OFFICE OF THE AUDITOR-GENERAL

SUMMARY

OF THE

REPORT

OF THE

AUDITOR-GENERAL

FOR THE

NATIONAL GOVERNMENT

FOR THE

YEAR 2017/2018

OFFICE OF THE AUDITOR-GENERAL, KENYA

Vision

Effective accountability in the management of public resources and service delivery

Mission

Audit and report to stakeholders on the fairness, effectiveness and lawfulness in the management of public resources for the benefit of Kenyan people

Core Values

Independence | Integrity | Professionalism | Innovation | Team Spirit

Motto

Enhancing Accountability

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Contents

List of Tables ..... **iii**

1.0 Introduction **1**

1.1 Legal Mandate of the Office of the Auditor-General 1

1.2 Responsibilities of Management and those Charged with Governance 2

1.3 Auditor-General's Responsibility 2

1.4 New Reporting Structure 3

1.5 Audit Opinions 4

2.0 Government Budgetary and Expenditure Review **6**

2.1 Budget Review 6

2.2. 2017/2018 Net Actual Expenditure for the National Government 9

2.3 Revenue Analysis 10

2.4 The National Exchequer Account as at 30 June 2018 14

2.5. Management of Public Debt 16

3.0 Summary of Audit Observations **20**

3.1 Overall Audit Results 20

3.2 Audit of Revenue Statements 21

3.3 Audit of Expenditure Statements 23

3.4 Presentation of Financial Statements 24

3.5 Main Reasons for Modified Opinions 24

4.0 Public Finance Management **29**

5.0 Pending Bills **30**

6.0 Stalled/Incomplete Projects **33**

7.0 Management of Imprest **35**

8.0 Compliance and Governance Issues **36**

9.0 The Equalization Fund **37**

APPENDICES **40**

List of Tables

Table 1: Budget Trend Analysis for the last Audited Five Years 6
Table 2: Government Gross Expenditure 7
Table 3: Estimated Versus Actual Expenditure 9
Table 4: Extent of Under-Expenditure 9
Table 5: Estimated Revenue versus Actual Receipts 11
Table 6: Estimated Revenue Versus Estimated Expenditure 12
Table 7: Actual Revenue Versus Actual Expenditure 12
Table 8: Comparison of Actual Receipts with the previous Year's Receipts 13
Table 9: Shortfall in Receipts 14
Table 10: Underfunding of Approved Expenditure 16
Table 11: Growth of Public Debt in the last Five Years 16
Table 12: Non-Performing Loans Issued to local entities 18
Table 13: Audit Opinions on Financial Statements in the Last Five Years 20
Table 14: Revenue Statements whose opinion was unmodified 21
Table 15: Qualified Revenue Statements 22
Table 16: Adverse Opinion on Revenue Statement 23
Table 17: Summary of Audit Opinions on Combined Recurrent and Development Expenditure 23
Table 18: Unsupported Expenditure 25
Table 19: Unsupported/ Unanalysed Balances 26
Table 20: National Government Pending Bills 2017/18 31
Table 21: Stalled/ Incomplete Projects 33
Table 22: Outstanding Imprest 35
Table 23: Growth in Equalization Fund in the Last Six Years 37

SUMMARY OF THE REPORT OF THE AUDITOR-GENERAL FOR THE 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.

2.0 Government Budgetary and Expenditure Review

2.1 Budget Review

Review of the budget and expenditures for the Government relating to the year 2017/2018 have revealed the following observations: -

2.1.1 Budget Trend Analysis

The gross estimated Government expenditure has increased over the last five years from KSh.1,557,192,721,388 in the year 2013/2014 to KSh.2,690,233,829,942 in the year 2017/2018 representing an increase of KSh.1,133,041,108,554 or approximately 73% over the five-year period.

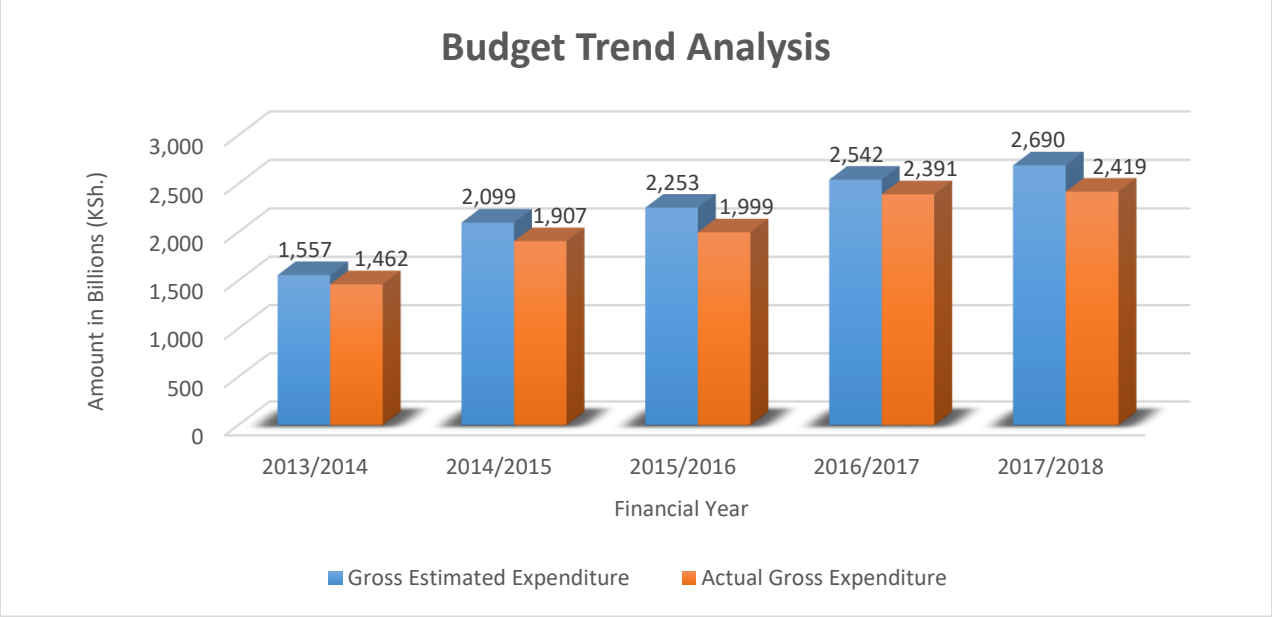
Similarly, the actual gross expenditure has increased over the years from KSh.1,461,965,849,061 in the year 2013/2014 to KSh.2,419,275,195,751 in the year 2017/2018 representing an increase of KSh.957,309,346,690 or approximately 65% over the period. This indicates that the scope of my audit has also increased considerably over the last five years. The tabulation below depicts this trend:

Table 1: Budget Trend Analysis for the last Audited Five Years

Year	Gross Estimated Expenditure	Actual Gross Expenditure	Under-absorption	Under-absorption
	KSh.	KSh.	KSh.	%age
2013/2014	1,557,192,721,388	1,461,965,849,061	95,226,872,327	6%
2014/2015	2,099,370,186,391	1,906,841,500,924	192,528,685,467	9%
2015/2016	2,253,494,806,467	1,999,174,760,912	254,320,045,555	11%
2016/2017	2,541,568,251,270	2,390,531,985,901	151,036,265,369	6%
2017/2018	2,690,233,829,942	2,419,275,195,751	270,958,634,191	10%

Although the gross estimated expenditure has increased over the last five years, the budget absorption has generally been decreasing. This may be attributed to actual budget absorption of a previous year not being adequately factored when preparing the budget for

the subsequent year among other factors and is an indication of lack of adequate or comprehensive budgeting mechanism.



2.1.2 2017/2018 Budget

In 2017/2018, the Approved Estimated Gross Expenditure was KSh.2,690,233,829,942 while approved Appropriations-In-Aid (AIA) was KSh.380,250,334,279 resulting in Net Approved Expenditure of KSh.2,309,983,495,663 as tabulated below.

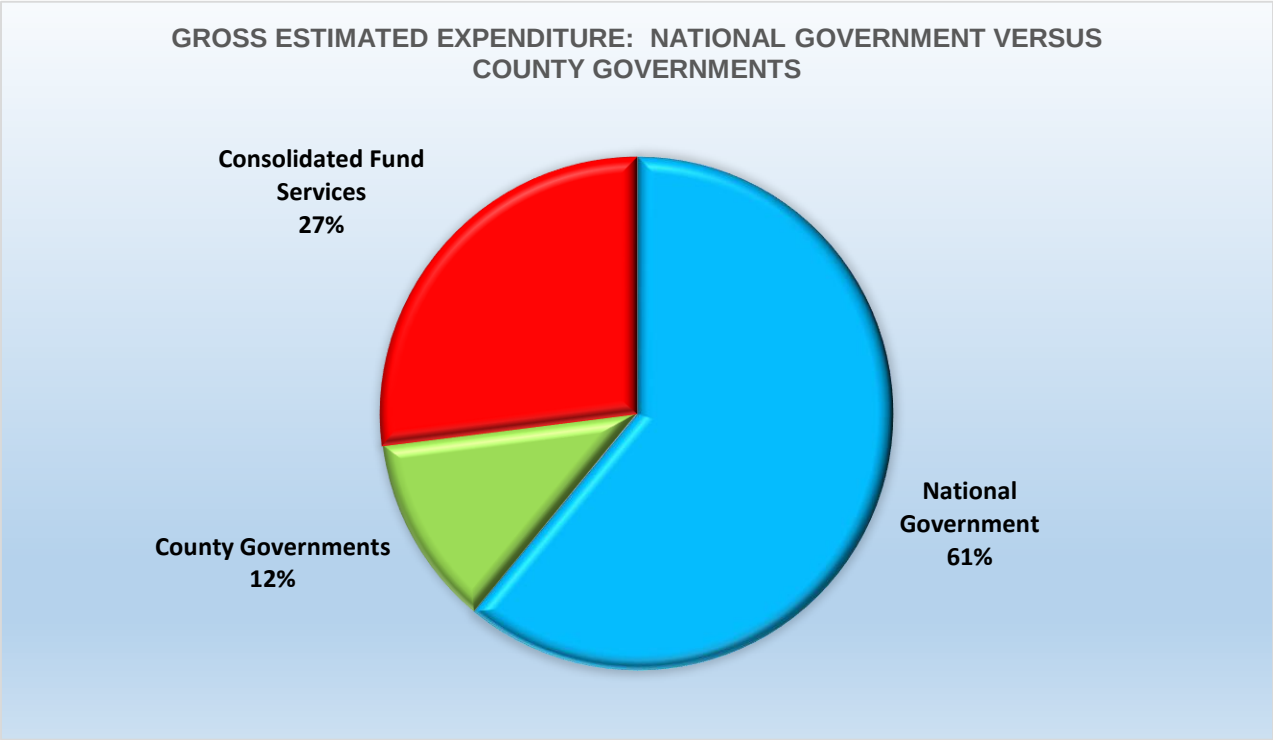
Table 2: Government Gross Expenditure

Description	Gross Estimated Expenditure KSh.	AIA KSh.	Approved Net Expenditure KSh.	Percentage of Gross Estimated Expenditure
Recurrent Votes	1,072,664,260,583	127,016,472,723	945,647,787,860	40%
Development Votes	571,731,702,312	253,233,861,556	318,497,840,756	21%
Consolidated Fund Services	726,857,248,407	-	726,857,248,407	27%
Sub-total for National Government	**2,371,253,211,302**	**380,250,334,279**	**1,991,002,877,023**	**88%**
County Governments	318,980,618,640	-	318,980,618,640	12%
Grand Total	**2,690,233,829,942**	**380,250,334,279**	**2,309,983,495,663**	**100%**

As shown above, 40% of the gross estimated expenditure was budgeted for meeting the National Government recurrent expenditures and 21% for development expenditures.

Consolidated Fund Services including repayments of Public Debt accounted for another 27%, while County Governments accounted for 12% of the gross estimated expenditure.

The gross budget of KSh.2,690,233,829,942 was shared between the National Government, the County Governments and the Consolidated Fund Services(managed at the National Government level), in the ratio of 61%, 12% and 27% respectively as illustrated below:



The County Governments allocation of KSh.318,980,618,640 for the year 2017/2018 was however based on the audited revenue for the year 2013/2014, which was the most recent audited accounts of revenue approved by the National Assembly as indicated in the Division of Revenue Act, 2017.

The County Governments expenditure has been accounted for and reported individually by each of the forty-seven (47) County Governments and audit reports issued for the respective County Executives and County Assemblies.

2.2. 2017/2018 Net Actual Expenditure for the National Government

2.2.1 The financial statements for the year 2017/2018 for the National Government show total Actual Expenditure of KSh.2,059,595,585,342 which comprised KSh.990,810,120,609 or 48% for Recurrent Votes, KSh.485,329,393,329 or 24% for Development Votes and KSh.583,456,071,404 or 28% for Consolidated Fund Services respectively as shown below:

Table 3: Estimated Versus Actual Expenditure

Votes	2017/2018 Gross Estimated Expenditure KSh.	2017/2018 Actual Expenditure KSh.	%age of Actual Expenditure
Recurrent Votes	1,072,664,260,583	990,810,120,609	48%
Development Votes	571,731,702,312	485,329,393,329	24%
Consolidated Fund Services	726,857,248,407	583,456,071,404	28%
Totals	**2,371,253,211,302**	**2,059,595,585,342**	**100%**

2.2.2 A comparisons of the gross estimated expenditure of KSh.2,371,253,211,302 with the actual expenditure of KSh.2,059,595,585,342 results in a gross under-expenditure of KSh.311,657,625,960. The under-expenditure of KSh.311,657,625,960 comprised under-expenditure of KSh.81,854,139,974 under Recurrent Votes, KSh.86,402,308,983 under Development Votes and KSh.143,401,177,003 for Consolidated Fund Services as shown below.

Table 4: Extent of Under-Expenditure

	Gross Estimated Expenditure 2017/2018 KSh.	Actual Expenditure 2017/2018 KSh.	Under Expenditure KSh.	Under Expenditure %age
Recurrent Votes	1,072,664,260,583	990,810,120,609	81,854,139,974	8%
Development Votes	571,731,702,312	485,329,393,329	86,402,308,983	15%
Consolidated Fund Services	726,857,248,407	583,456,071,404	143,401,177,003	20%
Total	**2,371,253,211,302**	**2,059,595,585,342**	**311,657,625,960**	**13%**

2.2.3. The under-expenditure of KSh.81,854,139,974 and KSh.86,402,308,983 under the Recurrent and Development Votes respectively was mainly attributed to lack of adequate

exchequer issues to finance all the budget requests by Ministries, Departments and Agencies, and delayed disbursement of donor funds. Detailed analysis of the under-expenditures is provided in the respective financial statements for 2017/2018. Under absorption of the budget implies that citizens are denied requisite services which had been budgeted. Further, low absorption of the development budget will affect the rate of development in the country and sustainability of services.

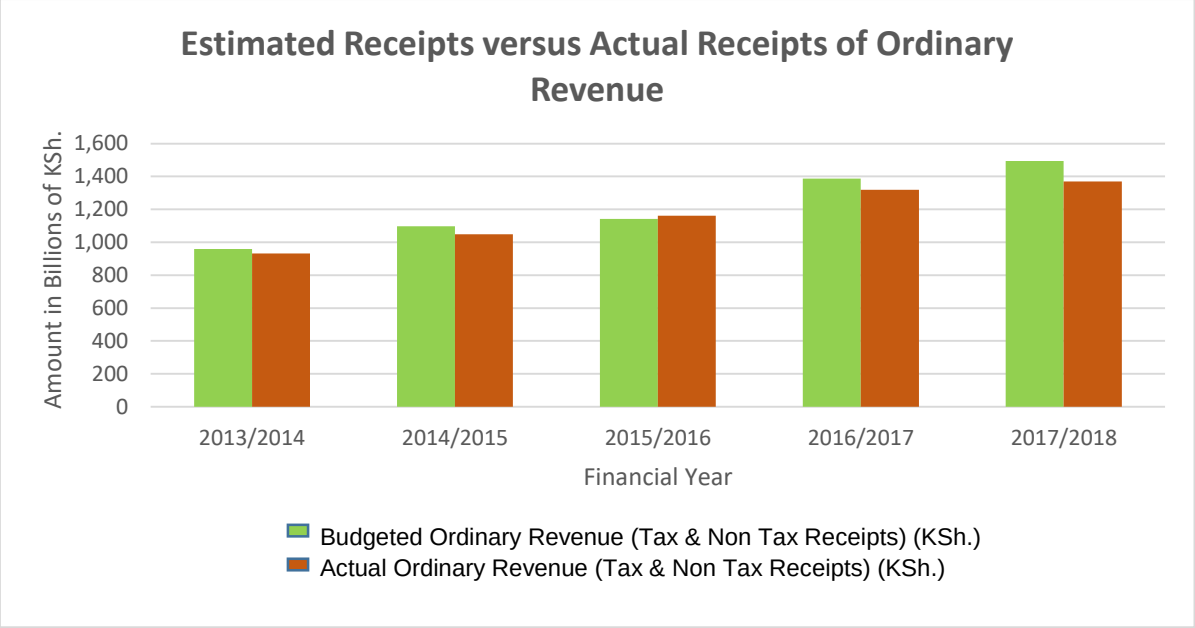
2.3 Revenue Analysis

2.3.1 Estimated Receipts versus Actual Receipts of Ordinary Revenue

The estimated receipts from tax and non-tax receipts (ordinary revenue) have increased over the last five years from KSh.959,854,104,424 in the year 2013/2014 to KSh.1,493,671,554,882 in the year 2017/2018. This is an increase of approximately 56% over the five-year period. Similarly, the actual receipts from tax and non-tax receipts has increased over the years from KSh.932,034,925,773 in the year 2013/2014 to KSh.1,369,095,080,001 in the year 2017/2018 representing an increase of approximately 47% over the five-year period as tabulated below:

Table 5: Estimated Revenue versus Actual Receipts

Year	Budgeted Ordinary Revenue (Tax Non Tax Receipts) KSh.	Actual Ordinary Revenue (Tax &Non Tax Receipts) KSh.	Revenue Excess/Shortage KSh.	Excess/ Shortage %age
2013/2014	959,854,104,424	932,034,925,773	(27,819,178,651)	(2.9%)
2014/2015	1,098,167,501,267	1,047,908,306,414	(50,259,194,853)	(4.6%)
2015/2016	1,141,863,174,093	1,160,726,658,504	18,863,484,411	1.7%
2016/2017	1,387,966,307,421	1,319,297,139,846	(68,669,167,575)	(4.9%)
2017/2018	1,493,671,554,882	1,369,095,080,001	(124,576,474,881)	(8.3%)



The revenue shortfall of 8.3% may be a critical contributor to budget under absorption and delayed exchequer releases. In order to enhance the quality and accuracy of fiscal forecasting, there is need to ensure greater coordination between the National Treasury and other stakeholders contributing critical information and macroeconomic data for fiscal forecasting, including the Kenya Revenue Authority (KRA). This will ensure more realistic and effective forecasts of revenue and cash flows.

2.3.2 Comparison of Ordinary Revenue to Expenditure

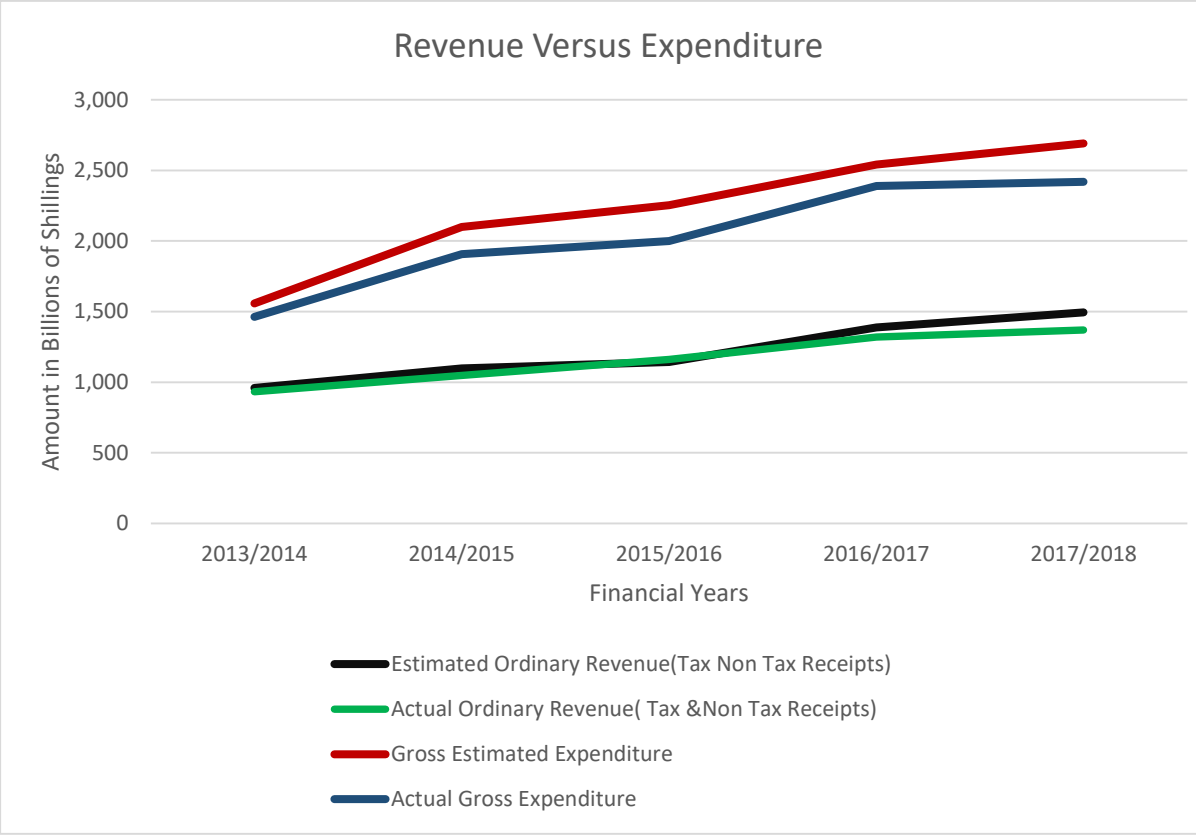
Table 6: Estimated Revenue Versus Estimated Expenditure

Year	Estimated Ordinary Revenue (Tax Non Tax Receipts) KSh.	Gross Estimated Expenditure KSh.	%age of Gross estimated Revenue to Gross Estimated Expenditure
2013/2014	959,854,104,424	1,557,192,721,388	62%
2014/2015	1,098,167,501,267	2,099,370,186,391	52%
2015/2016	1,141,863,174,093	2,253,494,806,467	51%
2016/2017	1,387,966,307,421	2,541,568,251,270	55%
2017/2018	1,493,671,554,882	2,690,233,829,942	56%

Table 7: Actual Revenue Versus Actual Expenditure

Year	Actual Ordinary Revenue/ (Tax & Non Tax Receipts) KSh.	Actual Gross Expenditure KSh.	%age of Gross estimated Revenue to Gross Estimated Expenditure
2013/2014	932,034,925,773	1,461,965,849,061	64%
2014/2015	1,047,908,306,414	1,906,841,500,924	55%
2015/2016	1,160,726,658,504	1,999,174,760,912	58%
2016/2017	1,319,297,139,846	2,390,531,985,901	55%
2017/2018	1,369,095,080,001	2,419,275,195,751	57%

The proportion of projected ordinary revenue against the estimated gross expenditure has been declining from 62% in 2014/2015 to below 56% in 2017/2018. Projected expenditures seem to drive the revenue collection projections as opposed to actual revenue collections driving the projections of expenditures to be incurred. The government has engaged in mega development projects, thus increasing the gross estimated expenditures over the last five years, without due consideration of revenue collection performance. This has in turn driven up borrowing from both the domestic and foreign markets to fund the budget.



2.3.3 Actual Revenue

During 2017/2018 financial year, total revenue recorded under various revenue statements as received by the National Government amounted to KSh.1,413,694,842,235 representing an increase of KSh.55,996,663,910 or about 4% when compared to actual collections of KSh.1,357,698,178,325 realized in 2016/2017 as follows:

Table 8: Comparison of Actual Receipts with the previous Year's Receipts

Details	2017/18 Actual Receipts KSh.	2016/17 Actual Receipts KSh.	Increase KSh.	Increase %
Recurrent Revenue	1,369,095,080,001	1,319,297,139,846	49,797,940,155	3.6%
Development Revenue	44,599,762,234	38,401,038,479	6,198,723,755	13.9%
Total	**1,413,694,842,235**	**1,357,698,178,325**	**55,996,663,910**	**4.0%**

The actual recurrent revenue (tax and non-tax income receipts) of KSh.1,369,095,080,001 reported in the audited revenue statements during the year differs by KSh.807,997,592 with the ordinary revenue receipts of KSh.1,369,903,077,593 reflected in the National Exchequer Account. The difference of KSh.807,997,592 has not been reconciled or explained.

The total revenue of KSh.1,413,694,842,235 comprised of KSh.1,369,095,080,001 and KSh.44,599,762,234 relating to Recurrent (ordinary revenue) and Development revenue respectively. However, analyses of estimated receipts indicate that actual Recurrent Revenue collected during the year reflected a shortfall of KSh.124,576,474,881 or 8.3% while there was a shortfall of Development Revenue collected of KSh.1,948,484,443 or 4.2% as follows: -

Table 9: Shortfall in Receipts

Details	2017/18 Estimated Receipts KSh.	2017/18 Actual Receipts KSh.	2017/18 Revenue Shortfall KSh.	% age Shortfall
Recurrent Revenue	1,493,671,554,882	1,369,095,080,001	124,576,474,881	8.3%
Development Revenue	46,548,246,677	44,599,762,234	1,948,484,443	4.2%
Total	**1,540,219,801,559**	**1,413,694,842,235**	**126,524,959,324**	**8.2%**

Comparison between the total actual revenue of KSh.1,413,694,842,235 with budgeted receipts of KSh.1,540,219,801,559 indicated an overall under-collection of revenue of KSh.126,524,959,324 or 8.2%. The explanations provided for the 4.2% under-collection of Development Revenue include non-release of funds by development partners and low absorption of funds by projects and programmes. The shortfall in revenue may be an indicator of lack of comprehensive forecasting indicating that actual revenue collected in a year is not adequately factored when preparing revenue projections for a subsequent year among other factors.

2.4 The National Exchequer Account as at 30 June 2018

2.4.1 The Statement of Receipts and Payments for the National Exchequer Account for the year ended 30 June 2018 reflects an overall net surplus of KSh.71,860,751,343 compared

to a net deficit of KSh.28,880,736,112 as at 30 June 2017. However, after taking into consideration the Exchequer balance of KSh.30,928,022,009 brought forward from 2016/2017, the result is an overall net surplus of KSh.102,788,773,352 as at 30 June 2018 as follows:

	2017/2018 KSh.	2016/2017 KSh.
Total Receipts	2,138,288,059,568	1,968,107,906,433
Total Issues	2,066,427,308,225	1,996,988,642,545
Surplus/(Deficit) for the year	**71,860,751,343**	**(28,880,736,112)**
Exchequer balance brought Forward	30,928,022,009	59,808,758,121
Exchequer balance as at 30 June	**102,788,773,352**	**30,928,022,009**

2.4.2 Receipts of KSh.2,138,288,059,568 into the National Exchequer Account during the year 2017/2018 comprised of Ordinary Revenue and Other Receipts in form of Loans and Grants, and Treasury Bills and Bonds as follows:

	Type of Receipt	Amount KSh.	Total KSh.
a)	***Ordinary Revenue***		
	Tax Income	1,311,692,286,771	
	Non-Tax Income (Profits and Dividends, Immigration Visas, Fines, Penalties & Forfeitures, Miscellaneous Revenue, etc.)	58,210,790,822	**1,369,903,077,593**
b) (i)	***Loans and Grants***		
	External Grants	16,653,484,279	
	External Loans	32,673,791,871	
	Commercial Loan	298,084,045,825	**347,411,321,975**
(ii)	***Domestic Borrowing***		
	Treasury Bills (Net)	103,100,000,000	
	Treasury Bonds	317,873,660,000	**420,973,660,000**
	Total Receipts		**2,138,288,059,568**

2.4.3 Issues from the National Exchequer Account during the year of KSh.2,066,427,308,225 comprised of Exchequer transfers to National Government

Recurrent and Development Votes, Consolidated Fund Services and County Governments as follows:

Table 10: Underfunding of Approved Expenditure

	Approved Net Expenditure KSh.	Actual Issues KSh.	Under Funding/ Exchequer KSh.	% Variance
Recurrent Votes	945,647,787,860	890,692,346,615	(54,955,441,245)	6%
Development Votes	318,497,840,756	276,350,152,444	(42,147,688,312)	13%
Consolidated Fund Services	726,857,248,407	583,207,916,207	(143,649,332,200)	20%
County Governments	318,980,618,640	316,176,892,960	(2,803,725,680)	1%
Grand Total	**2,309,983,495,663**	**2,066,427,308,226**	**(243,556,187,437)**	**11%**

The underfunding of the development budget by 13% was attributed to constraints in revenue collection and delayed disbursement of donor funds. Under funding of development projects is likely to affect the rate of development in the country as envisaged in the national development plan, future service delivery and achievement of critical sustainable development goals (SDGs). Underfunding on recurrent expenditure of 6% is also likely to have negatively affected the timeliness and quality of services delivered to the citizens during the year.

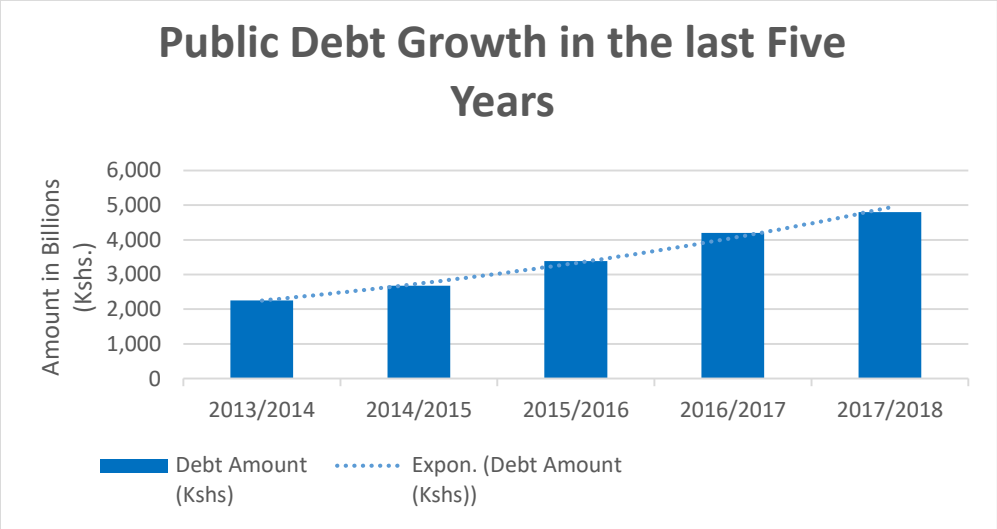
2.5. Management of Public Debt

2.5.1 The outstanding amount of public debt has increased over the years from KSh.2,250,845,910,286 reported in the year 2013/2014 to KSh.4,801,416,851,482 reported in the year 2017/2018. This represents an increase of KSh.2,550,570,941,196 or approximately 113% over the five year period as follows:-

Table 11: Growth of Public Debt in the last Five Years

Financial Year	Debt Amount (KSh.)	% Debt Increase
2013/2014	2,250,845,910,286	27%
2014/2015	2,674,806,364,195	19%
2015/2016	3,385,910,449,825	27%
2016/2017	4,194,102,152,577	24%
2017/2018	4,801,416,851,482	14%

The findings are graphically presented in the chart below:



Further, as reported in previous years' audit reports I have raised various issues pertaining to the maintenance of the public debt records. The issues include:

i.) Variances between figures reflected in the loan registers, other supporting schedules and the financial statements

ii.) Unsupported Prior years' adjustments

2.5.2. The growth in public debt is attributed to disbursements of new loans to the Government by various development partners and additional borrowings from the domestic market through Treasury Bonds and Treasury Bills, to fund the budget. The summary statement of public debt did not however, disclose amounts of disbursements and repayments during the period under review making it difficult to confirm the correctness of the closing balance. Further analysis of the budget absorption for public debt indicate an under absorption of KSh.132,441,433,903 from the budget amount of KSh.649,396,727,245 and the actual of KSh.516,955,293,342.

2.5.3 Non-Performing or Dormant Loans

The statement of outstanding loans as at 30 June 2018 reflects a net balance of KSh.799,766,815,393 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.799,766,815,393 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. It was also noted that failing institutions continue to receive additional funding even when they are underperforming, thereby casting doubt on the criteria used to determine the advancement of additional loans.

Further, and as was reported during the financial year 2016/2017, the total outstanding loans balance of KSh.799,766,815,393 reflected in the financial statements for the year ended 30 June 2018 includes loans amounting to KSh.47,520,436,604 which have fallen due for redemption at various dates over the years. During the year under review, the affected institutions have not made any repayment against their respective due loan balances as shown below:

Table 12: Non-Performing Loans Issued to local entities

	Institution	**Balance as at 30 June 2018 KSh.**
1	Coast Water Service Board	7,000,000,000
2	East African Sugar Industries Limited, Muhoroni	177,123,100
3	Halal Meat Products	27,701,420
4	Kenya Meat Commission	940,241,100
5	Kenya Tourist Development Corporation	48,000,000
6	Kenya Urban Transport Various Towns	40,706,140
7	Lake Victoria North Water Services Board	2,800,000,000
8	Lake Victoria South Water Services Board	3,000,000,000
9	Miwani Out growers Mills Limited	6,600,000
10	Miwani Sugar Company (1989) Limited	16,000,020
11	Miwani Sugar Mills Limited	78,088,180
12	Mumias Sugar Company Limited	2,500,000,000
13	National Irrigation Board	2,262,036,544
14	National Water Conservation and Pipeline Corporation	2,460,874,897
15	Northern Water Services Board	5,389,000,000
16	Rural Electrification Authority	13,649,158,450
17	Tana Water Services Board	1,800,000,000
18	Tanathi Water Services Board	4,400,000,000
19	Water Resource Management	362,612,300
20	Agricultural Finance Corporation	562,294,453
	Total	**47,520,436,604**

Non-repayment of the loans has led to continued write offs of the loans as bad debts and eventual loss of public funds.

3.0 Summary of Audit Observations

3.1 Overall Audit Results

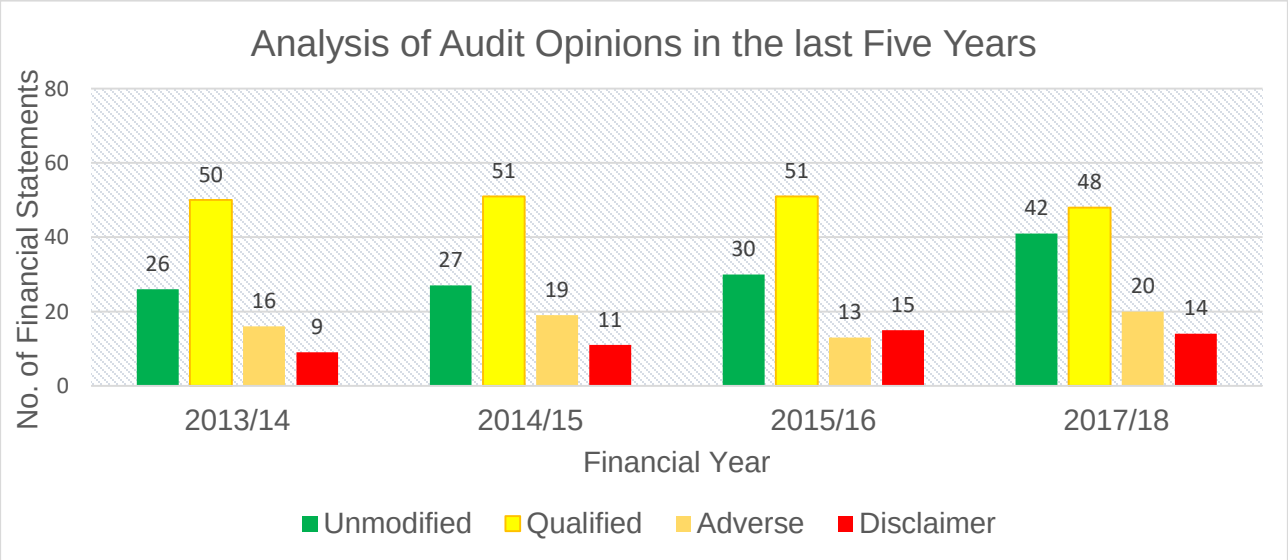
3.1.1 A total of one hundred and twenty-three (124) National Government financial statements relating to the year ended 30 June 2018 were examined. Compared to the previous year, the number of Financial Statements with unqualified opinion dropped from 36% to 34 %. There was also a drop in the percentage of financial statements with qualified audit opinions. There was however an increase in the percentage for adverse opinion and disclaimer compared to 2016/2017.

The tabulation below indicates the type of audit opinions expressed on the financial statements in the last five years:

Table 13: Audit Opinions on Financial Statements in the Last Five Years

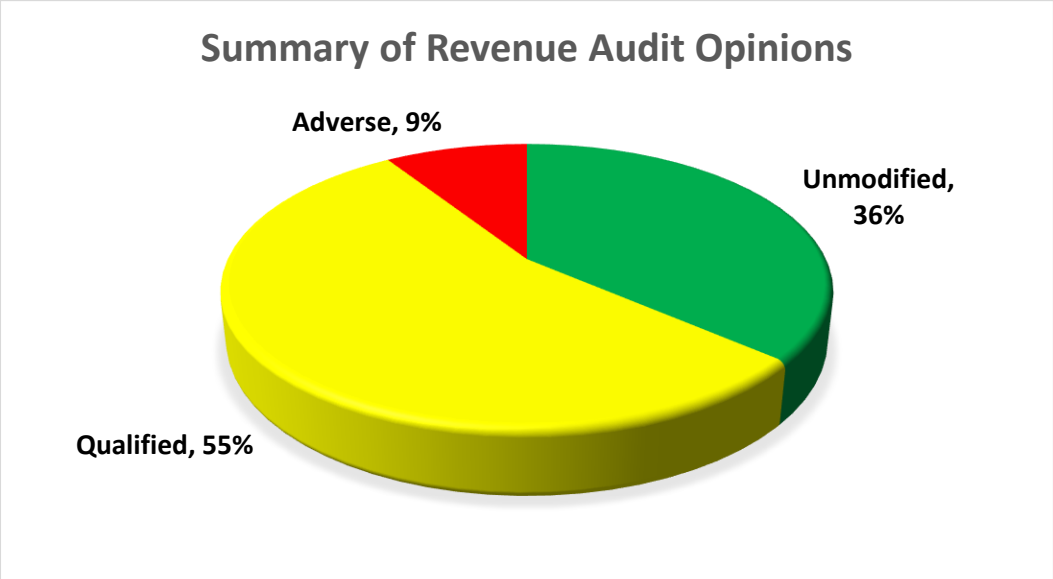
Audit Opinion	2013/14		2014/15		2015/16		2016/17		2017/18	
	No. of FS	%age	No. of FS	%age	No. of FS	%age	No. of FS	%age	No. of FS	%age
Unmodified	26	26%	27	25%	30	27%	46	36%	42	34%
Qualified	50	50%	51	47%	51	47%	59	46%	48	39%
Adverse	16	16%	19	18%	13	12%	13	10%	20	16%
Disclaimer	9	9%	11	10%	15	14%	11	8%	14	11%
Total	**101**	**100%**	**108**	**100%**	**109**	**100%**	**129**	**100%**	**124**	**100%**

The graph below depicts the analysis of audit opinions



3.2 Audit of Revenue Statements

3.2.1 During the year under review, eleven (11) revenue statements were audited. Out of these, four (4) revenue statements had a clean opinion; six (6) revenue statements were qualified while one (1) revenue statement had an adverse opinion.



3.3.2 Below is a listing of the various Revenue Statements that were audited.

Table 14: Revenue Statements whose opinion was unmodified

	Collecting Entity/Department	Amount Collected KSh.
1.	National Treasury –Development Revenue	44,599,762,234
2.	State Department for Correctional Services	283,159,542
3.	State Department for Fisheries	106,746,683
4.	Ministry of Mining	1,411,348,144
	Total	**46,401,016,603**

Table 15: Qualified Revenue Statements

	Collecting Entity/Department	Revenue Collected KSh.	Main Reasons for Qualification
1.	National Treasury – Recurrent Revenue	1,351,874,166,347	• Variances between Revenue Statement and the General Ledger balances • Failure to reconcile arrears of revenue • Long outstanding items in Bank Reconciliation Statements
2.	Ministry of lands and physical planning	786,517,923	• Inaccuracies in the Financial Statements • Unexplained variances • Failure to remit revenue to the Exchequer • Failure to maintain cash book
3.	Registrar of High Court (Judiciary)	2,078,739,966	• Incorrect opening and closing balances • Unsupported revenue balances • Unexplained variances • Un-receipted transactions • Revenue not banked • Unaccounted for revenue • Falsification of accounting records • Unresolved prior year issues
4.	National Treasury – Pensions Department	308,019,086	• Misstatement of revenue balances • Unresolved prior year issues
5.	State Department for Interior	11,916,221,383	• Unexplained differences between revenue statement and E-Citizen records • Unexplained variance between the revenue statements and actual receipts under certificate of good conduct • Uncollected revenue
6.	State Department for Housing &Urban Development	156,530,113	• Under collection of revenue • Failure to recover arrears of revenue • Non-maintenance of books of accounts and revenue bank account
	Total	**1,367,120,194,817**	

Table 16: Adverse Opinion on Revenue Statement

	Collecting Entity/Department	Amount (KSh.)	Reasons for Adverse Opinion
1.	Office of the Attorney General and Department of Justice	173,630,814	• Comparative balances were at variance with the previous year's audited financial statements • Unsupported revenue balances • Under-collection of revenue • Failure to prepare bank reconciliation statements

3.3 Audit of Expenditure Statements

3.3.1 The Actual Expenditure for the financial statements for the National Government voted provisions (excluding the Consolidated Fund Services) for the year 2017/2018 was KSh.1,476,139,513,938 compared to KSh.1,526,243,383,761 reported in 2016/2017. The expenditure of KSh.1,476,139,513,938 was recorded in the combined Recurrent and Development Financial Statements which I expressed my audit opinions as listed in Appendices A to D.

Table 17: Summary of Audit Opinions on Combined Recurrent and Development Expenditure

Opinion	No. of Financial Statements	Percentage
Unmodified	19	29%
Qualified	29	45%
Adverse	9	14%
Disclaimer	7	11%
Other	1	2%
Total	**65**	**100%**

3.3.2 The table above shows that there were sixty-five (65) financial statements for entities with voted provision during the year under review. Out of the sixty-five (65), no material misstatements were found in financial statements of nineteen (19) entities hence unmodified opinion. Financial Statements for twenty-nine (29) entities to a large extent were in agreement with the underlying records, except for cases where material misstatements or omissions were noted leading to a qualified opinion.

3.3.3 The financial statements of nine (9) entities exhibited significant misstatements with the underlying accounting and/or standards leading to an adverse opinion.

3.3.4 The financial statements of seven (7) entities exhibited serious and significant misstatements that arose from inadequate information, limitation of scope, inadequacy or lack of proper records such that I was not able to form an opinion hence a disclaimer of opinion.

3.3.5 One financial statement relates my office (Office of the Auditor-General), which is audited and reported on separately to Parliament by an Independent Auditor appointed by the National Assembly in accordance with Article 226(4) of the Constitution of Kenya, 2010.

3.4 Presentation of Financial Statements

During the last two years, there has been general improvement in the presentation of Financial Statements and the maintenance of accounting records, compared to previous years. The improvement is mainly attributed to adoption of the International Public Sector Accounting Standards (IPSAS) accounting framework by the National Government entities as prescribed by the Public Sector Accounting Standards Board (PSASB). In addition, other interventions by the National Treasury, aimed at improving accountability in the public sector have also influenced this improvement.

The presentation of Financial Statements is however, still below expectations when viewed holistically.

3.5 Main Reasons for Modified Opinions

General Weaknesses in Financial Reporting

The audit revealed that some of the Financial Statements presented for audit had issues, which point to general weaknesses in financial reporting. Key weaknesses noted are detailed below:

(i) *Inaccuracy of financial statements*

Various queries were raised on lack of accuracy of the Financial Statements presented for audit. Reported balances totalling to KSh.358,479,862,029 as tabulated in **Appendix 1** were incorrect and no explanations or reconciliations provided.

(ii) *Presentation and disclosure of financial statements*

The audit revealed instances where the presentation and disclosures in the Financial Statements did not conform to the IPSAS cash basis reporting framework as required. Cases of erroneous classifications of reportable items as well as omissions of some items in the financial statements were observed. **Appendix 2** denotes the affected Financial Statements.

(iii) *Unresolved prior year issues*

The audit revealed that prior year issues with amounts totaling to approximately KSh.449,065,374,431 were not resolved during the year under audit. Failure to resolve issues may result in loss of government funds especially where the issues involved irregular use of public resources. **Appendix 3** denotes some of the unresolved issues.

(iv) *Unsupported Expenditure*

During the year under review, the audit revealed unsupported expenditure totaling KSh.16,603,001,514 by the Ministries, Departments and Agencies (MDAs). The failure by the MDAs to fully support payments cast doubt on the authenticity of the expenditure reported as incurred. The details are in **Appendix 4**.

Table 18: Unsupported Expenditure

Vote	MDA	Unsupported Amount (KSh.)
1122	State Department for Information Communications and Technology & Innovation	3,593,487,703
1033	State Department for Special Programmes	3,401,734,175
1091	State Department of Infrastructure	2,534,091,810
1123	State Department for Broadcasting & Telecommunications	1,135,144,411
1211	State Department for Public Service and Youth Affairs	951,392,281
1261	The Judiciary	876,890,288
1162	State Department for Livestock	866,516,259
2021	National Land Commission	712,622,124
1023	State Department for Correctional Services	508,315,588

Vote	MDA	Unsupported Amount (KSh.)
1252	State Law Office and Department of Justice	445,255,817
1161	State Department for Agriculture	360,679,025
1132	State Department for Sports Development	330,537,997
1081	Ministry of Health	201,249,863
1034	State Department for Planning and Statistics	196,726,206
1174	State Department for Trade	113,524,187
1184	State Department for Labour	110,137,669
1032	State Department for Devolution	88,316,805
1133	State Department for Arts and Culture	48,916,600
1172	State Department for Investment and Industry	38,298,082
2031	Independent Electoral and Boundaries Commission	36,186,728
1104	State Department for Irrigation	21,761,576
1071	The National Treasury	20,294,340
1212	State Department for Gender	10,921,980
	Total	**16,603,001,514**

(v) *Unsupported/ Unanalysed Balances*

During the year under audit, balances reported in the various financial statements amounting to KSh.142,026,246,877 were not analysed or supported. The MDAs did not provide adequate explanations to support the balances. The balances are tabulated below and detailed in **Appendix 5**.

Table 19: Unsupported/ Unanalysed Balances

Vote	Financial Statement	Unsupported Balances KSh.
1071	C.F.S Public Debt	96,310,011,963
1092	State Department of Transport	31,469,583,846
1071	Pensions and Gratuities	4,061,252,617
1261	The Judiciary Revenue Statement	2,078,739,966
1162	State Department for Livestock	1,452,738,303
1091	State Department of Infrastructure	1,425,232,566
1211	State Department for Public Service and Youth Affairs	884,062,252
1023	State Department for Correctional Services	777,687,035
1104	State Department for Irrigation	667,258,477
1261	The Judiciary	608,853,469
1034	State Department for Planning and Statistics	561,983,057
1161	State Department for Agriculture	455,949,152
1071	Rural Enterprise Fund	396,080,387
1252	Office of the Attorney General and Department of Justice	130,904,137

Vote	Financial Statement	Unsupported Balances KSh.
1252	State Law Office and Department of Justice	125,426,843
1071	Kenya Local Loans Support Fund	87,005,780
1184	State Department for Labour	73,069,995
1123	State Department for Broadcasting and Telecommunication	70,137,700
1032	State Department for Devolution	62,011,269
1105	State Department for Environment	54,580,863
1071	Government Clearing Agency Fund	53,586,330
1252	Office of the Attorney General and Department of Justice - Revenue Statement	46,430,817
1191	State Department for Mining	22,321,429
1071	European Widows and Orphans Fund	20,808,360
1071	Asian Officers Family Pension Fund	15,200,000
1071	Provident Fund	9,715,111
1133	State Department for Arts and Culture	1,706,793
	Total	**142,026,246,877**

(vi) *Weaknesses in Accounting for Cash and Cash Equivalents*

As has been reported in previous years, the audit of Cash and Cash Equivalents revealed a number of weaknesses. The critical weaknesses include:

(i) Poor maintenance of cash books - It was noted that a number of government entities continued to reflect material receipts and payments in the cash books which were not reflected in the bank statements and also receipts and payments in the bank statements which were not reflected in the cash books.

(ii) Un-analysed entries –some entries in the bank statements were not analysed while some have been outstanding for a long period of time.

(iii) Unreconciled items, failure to perform bank reconciliations

(iv) Un-surrendered deposits;

(v) Unsupported cash and cash equivalents' balances.

Owing to the risk associated with Cash and Cash Equivalent items, I recommend that the Accounting Officers concerned address the issues noted and further comply with Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015. This regulation requires the Accounting Officer to ensure that bank reconciliation statements are

completed and submitted to the National Treasury with a copy to the Auditor-General not later than the 10th of the subsequent month, for each bank account held by a National Government entity. Further, Regulation 90(3) requires the Accounting Officer to ensure that any discrepancies noted during the bank reconciliation exercise, are investigated immediately and appropriate action taken including updating the relevant cash books.

4.0 Public Finance Management

The Government adopted the Integrated Financial Management System (IFMIS) for managing some of the key aspects of public finance. The system is structured into the following components:

(i) Business process review
(ii) Plan to Budget
(iii) Procure to Pay
(iv) Revenue to Cash
(v) Record to Report
(vi) ICT to Support
(vii) Communicate to Change

The system is used to manage both the National Government and County Governments' Finances.

During the year under review, many instances were noted where the reported figures in the Financial Statements and amounts extracted from IFMIS had huge variances, whereas these figures should ordinarily be the same.

The variances were noted between:

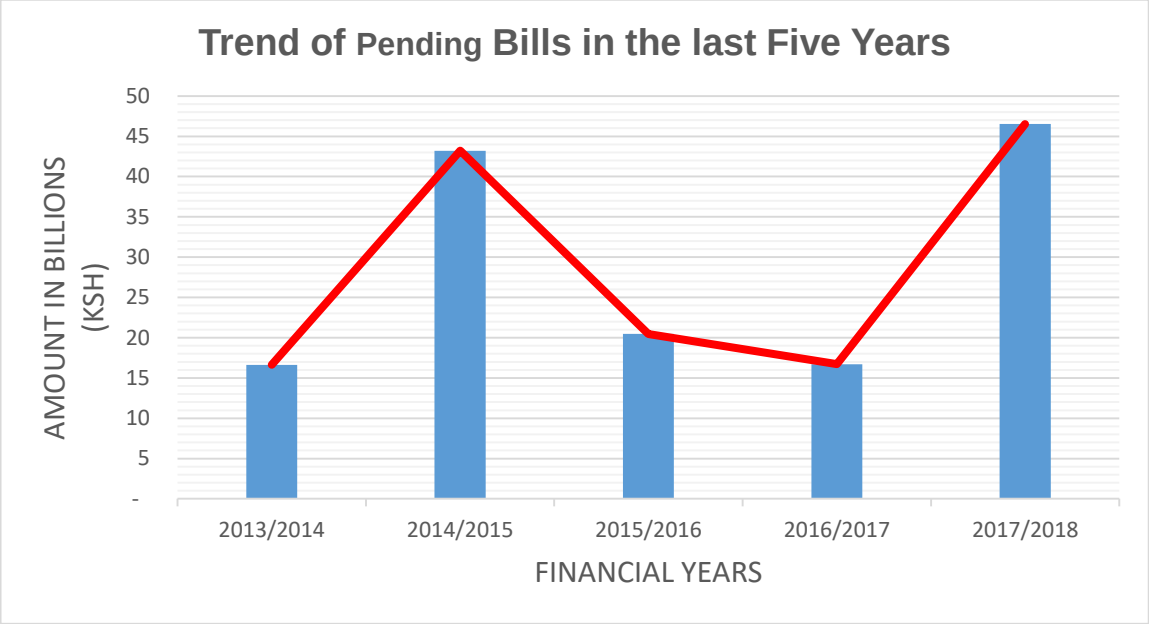
(i) Financial Statements, Trial balance/ledger, and IFMIS financial statements
(ii) Financial Statements/General Ledger and the IFMIS supporting schedules

The variances point to control weaknesses in the IFMIS system. The Financial Statements submitted for audit should be generated from IFMIS and the reporting templates should be well configured to conform with the reporting templates issued by the National Treasury. The perennial discrepancies between IFMIS generated figures and the Financial Statement figures is of material concern on the effectiveness and efficiency of the IFMIS.

The Government has incurred huge sums of money in the acquisition and maintenance of IFMIS since its inception. It is therefore imperative that those charged with its governance should put in place proper controls to ensure the completeness, accuracy and reliability of the financial information generated from the system and that there is value for money for the huge investment. Details of discrepancies are contained in the audit reports for the respective entities.

5.0 Pending Bills

The reported pending bills amount for the year ended 30 June 2018 increased drastically to KSh.46,529,173,323 from the previous years' amount of KSh.16,712,379,101, denoting an increase of 178% within one year. This is the highest amount of pending bills reported in the last three years (2016/17 – KSh.16,712,379,101, 2015/16- KSh.20,472,313,203, 2014/15- KSh.43,212,107,778), 2013/14 – KSh.16,638,164,142. The graph below indicates the amount of pending bills over the last five years.



The pending bills of a previous year are not taken into consideration during the formulation of the budget for the subsequent year. This means that the subsequent year's budget is unlikely to be sufficient to honour unpaid commitments made during the previous year as well as fund the programmes for a current year. Failure to settle the bills during the year they are incurred adversely affects the subsequent year's budgeted programmes as it may lead to reallocation of funds or non-delivery of critical services. The Government entities which reported unpaid bills as at 30 June 2018 are listed in the table below: -

Table 20: National Government Pending Bills 2017/18

Vote	Ministry/Department/Agency	Amount (KSh.)
1041	Ministry of Defence	12,602,522,619
1023	State Department for Correctional Services	6,204,906,534
1021	State Department for Interior	4,835,827,891
1081	Ministry of Health	4,434,472,786
1123	State Department for Broadcasting & Telecommunications	3,214,463,515
1052	Ministry of Foreign Affairs	2,036,219,938
2031	Independent Electoral and Boundaries Commission	1,749,176,000
1065	State Department for University Education	1,311,738,922
1105	State Department for Environment	1,088,900,069
1161	State Department for Agriculture	1,013,115,765
1211	State Department for Public Service and Youth Affairs	967,434,265
1094	State Department for Housing & Urban Development	873,248,731
1095	State Department for Public Works	821,171,919
2041	Parliamentary Service Commission	641,712,385
1261	The Judiciary	613,798,064
1071	National Treasury	563,474,303
1162	State Department for Livestock	499,103,271
1252	State Law Office and Department of Justice	411,771,557
1034	State Department for Planning and Statistics	340,632,037
1132	State Department for Sports Development	329,768,724
1112	Ministry of Lands and Physical Planning	299,109,118
2042	National Assembly	268,727,762
1212	State Department for Gender	222,945,974
2021	National Land Commission	202,528,474
1152	State Department for Energy	133,684,202
1183	State Department for East African Integration	128,493,984
1191	State Department for Mining	118,055,019
1032	State Department for Devolution	106,514,812
1092	State Department of Transport	95,458,485
1201	Ministry of Tourism	62,000,000
1184	State Department for Labour	55,120,444
1174	State Department for Trade	43,205,958
1106	State Department for Natural Resources	33,812,512
1093	State Department for Maritime Affairs	33,497,702
1185	State Department for Social Protection	33,125,571
1133	State Department for Arts and Culture	25,716,485
1091	State Department of Infrastructure	22,888,397
1122	State Department for Information Communications and Technology & Innovation	21,401,924
1103	State Department for Water Services	18,780,541
1172	State Department for Investment and Industry	17,836,013
1173	State Department for Cooperatives	15,675,156
1033	State Department for Special Programmes	9,751,879
2131	The Commission on Administrative Justice	5,383,617
1164	State Department for Fisheries and the Blue Economy	2,000,000
	Total	**46,529,173,323**

Excluded from the pending bills figure of KSh.46,529,173 323 is an outstanding liability of KSh.6,142,165,712 as at 30 June 2018 relating to compensation to victims of human wildlife conflict by the State Department for Natural Resources for cases awarded during the period 2014 to2017.

6.0 Stalled/Incomplete Projects

As in the previous years, the audit for 2017/18 revealed instances where the Government had incurred huge expenditure on projects which had either stalled or had remained incomplete long beyond the contract period. There were instances where payments were made for work not done, casting doubt on value for money for such expenditure. The expenditure incurred for the stalled projects translates to ineffective use of public resources as the projects are not achieving their intended purpose. Some of the stalled/incomplete projects are listed below:

Table 21: Stalled/ Incomplete Projects

Vote	Ministry/Department/ Agency	Amount (KSh.)	Description
1034	State Department for Planning and Statistics	4,292,651,060	Advance payment for Arror dam. With no works done yet.
1071	National Treasury	37,207,160	Contract that was to be completed on 31 October 2016, which was later extended to 30 September 2017 and later to 31 December 2018 but by the finalization of the audit it was yet to be completed.
1081	Ministry of Health	723,696,897	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 against initial contract sum of KSh.436,300,978 giving rise to a variation of KSh.287,396,099 which is about 66%. No project progress reports have been availed for audit review.
1095	State Department for Public Works	2,458,172,830	Stalled completion of Lamu Police Station and Management Housing which was contracted for KSh.615,848,997. Stalled construction of Mathare Nyayo Hospital at a contract sum of KSh.1,212,414,732. Stalled construction of Kenya Institute of Business Training at a contract sum of KSh.629,909,101 .
1105	State Department for Environment	14,548,499	Stalled project for Construction of model county office in Embu by the Kenya Meteorological Department.
1152	State Department for Energy	9,709,628	There was doubtful value for money in: (i) installation of six solar DC systems in Kitui and Makueni Counties; (ii) construction of twin biogas digesters in Narok County.
1184	State Department for Labour	442,723,947	Stalled construction of the proposed National Employment Promotion Centre, Kabete awarded to a

Vote	Ministry/Department/ Agency	Amount (KSh.)	Description
			local firm at KSh.442,723,947.The contractor has abandoned the site despite payment fee of KSh.117,998,228
1185	State Department for Social Protection	9,731,997	Stalled rehabilitation of Dagoretti Girls dormitory ,only 20% level of completion.
1261	The Judiciary	1,587,836,185	Uncertified completion of works.
	Total	**9,576,278,203**	

7.0 Management of Imprest

The aggregate figure of imprest queried in 2017/2018 was KSh.156,973,127 as tabulated below. This was an improvement in the management of imprest from the previous figure of 518,096,643 queried in 2016/2017.

Table 22: Outstanding Imprest

Vote	Ministry/Department/Agency	Amount (KSh.)
1106	State Department for Natural Resources	25,961,730
1261	The Judiciary	14,666,105
2042	National Assembly	14,384,249
1081	Ministry of Health	10,945,734
2021	National Land Commission	9,262,110
2031	Independent Electoral and Boundaries Commission	7,930,000
1211	State Department for Public Service and Youth Affairs	7,862,465
2041	Parliamentary Service Commission	7,368,349
1112	Ministry of Lands and Physical Planning	6,447,907
1252	State Law Office and Department of Justice	5,894,960
1162	State Department for Livestock	5,112,265
1041	Ministry of Defence	4,475,000
1123	State Department for Broadcasting & Telecommunications	4,285,307
1212	State Department for Gender	4,040,670
1161	State Department for Agriculture	3,732,177
1091	State Department of Infrastructure	3,529,298
1021	State Department for Interior	3,330,925
1034	State Department for Planning and Statistics	2,209,680
1185	State Department for Social Protection	2,164,890
1094	State Department for Housing & Urban Development	2,069,419
1103	State Department for Water Services	1,984,926
2101	National Police Service Commission	1,853,446
1063	State Department for Basic Education	1,498,543
2011	Kenya National Commission on Human Rights	1,471,969
1104	State Department for Irrigation	1,078,411
1174	State Department for Trade	1,065,678
1032	State Department for Devolution	663,520
2091	Teachers Service Commission	431,813
1023	State Department for Correctional Services	410,787
1052	Ministry of Foreign Affairs	322,544
1105	State Department for Environment	202,300
2141	National Gender and Equality Commission	168,600
1173	State Department for Cooperatives	147,350
	Total	**156,973,127**

8.0 Compliance and Governance Issues

I carried out compliance audits by assessing whether the National government entities complied with laws, regulations, policies and guidelines regulating public spending when incurring expenditure for the year ended 30 June 2018. I also evaluated whether the entities realized value for money in use of public resources.

The following are some of the weaknesses revealed by the compliance audit;

(i) Non-compliance with the Public Procurement and Assets Disposal Act, 2015 and 2006 Regulations

The main issues include:

- Contract/ Tender documents were not provided for audit
- Use of non-competitive procurement practices
- Goods received were not inspected and or taken on charge in the stores
- Irregular variation of contracts

(ii) Value for money issues

The main issues included:

- Idle cash in bank accounts
- Delays in projects completion
- Unapproved over expenditures
- Unauthorized allowances

(iii) Other compliance and governance issues

- Fixed assets register are not in existence or are poorly maintained
- Non-establishment of audit committees
- Ineffective audit committees
- Entities do not have documented enterprise wide risk management process and
- Non-establishment of IT Strategic Committees

9.0 The Equalization Fund

Article 204(1) of the Constitution of Kenya, 2010 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 purpose of the Equalisation Fund is to provide basic services including water, roads, heath facilities and electricity to marginalised areas to bring the quality of the services in those arears to the level generally enjoyed by the rest of the nation.

The Commission of Revenue Allocation (CRA) developed the policy for identifying marginalized areas and sharing the equalization fund as mandated by Article 216(4) of the Constitution. The policy identified fourteen (14) counties namely: Turkana, Mandera, Wajir, Marsabit, Samburu, West Pokot, Tana River, Narok, Kwale, Garrisa, Kilifi, Taita Taveta, Isiolo and Lamu as beneficiaries of the Fund.

The total accumulated entitlement to the Fund for the financial years 2011/2012 to 2016/2017 is KSh.21.97 Billion as at 30 June, 2018 as shown below:

Table 23: Growth in Equalization Fund in the Last Six Years

Financial Year	Equalisation Fund Entitlement KSh.
2011/2012	2,340,759,850
2012/2013	2,646,500,000
2013/2014	2,646,500,000
2014/2015	3,884,500,000
2015/2016	3,884,500,000
2016/2017	6,571,560,117
Total	**21,974,319,967**

A review of the Equalisation Fund's financial statements for the year ended 30 June, 2018 revealed that only an amount of KSh.12,400,000,000 out of the expected KSh.21,974,319,967 of the total entitlement has been transferred to the Equalisation Fund Account. The National Treasury had not remitted the remaining balance of

KSh.9,574,319,967 to the Fund as at 30 June, 2018 and is, therefore, in breach of the Constitution.

Further, the amount transferred of KSh.12,400,000,000 was made in two tranches of KSh.6,400,000,000 during 2015/2016 financial year, and a further KSh.6,000,000,000 in the 2016/2017 financial year. This is only 56% of the total entitlement. The National Treasury did not transfer any allocation during the 2017/2018 financial year.

In addition, out of the KSh.12,400,000,000 so far transfered to the Fund Account, only KSh.7,880,161,237 or 63.5% has been disbursed, for the approved projects, through the parent Ministries to the identified Counties, leaving a balance of KSh.4,519,838,763 still held in the Fund Account as at 30 June, 2018.

Comparison between the total entitlement of KSh.21,974,319,967 and the disbursed amount of KSh.7,880,161,237 represents only an overall performance of 36% for the six years, since the inception of the Fund. The Fund administration has attributed the low level of disbursement to delayed formulation of policies, delayed project identification and legislative hurdles.

According to Article 204(6) of the Constitution, the Equalisation Fund will lapse in twenty (20) years since inception, after which it will cease if no extension is approved by Parliament as provided by Article 204(7) of the Constitution. Given the low level of disbursements as indicated above, the country is not likely to achieve the objectives of the Equalization Fund, which is to improve the quality of requisite services in the marginalized areas within the set timelines, as envisaged by the Constitution.

CONCLUSION

The detailed report for the National Government for the year ended 30 June 2018 is 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 the Consolidated Audit Report.

I also wish to appreciate my clients/auditees for the cooperation they accorded my staff during the audit.

FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

30 July 2019

APPENDICES

Appendix A: Financial Statements with Unmodified Opinion

1. Asiatic Widows and Orphans Fund
2. Commission on Revenue Allocation
3. Contingencies Fund
4. Controller of Budget
5. Equalization Fund
6. Ethics and Anti-Corruption Commission
7. Government Press Fund
8. Independent Policing Oversight Authority
9. Intelligence Service Development Fund
10. Judicial Service Commission
11. Kenya Citizens and Foreign Nationals Management Service
12. Kenya National Commission on Human Rights
13. Ministry of Defence
14. National Cohesion and Integration Commission
15. National Exchequer Account
16. National Gender and Equality Commission
17. National Intelligence Service
18. National Police Service Commission
19. Office of the Director of Public Prosecutions
20. Office of the Registrar of Political Parties
21. Parliamentary Car Loan Scheme
22. Parliamentary Mortgage Scheme Fund
23. Petroleum Development Levy Fund - Holding Account
24. Petroleum Development Levy Fund - Operations
25. Petroleum Development Levy Fund- State Department for Energy
26. Political Parties Fund
27. Public Service Commission
28. Railway Development Levy Fund - Holding Account
29. Railway Development Levy Fund - Operations Account
30. Receiver of Revenue (Development)
31. Salaries and Remuneration Commission
32. State Department for Cooperatives

33. State Department for Correctional Services-Revenue Statement
34. State Department for Fisheries and the Blue Economy
35. State Department for Fisheries and the Blue Economy - Revenue Statement
36. State Department for Mining
37. State Department for Mining - Revenue Statement
38. State Officers and public Officer Car Loan Scheme Fund
39. State Officers House Mortgage Scheme Fund
40. The Commission on Administrative Justice
41. The Presidency
42. Witness Protection Agency

Appendix B: Qualified Financial Statements

1. Civil Service Housing Scheme Fund
2. Independent Electoral and Boundaries Commission
3. Ministry of Foreign Affairs
4. Ministry of Health
5. Ministry of Lands and Physical Planning - Revenue
6. Ministry of Tourism
7. National Assembly
8. National Government Constituencies Development Fund Board
9. National Humanitarian Fund
10. National Sports Fund
11. National Treasury
12. Parliamentary Service Commission
13. Pension Department- Statement of Revenue
14. Petroleum Training Levy Fund
15. Prison Farm Revolving Fund
16. Prison Industries Revolving Fund
17. Provident Fund
18. Public Trustee
19. Receiver of Revenue (Recurrent)
20. Receiver of Revenue- The Judiciary
21. State Department for Correctional Services
22. State Department for Devolution
23. State Department for East African Community Integration
24. State Department for Energy
25. State Department for Environment
26. State Department for Gender
27. State Department for Housing & Urban Development- Revenue
28. State Department for Interior
29. State Department for Interior - Revenue
30. State Department for Investment and Industry
31. State Department for Labour
32. State Department for Maritime Affairs

33. State Department for Natural Resources
34. State Department for Petroleum
35. State Department for Social Protection
36. State Department for Sports Development
37. State Department for Trade
38. State Department for University Education
39. State Department for Vocational and Technical Training
40. State Department for Water Services
41. State Department of Early Learning and Basic Education
42. State Law Office and Department of Justice - Official Receiver
43. Statement of Outstanding Obligations guaranteed by GOK
44. Teachers Service Commission
45. The Judiciary
46. Treasury Main Clearance Fund
47. Veterinary Services Development Fund
48. Women Enterprise Fund

Appendix C: Financial Statements with Adverse Audit Opinion

1. Agricultural Information Resource Centre Revolving Fund Account
2. Asian Officers Family Pension Fund
3. CFS Public Debt
4. CFS - Salaries, Allowances, Miscellaneous Services
5. European Widows and Orphans Fund
6. Ministry of Lands and Physical Planning
7. National Government Affirmative Action Fund
8. National Land Commission
9. Pensions and Gratuities
10. Rural Enterprise Fund
11. State Department for Arts and Culture
12. State Department for Housing & Urban Development
13. State Department for Irrigation
14. State Department for Public Works
15. State Department of Infrastructure
16. State Department of Transport
17. State Law Office and Department of Justice
18. Statement of Expenditure-Subscriptions to International Organizations
19. Statement of outstanding Loans
20. The Revenue Statement – State Law Office and Department of Justice

Appendix D: Financial Statements with Disclaimer of Audit Opinion

1. Government Clearing Agency Fund
2. Kenya Local Loans Support Fund
3. Land Settlement Fund Trustees
4. National Youth Service Mechanical and Transport Fund (MTF)
5. State Department for Agriculture
6. State Department for Broadcasting and Telecommunication
7. State Department for Information Communications Technology and Innovation
8. State Department for Livestock
9. State Department for Planning and Statistics
10. State Department for Public Service and Youth Affairs
11. State Department for Special Programmes
12. Stores and Service Fund
13. Strategic Grain Reserve Fund
14. Street Families Rehabilitation Trust Fund

Appendix 1

Accuracy of Financial Statement

Vote	Financial Statement	Amount (KSh.)	Description
1032	State Department for Devolution	77,113,947	Unexplained variances between 1st and 2nd set of financial statements in proceeds from sale of assets and bank balance. Variances in transfers to other government entities; Unexplained variance of KSh167,847 between reported Foreign travel and subsistence and supporting documents
1033	State Department for Special Programmes	37,500	Variance between financial statement and ledger balances.
1034	State Department for Planning and Statistics	8,217,338,627	Variances between Financial Statement and trial balance figures of KSh.100,481,741 (under) and KSh.891,015,5414 (over) Unexplained differences between Financial Statement of State Department and SAGAs of KSh.8,177,413,627 Variance of KSh.39,925,000 between the note and Financial Statement figure for grants and detailed schedule for the grants.
1071	Asian Officers Family Pension Fund	449,147,290	Difference of total credits of KSh.1,491,614,679.30 against total debits of KSh.1,042,467,389.05 in the Trial Balance presented for audit review.
1071	C.F.S Public Debt	-	i) Casting errors noted under various balances. ii) Variations between financial statement and ledger balances.
1071	CFS - Salaries, Allowances, Miscellaneous Services	-	Difference between compensation of employees' amounts as per statement of receipts and payments - KSh.2,685,214,290, the trial balance - KSh.3,217,869,377 and the payroll/payment vouchers - KSh.2,675,257,162
1071	CFS - Salaries, Allowances, Miscellaneous Services	-	Trial balance not balancing in terms of debits and credits.
1071	CFS - Salaries, Allowances, Miscellaneous Services	1,557,093	Difference between analysis of off-payroll payments amount of KSh.256,036,689 and the payment vouchers amount of KSh.254,479,596
1071	CFS - Salaries, Allowances, Miscellaneous Services	3,193,271	Difference between ledger amount for the National Cohesion and Integration Commission

Vote	Financial Statement	Amount (KSh.)	Description
			of KSh.100,210,801.20 and the payment voucher amount of KSh.97,017,530.10
1071	CFS - Salaries, Allowances, Miscellaneous Services	4,223,293	Difference between prior year comparative amounts of prior year adjustments in the statement of cashflows of KSh.31,142,627 and the statement of assets and liabilities of KSh.26,919,334
1071	CFS - Salaries, Allowances, Miscellaneous Services	10,108,518	Difference between supporting schedules amount paid to IEBC expenditure of KSh.61,788,248 and the payroll amount of KSh.51,679,730. The expenditure has also not been captured in the trial balance/ledger
1071	CFS - Salaries, Allowances, Miscellaneous Services	14,914,201	Difference between supporting schedules amount paid to Teachers Service Commissioners of KSh.70,500,744 and the ledger amount of KSh.55,586,543
1071	CFS - Salaries, Allowances, Miscellaneous Services	23,705,121	Amount paid to retired officers of the National Gender and Equality Commission but wrongly charged to National Police Service Commission
1071	European Widows and Orphans Fund	4,321,715	Dividend income omitted from the Ledger.
1071	National Treasury	3,000,000	Negative actual expenditure in one item as shown in the General Ledger produced from the IFMIS system.
1071	Pensions and Gratuities	38,352,507	Amount of Military Gratuity not incorporated in the records
1071	Pensions and Gratuities	107,965,176	Amount of Military Gratuity recorded twice
1071	Provident Fund	-	Amounts included in the Trial Balance/General Ledger but not included in the Financial Statements under nine headings.
1071	Provident Fund	6,176,372	Amount of other receivables due from KPLC shown in the financial statements but excluded in the Trial Balance/Ledger.
1071	Provident Fund	3,796,226	Inclusion of doubtful accounts receivable amount relating to an insolvent Corporation which is in the process of being wound up.
1071	Receiver of Revenue (Recurrent)	146,336,658,165	Various differences between the Revenue Statement balances and the General Ledger balances under 5 Revenue headings (Taxes on Income and Capital Gains, Taxes on Goods and Services, Taxes on International Trade & Transactions, Other Taxes and Sale of Goods

Vote	Financial Statement	Amount (KSh.)	Description
			and Services (Traffic). Total variance was 146,336,658,165.
1071	State Officers and Public Officers Car Loan Scheme Fund	9,800,000	Difference between Trial Balance Receipts amount of KSh.647,300,000 and the Financial Statements amount of KSh.637,500,000.
1081	Ministry of Health	77,047,705	Analysis of an adjustment of KSh.77,047,705 included in the statement of cash flows was not availed for audit verification.
1091	State Department of Infrastructure	345,400,328,179	The trial balance did not balance by having a suspense debit balance and clearance credit balance netting off to KSh.321,897,433. Variance of KSh.427,331,714 between the account receivable figure and the trial balance. Aggregated negative variance of KSh.224,059,394,058 between the financial statements balances and the trial balance figures. Aggregate positive variance of KSh.120,591,704,974 between the financial statements balances and the trial balance figures.
1092	State Department of Transport	40,028,581	Financial statements indicates receipt from external partners of KSh.55,558,563 but the special account indicates KSh.15,529,982 hence a difference of KSh.40,028,581.
1094	State Department for Housing & Urban Development	101,740,405	Unreconciled suspense account in the trial balance
1095	State Department for Public Works	3,034,419,159	Difference between the financial statement figures and trial balance of KSh.586,182,304 for cash and bank and KSh.553,457,102 for payables. Financial statement cash in hand figure was KSh.40,314 and KSh.244,877,169 in the trial balance hence a variance of KSh.2,448,236,855.
1103	State Department for Water Services	-	Various unreconciled variances between the financial statements and the trial balance figures.
1104	State Department for Irrigation	21,049,525	(i). Amount relating to purchase of AutoCAD software (Acquisition of assets) not included in the financial statements.

Vote	Financial Statement	Amount (KSh.)	Description
			(ii). Unexplained variance between National Irrigation Board and State Department for Irrigation records on the amount transferred to NIB by the State Department.
1105	State Department for Environment	5,680,515	District suspense for the financial year 2016/17 omitted from 2017/18 with no explanation on how the suspense was cleared.
1106	State Department for Natural Resources	-	(i). The 2016/17 financial statements comparatives reflected nil balances after the un-merging of the then Ministry of Environment and Natural Resources.
1112	Ministry of Lands and Physical Planning	30,737,905	(i)Various variances between the figures in the financial statements and those in the trial balance (not aggregated) (ii) Motor vehicle repairs included under acquisition of assets KSh.1,396,350 (iii) Compensation of employees' expenditure charged to other items - KSh.29,341,555.
1122	State Department for Information Communications Technology and Innovation	40,615,054	Discrepancy between amount reported as transfer to other government units and the amount confirmed received by the respective government units.
1133	State Department for Arts and Culture	28,725,690	Assets procured in the year not captured under acquisition of assets
1133	State Department for Arts and Culture	-	District suspense account balances of KSh. 3,585,690 omitted from the Financial Statements
1161	State Department for Agriculture	653,365	Accounts Payables – Deposits and Retentions. It was observed that deposits and retentions balances had an error of KSh.653,365.20 which was not reconciled or explained.
1162	State Department for Livestock	-	Inaccuracies in the comparative amounts and balances
1164	State Department for Fisheries and the Blue Economy	78,646,102	Variance between the figure for acquisition of assets reflected in the financial statements and the one under the note.
1172	State Department for Investment and Industry	121,222,024	Discrepancy between amount disclosed in the statement of receipts and payments under transfer to other government units and other grants and transfers, and the amount

Vote	Financial Statement	Amount (KSh.)	Description
			confirmed received by the respective government units.
1184	State Department for Labour	6,101,000	Expensing receipts from sale of inventories, stocks and commodities as acquisition of assets
1252	Office of the Attorney General and Department of Justice	371,463,665	Financial statement balances reported differed with the ledger balances by a net of KSh.224,710,306. Accounts payable in the statement of assets and liabilities differed with the figure in the notes by KSh.133,381,415. Casting errors amounting to KSh.283,759 were noted in the use of goods and transfer to other government units components. KSh.13,088,185 disbursed to regional offices were not captured in the ledger hence an understatement in the financial statements.
1252	State Law Office and Department of Justice – Official Receiver	146,652,297	Comparative figures in the statements of assets and liabilities differed with the comparative figures in the notes to the financial statements by KSh.9,993,623 Comparative figures casts to KSh.427,094,984 instead of KSh.438,326,315 reflected, hence a difference of KSh.11,231,331. Cash and cash equivalent balance of KSh.452,553,594 in the statement of cash flows differed by KSh.125,427,343 with balance of KSh.327,126,251 in the statement of assets and liabilities.
2021	National Land Commission	-	Discrepancies between the figures in the financial statements and figures in the trial balance.
		358,479,862,029	

Appendix 2

Presentation and Disclosure of Financial Statement

Vote	Financial Statement	Amount (KSh.)	Description
1071	Asian Officers Family Pension Fund	-	Total debits of KSh.603,030,145 under 3 headings and total credits of KSh.1,077,051,389.90 under 2 headings were included in the Trial Balance/Ledger but were omitted from the financial statements.
1071	Government Clearing Agency Fund	-	i) Contrary to 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. ii)The GCA has failed to execute its mandate as only a small percentage of MDAs businesses are cleared by the Agency while private companies and individuals in the industry take the rest of the government importation business.
1071	Treasury Main Clearance Fund	-	Failure to wind up the dormant fund as per Public Accounts Committee recommendations.
1081	Ministry of Health	22,866,031	KSh.14,021,158 was wrongly classified under emergency relief and refugee assistance instead of correct classification of use of goods and services. KSh.5,703,714 was wrongly classified under acquisition of assets instead of correct classification of use of goods and services. KSh.3,141,159 was wrongly classified under payables instead of correct classification of compensation of employees.
1094	State Department for Housing & Urban Development	801,072,443	Trial balance includes KSh.101,740,405 and KSh.5,742,838 described as district suspense and other debtors respectively, which is not included in the financial statements. Transfer to government entities indicates KSh1.599,992,362 to Civil Servants Housing Scheme while the financial statements indicates KSh.1,088,689,662 resulting to a variance of KSh.511,302,700. Payable balance in the financial statements

Vote	Financial Statement	Amount (KSh.)	Description
			differed with the trial balance figure by KSh.182,286,500.
1105	State Department for Environment	-	Comparative figures relate to the defunct Ministry of Environment and Natural Resources and do not agree with the audited financial statements.
1112	Ministry of Lands and Physical Planning	-	A summary of fixed assets register was not annexed to the financial statements
1173	State Department for Cooperatives	-	Failure to prepare and submit for audit separate financial statements of the Management and Supervision Fund and the Liquidation Account for 6 financial years ended 30th June 2013 to 30th June 2018.
1261	The Judiciary Revenue Statement	-	Several issues have been raised in the detailed audit report

Appendix 3

Unresolved prior year issues

Vote	Financial Statement	Amount (KSh.)	Description
1032	State Department for Devolution	-	Opening Balances -restated comparative figures for the financial year 2015/2016. No documents have been provided in support of the restated comparative figures. -Other Revenue-other revenues amounting to KSh.3,031,318 where the management has not provided any supporting documents to prove that the receipts were due to the State Department for services rendered. -Grants and Transfer of KSh.27,113 549 to other Government Entities differs from the ones reported in the State Department's financial statements. -Use of Goods and Service- The use of goods and services payments of KSh.260,256,399 in respect of other operating expenses related to other expenditure items. -Cash and Cash Equivalents -Bank reconciliation statements for other months other than June not availed. -Prior Year Adjustments of KSh.180,997,512 in respect of 2016/2017 not supported. -Pending Bills of KSh.3,286,465,791 brought forward from prior years and KSh.10,161,582 for the financial year 2016/2017 were outstanding at the end of the year 2017/18. Instruments for Devolution Advice and Support (IDEAS) Project bank account transactions were not accounted for in the final account for the State Department
1033	State Department for Special Programmes	32,182,850	-Stalled Wajir sewerage project KSh.32m. -Motor vehicles not boarded and one vehicle reportedly lost.
1034	State Department for Planning and Statistics	-	-Accuracy of Financial Statement -Unsupported adjustments -Wrong classifications of expenses, variances in

Vote	Financial Statement	Amount (KSh.)	Description
			disbursements to government agencies, unsupported utilities, expenses, unsupported civil works, inaccuracies in cash and bank balances, unaccouted for district expenditure.
1063	State Department of Early Learning and Basic Education	78,277,274	Accounts payable with no supporting documents
1064	State Department for Vocational and Technical Training	7,905,092,113	Nugatory payments: KSh.159,817,204, Delay in project completion:KSh.5,106,435,985 Construction of Septic Tanks: KSh.39,929,939 Procurement of equipment for TTIS: KSh.2,440,000,000 Rent payment without valid lease agreement: KSh.55,369,049 Pending Bills: KSh.103,539,936.
1065	State Department for University Education	1,592,745,574	Pending Bills: KSh.347,139,946 Nugatory payments: KSh.20,790,625 Transfer to other Govt Entities; KSh.1,214,925,003 Research funding guidelines and unsupported balances: KSh.9,890,000
1071	CFS - Salaries, Allowances, Miscellaneous Services	-	Unsupported restatement of brought forward balances under the headings of Fund Balance, Compensation of Employees and Account Receivables. Lack of explanation for adjustment of KSh.11,980,334 being clearance of outstanding item.
1071	CFS - Salaries, Allowances, Miscellaneous Services	4,456,673	Suspense balance referred to in the statement of assets and liabilities as at 30 June 2017 as a difference. This amount does not appear in the financial statements for 2017/2018 and basis for removal has not been explained.
1071	CFS - Salaries, Allowances, Miscellaneous Services	18,420,097	Prior year adjustments amount has not been supported by sufficient verifiable supporting documents and records
1071	CFS - Salaries, Allowances, Miscellaneous Services	4,286,995,634	Account balances under 3 headings are recorded in the financial statements but not reflected in the ledger for 2016/2017

Vote	Financial Statement	Amount (KSh.)	Description
1071	Government Clearing Agency Fund	-	i). Balances brought forward of KSh.300,931,776 and KSh.52,973,897 under Accounts Receivables – Debtors and Accounts Payables - Creditors were supported with verifiable records and documents such as debtors and creditors' ledgers or registers. ii). Fund balance brought forward (Old Account) of KSh.247,957,879 has also not been supported with verifiable documents. iii). The cash and cash equivalent closing balance of KSh.72,435,965 excluded GCA Mombasa branch closing cash balance of KSh.56,352,095.
1071	Pensions and Gratuities	58,656,973	Pension payments to Asian and European pensioners but their life certificates were not availed for audit review.
1071	Pensions and Gratuities	86,584,111	Overpayment of Military Gratuity as a result of poor record keeping
1071	Pensions and Gratuities	297,889,272	Un-supported clearance of Prior Year Adjustment from the 2015/2016 financial statements
1071	Pensions and Gratuities	1,270,093,379	Amount of deficit for the FY 2016/2017 appears to have been funded from the unspent balance from the FY 2015/2016. The National Treasury failed to surrender the unspent pension for that year.
1071	Pensions and Gratuities	1,306,966,519	Pensions paid to retired teachers during FY 2016/2017 without being properly supported with required documents
1071	Statement of Expenditure-Subscriptions to International Organizations	-	Independent confirmations of subscriptions were not received from eight (8) out of twelve (12) organizations.
1071	Statement of Outstanding Obligations guaranteed by GOK	164,132,745	Long outstanding contingent liabilities amount whose clearance appears to be uncertain.
1071	Treasury Main Clearance Fund	-	i. The statement of assets and liabilities as at 30 June 2018 reflects an accounts receivable-debtors balance of KSh.12,503,607,445.65 out of which KSh.2,332,170,394.25 had not been analysed. Further, the balance of KSh.12,503,607,445.65 has been outstanding for a long period of time.

Vote	Financial Statement	Amount (KSh.)	Description
			ii. The statement reflects an accounts payable - creditors balance of KSh.12,490,478,940.70 which included various amounts that have not been analysed or supported with relevant documents. iii. The statement reflects a net financial position of KSh.13,128,504.95 which constitute a deficit brought forward of KSh.871,495 and fund balance brought forward of KSh.14,000,000 that has not been reconciled.
1081	Ministry of Health	10,956,114,687	Deposits totaling KSh.10,956,114,687 that were held in the former Ministries of Medical Services and Ministry of Public Health and Sanitation which were 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.
1081	Ministry of Health	4,370,306,417	The Ministry paid on behalf of the counties KSh.4,307,306,417 during the year 2013/2014. These have not been recovered and remained outstanding.
1081	Ministry of Health	800,000,000	The ministry had paid KSh.800,000,000 for portable clinics but before installing, commissioning and handing over of portable clinics. The contract has not yet been executed.
1091	State Department of Infrastructure	2,724,656,766	Statement of assets and liabilities for deposits for the former Ministry of Roads reflected uncleared debits and credits amounting to KSh.1,048,458,962.90. KSh.1,431,064,186 relating to year 2009/2010 retention money could not be verified in the retention money register. Also, KSh.11,822,080.15 released to a contractor in 2000/2012 was supported by receipts not issued for use in the Ministry's cash documents. Supporting schedule for retention money for 2016/2017 had a debit balance of KSh.233,311,537 indicating irregular over-refunding of retention money. "
1092	State Department of Transport	407,035,620,477	2016/2017 comparison between the financial statements and trial balance revealed a total positive variance of KSh.238,120,816 and a total negative variance of KSh.295,288,337,930.

Vote	Financial Statement	Amount (KSh.)	Description
			2016/2017 trial balance reflected a suspense clearance account credit balance of KSh.14,078,691 and debit balance of KSh.288,504,593 which were not investigated. 2016/2017 also revealed variances between the financial management amounting to KSh.43,804,613,014 for financial assets, KSh.35,475,736,919 for financial liabilities and KSh.7,900,893,682 for the opening balances. 2016/2017 had an under-expenditure in the budget utilization amounting to KSh.24,018,966,188 that was not explained. 2016/2017 pending bills amounting to KSh.6,368,644.47 had not been settled.
1094	State Department for Housing & Urban Development	371,075,310	-No details were provided for KSh.9,608,578 described as district suspense. -Foreign government direct payments of 200,000,000 were not supported. -Proceeds from foreign borrowings representing direct payments to Nairobi Metropolitan Service program had a variance of KSh.161,466,732 that was not supported. -Pending bills of KSh.1,257,844,010 had not been settled. Had they been settled the surplus of 2016/2017 would have reduced by the same.
1094	State Department for Housing & Urban Development-Revenue	-	During 2016/2017, the State Department did not maintain books of accounts and a revenue bank account contrary to Public Finance Management Act, 2012 Section 82 and Regulation 100 of the PFM National Government Regulation 2015. Under collection of revenue amounting to KSh.340,022,688 was not satisfactorily explained. -In addition, comparison of revenue deducted from staff of KSh.407,966,482 and balance in the revenue statement KSh.249,561,482 revealed a variance of KSh.158,405,252 that was not accounted for.
1095	State Department for Public Works	4,269,315,361	2016/2017 reported a difference of KSh.3,848,277,178 between the financial statements and the trial balance

Vote	Financial Statement	Amount (KSh.)	Description
			2016/2017 Pending Bill of KSh.364,554,474 and KSh.41,103,635 were not explained. 2016/2017 cash and bank balances in the recurrent bank account included KSh.10,850 stale cheque , KSh.526,836 unexplained closing under cast, KSh.105,267 under cast in receipt in cash book not in bank statement and KSh.142,283. 2016/2017 cash and bank balances in the development bank account included KSh.200,000 unexplained under cast, KSh.227,555 unexplained payment in bank statement not in cash book. 2016/2017 cash and bank balances in the deposit bank account included KSh.285,000 under cast that could not be confirmed. and long outstanding receipt in cash book not in the bank statement of KSh.57,283. Two vehicles GKB 933F and GKA 078Y were stolen and had not been recovered and two project vehicles KBL 935K and KBP 735Q had not been transferred to the State Department after completion of the project. Existence of vehicles valued at KSh.13,825,000 during the year 2016/2017 could not be confirmed
1104	State Department for Irrigation	865,301,290	Amounts relate to construction and civil works for small dams and water pans in the financial year 2016/17 whose details of inventory, physical location, contractor and when constructed had not been availed.
1105	State Department for Environment	5,460,000	Loss of government vehicles under irregular circumstances with no measures by the management to recover the loss from the parties involved.
1123	State Department for Broadcasting and Telecommunication	-	Unresolved prior year issues includes repetitive employment and retention of casuals; Partitioning and Refurbishment Work on 9th and 11th Floors Teleposta Towers; Renovation and Refurbishment Works on the Ministry's Stand-Nairobi Show Ground; Tilling Works to the Department of Information at Uchumi House; Transfer to Other Government Units - Transfer to Kenya Yearbook Editorial Board and Ministry Departments; Acquisition of Assets - Unauthorized Expenditure on Purchase of Motor Vehicles and Agency and Disbursement Fees to

Vote	Financial Statement	Amount (KSh.)	Description
			Huawei Technologies Ltd and Construction of Men's Hostel at Kenya Institute of Mass Communications (KIMC).
1132	State Department for Sports Development	3,615,950	Supply and delivery of petroleum products- a discount of KSh.4.25 per unit to be enjoyed under the contract was never offered. Theft of Parking Lights at Kasarani Stadium
1133	State Department for Arts and Culture	-	Unsupported expenditure towards Uzalendo Festival and renovation of Monuments of KSh.28 million was in 2016. Unsupported pending bill of KSh6,782,758 of not included in the 2014/2015 list of pending bills
1172	State Department for Investment and Industry	218,249,998	Unsupported re-statement of opening balances for Construction and Civil works and Rehabilitation of civil works from zero balances for the period ended 30 June 2016 to KSh.175,750,000 and KSh.42,499,998 for the two balances respectively. Other unresolved issues includes, Irregular Procurement Practices, Irregular Re-allocation of Development Grants to Recurrent Expenditure and Textile and Leather Working Machinery and Equipment.
1183	State Department for East African Community Integration	20,991,905	Accrued interest on decretal amount of KSh.65,000,000 not settled
1184	State Department for Labour	-	Construction of the National Employment Promotion Centre Kabete whose contract had been awarded for KSh.442,723,947 but had stalled after payment of KSh.117,998,228 and the contractor abandoned site.
1185	State Department for Social Protection	-	Comparative balances for 2016/17 were not included. Lack of land ownership documents for Kabete/getathuru land. Unrefunded cash transfers from PCK of KSh.169,300,000 of which the contract had expired.
1201	Ministry of Tourism	206,569,933	Expenditure spent under acquisition of assets was not related to tourism recovery. The expenditure was also recurrent in nature rather than development as required.
1261	The Judiciary Revenue Statement	984,080	Loss of revenue through fraud at Baricho Law Courts
1261	The Judiciary Revenue Statement	8,100,802	Unaccounted for court deposits

Vote	Financial Statement	Amount (KSh.)	Description
			Lack of Revenue and Deposits Bank Reconciliations Statement for F/Y 2015
1261	The Judiciary Revenue Statement	24,211,737	Discrepancies in revenue records for 2016/17
2091	Teachers Service Commission	82,306,504	Stores and cash losses between 1988 - 2000 - KSh.13,415,914 Refund of PAYE from KRA is doubtful - KSh.68,802,494 Residual value of a motor vehicle whose ownership is in dispute - KSh.88,096.
		449,065,374,431	

Appendix 4

Unsupported Expenditure

Vote	Financial Statement	Amount KSh	Description
1023	State Department for Correctional Services	508,315,588	Expenditure on food and rations supplied to 6 prisons of KSh.69,892,400 not supported by delivery and stores records. 2000 metres material worth KSh.1,150,000 was paid for but not delivered. Payments to staff through imprest. KSh.42,682,500 paid for facilitation of counter violence and radicalization program not supported by details of beneficiaries. Cash payment to members of staff for conference charges lunch and tea at Nairobi West Mess worth KSh.13,490,850. Various allowances paid to staff totaling to KSh.87,467,849 not supported. KSh.174,989,039 unvouched expenditure.
1032	State Department for Devolution	88,316,805	Expenditure returns and other support documents during Devolution Conference and KSh.14,497,552, unexplained adjustment in the ledger. KSh.48,000,000 relates to unaccounted for expenditure on IDEA project.
1033	State Department for Special Programmes	3,401,734,175	Records to support relief commodities were not availed for audit review. Unsupported ECORAD expenditure. Unaccounted AIE for national drought management authority. Maintenance of vehicles unsupported payments.
1034	State Department for Planning and Statistics	196,726,206	Unsupported expenditure of KSh.196m
1071	National Treasury	20,294,340	Amounts of pension paid in relation to pre and post-independence pensioners reside in the United

Vote	Financial Statement	Amount KSh	Description
			Kingdom for which payroll detailing the beneficiaries has not been availed for audit review.
1081	Ministry of Health	201,249,863	The following expenditures were not supported with payment vouchers and other support documents: Compensation of employees amounting to KSh.4,246,449; Specialized materials and services amounting to KSh.46,137,719; Rental payments of produced assets worth KSh.2,149,755; Transfer to other government units worth KSh.14,849,88; Membership dues and subscription worth KSh.2,206,76 Emergency relief and refugee assistance worth KSh.46,06,114 and Payment for acquisition of assets KSh.85,592,762.
1091	State Department of Infrastructure	2,534,091,810	Supporting documents for receivable balance of KSh.1,104,260,165, district suspense of KSh.110,922,927, clearance account of KSh.1,104,260,165 and accounts payable amounting to KSh.214,648,553 were not provided.
1104	State Department for Irrigation	21,761,576	Payment vouchers and supporting documents relating to GOK counterpart funding for Thwake Multi-Purpose Dam project not provided for audit.
1122	State Department for Information Communications and Technology & Innovation	3,593,487,703	Unsupported acquisition of assets expenditure.
1123	State Department for Broadcasting & Telecommunications	1,135,144,411	Payments vouchers for use of goods and services were not availed for audit review.
1132	State Department for Sports Development	330,537,997	20% advance payments on Supply, Delivery and Installation of security access control communications and pitch lighting in various stadiums. Security guarantee on the advance payment expired at the time of audit in November 2018.

Vote	Financial Statement	Amount KSh	Description
1133	State Department for Arts and Culture	48,916,600	Unexplained variances in transfers to other government entities between amounts disbursed and confirmations from the entities and unsupported expenditure returns from national product industry. Unsupported expenditure on acquisition of assets
1161	State Department for Agriculture	360,679,025	(i) Procurement of Seed Potato - No invoice, delivery note or any other documentary evidence were provided to support the payment of KSh.25,000,000. (ii) Procurement of Certified Seeds, Breeding Stock and Live Animals. An amount of KSh.300,000,000 that was not supported with payment vouchers and related documents. (iii) Bulking of Traditional High Value (Orphaned) Crops. 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. (iv) Purchase of Tablet Gadgets. An expenditure of KSh.5,584,025 to purchase 413 tablet gadgets. However, no evidence has been produced to date to confirm the requisition for the tablets.
1162	State Department for Livestock	866,516,259	This comprises of unsupported expenditure in use of goods and services figure and acquisition of assets figure.
1172	State Department for Investment and Industry	38,298,082	Unsupported district suspense.
1174	State Department for Trade	113,524,187	Amount included KSh.28,0400,00 for Scholarship and other educational benefits and KSh.85,484,187 incurred in use of goods and services but not supported
1184	State Department for Labour	110,137,669	Disbursements to four consular offices whose expenditure returns were not availed for audit review.
1211	State Department for Public Service and Youth Affairs	951,392,281	Payment vouchers not availed for expenditure of KSh.182,718,344. Corresponding expenditure on KSh.635,899,313 borrowed from mechanical and transport fund not disclosed in the FS. KSh.2,330,000 for the provision of catering service was not supported by attendance registers. KSh.112,826,454 paid for systems development consultancy services was not supported by documentation of output and milestones. Unsupported expenditure of

Vote	Financial Statement	Amount KSh	Description
			KSh.17,618,170 in constructions at Yatta field stations.
1212	State Department for Gender	10,921,980	Fuel, oils and lubricants worth KSh.10,921,980 was unaccounted for in fuel registers and motor vehicle work tickets.
1252	State Law Office and Department of Justice	445,255,817	Expenditure amounting to KSh.45,173,606 for use of goods was not supported with payment vouchers and other necessary documents. Acquisition of assets expenditure of KSh.5,279,049 was not supported with the necessary documents. Payment amounting to KSh.394,803,162 made from the deposits account were not supported.
1261	The Judiciary	876,890,288	Unsupported Tribunal Expenditure.
2021	National Land Commission	712,622,124	Compensation for land and for interruption and loss of business, not supported with valuation reports.
2031	Independent Electoral and Boundaries Commission	36,186,728	Procurement of event organizing services.
		16,603,001,514	

Appendix 5

Unsupported Balances

Vote	Financial Statement	Amount KSh.	Description
1023	State Department for Correctional Services	777,687,035	District suspense balance and prior year adjustment of KSh.103,141,638 not supported. Unsupported payment of staff through imprests and expenditure claims of KSh.674,134,610.
1032	State Department for Devolution	62,011,269	Unexplained prior year adjustments in the Financial Statement where the opening balances totaling to KSh.37,987,738 were restated are not supported. Retentions balances payable total KSh.128,233,923. However, the bank balance reflects KSh.24,430,731 resulting in an unaccounted for shortfall of KSh.103,803,192.
1034	State Department for Planning and Statistics	561,983,057	Unexplained movements of account balances between Financial Statements sets. Unsupported prior year adjustments of KSh.488,660,397
1071	Asian Officers Family Pension Fund	15,200,000	Balance owed by a Corporation which is under liquidation is not supported by deposit certificates or other documentary evidence.
1071	C.F.S Public Debt	96,310,011,963	Unsupported balances including prior year adjustment (KSh.27,255,420,599), Debut International SVRNG Bond (KSh.1,244,520,000) reflected in the ledger, Ledger expenditure balances for new loans (KSh.7,919,757,971) and new administrative costs (KSh.59,894,313,393). For all the balances relevant supporting documents were not provided.
1071	European Widows and Orphans Fund	20,808,360	Amount include KSh.16,900,000 investment balance made to Cereals and Sugar Finance Corporation not supported by any verifiable documents and KSh.3,908,360. Unsupported prior year adjustment on investment balance.
1071	Government Clearing Agency Fund	53,586,330	Receipts of KSh.53,586,330 have not been supported with verifiable primary documents casting doubt on the accuracy and validity of the receipt balance.

Vote	Financial Statement	Amount KSh.	Description
1071	Kenya Local Loans Support Fund	87,005,780	Several balances reflected in the financial statement not supported by analyses and other documentary evidence.
1071	Pensions and Gratuities	4,061,252,617	The National Treasury has not supported the balance of Accounts Payables by way of detailed listing by individual pensioners
1071	Provident Fund	9,715,111	Balance of other pending payables brought forward which has no supporting analysis.
1071	Rural Enterprise Fund	396,080,387	Difference between the fund balance of KSh.397,908,774 and the amount shown in the Statement of Assets and Liabilities dated 30 June 2013 of KSh1,828,388 have not been reconciled.
1091	State Department of Infrastructure	1,425,232,566	Other debtors KSh.13,068,546 and prepayments KSh.16,410,340 were excluded in the account receivables balance. Variance of KSh.1,393,388,088 between the account payable figure and the trial balance. KSh.2,365,591.85 for accounts payable was not supported.
1092	State Department of Transport	31,469,583,846	Financial statement shows nil balance for imprest while the trial balance shows a credit balance of KSh.16,519,588.45. Financial statements indicate a figure of KSh.51,759,681 for accounts payable and trial balance KSh.365,045,006 hence a difference of KSh.313,285,325. Comparison between the trial balance and financial statements revealed a total positive variance of KSh.40,895,171,368 and a total negative variance of KSh.9,755,392,435.
1104	State Department for Irrigation	667,258,477	(i) Unsupported Accounts payable (ii) No evidence to support of prior year adjustments.
1105	State Department for Environment	54,580,863	Unexplained and unsupported prior year adjustments
1123	State Department for Broadcasting and Telecommunication	70,137,700	Unsupported adjustments under District Suspense Account

Vote	Financial Statement	Amount KSh.	Description
1133	State Department for Arts and Culture	1,706,793	EFT collections details not availed
1161	State Department for Agriculture	455,949,152	Proceeds from Domestic and Foreign Grants. 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 while Note 1 discloses amounts of KSh.124,274,646 and KSh.77,548,274 as having been received respectively. No explanation or reconciliations were provided for these variance totaling to KSh.455,949,152.
1162	State Department for Livestock	1,452,738,303	This comprises of: Unsupported account payables - deposits; Unconfirmed other grants and transfers without supporting documents provided; Unconfirmed transfers to other Government units and other grants and transfers; Unsupported account receivables; Unexplained differences between debits and credits in the trial balance.
1184	State Department for Labour	73,069,995	Included in the Account Payable as clearance without supporting analysis and/or documents
1191	State Department for Mining	22,321,429	Unsupported donor funded project expenditure incurred by the United Nations Development Programme under Extractive Industry for Sustainable Development project in the Department.
1211	State Department for Public Service and Youth Affairs	884,062,252	Unaccounted for balance on AIE to various field stations. Unsupported balances of NYS Men and Women Savings and Allowances and Huduma Cohorts
1252	Office of the Attorney General and Department of Justice	130,904,137	The Integrated Payroll and Personnel Database (IPPD) figure was higher than the compensation of employees figure in the financial statements by KSh.130,904,137.
1252	Office of the Attorney General and Department of Justice - Revenue Statement	46,430,817	The balance brought forward of KSh.264,269,237 in the financial statements differed with the closing audited balance of the prior year KSh.217,838,240 and no reconciliation was provided.

Vote	Financial Statement	Amount KSh.	Description
1252	State Law Office and Department of Justice	125,426,843	Confirmations certificates for receivables as at 30 June 2018 were not availed.
1261	The Judiciary	608,853,469	Lack of Fixed Assets Register.
1261	The Judiciary Revenue Statement	2,078,739,966	Unsupported Fees on Use of Goods or Services and Fines, Penalties and Forfeitures
	Total	**142,026,246,877**	