process to determine the suitability of the candidate for the job. In addition, there was no identified knowledge gaps within the Judiciary to necessitate the hiring of a legal counsel.

In the circumstances, it has not been possible to confirm that the payment of KSh.5,400,000 was a proper charge to the Project's Funds.

1355. Irregular Award of Contract for Supply of Motor Vehicle

On 8 August 2014, Firm B was awarded a contract for the supply and delivery of a motor vehicle vide contract no. JPIP /NCB /02 /2013-2014 at a cost of KSh.10,500,000 after emerging as the lowest evaluated bidder out of the four (4) firms which submitted bids namely; Firm A KSh.3,400,000, Firm B KSh.10,500,000, Firm C KSh.9,520,000 and Firm D KSh.11,276,000. It was further noted that Firm C and Firm D were not subjected to financial evaluation as they were considered non-responsive.

After the contract award and notification was given to Firm B, an addendum was given to the supplier to include parcel rack with covers and reading lights; reclining seats with foot rest; Mechanical Ram for wheel chair access; Individual charging sockets and WIFI systems and curtains on the vehicle, this revised the contract amount from KSh.10,500,000 to KSh.11,671,600 an increase of KSh.1,171,600.

This contravened Section 53(1) of the Public Procurement and Asset Disposal Act, 2015. In addition, management wrote a letter to Firm B on 30 March 2015 and explained that the contract award of KSh.10,500,000 was tax exclusive, and so the contract sum was adjusted upwards again to include the 16% VAT amount of KSh.1,680,000. This was also done in violation of Section 50(2)(a) of the public procurement and disposal regulations, 2006.

In the circumstances, the resultant increase of KSh.2,625,000 arising from the addendum and VAT adjustment was therefore irregular.

1356. Irregular Reimbursement of Out of Pocket Expenses

An amount of KSh.10,697,505 was paid to Judiciary staff members as out of pocket reimbursement of expenses incurred in respect of domestic travel and subsistence allowances. It is not clear why imprests were not issued to the officers before travel to ensure proper accountability. In the circumstances the validity of the reimbursements totalling to KSh.10,697,505 could not be confirmed.

1357. Un-accounted Court Users Committee (CUC) Grants

Included in the imprests and advances figure of KSh.91,497,870 as at the close of the year is KSh.27,054,648.50 representing A.I.E.'s issued to Court stations which had been outstanding for more than twelve months. It was not clear why the Court stations had not submitted expenditure returns as required.

In the circumstances, it has not been possible to confirm that the grants were used for the intended purposes.

1358. Unremitted VAT and Withholding Taxes

A review of schedules availed in support of construction projects payments for the year revealed that a total of KSh.50,222,813.60 deducted from the construction payments as 6% VAT and 3% income tax were not remitted to Kenya Revenue Authority as required. Further, included in the pending bills as at 30 June 2018 is an amount of KSh.6,839,806.95 in respect of unremitted P.A.Y.E. taxes that remained unpaid for five months.

In the circumstances, the project is likely to incur interest and penalties which should not remain a charge to project funds.

Other Matter

1359. Budget and Budgetary Performance

1359.1 Receipts

The project had budgeted to receive proceeds from borrowing of KSh.2,997,446,289 in 2017/2018 but actual receipts amounted to KSh.1,405,020,784 resulting into a shortfall of KSh.1,592,425,505 or 53%. The shortfall was attributed to budget cut by the National Treasury hence most of the project activities were not implemented as planned.

1359.2 Payments

The Project had budgeted to spend an amount of KSh.2,997,446,289 in the year under review but actual expenditure totalled KSh.1,353,653,889 resulting to an under expenditure of KSh.1,643,792,400 or 55%. The shortfall was attributed to budget cut by the National Treasury thereby affecting implementation of planned activities for the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1360. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1361. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

ETHICS AND ANTI-CORRUPTION COMMISSION VOTE 1271

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1362. There were no material issues noted during the audit of the financial statements of the Ethics and Anti-Corruption Commission.

Emphasis of Matter

1363. Receivable from Exchange Transactions – Compulsory Acquisition of the Integrity Centre Building.

As disclosed in note 13 to the financial statements, included in the statement of financial position as at 30 June 2018 was an amount of KSh.1,518,000,000 receivable from exchange transactions - National Land Commission (NLC). This amount represents funds remitted by the Ethics and Anti-Corruption Commission to the National Land Commission for compulsory acquisition of the Integrity Centre Building which houses the Commission's offices. As disclosed at note 24 to the financial statements, the idea of acquiring a headquarters for the Ethics and Anti-Corruption Commission started way back in 1999 by the management of the then Kenya Anti-Corruption Authority. The aim was to have a permanent home for the anti-corruption body and to save on the large budget of paying office rent.

Following consultations with the Departmental Committee of National Assembly on Legal Affairs, the Ethics and Anti-Corruption Commission was advised to consider compulsory acquisition of Integrity Centre vide the National Assembly letter ref. KNA/JLA/OC/2017/VOL.II dated 3 April 2017. In light of this advice, the Ethics and Anti-Corruption Commission vide letter ref.EACC.1/1 VOL.VII (107) dated 10 April 2017 sought advice from the National Treasury upon which the National Treasury vide letter ref.DV/ES1271/16/01/A/19 dated 13 April 2017 advised the Ethics and Anti-Corruption Commission to liaise with the Attorney General to request the National Land Commission to acquire the property on their behalf in accordance with Section 107 (1) of the Land Act, 2012. Consequently, vide letter ref. EACC. 1/1/VOL III (111) dated 2 May 2017, the Ethics and Anti-Corruption Commission requested the Office of the Attorney General and Department of Justice to instruct the National Land Commission to commence the compulsory acquisition of the Integrity Centre. The Office of the Attorney General and Department of Justice in a letter dated 12 July 2017 instructed the National Land Commission to compulsory acquire the Integrity Centre described as LR No. 209/1069 on behalf of the Ethics and Anti-Corruption Commission in accordance with the provisions of Part VIII of the Land Act, 2012. The National Land Commission consequently commenced the process of acquisition of the property in December 2017.

According to the valuation report based on inspection conducted on 14 February 2018, the National Land Commission valued the property at KSh.1,543,382,916 as detailed below.

Component	Acreage	Value	15% Statutory Allowance	Total Value (KSh.)
Land	1.203	691,725,000	103,758,750	795,483,750
Improvements		650,347,101	97,552,065	747,899,166
Total Compensation		1,342,072,101	201,310,815	1,543,382,916

As at 30 April 2018, the Ethics and Anti-Corruption Commission had remitted a total of KSh.1,518,000,000 to the National Land Commission towards the settlement of the property, leaving a balance of KSh.25,382,916. Additional information indicates that vide Gazette Notice Vol. CXX – No.113 dated 14 September 2018, the National Land Commission transferred and vested the property in the Principal Secretary – National Treasury, to hold in trust for the Ethics and Anti-Corruption Commission in accordance with Section 121 of the Land Act, 2012.

However, although the National Land Commission in their letter ref.NLC/V&T/AG/001(13) dated 27 June 2017 claim to have requested for valuation services from the Ministry of Lands and Physical Planning, valuation of the property was done by the National Land Commission. No evidence was availed for audit review to clarify whether the Ministry of Lands and Physical Planning played any role in the valuation of the property despite the fact that the Department of Land Valuation in the Ministry is mandated to provide valuation services which forms a basis for revenue collection or the determination of appropriate market rents and market values for leasing or sale and purchase for and by all National and County Government Departments, Commissions, Agencies, Parastatals, Institutions of Higher Learning, Public Schools and all public bodies, in order to protect the monetary interest of the Government.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1364. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1365. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

ETHICS AND ANTI-CORRUPTION COMMISSION- STAFF HOUSE MORTGAGE AND CAR LOAN SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1366. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1367. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1368. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NATIONAL INTELLIGENCE SERVICE 1281

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1369. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1370. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1371. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

INTELLIGENCE SERVICE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1372. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1373. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1374. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

OFFICE OF THE DIRECTOR OF PUBLIC PROSECUTIONS

VOTE 1291

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1375. There were no material issues noted during the audit of the financial statements of the Office of Director of Public Prosecutions.

Other Matter

1376. Budget and Budgetary Performance

1376.1 Receipts

The Office of the Director of Public Prosecutions had an approved budget of KSh.1,999,002,962 against actual receipts of KSh.1,882,527,355 resulting to budget shortfall of KSh.116,475,607 or 6%.

1376.2 Payments

Further, the office had approved expenditure of KSh.1,999,002,962 against actual expenditure KSh.1,875,322,980 resulting to an under absorption of KSh.123,679,982 or 6%.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1377. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1378. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

OFFICE OF THE REGISTRAR OF POLITICAL PARTIES VOTE 1311

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1379. There were no material issues noted during the audit of the financial statements of the Office of the Registrar of Political Parties.

Other Matter

1380. Budget and Budgetary Performance

1380.1 Receipts

The Registrar of Political Parties had budgeted for KSh.808,527,310 from exchequer but actual amount realized was KSh.778,003,736 resulting into a shortfall of KSh.30,523,574 or 4%. The shortfall of exchequer releases impacts on the implementation of planned programmes for the year under review.

1380.2 Payments

The Office of Registrar had approved total budget of KSh.808,527,310 against actual total expenditure of KSh.760,357,426 resulting to an under absorption of KSh.48,169,884 or 6%. This was mainly attributed to use of goods and services which had under absorption of KSh.42,345,542 or 22%.

The under expenditure was attributed to shortfall in exchequer releases resulting into unachieved annual objectives and goals.

1381. Inadequate Staffing

As at the time of audit in October 2018, the Office of the Registrar of Political Parties was inadequately staffed. The Registrar was on an acting capacity and did not have any of the three (3) Deputy Registrars as required by the approved staff establishment. Also, all other departments had shortages of staff which negatively affected the Registrar's ability to discharge her mandate effectively.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1382. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1383. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

POLITICAL PARTIES FUND

Unqualified Opinion

1384. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

1385. Inadequate staffing

During the year under review, the Registrar was in an acting capacity and did not have the three (3) deputy registrars as required by the Political Parties Act, 2011 and the current staff establishment. Further, the Office of the Registrar was understaffed in all departments which negatively affected the Registrar's ability to discharge her mandate.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1386. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1387. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

WITNESS PROTECTION AGENCY VOTE 1321

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1388. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1389. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1390. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

KENYA NATIONAL COMMISSION ON HUMAN RIGHTS VOTE 2011

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1391. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1392. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1393. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NATIONAL LAND COMMISSION VOTE 2021

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1394. Inaccuracies in the Financial Statements

Comparison between the financial statements and trial balance revealed discrepancies as shown below:

Item Description	Balance in the Financial Statements KSh.	Balance in the Trial Balance KSh.	Difference KSh.
Recurrent bank account	3,463,278	(779,374,268)	782,837,546
Development bank account	58	227,249,113	(227,249,055)
Cash in hand	-	5,143,930,147	(5,143,930,147)
Debtors and advances	10,349,078	34,255,058	(23,905,980.30)
Imprests	9,262,110	169,273,740	(160,011,630)
Other debtors	-	15,232,192	(15,232,192)
Suspense and clearance	-	438,800	(438,800)
General deposit	-	(1,599,044,811)	1,599,044,811
Other current assets	-	180,680	(180,680)
System required liabilities	-	2,983,711,072	(2,983,711,072)
General provision	-	5,177,393,171	(5,177,393,171)
Withholding tax	-	6,239,086	(6,239,086)

In the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

1395. Bank Balances

The statement of assets and liabilities as at 30 June 2018 reflects bank balance of KSh.7,115,620,264. However, the reconciliation statement for the National Bank Compensation Fund account reflects unrepresented cheques totalling KSh.61,314 whose clearance status as at the time of the audit in December 2018 was not shown. In the circumstances, the accuracy of bank balance of KSh.7,115,620,264 as at 30 June 2018 could not be confirmed.

1396. Other Expenses

1396.1 Compensation for Mombasa Port Area Development

The statement of receipts and payments for the year ended 30 June 2018 reflect other expenses totalling KSh.8,123,624,326. Included in this expenditure is compensation for three parcels of land to a local firm totalling KSh.224,784,720. However, the valuation reports for the three parcels of land were not produced for audit review. In the circumstances, the propriety of expenditure totaling to KSh.224,784,720 cannot be confirmed.

1396.2 Compensation for Thika Road Project

Also included in other expenses is an amount of KSh.45,367,404 paid as compensation to a supermarket situated on land LR No. 13858.70 along Thika Road measuring 0.0909 for which the registered owner of the land had also been compensated KSh.38,263,750. It was, however, noted that although the supermarket was registered on 16 July 2015 as per certificate of incorporation, the lease agreement between the land owner and the supermarket was dated 18 December 2009 implying that the lease was entered into before the supermarket was incorporated. Further, valuation reports for the supermarket were not availed for audit verification. Consequently, the propriety and validity of KSh.45,367,404 paid as compensation to the supermarket could not be confirmed.

1396.3 Acquisition of Landfill

Further, included in other expenses is a payment of KSh.82,470,000 being part payment for purchase of 50 acres of land valued at KSh.135,470,000 for sanitary landfill in Muranga County. The money was received from State Department of Housing and Urban Development. However, no signed valuation report was availed other than a hand written draft which valued the land for KSh.135,470,000 inclusive of 15% disturbance allowance, whose justification was not provided given that the land was not occupied. In the circumstances, the validity of expenditure totalling KSh.82,470,000 could not be confirmed.

1396.4 Compensation for Interruption and Loss of Business

In addition, included in other expenses is a payment of KSh.360,000,000 paid to a law firm on behalf of a client for interruption and loss of a business for plot in Mombasa. However, it was not clear how the value of interruption and loss of business was arrived at as no valuation report was availed for audit verification. Consequently, the validity of the expenditure amounting to KSh.360,000,000 paid as compensation for interruption and loss of business could not be confirmed.

1397. Pending Bills

The Commission reported total pending bills of KSh.202,528,474 as at 30 June 2018, which were not settled but were carried forward to 2018/2019. Had the bills

been paid and the expenditure charged to the respective accounts in 2017/2018, the statement of receipts and payments for the year would have reflected a surplus of KSh.762,198,571 instead of the reflected surplus of KSh.964,727,045 for the year ended 30 June 2018.

Other Matter

1398. Special Audit

The Public Accounts Committee requested the Auditor-General in March 2018 to carry out a special audit on compensation payments made by the Commission and submit a special report on the same to Parliament. As at the time of this report, the special audit was still in progress. The special audit report when completed may bring to light issues not captured in the course of this statutory audit report.

1399. Budgetary Performance

During the year under review, the Commission's actual receipts amounted to KSh.10,188,103,065 while the budgeted receipts amounted to KSh.10,414,574,642 resulting in an under collection of KSh.226,471,579 which translate to 98% efficiency in revenue collection which is commendable. Further, the Commission's actual expenditure for the year amounted to KSh.9,223,376,018 against an expenditure budget of KSh.9,443,938,596 resulting in an under expenditure of KSh.220,562,578 or 98% efficiency. Further analysis indicate that the Commission budgeted expenditure on acquisition of assets amounted to KSh.230,823,778 while that of social security benefits amounted to KSh.17,035,000 against actual expenditure of KSh.69,919,020 for acquisition of assets and 11,129,796 for social security benefits resulting in under expenditure of KSh.160,904,758 and KSh.5,905,204 respectively which translate to 30% efficiency for acquisition of assets and 65% for social security benefits. Consequently, there is need to review the budget process to ensure that resources are channeled to areas where they are needed most.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for conclusion

1400. Land Acquisition and Compensation of Ruaraka High School and Drive Inn Primary School

The statement of Receipts and Payments for the year ended 30 June 2018 reflects other expenses totalling to KSh.8,123,624,327. Included in this amount is part payment of KSh.1,500,000,000 to a limited company for acquisition of part of L.R.No.7879/4 by the Government. Records in relation to this acquisition indicate that a director of two companies who claimed ownership of the land vide letter dated 17 August 2016 addressed to the National Land Commission requested for compensation for land indicated as measuring 17.5364 acres comprising of 13.5364

acres occupied by Ruaraka secondary school and 4 acres occupied by a chief's camp.

The National Land Commission vide letter Ref:Val 1446 dated 13 September 2016 brought the matter to the attention of the Cabinet Secretary Ministry of Education upon which the Ministry replied vide letter Ref:MOE/CONF/G5 dated 7 February 2017 in which the Principal Secretary acknowledged that both Ruaraka High School and Drive Inn Primary School were occupying part of LR No.7879/4 which was private land. Vide letter Ref:MOE.CONF/G5 VOL.II/16 dated 17 March 2017, the ministry of Education formally requested the National Land Commission to commence the process leading to compulsory acquisition of the land.

In a valuation report dated 14 June 2017, the National Land Commission determined the area for acquisition as measuring 6.9818 acres for Drive in Primary School and 6.7883 acres for Ruaraka High School, all totalling to 13.7701 acres at KSh.206,000,000 per acre translating to 3,262,136,690 inclusive of 15% disturbance allowance. The valuation report however reflects total valuation of KSh.3,269,040,600 resulting in a variance of KSh.6,903,910 which has not been explained. Further, justification for the 15% disturbance allowance was not clear given that the claimant had not developed the land in question.

The Ministry of Education transferred KSh.1,500,000,000 to the National Land Commission on 22 January 2018 for the purpose of the acquisition and the same was paid to the vendor on 29 January 2018 vide cheque number 000936. However, a scrutiny of certificate of postal search obtained on 16 July 2018 revealed that the property has two mortgages dated 21 December 1981 to Continental Credit Finance Limited for KSh.21,000,000 and another dated 11 July 1986 to Kenya Posts and Telecommunications Corporation for KSh.165,000,000. These encumbrances had not been disclosed or cleared by the time of compulsory acquisition.

In the circumstances, I am unable to confirm whether the process of acquisition was procedural and payment of KSh.1,500,000,000 made to the vendor is a proper charge to public funds.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1401. Except for the issues discussed in the Basis for Adverse Opinion and Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

SUPPORT TO THE ATTAINMENT OF VISION 2030 THROUGH DEVOLVED LAND REFORMS IN COMMUNITY LANDS OF KENYA PROJECT NO.GCP/KEN/085/EC (LETTER OF AGREEMENT 2018/001)– NATIONAL LANDS COMMISSION

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1402. There were no material issues noted during the audit of the financial statements of this project.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1403. Late Submission of Financial Statements

The Project's financial statements for the year ended 30 June 2018 were submitted to the Auditor- General on 8 October 2018. This is contrary to the requirements of Section 68(2) of the Public Finance Management Act, 2012 and Section 47(1) of the Public Audit Act, 2015.

1404. Delay in Project Implementation

According to the letter of Agreement No. 2018/001 signed between The Food and Agricultural Organization of the United Nations (FAO) and the National Land Commission (NLC), the project was to achieve four outputs which include development of a rangeland annexe to the county spatial planning monitoring and oversight guidelines, launch of rules and guidelines for historical land injustices adjudication process, establishment of national guidelines on large scale land acquisition and development of a report to advise the national government on a comprehensive program for the registration of title in land throughout Kenya. However, although the project was expected to end in October 2018, available information indicates that only one activity falling under output number four (development of a report to advise the National Government on a comprehensive program for the registration of title in land throughout Kenya) had been completed as at 30 June 2018. Further, no project activity took place during the year under review despite release of KSh.3,009,900 to the project. Consequently, the project is clearly behind schedule and timely achievement of the key project outputs outlined in the Letter of Agreement remain doubtful.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

1405. There were no material issues noted on effectiveness of internal controls, risk management and governance.

INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION VOTE 2031

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1406. Irregular Expenditure on Media Services

The statement of financial performance for the year ended 30 June 2018 reflects general expenses amounting to KSh.17,535,574,000. As disclosed in Note 11 to the financial statements, the expenditure includes printing and advertising expenses of KSh.1,022,402,000. Included in the printing and advertising expenses is an amount of KSh.23,040,000 the Commission paid to five media houses and radio stations for airing documentaries during the presidential election in 2017. However, documentary evidence provided revealed that the negotiated cost would have been KSh.11,200,000. No satisfactory explanation was provided for the extra payment of KSh.11,840,000.

Consequently, the validity of the expenditure of KSh.23,040,000 included in the general expenses could not be confirmed.

1407. Unsupported Expenditure on Event Organizing Services

The general expenses of KSh.17,535,574,000 as disclosed in Note 11 to the financial statements includes hospitality, supplies and services expenses of KSh.2,183,189,000. The latter include an amount of KSh.36,186,728 which was paid to an event organizing company in relation to provision of event organizing services. The Commission claimed to have used a contract between the State Department of Interior and event organizing company to procure the firm for provision of the services. The Commission did not, however, provide documentary evidence to prove that the State Department of Interior had carried out the required procurement procedures before engaging the firm.

Consequently, the validity and propriety of the expenditure of KSh.36,186,728 included in the general expenses could not be ascertained.

1408. Overpayment for National Tallying Centre

The expenditure of KSh.2,183,189,000 on hospitality, supplies and services disclosed under general expenses in Note 11 to the financial statements includes an amount of KSh.70,495,162 paid for hire of National Tallying Centre. The Commission sought to hire a venue for the National Tallying Centre during the General Election in 2017 and identified Bomas of Kenya as a suitable venue for the

services. After negotiations between the two parties, a contract between IEBC and the Bomas of Kenya was signed on 21 July 2017.

Examination of records revealed that the Commission paid Bomas of Kenya the amount of KSh.70,495,162.00 vide payment voucher No. 1196A dated 10 April, 2018. Included in the payment were charges for the following components; security systems, accommodation for commissioners and hire of projectors which were higher than the negotiated contract rates. This resulted to an overpayment of KSh.27,482,162 which has not been recovered to date.

In the circumstances, the validity and propriety of the expenditure of KSh.27,482,162 included in the hospitality, supplies and services under general expenses could not be confirmed.

1409. Irregular Procurement of Catering Services

The expenditure of KSh.2,183,189,000 on hospitality, supplies and services as disclosed in Note 11 to the financial statements includes expenses relating to catering services amounting to KSh.691,526,310. The contracts were awarded to the service providers based on predetermined rates issued from the Commission's Headquarters and in complete disregard to Article 227(1) of the Constitution which requires fairness, equity, transparency, cost-effectiveness and competition in the process of procurement of public goods and services.

In the circumstances, the validity of the expenditure of KSh.691,526,310 incurred on catering services by the county offices could not be ascertained. In addition, in the absence of a competitive procurement process for the catering services, it could not be confirmed whether there was value for money on the expenditure.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1410. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1411. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

PARLIAMENTARY SERVICE COMMISSION VOTE 2041

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1412. Pending Bills

As disclosed in note 13 to the financial statements, the Parliamentary Service Commission had pending bills totalling KSh.641,712,385 as at 30 June 2018. The bills were not paid but instead carried forward to 2018/2019 financial year. Had these bills been paid and the expenditure charged to the accounts for 2017/2018, the statement of receipts and payments for the year would have reflected a deficit of KSh.233,313,942 instead of surplus KSh.408,398,443 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 of the subsequent year to which they form first charge.

1413. Outstanding Imprests

The statement of assets and liabilities reflects account receivable balance of KSh.7,801,159 as at 30 June 2018. The balance includes outstanding imprests totalling KSh.7,368,349 which ought to have been recovered or accounted for on or before 30 June, 2018 pursuant to the provisions of regulation 93(5) and (6) of the Public Finance Management (National Government) Regulations, 2015. No satisfactory reasons have, however, been provided for failure to surrender or account for the imprests.

It has further been noted that the outstanding imprests balance of KSh.7,368,349 includes amounts of KSh.1,530,185 owed by three former senators and, KSh.667,520 and KSh.2,122,382 issued in 2015/2016 and 2016/2017 financial years, respectively. In view of the long delay in accounting for or surrendering these outstanding amounts, their recovery therefore appears to be doubtful.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1414. Construction of Multi-Storey Office Block WP Item D29 NB/NBI 901- Job No.7753C

The Commission awarded a contract No.WPITEMD29NB/NBI 901-JOBNO.77536 to an International company on 23 September 2013 at a tender sum of KSh.5,893,649,847 to construct a multi storey office block.

1414.1 Delay in Completion of the Building

Review of records and documents including related payment vouchers and site inspection minutes revealed that a total of 20 payment certificates had been issued as of 30 June 2018 and an amount of KSh.2,709,966,036 had so far been paid to the Contractor. Although the payments already made represented 46% of the contract sum. A physical audit inspection carried out in December 2018 revealed that only the main structure had been completed by that date. Further works on interior and finishing which were awarded to sub-contractors one year ago at a contract sum of KSh.1,749,026,429 had not commenced.

No satisfactory explanation was provided for the slow progress in the construction works which remained uncompleted six months after the extended completion date of 27 July 2018.

Further, interest on delayed payments increased to KSh.37,190,901 in 2017/2018 up from KSh.28,169,446 reported in the financial year 2016/2017. No satisfactory explanation has been provided for the continued delay in payments of certified works which continues to attract interests.

In addition, audit of payment vouchers, completion certificates and other supporting documents up to and including certificate No.20 revealed extra expenditure totalling KSh.426,400,005 representing loss in conversion of Kenya shillings to US dollars when settling the contractor's certificates. No Justification has been given on the amounts paid at a higher exchange rate rather than the rate stipulated in the signed contract document of KSh.84.0125 per US dollar.

1415. Goods Not Accounted for in the Stores

Stores records shows that during year under review, Parliamentary Service Commission procured tyres at a cost of KSh.1,774,863. However, the tyres were not taken on charge in the stores ledgers. It has not been possible under the circumstances to confirm whether these goods were delivered and met the required specifications.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1416. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

PARLIAMENTARY CAR LOAN SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1417. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1418. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1419. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

PARLIAMENTARY MORTGAGE SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1420. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1421. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1422. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

NATIONAL ASSEMBLY VOTE 2042

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1423. Pending Bills

As disclosed in Note 14 to the financial statements, the National Assembly had pending bills totalling KSh.268,727,762 as at 30 June 2018. The bills were not paid but instead carried forward to 2018/2019 financial year. Had these bills been paid and the expenditure charged to the accounts for 2017/2018, the statement of receipts and payments for the year would have reflected a reduced surplus of KSh.25,935,410 instead of KSh.294,663,172 now shown. Failure to settle bills in the year they are incurred affects adversely subsequent year's budget provisions to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1424. Procurement of Vehicles

Disclosed under Note 7 to the financial statements on acquisition of assets was an expenditure of KSh.29,783,063 relating to purchase of vehicles and other transport equipment. The expenditure includes an amount of KSh.10,742,062 in respect of purchase of a Mercedes Benz E250 from a local company.

However, the vehicle despite being new, has had frequent breakdowns resulting in the National Assembly incurring exorbitant costs in its repair and maintenance. In the circumstances, it is doubtful whether the National Assembly got value for money on the expenditure of KSh.10,742,062 incurred on the purchase of the motor vehicle.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1425. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

JUDICIAL SERVICE COMMISSION VOTE 2051

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1426. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1427. Budget and Budgetary Performance

1427.1 Receipts

The Commission had budgeted for exchequer receipts totalling KSh.283,537,700 against actual receipts for the year of KSh.196,978,268 resulting to a shortfall of KSh.86,559,432 or 31%.

The shortfall was attributed to non-release of budgeted exchequer issues by the National Treasury.

1427.2 Expenditure

The Commission had budgeted for expenditure totalling KSh.283,537,700 but actual expenditure for the year under audit amounted to KSh.193,212,632 resulting to an under expenditure of KSh.90,325,068 or 32%.

The under expenditure was attributed to non-issuance by the National Treasury of the final exchequer of KSh.55,260,000 which therefore led the Commission closing the year with pending bills of KSh.43,662,463.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1428. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK
MANAGEMENT AND GOVERNANCE

Conclusion

1429. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

COMMISSION ON REVENUE ALLOCATION VOTE 2061

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1430. There were no material issues noted during the audit of the audit of the financial statements of the Commission on Revenue Allocation.

Basis for Conclusion

1431. Irregular Payment of Airtime Allowances

During the year under review, the Commission made payments of KSh.2,784,000 and KSh.3,166,865 as telephone allowances to Commissioners and Commission Employees respectively. Included in these payment is an over payment of KSh.1,232,000 and KSh.154,000 respectively both totaling KSh.1,386,000. A review of the payroll for the year under audit revealed that each commissioner and the Chief Executive were each paid KSh.29,000 per month contrary to the Gazette Notice No.6519 issued on 7 July 2017 which indicate that State Officers in full time Constitutional Commissions and Independent Offices be paid airtime allowances at the rate of KSh.15,000 per month. There was therefore an over payment of KSh.14,000 per month to each Commissioner and Chief Executive for a period of eleven (11) months which is in contravention of the Kenya Gazette Notice No. 6519 issued on 7 July 2017 on allowances payable to 'State Officers in full time Constitutional Commissions and Independent Offices'.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan to perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1432. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

1433. There were no material issues noted on the effectiveness of internal controls, risk management and governance.

PUBLIC SERVICE COMMISSION VOTE 2071

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1434. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1435. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1436. There were no material issues noted on the effectiveness of internal controls, risk management and governance to provide a basis for my conclusion.

SALARIES AND REMUNERATION COMMISSION VOTE 2081

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1437. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1438. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1439. There were no material issues noted on the effectiveness of internal controls, risk management and governance to provide a basis for my conclusion.

TEACHERS SERVICE COMMISSION VOTE 2091

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1440. Accounts Receivables

The financial statements reflects accounts receivables balance of KSh.271,058,723 as at 30 June 2018. The figure of KSh.271,058,723 includes unrecoverable losses of stores and cash losses amounting to KSh.10,487,516 and KSh.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. The management has, indicated that their legal officer is following up on the matter to ensure that it is finalized as soon as possible

In addition, included in the receivables balance of KSh.271,058,723 is a long outstanding Pay As You Earn (PAYE) amount of KSh.68,802,494 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 indicated that KRA carried out an audit on the PAYE amount and as a result, adjusted the figure downwards from KSh.128,392,939 to KSh.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 KSh.46,057,935 from KRA on 23 February 2018 and that it had sought authority to write-off the un-recoverable balance of KSh.68,802,494 from the National Treasury. A review of the matter in 2017/2018 indicated that the balance of KSh.68,802,494 was still outstanding as at the date of this report in the month of December 2018.

In the circumstances, it has not been possible to confirm the full recoverability of the accounts receivables balance of KSh.271,058,723 for the year ended 30 June 2018.

1441. Property, Plant and Equipment Schedule

As reported in the previous years, the property, plant and equipment schedule balance of KSh.3,996,482,294 includes KSh.88,096 being the residual value of one (1) motor vehicle procured in 2004 at a cost of KSh.2,085,869. A review of the matter in January 2018 revealed that the vehicle had earlier been taken and auctioned by the auctioneers after obtaining a duplicate log book from KRA. Although the Commission repossessed the vehicle, a case is pending before a court of law. However, the outcome of the case had not been presented for audit review as at the date of this report in the month of December 2018.

In the circumstances, it has not been possible to confirm that the property plant and equipment schedule balance of KSh.3,996,482,294 as at 30 June 2018 is fairly stated.

Other Matter

1442. Budgetary Control and Performance

The Commission had a total budget of KSh.235,235,458 comprising of KSh.143,000,000 for development and KSh.218,235,458,000 for recurrent votes respectively.

The Commission underutilized the budget on development funds by 96%. The management has however, explained that the development funds were provided in the 4th quarter of 2017/18 financial year through a supplementary budget.

Further, the Commission had an annual recurrent budget of KSh.218,235,458,000 against actual expenditure of KSh.217,086,880,000 in the statement of comparative budget and actual amounts for the financial year ended 30 June 2018 indicating an absorption of 99%.

From the above analysis, the Commission underutilized the budget on acquisition of assets by 34%. 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 Kenya citizens for the year ended 30 June 2018. Therefore, the stakeholders did not obtain full value for their resources.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1443. Except for the issues described in the Basis for Qualified Opinion and Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1444. Except for the issues described in the Basis for Qualified Opinion and Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL POLICE SERVICE COMMISSION VOTE 2101

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1445. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1446. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1447. There were no material issues noted on the effectiveness of internal controls, risk management and governance to provide a basis for my conclusion.

OFFICE OF THE CONTROLLER OF BUDGET VOTE 2121

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1448. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1449. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1450. There were no material issues noted on the effectiveness of internal controls, risk management and governance to provide a basis for my conclusion.

THE COMMISSION ON ADMINISTRATIVE JUSTICE VOTE 2131

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1451. There were no material issues noted during the audit of the financial statements of the Commission on Administrative Justice.

Other Matter

1452. Although the Commission has implemented Infiniti Human Resource Management System for capturing its employees' data and management of payroll, it was observed that there was no segregation of duties in the payroll management. The Commission stated that it had identified two officers who would be trained on the system for the time being to minimize the risk of only one officer operating the payroll and to ensure segregation of duties and enhance checks and balances.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1453. Except for the issues described in Other Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1454. Except for the issues described in Other Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

**NATIONAL GENDER AND EQUALITY
COMMISSION VOTE 2141**

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1455. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1456. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1457. There were no material issues noted on the effectiveness of internal controls, risk management and governance to provide a basis for my conclusion.

INDEPENDENT POLICING OVERSIGHT AUTHORITY VOTE 2151

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

1458. There were no material issues noted during the audit of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1459. There were no material issues noted on lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1460. There were no material issues noted on the effectiveness of internal controls, risk management and governance to provide a basis for my conclusion.

CONCLUSION

The detailed report for the National Government for the year ended 30 June 2018 contained in my combined report. Specific reports together with my opinion for each entity are contained in the respective MDA's audited financial statements for the year ended 30 June 2018, which I have already submitted to Parliament and to each Accounting Officer.

APPRECIATION

I wish to sincerely thank the entire staff of the Office of the Auditor-General for their commitment, passion and professionalism in carrying out their duties. Special appreciation goes to the team that prepared this Consolidated Audit Report.

I wish also to appreciate my clients/auditees for the cooperation they accorded my staff during the audit.

A handwritten signature in black ink, appearing to read 'E. Ouko', with three dots below it.

FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

30 July 2019

Appendices

Appendix A : Unqualified Financial Statements

No.	Ministry/Department/Commission/ Fund
1	The Presidency
2	National Cohesion and Integration Commission
3	Government Press Fund
4	State Department for Correctional Services-Revenue Statement
5	Ministry of Defence
6	National Exchequer Account
7	Equalization Fund
8	Railway Development Levy Fund Railway Development Levy Fund - Operations Account
9	Petroleum Development Levy Fund Petroleum Development Levy Fund - Holding Account
10	State Officers and public Officer Car Loan Scheme Fund
11	Asiatic Widows and Orphans Fund
12	Development Revenue Receiver of Revenue (Development)
13	Contingencies Fund
14	State Department for Fisheries and the Blue Economy
15	State Department for Fisheries and the Blue Economy - Revenue Statement
16	State Department for Cooperatives
17	State Department for Mining
18	State Department for Mining - Revenue Statement

- 19 Ethics and Anti-Corruption Commission
- 20 National Intelligence Service
- 21 Office of the Director of Public Prosecutions
- 22 Office of the Registrar of Political Parties
- 23 Witness Protection Agency
- 24 Kenya National Commission on Human Rights
- 25 Judicial Service Commission
- 26 Commission on Revenue Allocation
- 27 Public Service Commission
- 28 Salaries and Remuneration Commission
- 29 National Police Service Commission
- 30 Controller of Budget
- 31 The Commission on Administrative Justice
- 32 National Gender and Equality Commission
- 33 Independent Policing Oversight Authority
- 34 Kenya Citizens and Foreign Nationals Management Service
- 35 Railway Development Levy Fund Operations Account
- 36 State Officers House Mortgage Scheme Fund
- 37 Petroleum Development Levy Fund- State Department for Energy
- 38 Petroleum Development Levy Fund
- 39 Intelligence Service Development Fund
- 40 Political Parties Fund
- 41 Parliamentary Car Loan Scheme
- 42 Parliamentary Mortgage Scheme Fund

Appendix B : Qualified Financial Statements

No.	Ministry/Department/Commission/ Fund
1	State Department for Interior
2	State Department for Interior - Revenue
3	State Department for Correctional Services
4	State Department for Devolution
5	Ministry of Foreign Affairs
6	State Department of Early Learning and Basic Education
7	State Department for Vocational and Technical Training
8	State Department for University Education
9	Treasury Main Clearance Fund
10	National Treasury
11	Pension Department- Statement of Revenue
12	Provident Fund
13	Receiver of Revenue (Recurrent)
14	Statement of Outstanding Obligations guaranteed by GOK
15	Ministry of Health
16	State Department for Maritime Affairs
17	State Department for Housing & Urban Development- Revenue
18	State Department for Water Services
19	State Department for Environment
20	State Department for Natural Resources
21	Ministry of Lands and Physical Planning - Revenue
22	State Department for Sports Development
23	State Department for Energy
24	State Department for Petroleum
25	State Department for Investment and Industry

- 26 State Department for Trade
- 27 State Department for East African Community Integration
- 28 State Department for Labour
- 29 State Department for Social Protection
- 30 Ministry of Tourism
- 31 State Department for Gender
- 32 State Law Office and Department of Justice - Official Receiver
- 33 Office of the Attorney General and Department of Justice - Revenue Statement
- 34 The Judiciary
- 35 Independent Electoral and Boundaries Commission
- 36 Parliamentary Service Commission
- 37 National Assembly
- 38 Teachers Service Commission
- 39 National Humanitarian Fund
- 40 Prison Industries Revolving Fund
- 41 Prison Farm Revolving Fund
- 42 Women Enterprise Fund
- 43 National Government Constituencies Development Fund Board
- 44 Civil Service Housing Scheme Fund
- 45 National Sports Fund
- 46 Petroleum Training Levy Fund
- 47 Veterinary Services Development Fund
- 48 Public Trustee
- 49 Receiver of Revenue- The Judiciary

Appendix C : Financial Statements with Adverse Audit Opinion

No.	Ministry/Department/Commission/ Fund
1	European Widows and Orphans Fund
2	Statement of Expenditure-Subscriptions to International Organizations
3	C.F.S Public Debt
4	Statement of outstanding Loans
5	Rural Enterprise Fund
6	Asian Officers Family Pension Fund
7	Pensions and Gratuities
8	CFS - Salaries, Allowances, Miscellaneous Services
9	State Department of Infrastructure
10	State Department of Transport
11	State Department for Housing & Urban Development
12	State Department for Public Works
13	State Department for Irrigation
14	Ministry of Lands and Physical Planning
15	State Department for Arts and Culture
16	Office of the Attorney General and Department of Justice
17	National Land Commission
18	National Government Affirmative Action Fund
19	Agricultural Information Resource Centre Revolving Fund Account

Appendix D : Financial Statements with Disclaimer of Audit Opinion

No.	Ministry/Department/Commission/ Fund
1	State Department for Special Programmes
2	State Department for Planning and Statistics
3	Government Clearing Agency Fund
4	Kenya Local Loans Support Fund
5	State Department for Information Communications Technology and Innovation
6	State Department for Broadcasting and Telecommunication
7	State Department for Agriculture
8	State Department for Livestock
9	State Department for Public Service and Youth Affairs
10	Street Families Rehabilitation Trust Fund
11	Stores and Service Fund
12	Land Settlement Fund Trustees
13	Strategic Grain Reserve Fund