

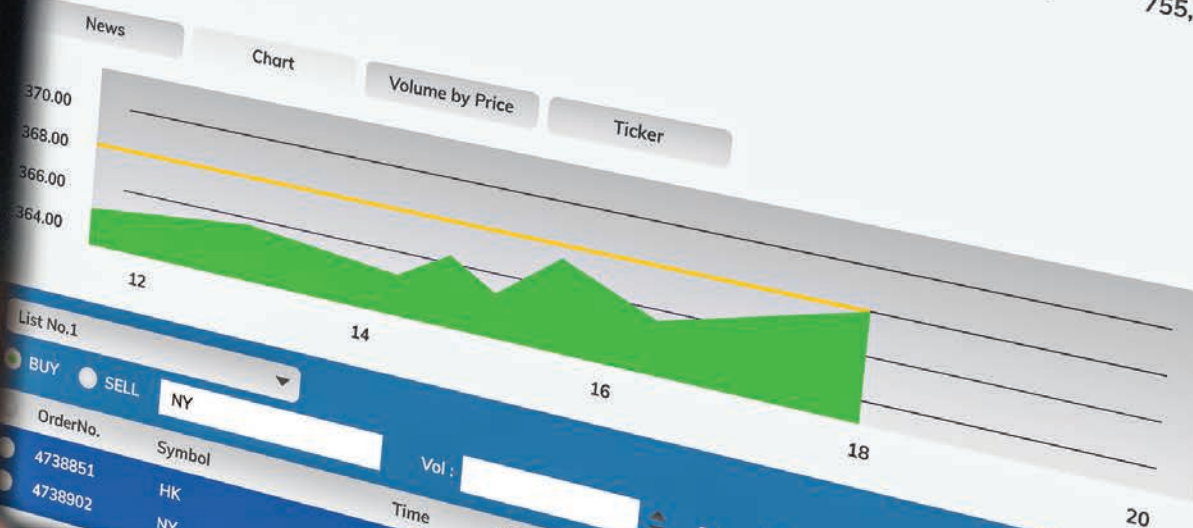


AUDITOR-GENERAL'S POPULAR REPORT ON NATIONAL GOVERNMENT 2023 - 2024

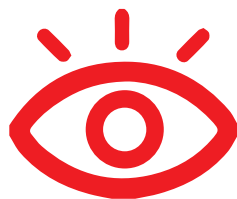




358.75	1,923,000	CNRC	S
318,920,000	CNRC	S	B
3,624,300	TZA	B	B
755,500	TLA005	S	B
	TLA008	S	B
	TLAX	S	B
	SA5009710	S	B
	SA5009730	S	B
	SA5009750	S	B
	NATU	S	B
	ECK	S	B
	CAVA	S	B
	IGTECH	S	B
	S10UH0	S	B
	S10UH0	B	B
	S10UH0	B	B
	S10UH0A	S	B
	S10UH0A	S	B



List No.1	BUY	SELL	NY	OrderNo.	Symbol	Vol :	Time	Side	Price	Volume	Matched	Limit	Pin :	Status
4738851				4738851	HK		10:15:28	S	160.50	15.00	0			Queuing
4738902				4738902	NY		10:16:09	S	270.00	5.00	0			Queuing



VISION

Making a difference in the lives and livelihoods of the Kenyan people



MISSION

Audit services that impact on effective and sustainable service delivery



OUR CORE VALUES

Integrity • Credibility • Relevance •
Accountability • Independence

CONTENTS

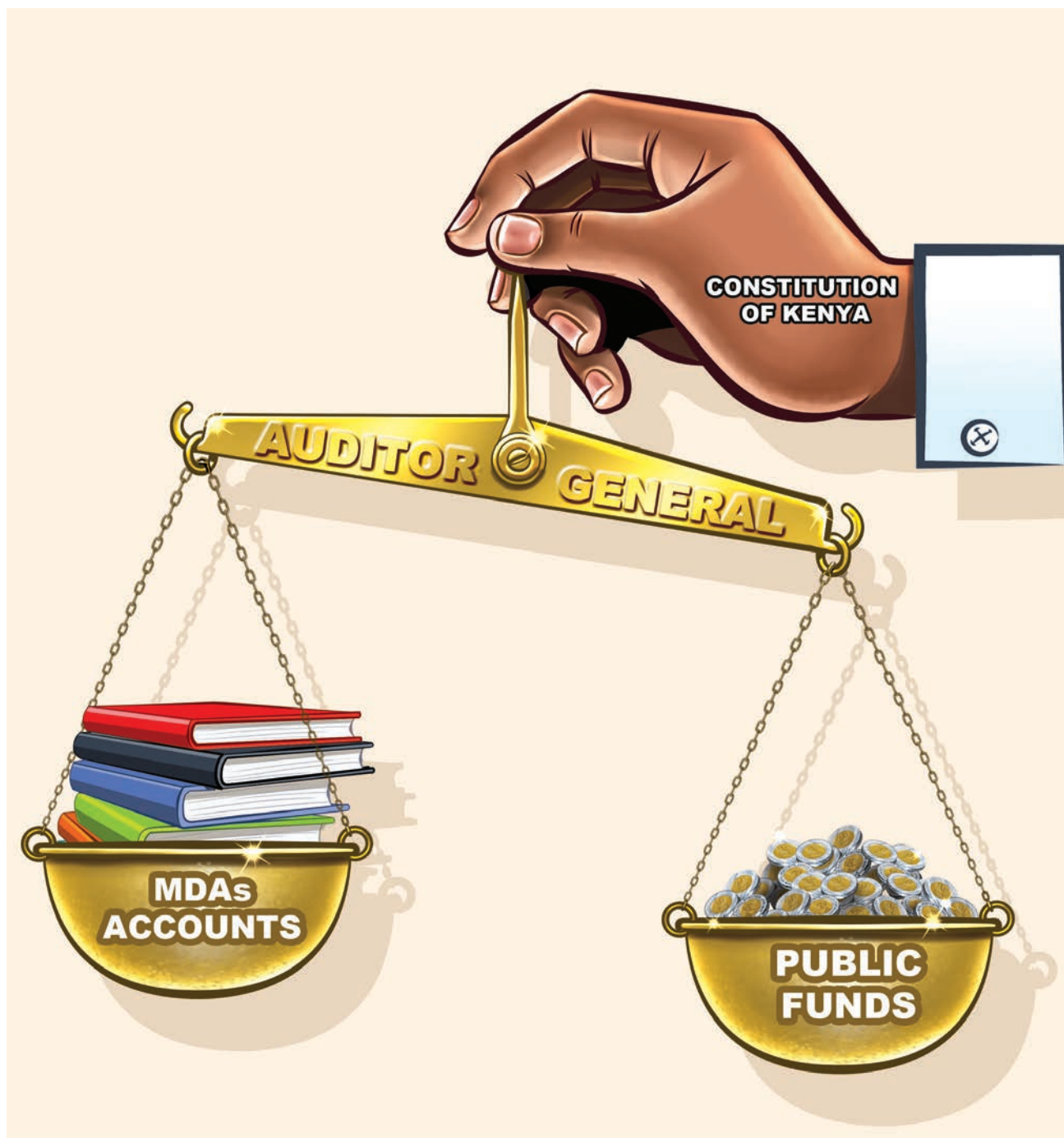
Abbreviations	Vi
Mandate	Vii
Role of the Auditor-General	viii
OAG Benefits to Society	ix
Scope	x
1.0 Highlights of Audit Findings	1
2.0 Summary of Audit FINDINGS.....	10
1. Unmodified/Unqualified Opinion	11
2. Modified/Qualified Opinion.....	11
3. Adverse Opinion	12
4. Disclaimer of Opinion	12
4.0 Main Audit Observations Reported Under MDAs	14
5.0 Audit of Donor Funded Projects	21
6.0 Other Observations	22
7.0 Compliance and Governance Issues	27
8.0 The Equalisation Fund	29
9.0 Recommendations.....	30
10.0 How Citizens can use the Audit Report.....	31

ABBREVIATIONS

AIA	—	Appropriation in Aid
CBC	—	Competency Based Curriculum
GoK	—	Government of Kenya
ICU	—	Intensive Care Unit
IFMIS	—	Integrated Financial Management Information System
JSS	—	Junior Secondary School
MDAS	—	Ministries, Departments and Agencies
MES	—	Managed Equipment Services
NEMIS	—	National Education Management and Information System
NHIF	—	National Hospital Insurance Fund
NSSF	—	National Social Security Fund
OAG	—	Office of the Auditor-General
OMCs	—	Oil Marketing Companies
PAYE	—	Pay As You Earn
PFM	—	Public Finance Management
SRC	—	Salaries and Remuneration Commission
VAT	—	Value Added Tax

MANDATE

Article 229 of the Constitution of Kenya, under mandates the Auditor-General to audit and report on the use of public resources by all entities funded from public funds. The Office audits the National and County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Constitutional Commissions and Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and all other entities funded from public funds.



ROLE OF THE AUDITOR-GENERAL

The role and responsibilities of the Auditor-General are to:

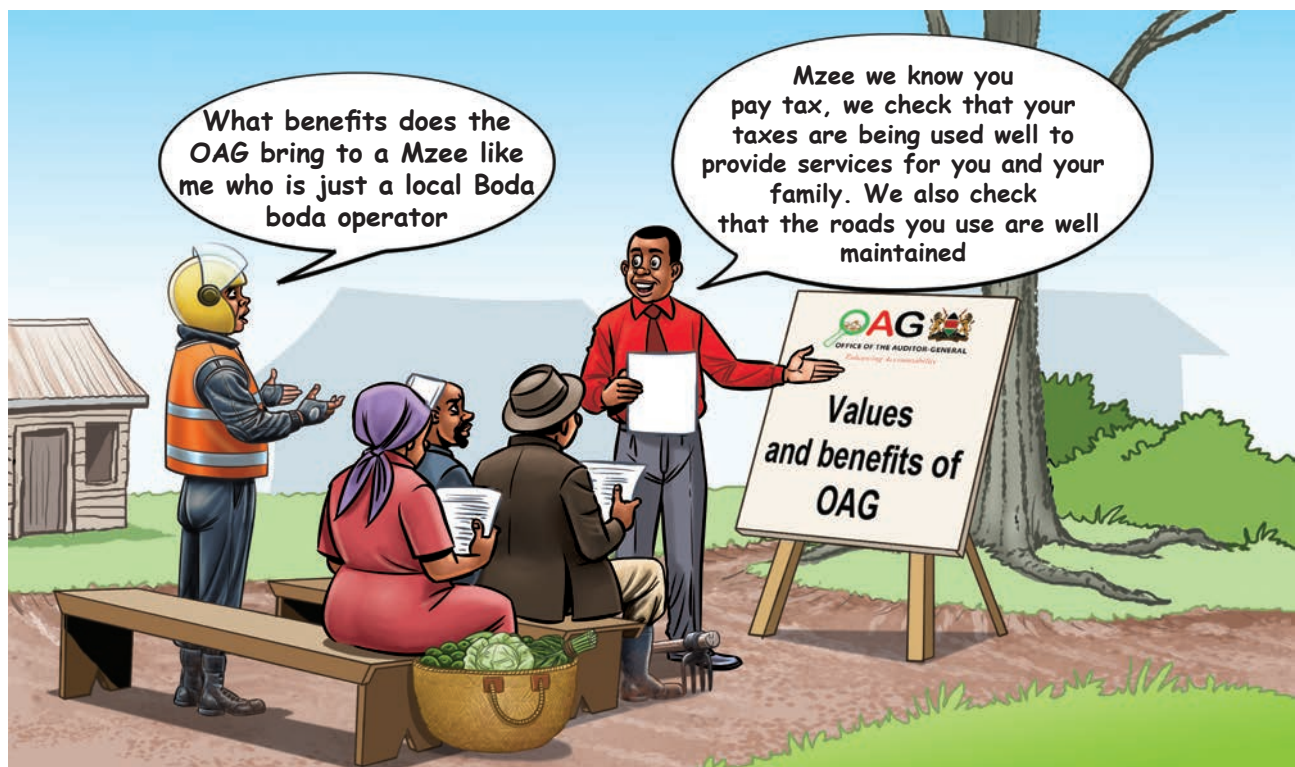
- Confirm whether financial statements are in agreement with the books of account.
- Conclude on lawfulness and effectiveness in use of public resources.
- Conclude on effectiveness of internal controls, risk management and governance.
- Promote constitutionalism by ensuring effective use of the public funds for the benefit of citizens.



OAG BENEFITS TO SOCIETY

OAG audits play a crucial role in ensuring that public resources are used effectively and efficiently, ultimately benefiting society in numerous ways

- Increased accountability and transparency
- Improved efficiency and effectiveness
- Enhanced public service delivery
- Promotion of good governance
- Informed decision-making
- Strengthening public trust
- Follow up on audit recommendations to ensure appropriate actions are taken by Management



SCOPE

This audit report is on Ministries, Departments and Agencies for the year ended 30 June, 2024.



1.0 HIGHLIGHTS OF AUDIT FINDINGS

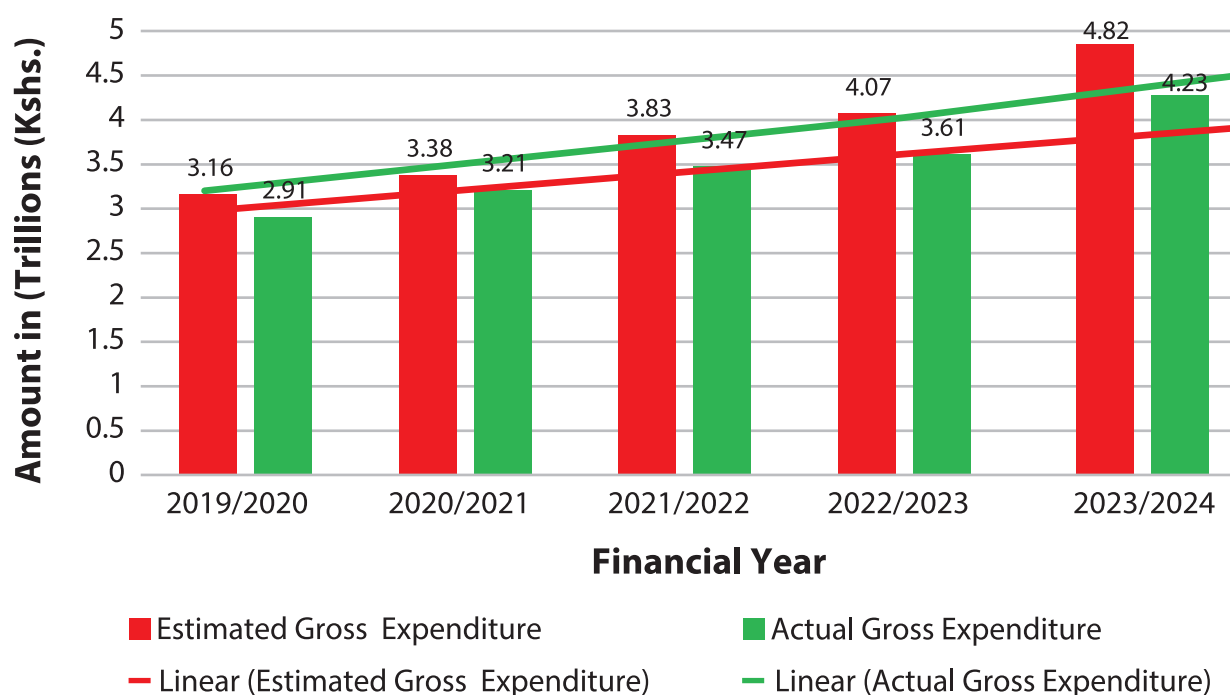
1.1 Budget Credibility

Budget credibility is about upholding government commitments and understanding why governments deviate from these commitments. The credibility of government budgets is a key driver of effective service delivery and public trust in government systems. When budgets are not implemented as planned, spending priorities can shift, deficits may exceed projections, and critical services may be compromised.

1.2 Budget Trend Analysis

Estimated Government spending increased over five years from Kshs.3.16 Trillion in the year 2019/2020 to Kshs.4.82 Trillion in the year 2023/2024, representing an increase of Kshs.1.66 Trillion (52%).

Actual Government spending increased over the same period from Kshs.2.91 Trillion in the year 2019/2020 to Kshs.4.23 Trillion in the year 2023/2024 representing an increase of Kshs.1.32 Trillion (46%).



The estimated gross¹ Government spending was Kshs.4.82 Trillion (including AIA of Kshs.553.2 Billion) against the actual gross expenditure of Kshs.4.23 Trillion resulted in gross under-expenditure of Kshs.583.9 Billion representing 12% for the financial year 2023/2024.

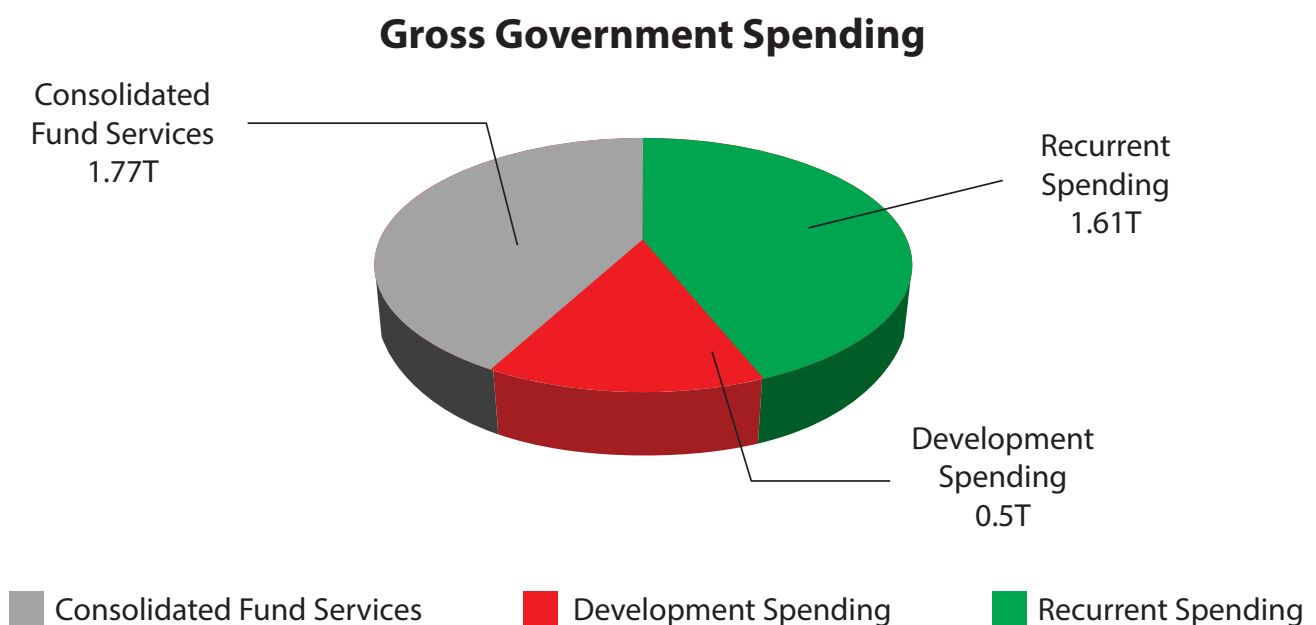
1. Gross government spending is the total expenditure that the national government expected to incur in 2023/2024 financial year.

The effect of under-expenditure is that some planned development programmes and services were not delivered to the citizens. Additionally, under-expenditure negatively impact on service delivery to the public and results on pending bills.



1.3 Actual Budget for 2023/2024

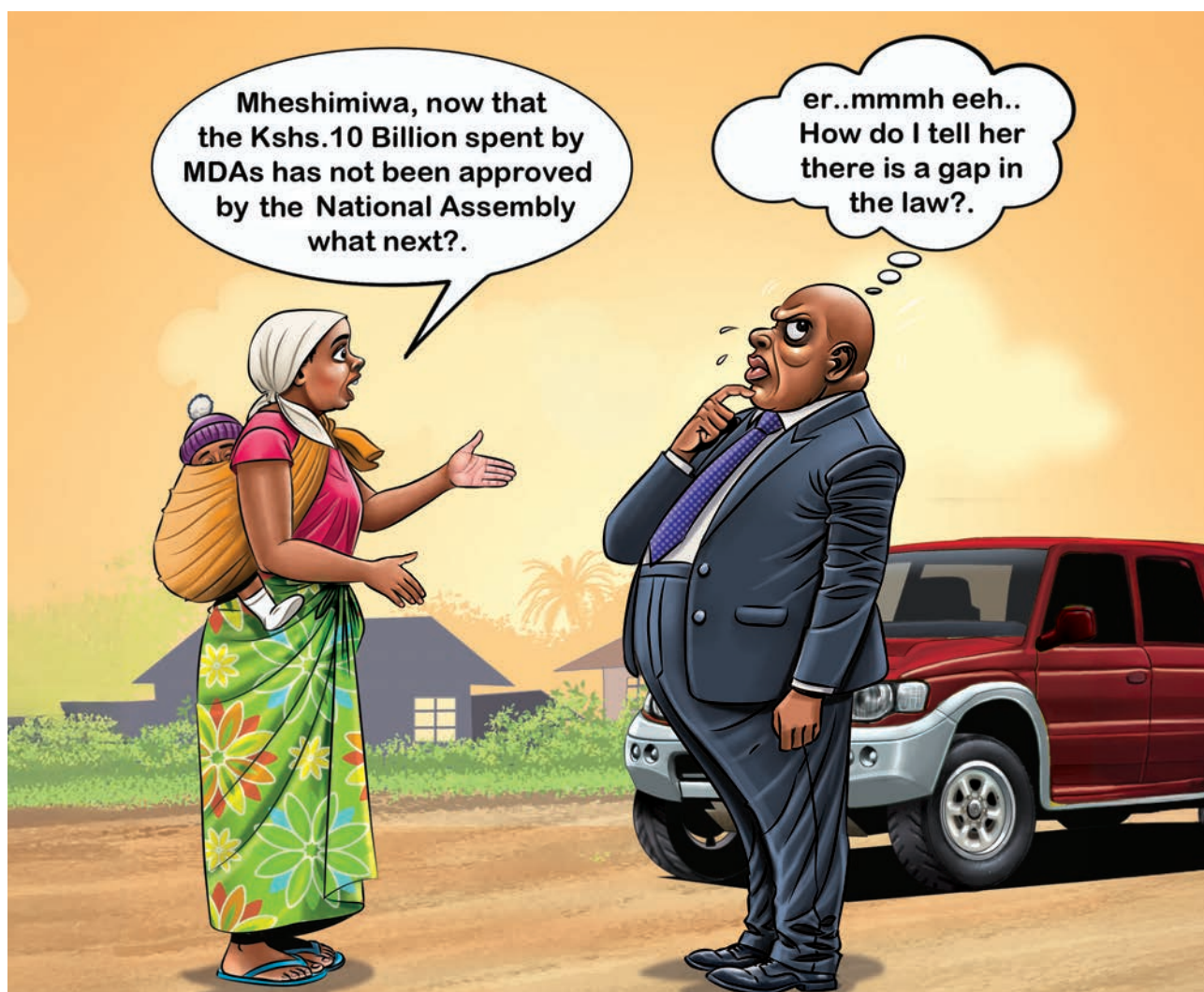
The actual gross government spending was Kshs.3.88 Trillion .



1.4 Additional Funding and withdrawals under Article 223 of the Constitution

The MDAs spent an additional Kshs.23.7 Billion approved by the National Assembly in line with Article 223(4) of the Constitution which provides that when the National Assembly has approved spending under clause (2), an Appropriation Bill shall be introduced for the appropriation of the money spent. However, as reported in the previous year, an expenditure of Kshs.10.2 Billion (Kshs.4 Billion incurred on maize flour subsidy programme and Kshs.6.2 Billion on acquisition of Telkom (K) shares) were not approved as required by the Constitution.

There is no guideline in place on how unapproved withdrawals from the Consolidated Fund² under Article 223 should be dealt with. The Public Finance Management Act, 2012 should therefore be ammended to provide guidelines on the actions to be taken where expenditure incurred under Article 223 is not approved by the National Assembly.



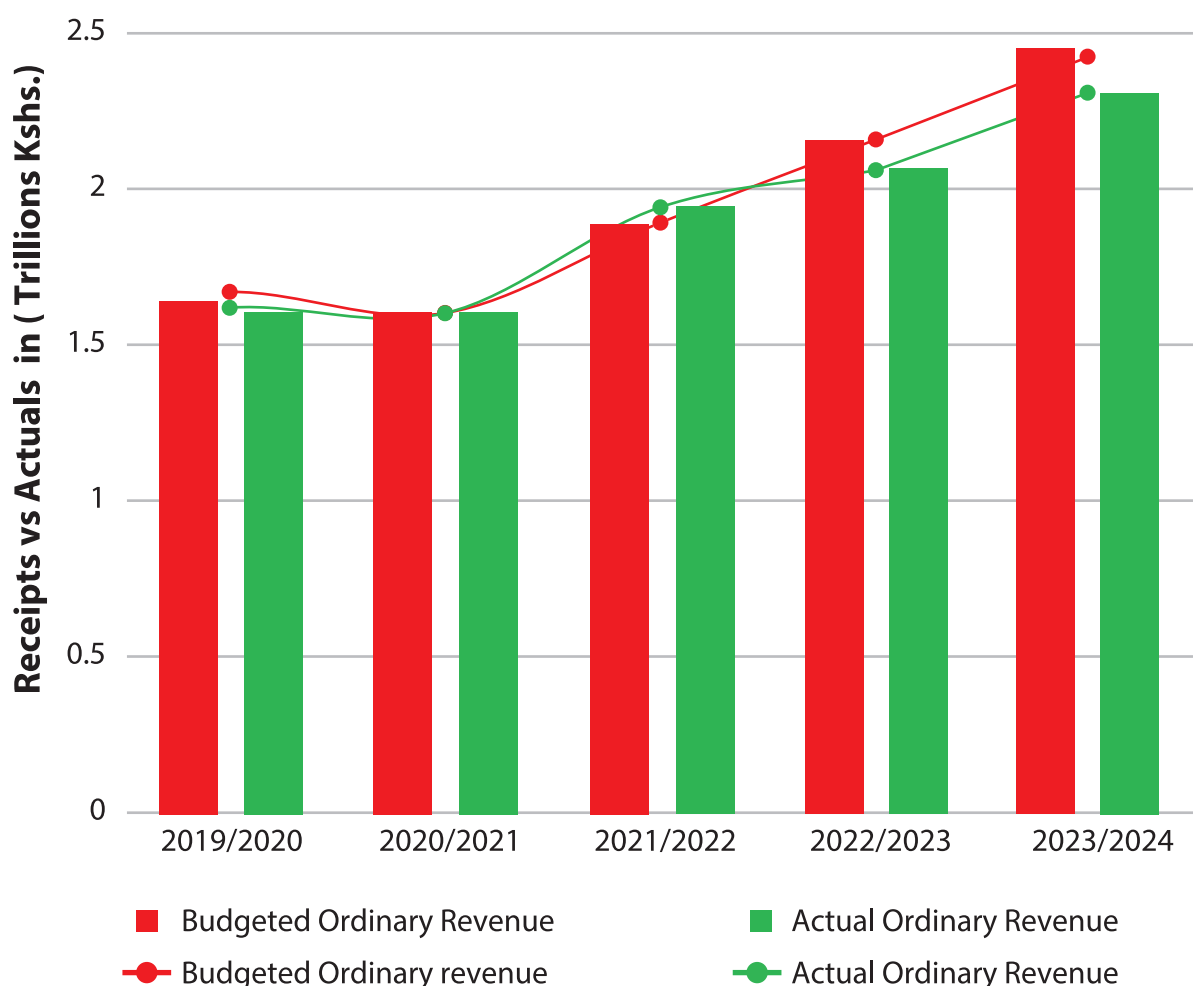
2. Consolidated Fund is the national government primary repository where all monies raised or received by the national government is deposited to finance its day to day operations.

1.5 Estimated Receipts Versus Actual Receipts of Ordinary Revenue

Estimated Receipts from Ordinary Revenue³ (tax and non-tax receipts) increased from Kshs.1.67Trillion in 2019/2020 to Kshs.2.46 Trillion in 2023/2024, an increase of Kshs.0.79 Trillion (48%).

Actual Receipts increased from Kshs.1.62 Trillion in 2019/2020 to Kshs.2.29 Trillion in 2023/2024, an increase of Kshs.0.66 Trillion (42%) as shown below:

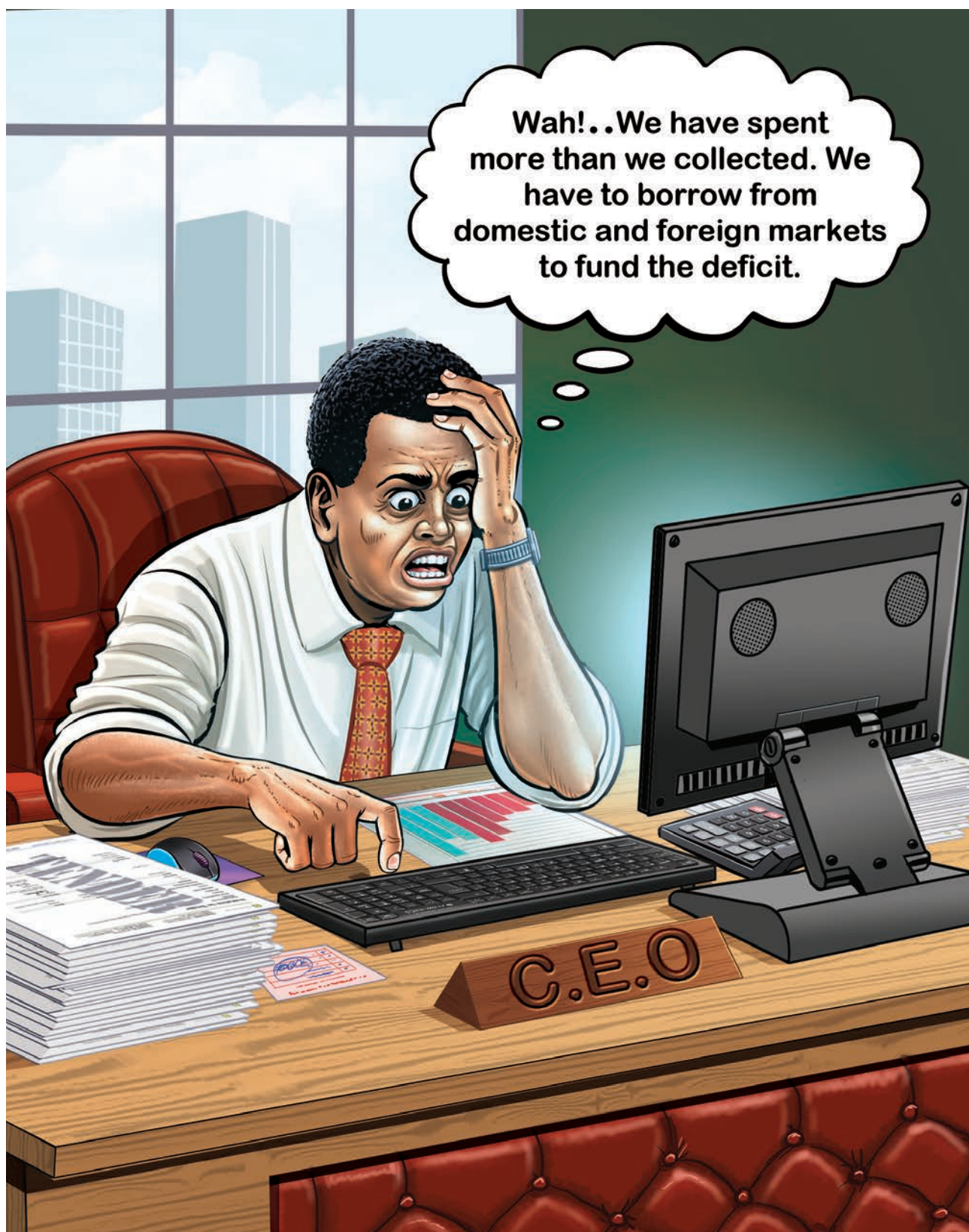
Year	Budgeted Ordinary Revenue (Tax and Non-Tax Receipts) (Kshs.)	Actual Ordinary Revenue (Tax and Non-Tax Receipts) (Kshs.)	Revenue Surplus/ (Shortfall) (Kshs.)	Percentage of Surplus/ (Shortfall)
2019/2020	1,669,701,355,816	1,618,797,777,894	(50,903,577,922)	(3%)
2020/2021	1,601,597,982,154	1,601,016,386,868	(581,595,286)	(0.04%)
2021/2022	1,891,602,330,060	1,940,971,132,408	101,497,970,074	5.5%
2022/2023	2,158,627,298,438	2,059,281,671,520	(99,345,626,918)	(4.6%)
2023/2024	2,464,287,804,187	2,293,893,380,062	(170,394,424,125)	(6.9%)



3. Ordinary Revenue refers to national government income from taxes, levies, royalties, fees, duties, rent and surplus funds from Semi Autonomous Government Agencies (SAGAs).

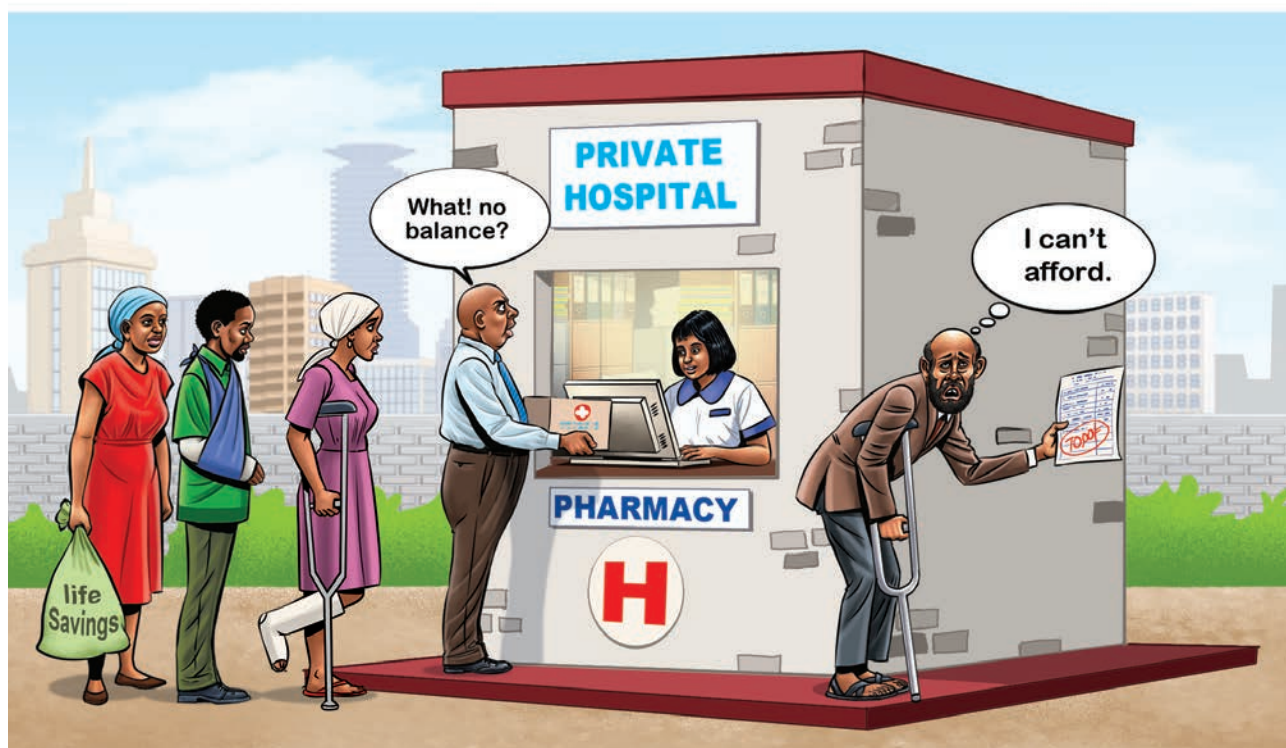
1.6 Actual Spending against Actual Revenue

The actual gross spending in 2023/2024 financial year was Kshs.3.88 Trillion against the actual revenue (tax and non-tax receipts) of Kshs.2.29 Trillion, resulting to a deficit of Kshs.1.59 Trillion. This resulted to borrowings from domestic and foreign markets to fund the deficit.



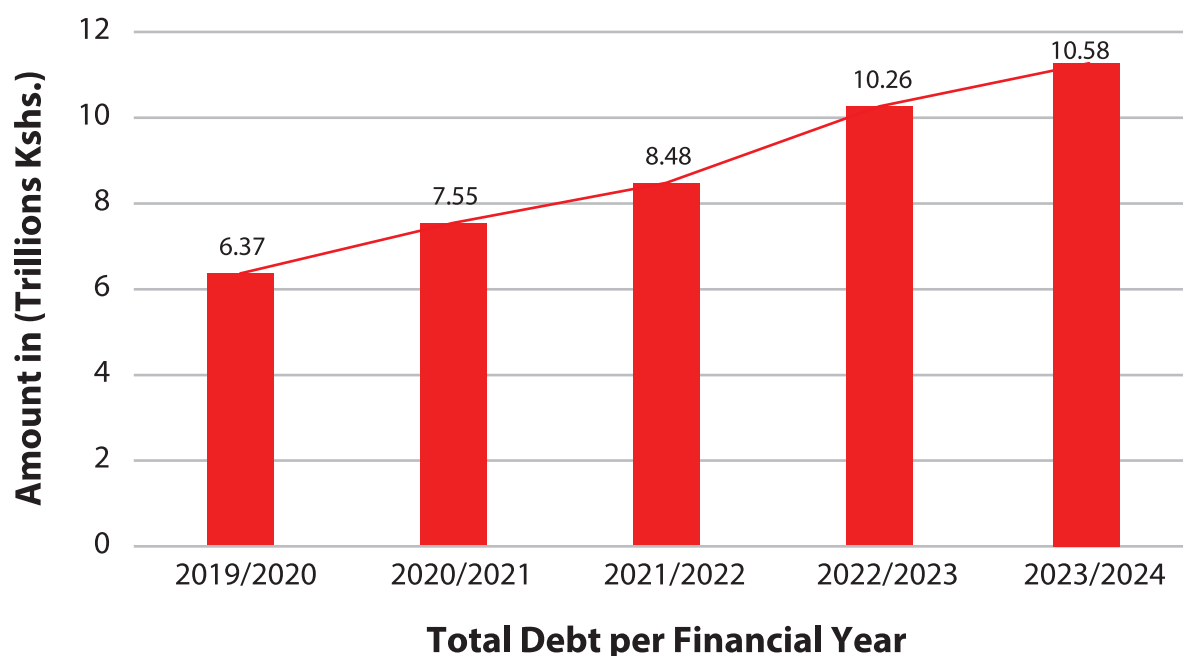
1.7 Late Exchequer Release of Funds

Service delivery to the citizens were affected following late release of Kshs.49.5 Billion by The National Treasury. Late release of funds was contrary to Regulation 97(4) of the Public Finance Management (National Government) Regulations, 2015, which provides that actual cash transactions taking place after 30 June shall not be treated as pertaining to the previous financial year.



1.8 Management of Public Debt

The public debt as at 30 June, 2024 was Kshs.10.58 Trillion. This represents an increase of Kshs.4.21 Trillion or approximately 66% over a five year period as indicated:



The outstanding amount of public debt of Kshs.10.58 Trillion exceeded the maximum debt ceiling of Kshs.10 Trillion approved by Parliament through Legal Notice No.89 of 26 May, 2022 which provides that the National Public Debt shall not exceed ten trillion shillings.

Key Issues

- The Government paid commitment fees of Kshs.1.5 Billion relating to undrawn loans signed between the Government of Kenya and foreign lenders. Among the projects the Government paid commitment fees included; Kenol-Sagana-Marua Road Project, Bagamoyo-Horohoro Phase1 Project and Mombasa-Mariakani Highway (Lot 1). Had the implementing agencies put in place proper mechanisms to enable absorption of the committed credit within the agreed timeframes, the payment of commitment fees would have been minimised and funds put to good use.
- The Kshs. 10.58 Trillion Public Debt include an outstanding Central Bank of Kenya overdraft of Kshs.61 Billion as at 30 June 2024. However, the balance does not include loans and overdrafts held by the National and County Governments entities and Pending Bills.



1.9 Loans to State Owned Enterprises

The total loan to fifty four (54) State Owned Enterprises was Kshs.1.19 Trillion. Four (4) institutions with outstanding balance of Kshs.13.12 Billion did not confirm their loan balances because they requested for write-off, transferred their functions to respective county governments or were under receivership.

1.10 Outstanding Payments (Pending Bills)

Pending bills are unsettled financial obligations that occur at the end of the financial year as a result of failure to pay for goods and services that have been procured and delivered, provided the bills have not exceeded agreed credit period. It is also includes updaid obligations such as pensions, other payroll deductions and outstanding verified overpaid tax owed to tax payers.

Total outstanding payments to contractors and suppliers was Kshs.194.7 Billion, made up of Kshs.130.3 Billion and Kshs.64.4 Billion for MDAs and Donor Funded Projects, respectively.

Outstanding payments for the MDAs decreased by Kshs.48.7 Billion (0.4%) from Kshs.130.8 Billion in 2022/2023 financial year to Kshs.130.3 Billion in 2023/2024 financial year.

The Ministry of Defence had the highest outstanding payments of Kshs.22.9 Billion, representing 17.6% of the Kshs.130.3 Billion owed by MDAs.

The Kenya National Highways Authority had the highest outstanding payments of Kshs.49.99Billion for its Donor-Funded Projects, representing 78% of the Kshs.64.4 Billion, owed by Donor Funded Projects.

Impact of outstanding payments to contractors are as follows;

- Expensive goods and services supplied
- Closure of business and losses especially small and micro enterprises
- Affected liquidity or money supply in the private sector
- Delayed payment of taxes by suppliers and staff salaries for funds not received
- Continued accumulation of pending payments



2.0 SUMMARY OF AUDIT FINDINGS

No.	Description	2021/2022 Kshs (Billions)	2022/2023 Kshs (Billions)	2023/2024 Kshs (Billions)
1	Estimated Expenditure	3,832	4,069	4,817
2	Actual Expenditure	3,473	3,614	4,233
3	Estimated Revenue Receipts	1,892	2,159	2,464
4	Actual Revenue Receipts	1,941	2,059	2,293
5	Outstanding Total Public Debt	8,479	10,265	10,581
6	Public Debt Expenditure	1,041	1,201	1,598
7	Outstanding Payments (Pending Bills)	106	197	194



3.0 SUMMARY OF AUDIT OPINIONS

The Auditor-General expressed different types of opinions based on the following criteria:

1. Unmodified/Unqualified Opinion

A total of two hundred and forty eight (248) financial statements had Unmodified Opinions.



2. Modified/Qualified Opinion

There was a total of eighty five (85) financial statements that were issued with Qualified Opinions.



3. Adverse Opinion

Two (2) financial statements had an Adverse Opinion.



4. Disclaimer of Opinion

One (1) financial statement had a Disclaimer of Opinion.



Summary of Opinion

Client Type	Type of Opinion Issued				
	Unmodified	Qualified	Adverse	Disclaimer	Total
MDAs	56	27	–	–	83
Revenue statements	8	4	–	–	12
Donor Funded Projects	169	43	1	–	213
Others	15	11	1	1	28
Total	248	85	2	1	336

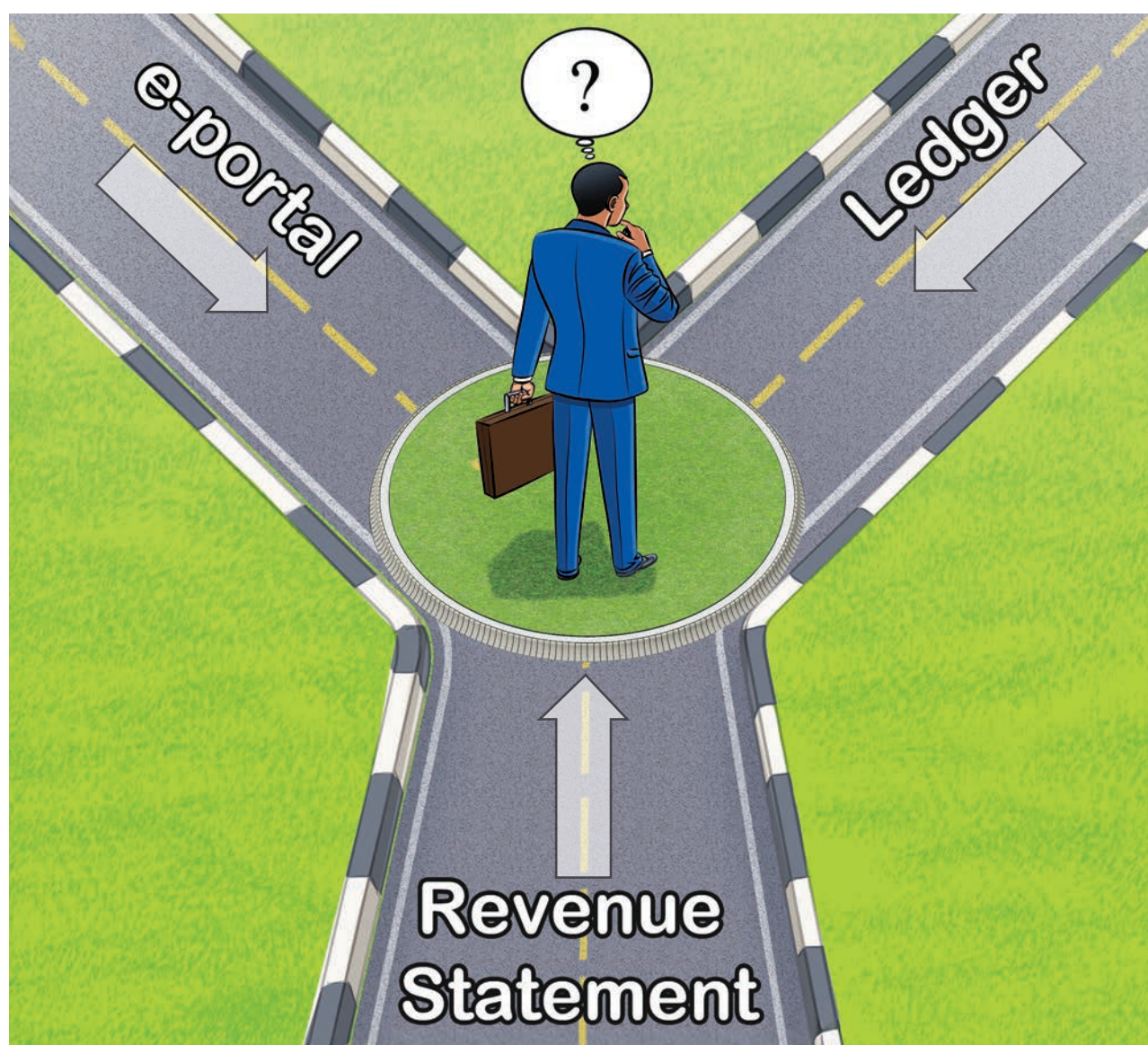


4.0 MAIN AUDIT OBSERVATIONS REPORTED UNDER MDAs

4.1 The National Treasury

Government Digital Payments (E-Citizen)

The National Government collected Kshs.100.8 Billion (44.8 Billion in respect of receivers of revenue) through e-Citizen Government Digital Payments platform. Review of the e-Citizen platform and the revenue statements revealed variances between balances reflected in the revenue statements, e-Portal system and the ledger, casting doubt on the completeness and accuracy of receipts reported by the receivers of revenue amounting to Kshs. 44.8 Billion.



The Government did not have full control of the system and was relying significantly on the supplier for some critical functions to perform onboarding, system configuration and changes to support system growth including new Government services.



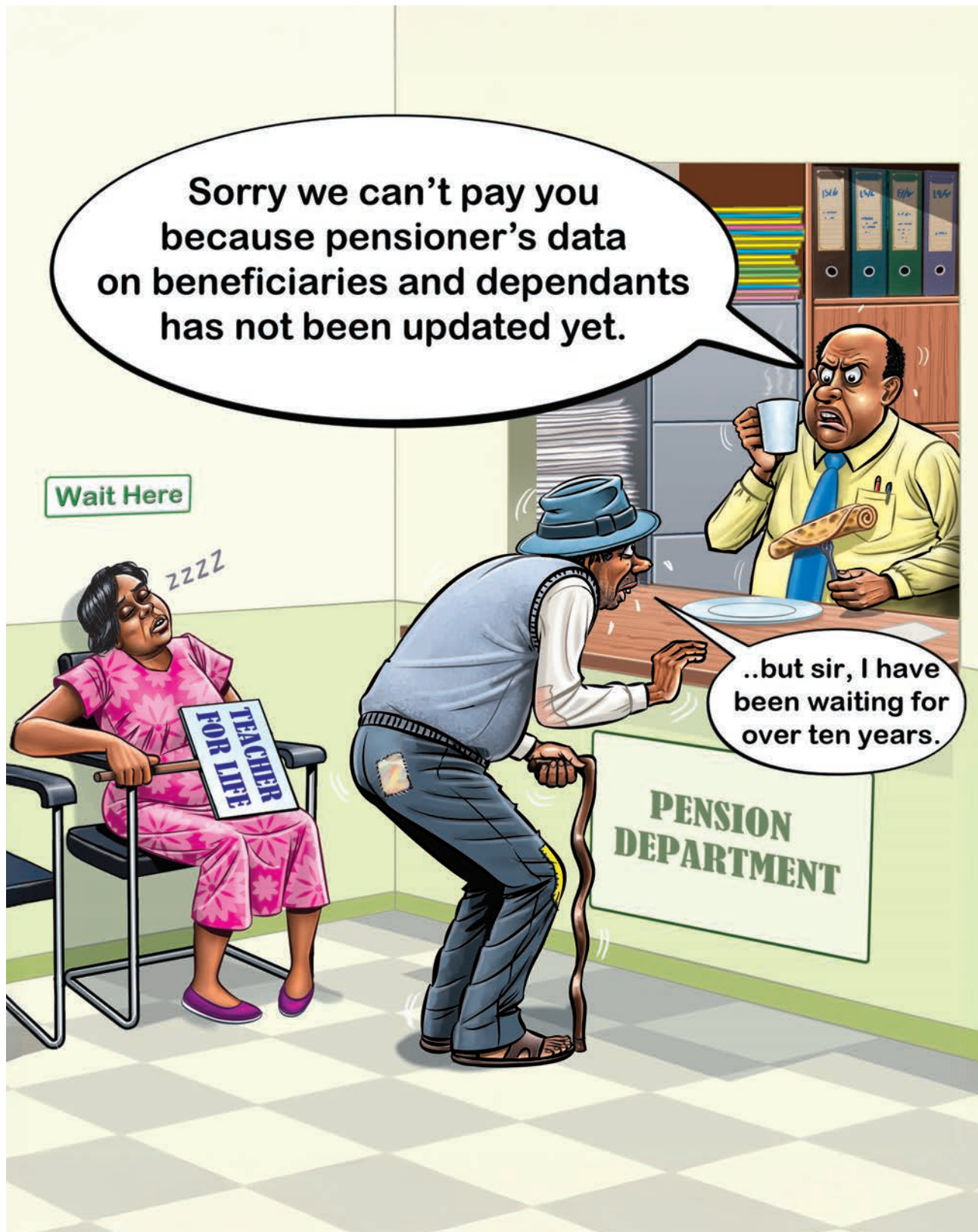
Loans to Kenya Airways Limited

The Kenya Airways owed The National Treasury Kshs.55.3 Billion as at 30 June, 2023 made up of Kshs.43 Billion and Kshs.12.3 Billion loan and Guaranteed Debt, respectively. There was no formal agreement between The National Treasury and Kenya Airways on how the guaranteed loans repayments would be recovered and the Airline had not provided any security to the Government as a fall back.



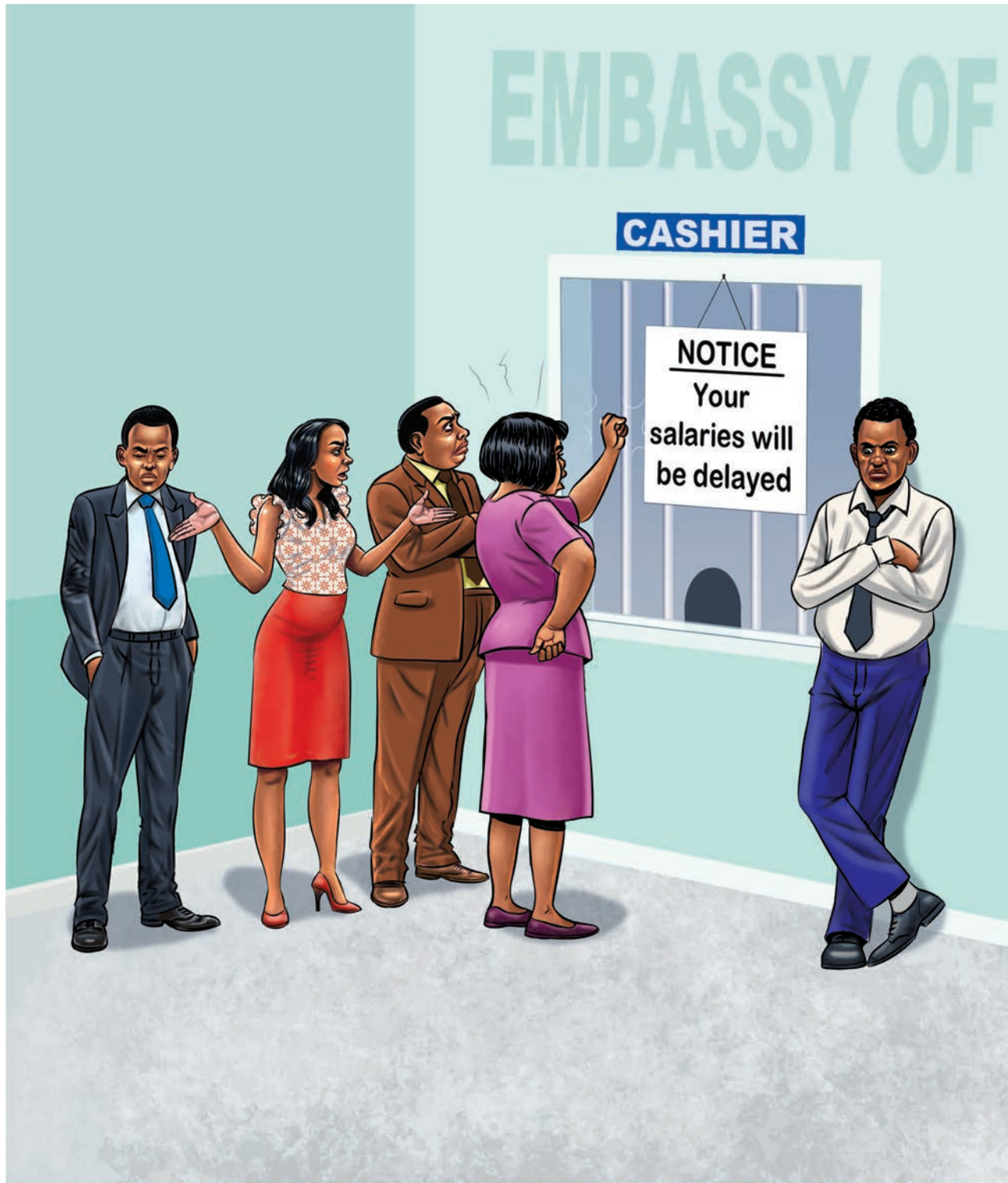
Pensions due to Civil Servants and Military Officers

The National Government set aside Kshs.187 Billion in respect of civil servants and military officer's pensions. However, the dues could not be accessed by some pensioners due to missing details like ID numbers and employee numbers.



4.2 State Department for Foreign Affairs

The State Department disbursed Kshs. 14.3 Billion to missions abroad, on quaterly basis. However, the disbursement were done in the last month of the respective quaters. This resulted to delayed payments to local staff, foreign service allowances to the home-based staff, suppliers and other related expenses. This affected staff morale and exposed the country to reputational risks.



4.3 State Department for Petroleum – Unsupported Stabilization of Petroleum Pump Prices Payments

The State Department paid Kshs.47.2 Billion to Oil Marketing Companies (OMCs) as compensation for lower prices charged at the pump against actual set prices, as per stabilization of petroleum pump prices mechanism. However, it was not possible to confirm the sustainability of the subsidy programme since the Department had not established a Multi-Agency Team to review the total resource requirement and develop Governance Framework for stabilisation of fuel prices and compensation mechanism.



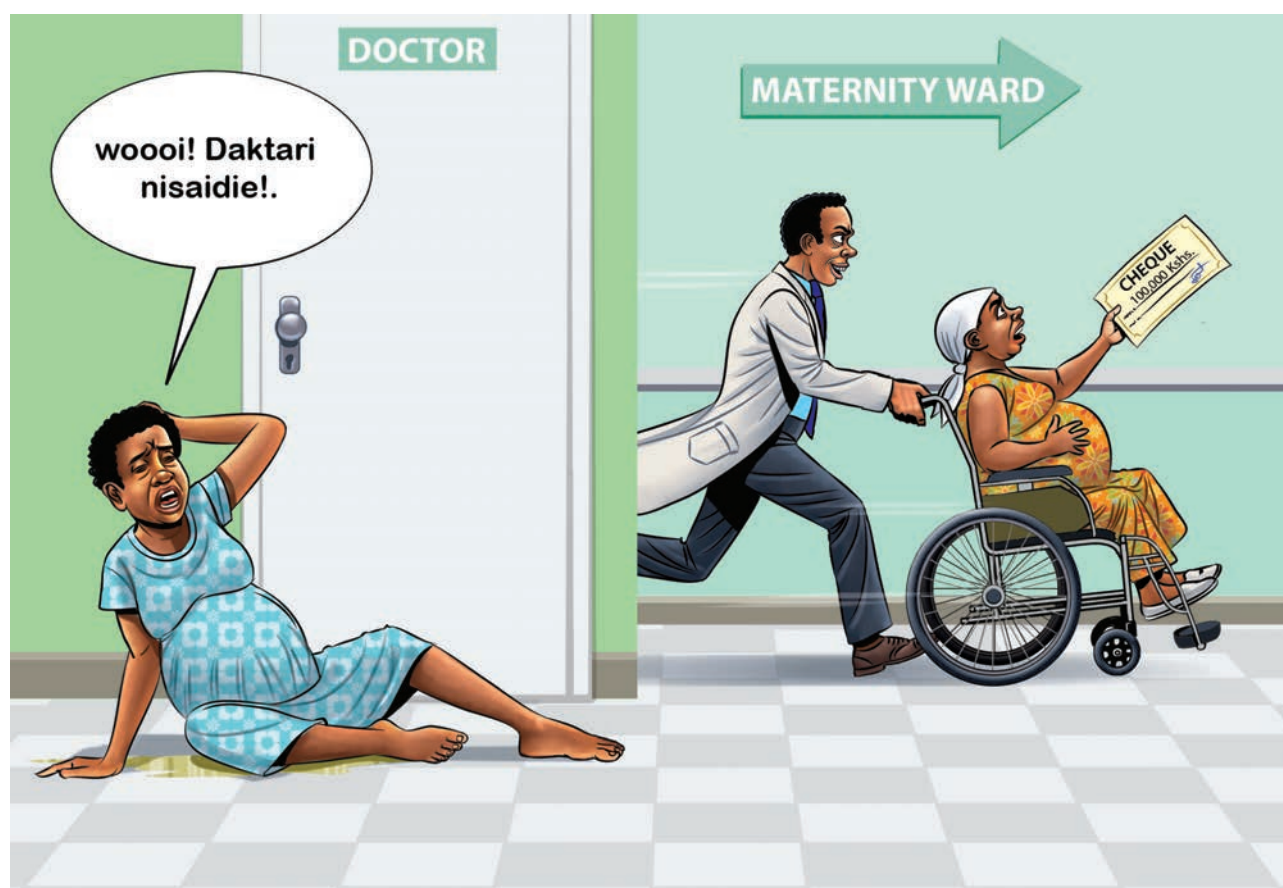
4.4 The State Department for Medical Services

Underfunding of Maternity Programme

The State Department had a budgeted expenditure of Kshs.105.5 Billion out of which Kshs.4 Billion related to implementation of free maternity programme (Linda Mama programme). However, only Kshs.2 Billion was transferred to the National Health Insurance Fund for the implementation of the programme resulting to an underfunding of Kshs.2 Billion or 51% of the budget. This means a good number of women were affected during delivery. The Linda Mama programme is now currently one of the benefits under the Primary Health Care Fund (PHCF) under the Social Health Authority (SHA) and will be funded by the Exchequer through the Ministry of Health.

Stock Outs of Vaccines at the Central Vaccine Store

Review of the vaccine stock ledgers revealed that during the year, three antigens (BCG, OPV and Measles Rubella) were out of stock for an average of sixty-five (65) days due to delays in providing funding to the procuring agent. The stock outs at the Central Vaccine Store (CVS) affected the availability of vaccines at the health facilities which significantly affected the provision of preventive healthcare.



5.0 AUDIT OF DONOR FUNDED PROJECTS

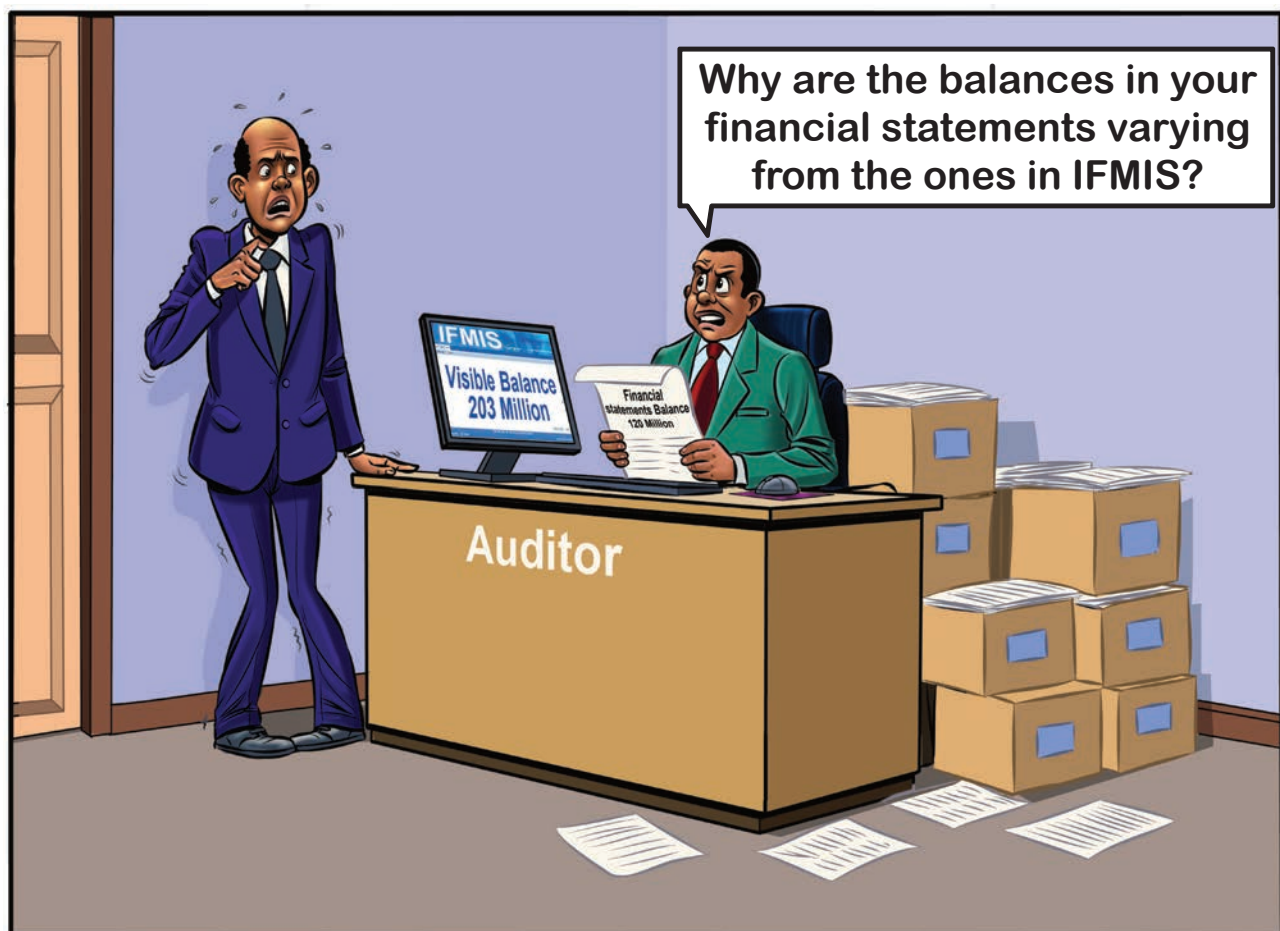
There was low absorption of funds in forty-four (44) projects. Although the projects periods were ending, some funds had not been absorbed, posing risks that the projects would end without implementing all the planned activities and therefore not meeting all the projects objectives of transforming lives of the citizens. A total of Kshs.4.4 Billion was paid as interest on delayed payments, an amount that could have been used in other important live-changing projects.



6.0 OTHER OBSERVATIONS

6.1 Inadequacies in the Integrated Financial Management Information System

The Government of Kenya (GoK) introduced the Integrated Financial Management Information System (IFMIS) to improve how finances are controlled, recorded, accounted for and reported. The system was designed to provide accurate, reliable and timely financial information. The benefits are yet to be realised due to inadequencies of the system.



Other issues relating to IFMIS include;

- Balances reflected in the financial statements submitted for audit were at variance with balances in the Trial balance/Ledgers extracted from IFMIS.
- Balances reflected in the financial statements /ledgers were at variance with balances in the IFMIS supporting schedules.
- The reported balances for recurrent, development and deposit bank balances as well as cash in hand balances were at variance with the IFMIS amounts.
- Some payments were made in IFMIS but could not be traced to the financial statements, whereas some payments in the financial records were not posted in IFMIS.
- There were instances where accounting for Authority to Incur Expenditure (AIEs) issued to National Government officers in County offices were not processed in IFMIS but were instead done manually, since the offices were not linked to IFMIS.
- Review of the transactions in IFMIS revealed cases where numerous transactions were cancelled (voided) in the system but no evidence was provided to confirm that the cancellation was approved.
- Override of internal controls was noted where an account was created in IFMIS under an individual's name which occasioned loss of funds, an indication that the internal controls in IFMIS were not effective.

6.2 Unsupported Expenditure

The audit revealed unsupported expenditure of Kshs.0.7Billion and Kshs.1.3Billion under five (5) MDAs and eleven (11) Donor Funded Projects respectively both totalling Kshs.2 Billion.

Failure to support the payments resulted to lack of authenticity, internal controls and accountability.



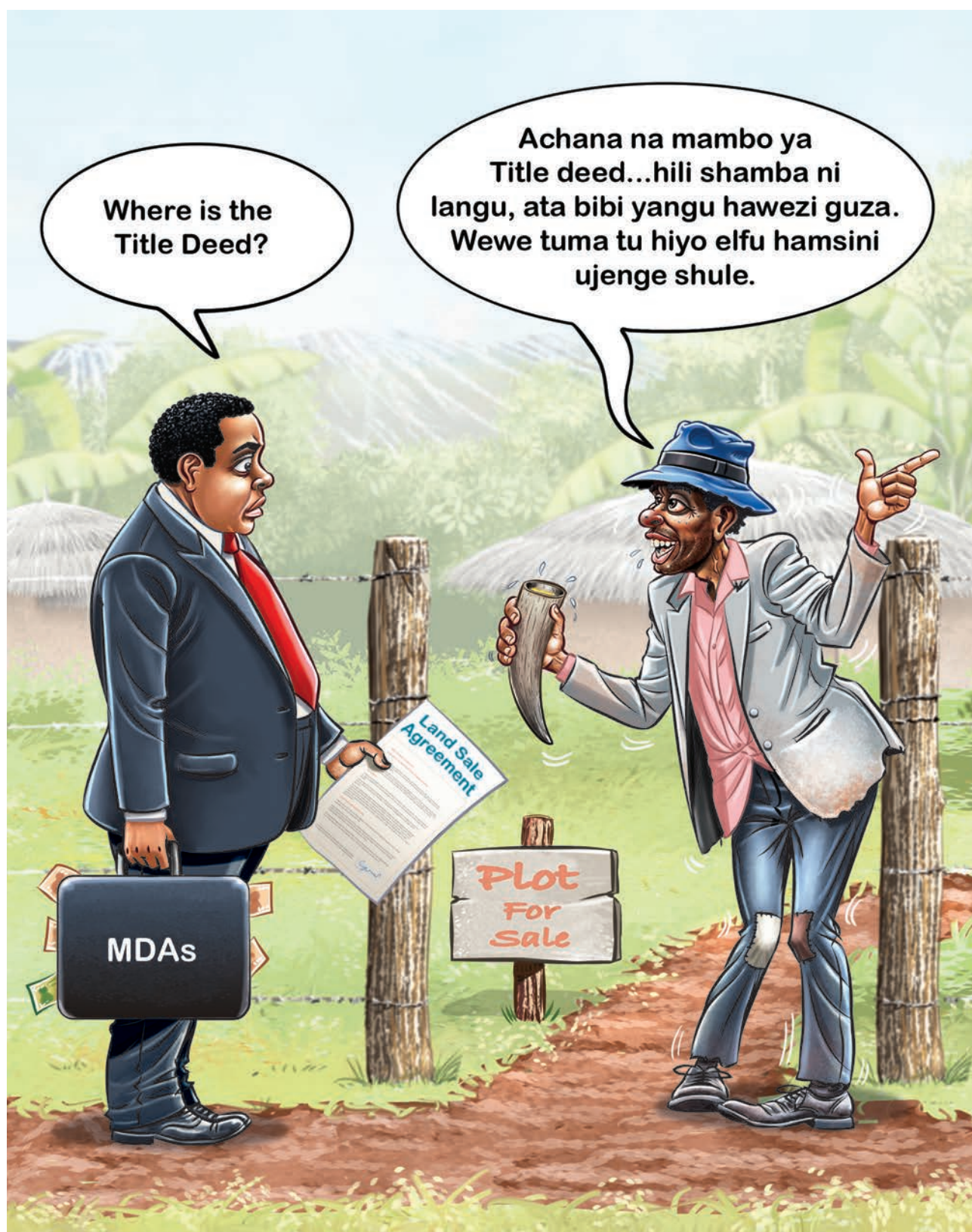
6.3 Stalled/Delayed Projects

The Government continued to incur huge expenditure on twenty four (24) projects which had either stalled or delayed long after their completion dates had elapsed. There was no value for money on public funds spent on these projects as not services were being provided.



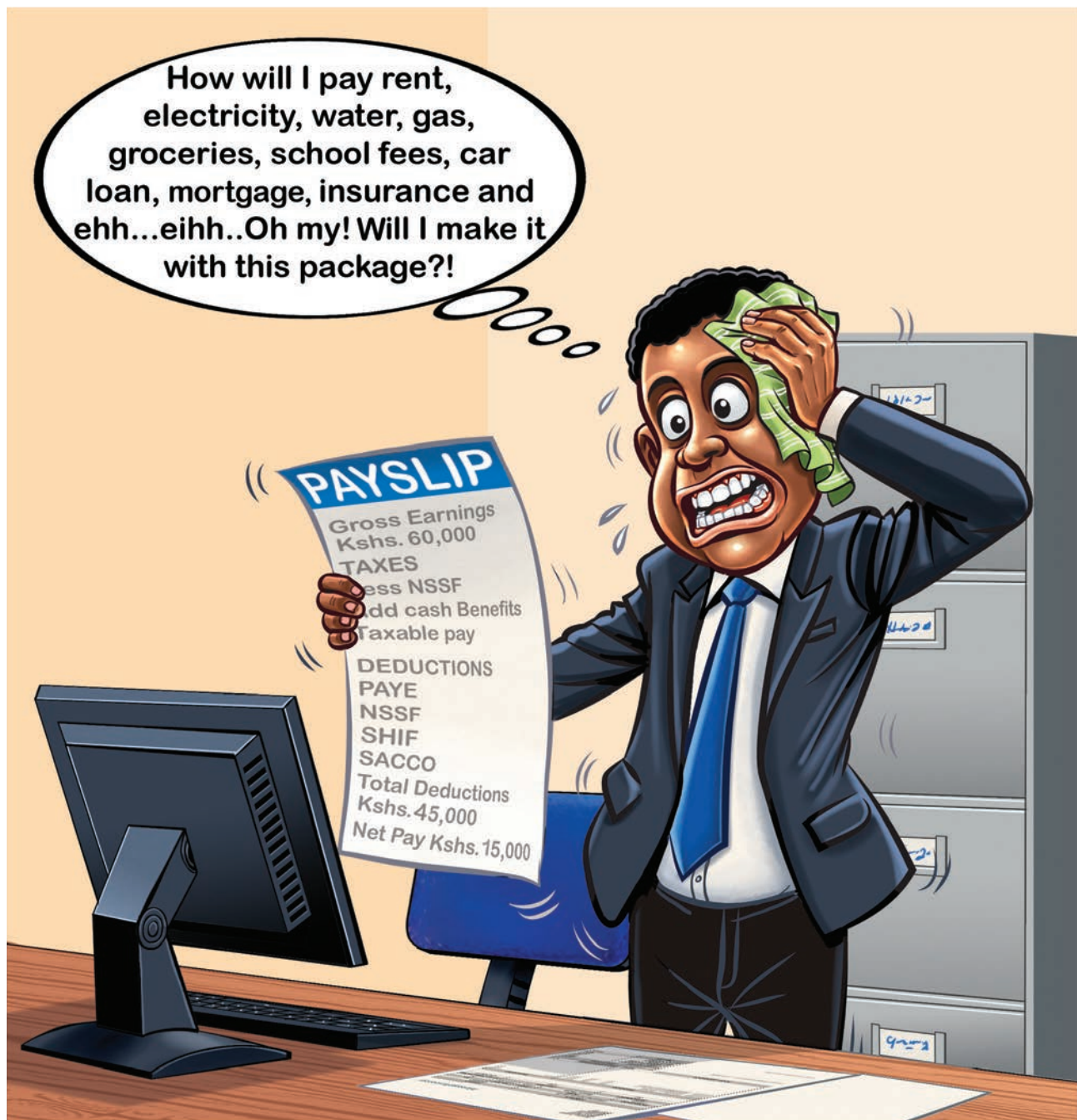
6.4 Land Without Ownership Documents

Twenty-six (26) MDAs lacked ownership documents for parcels of land in their possession. In the absence of title documents, it was not possible to ascertain that all properties and improvements belong to the respective MDAs.



7.0 COMPLIANCE AND GOVERNANCE ISSUES

Forty-seven thousand two hundred and seventy-four (47,274) government employees did not comply with the one-third ($\frac{1}{3}$) of basic salary rule as required by Section 19(3) of the Employment Act, 2007. The Section provides that all deductions made by an employer from the wages or salaries of his employees at any one time shall not exceed two-thirds ($\frac{2}{3}$), of basic salary.



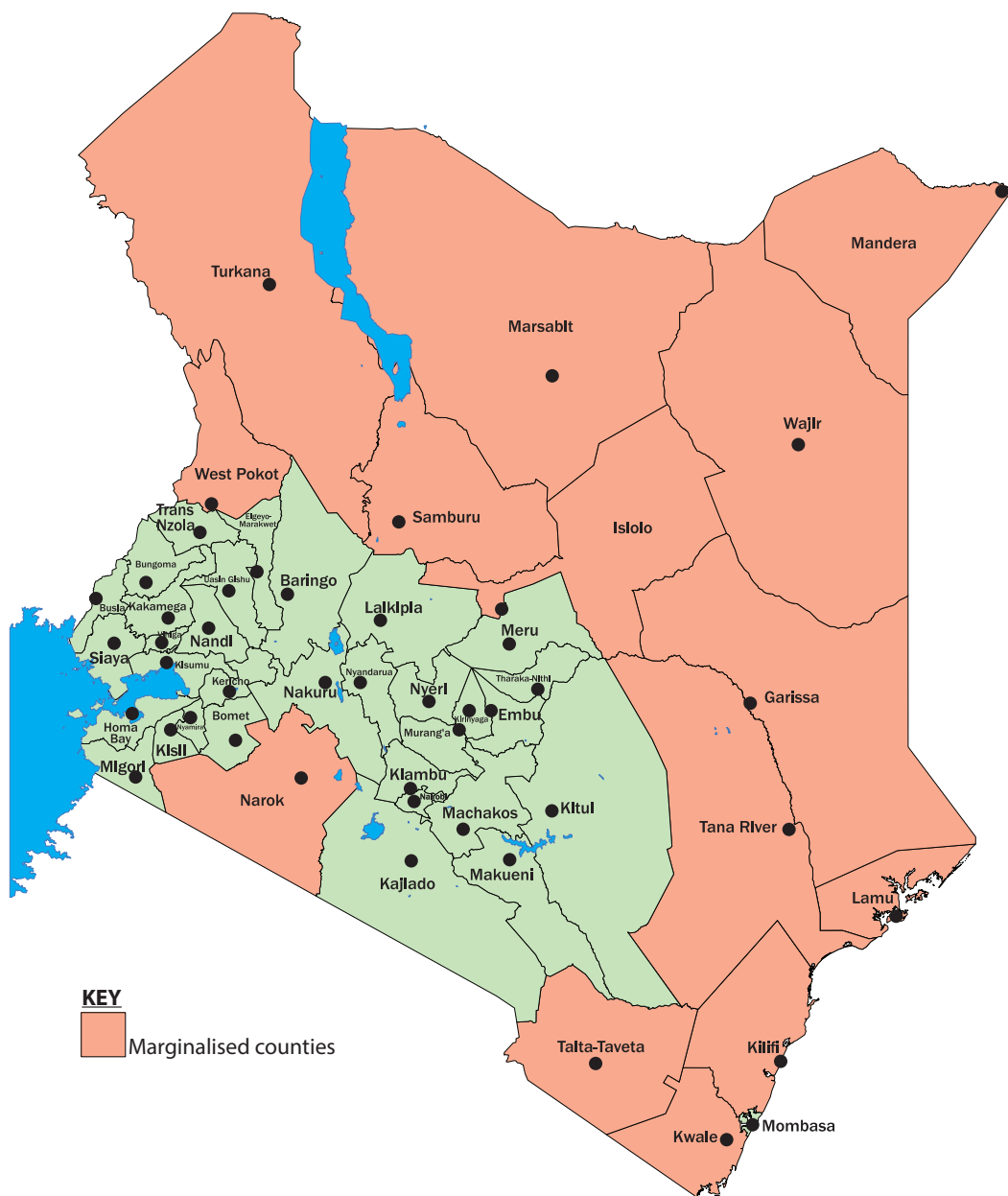
Other compliance and governance issues revealed by the compliance audits included;

- Payment of allowances not approved by Salaries and Remuneration Commission.
- Incomplete Fixed Asset Registers
- Failure to collect Government revenue and un-budgeted expenditure.
- Payment of salaries outside Integrated Personnel and Payroll Database (IPPD)
- Unapproved positions in staff establishment.
- Non-compliance with Public Procurement and Asset Disposal Act, 2015 and regulations, 2020 for example non-competitive procurement practices.
- Failure to surrender unspent balances, non-remittance of statutory deductions including PAYE, VAT, NHIF, NSSF and Pensions.
- Irregular issuance of multiple imprests.
- In-effective Internal Audit Function and Audit Committees.
- Value for money issues such as delay in project completion.



8.0 THE EQUALISATION FUND

The National Treasury failed to release Kshs.46.5 Billion to the Equalisation Fund allocated to the 14 marginalized counties. Only Kshs.13.4 Billion out of the expected total entitlement of Kshs.59.9 Billion was transferred to the Fund. The Fund was established by Article 204 of the Constitution of Kenya to help marginalized areas get essential services like water, roads, health facilities, and electricity, to raise them to the same standard as the rest of the country.



Fourteen (14) counties (**Turkana, Mandera, Wajir, Marsabit, Samburu, West Pokot, Tana River, Narok, Kwale, Garissa, Kilifi, Taita Taveta, Isiolo, and Lamu**) were identified as marginalized, and were the initial beneficiaries of the fund.

9.0 RECOMMENDATIONS

- The National Treasury should take into consideration, all macro-economic assumptions during budget preparation to ensure that accurate budgets are presented to Parliament. Any expenditure that was known at the time the original budget was finalized should not be considered unforeseen.
- Accounting Officers should strive to execute their budgets according to the plan approved by the legislature at aggregate and detailed allocations.
- Accounting Officers should take appropriate measures to resolve any issues arising from audit and ensure implementation of the recommendations of Parliament on the report of the Auditor-General.
- Accounting officers should put in place proper mechanisms to enable absorption of the committed funds within the agreed timeframes, to promote fiscal discipline in the use of public resources.
- Sanctions should be introduced against Accounting Officers who fail to pay suppliers or contractors within the stipulated timelines. The National Treasury to ensure adequate funding is provided towards implementation of government projects and programmes.
- Sanctions on Accounting Officers who fail to provide documents in accordance with Section 62 (b) and (c) of the Public Audit Act, 2015.
- The National Treasury should update, finalize and approve all Public Debt policies and procedures manuals regularly and ensure efficiency in retrieval of debt management information, by putting in place a robust and secure filing system that provides quick access to debt information. Further, the directorates should have sufficient and adequately trained debt management staff with clearly defined roles and put in place adequate measures and tools to operationalize and monitor the implementation of the debt Medium-Term strategies.
- Amendment of PFM Act 2012 to provide guidelines on the actions to be taken where expenditure incurred under Article 223 is not approved by the National Assembly.

10.0 HOW CITIZENS CAN USE THE AUDIT REPORT

This report will enhance citizens' capacity in the Citizen Accountability Audit. It will also encourage greater citizen participation in public finance management, including planning and budgeting. It will lead to increased ownership of Social Accountability Audit initiatives.

This report will increase the visibility of the OAG to citizens. The work will be enhanced leading to increased uptake and follow-up on the findings of audit reports.

The citizens will have access to a seamless flow of information from OAG thereby contributing to the effectiveness of participatory audits, and the ability of OAG to report on the efficiency and effectiveness of the use of public resources.





SIMPLE MONTHLY BUDGET

MONTHLY INCOME

Items

Amount

2 300,00

1 000,00

250,00

PERCENT

SUMMARY

Total M

3 75

EXPENSES

Amount

800,00

45,00

500,00

273,00

120,00

50,00

100,00

78,00

50,00



CONTACTS

3rd Floor, Anniversary Towers, University Way, Nairobi

Phone: +254 020 3214000 • **Email:** oag@oagkenya.go.ke • **Website:** www.oagkenya.go.ke



Office of the Auditor-General Kenya



Office of the Auditor-General, Kenya



@OAG_Kenya