REPUBLIC OF KENYA

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

USAID BORESHA JAMII PROJECT NO. 72061521CA00004

FOR THE YEAR ENDED 30 JUNE, 2025

JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website:www.oagkenya.go.ke

REPUBLIC OF KENYA
OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON USAID BORESHA JAMII PROJECT NO. 72061521CA00004 FOR THE YEAR ENDED 30 JUNE, 2025 - JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Disclaimer of Opinion is issued when the Auditor-General is unable to obtain sufficient appropriate audit evidence to form an opinion on the financial statements. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of USAID Boresha Jamii Project No. 72061521CA00004 set out on pages 19 to 38, which comprise of the statement of financial assets as at 30 June, 2025 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Late Submission of Financial Statements

The financial statements for USAID Boresha Jamii project were submitted to the Office of the Auditor-General on 3 October, 2025. This is contravention of the National Treasury circular dated 4 December, 2024 reference number: AG.3/88 Vol. VII (41) directing all public sector entities, for both national and county governments, to prepare and submit annual financial statements by 31 August, 2025.

In the circumstances, late submission of financial statements is contrary to the issued National Treasury circular.

2. Presentation of the Financial Statements

Review of the financial statements revealed the following irregularities;

(i) It was noted that the USAID Boresha Jamii Project's financial statements were prepared on cash basis of accounting instead of IPSAS Accrual, contrary to Treasury Circular No.03/2025, which requires all National Government entities, County Governments, and their respective entities to transition from Cash to Accrual Accounting.

(ii) The numbering in the table of contents is not agreeing to what is provided by the template that was issued by the Public Sector Accounting Standards Board (PSASB). The non-financial information section should be numbered using roman numbers while the financial statements should begin with number 1.

(iii) Balances reported in the statement of receipts and payments were missing some digits hence misleading. For example, but not limited to; proceeds from domestic and foreign grants are reported at Kshs.313,550,0 instead of Kshs.313,550,043; total receipts are reported at Kshs.315,298,2 instead of Kshs.315,298,274; total for compensation of employees is reported at Kshs.198,878,1 instead of Kshs.198,878,100; purchase of goods and services is reported at Kshs.210,463,1 instead of Kshs.210,463,129. In summary the balances reported are erroneous.

(iv) Narrations in the statement of receipts and payments are missing some word, for example but not limited to, compensation to lacks the word employees; proceeds from domestic and foreign lacks the word grants.

(v) Opening balances in the statement of receipts and payments were missing some digits hence misleading.

(vi) The financial years in the statement of receipts and payments were missing some digits hence misleading.

(vii) The cumulative balances reported in the statement of receipts and payments do not agree to the balances reported in the funding summary disclosed in page 6 of the financial statements.

(viii) In the statement of financial assets, net financial position is reported at Kshs.1,400,710. However, recalculation of the same leads to an amount of Kshs.(2,802,420). Meaning that the statement did not balance.

(xi) In the statement of cash flows, cash and cash equivalents at the beginning of the year is reported at Kshs.95,369,179 instead of the closing balance of Kshs.90,655,049. Also, cash and cash equivalents at the end of the year is reported at Kshs.1,400,710 while in the statement of financial assets an amount of Kshs.888,710 is reported.

(x) In the statement of comparison of budget and actual amounts, the actual amounts reported do not agree with the balances reported in the statement of receipts and payments yet the financial statements were reported using cash basis of accounting. No explanation was given to explain the variances between the reported balances.

In the circumstances, failure to comply with the applicable law on entities to transition from cash basis to IPSAS accrual accounting is in breach of the law.

3. Unconfirmed Cash and Cash Equivalents Balance

The statement of financial assets and as disclosed in Note 5 A to the financial statements, reflects a balance of Kshs.888,710 in respect of cash and cash equivalents. The balance includes Kshs.612,885 for a bank account held at Equity bank and an Mpesa balance of Kshs.275,825. It was not possible to confirm the account balance due to the following anomalies that were noted:

(i) The Mpesa statement as at 30 June, 2025 was not provided for audit review.

(ii) A certificate of bank balance as at 30 June for the bank account (account number 1260280923860) was provided for audit review and it reflected an amount of Kshs.612,885. However, a cashbook as at 30 June, 2025 and the bank monthly reconciliation statements were not provided for audit review.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.888,710 could not be confirmed.

4. Unsupported Expenditure on Use of Goods and services

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects purchase of goods and services of Kshs.210,463,129. The amount could not be confirmed because part of this expenditure was not supported as detailed below;

4.1. Domestic Travel and Subsistence

Note 4 to the financial statements includes an amount of Kshs.5,992,040 for domestic travel and subsistence out of which payment vouchers totalling to Kshs.2,147,605 were not provided for audit examination.

In the circumstances, it was also not possible to confirm the accuracy and completeness of the domestic travel and subsistence amount of Kshs.5,992,040.

4.2. Unsupported Training Expenses

Note 4 to the financial statements includes an amount of Kshs.204,471,089 in respect to utilities, supplies and services. Sampled payment vouchers totalling to Kshs.29,957,067 for training expenses were not submitted for audit examination.

In the circumstances, it was also not possible to confirm the accuracy and completeness of the training expenses amount of Kshs.204,471,089.

4.3. Unsupported Expenditure- Stationery and supplies

Note 4 to the financial statement reflects an amount of Kshs.204,471,089 which relates to utilities, supplies and services and indirect cost. Included in the amount is Kshs.8,931,733 for stationery and supplies. However, the schedules provided were incomplete and lacked vital information including; payee, brief description and payment voucher number. In the absence of such critical information, it was not possible to verify the correctness and consistency of the ledger accounts with the underlying source documents.

4.4. Unsupported Accrued Expenses

Note 4 to the financial statement reflects an amount of Kshs.204,471,089 which relates to utilities, supplies and services and indirect cost. Included in the amount is accrued expenses amount of Kshs.16,086,711 which was not supported by ledger or payment voucher(s). In the circumstances, it was not possible to confirm the regularity, completeness, and accuracy of Kshs.204,471,089 for utilities, supplies and services expenditure.

4.5. Unsupported Cash Transfer to Jaramogi Oginga Odinga University of Science and Technology

Note 4 to the financial statement reflects an amount of Kshs.204,471,089 which relates to utilities, supplies and services and indirect cost. Included in the amount is de-minimis charges of Kshs.31,828,560. Analysis of the Equity Bank statement for the USAID Boresha Jamii Project as at 30 March, 2025 confirmed total payments and bank transfers to Jaramogi Oginga Odinga University of Science and Technology (JOOUST) amounting to Kshs.54,800,110 for de-minimis charges resulting to unexplained variance of Kshs.22,971,550 between the bank transfers and the amount in ledger.

In the circumstances, the accuracy and completeness of Kshs.204,471,089 on utilities, supplies and services and indirect cost could not be confirmed.

4.6. Misclassification of ICT Expenses

Note 4 includes purchase of goods and services amounting to Kshs.210,463,129 which includes insurance expense. Review of insurance ledger provided for audit; it was noted that an amount of Kshs.1,372,820 related to supply of ICT equipment was included as insurance expenses hence the expenses were misclassified.

In the circumstances, the disclosed expenditure on purchase of goods and services, amounting to Kshs.210,463,129 could not be confirmed.

5. Unreconciled Variance in Compensation of Employees

The statement of receipts and payments reflects total payments of Kshs.409,341,229, which includes compensation of employees' expenses totaling Kshs.198,878,100, as disclosed in Note 3 to the financial statement. However, ledgers provided to support that compensation of employee expense amounts to 193,342,388 resulting to an unexplained variance of Kshs.5,535,712.

In the circumstances, the accuracy and completeness of compensation of employee expenditure of Kshs.198,878,100 could not be confirmed.

6. Compensation to Employees

6.1. Unsupported Accrued Salary for the Month of February 2025

Review of payroll records provided indicated that thirty (30) employees received a gross of salary accrual amounting to Kshs.27,768,942 in the month of February 2025. Information on rates and criteria used to pay the accrued salary to each grade or salary scale was not provided. Further, it was not stated from which activities in the budget the accrued salary was assigned as per the provision of Section 6.1.1(i) of UBJ Human resource manual which provides that during payroll allocation, the salary for each staff shall be assigned to specific activity areas from the budget.

In the circumstances, Management breached the law and the validity of the payroll expenses could not be confirmed.

6.2. Unsupported Entry of Five (5) Employees into February 2025 Payroll

The statement of receipts and payments reflects total payments of Kshs.409,341,229, which includes compensation of employees' expenses totaling Kshs.198,878,100, as disclosed in Note 3 to the financial statements. Review of the February 2025 payroll provided for audit review revealed that five (5) employees were introduced into that month's payroll making a total of thirty employees. The payroll for January 2025, had a total of twenty-five (25) employees and the five were not included. Information and justification on how the five employees were added into the February payroll and earned a salary was not provided. Further, approval by the Chief of Party on the addition of the five employees into February payroll have not been provided.

This is in contravention of Section 10.2.6(iv) of the Human Resource Procedures and Policy manual states that the Chief of Party (COP) or appointed Designee shall approve all the payroll changes before they are implemented in the payroll.

7. Imprest and Advances

The statement of financial assets and as disclosed in Note 6 A to the financial statements reflects imprest and advances of Kshs.512,000. Review of the imprest ledger revealed that the imprests were due for surrender way before year end. No explanation was given as to why the imprests remained outstanding as at year end. Further, the imprest register was not provided for audit review. This is contrary to regulation 93.(4 and 5) of Public Finance Management (National Government) Regulations 2015.

In the circumstances, Management was in breach of the law.

8. Irregularities in the Procurement Procedures on Stationery and Supplies

The statement of Receipts and Payments and as disclosed in Note 4 to the financial statement reflects an amount of Kshs.210,463,129 in respect to purchase of goods and services, out of which an amount of Kshs.204,471,089 relates to utilities, supplies and services and indirect cost. The audit revealed that the ledger/ information provided indicated that a total of Kshs.1,980,680 was paid for stationery and supplies yet according to the Local Purchase Order (LPO), the item description is for latrine renovation and materials. Additionally, there was no evidence that the head of the procurement unit submitted his recommendations for the award to the accounting officer through issuing a professional opinion as required by law. Managements' action is in contravention of the public procurement and asset disposal act.

In the circumstances, Management breached the law.

9. Delay in Submitting the Final Progress Report and Financial Report

The audit confirmed that the project management delayed to prepare the final report that covered the entire period of the award and financial report because the funds requested for close-out had not been disbursed by the donor as at the time of the audit. The funds (approx. Kshs.14,559,843) were requested on 27 May, 2025 and the same was not received. This may hinder management's ability to close out the project within the 90-day timeline provided in the Termination Notice dated 26 February, 2025. The SF1034 voucher was submitted 3 months later after notice of termination which contributed to the delay of disbursement. This is contrary to the follow up Notice of Termination dated 13 March, 2025 paragraph D on Final Certification and Payment which required Management to prepare and submit any final payment request and certification/proof of milestone completion(s), in accordance with Schedule and additional terms and conditions of the award, as soon as possible, but by no later than the deadlines required in the award to allow the Agreement Officer to review the actual costs incurred by the Recipient with regard to partially completed milestones.

10. Lack of Status Report on Unrecovered VAT after DA1 Processing

As reported previously, USAID Boresha Jamii has since not recovered amount of Kshs.5,607,509 through DA1 processing that was supposed to be recovered from a supplier. In addition, the management has not provided the status report for the DA1 processing forms approved but not yet recovered from the suppliers. According to the finance manual, it states that if JOOUST encounters issues with a vendor refusing to refund the GOK taxes when presented with the GOK approved DA-1 form, JOOUST must immediately notify USAID in writing stating all the pertinent facts surrounding the refund denial by the vendor. However, the management has not provided any details and status concerning the unrecovered VAT especially during the close-out period.

In the circumstances, USAID may end up losing a lot of money to vendors who have refused to refund the VAT amount.

11. Non- Compliance with Executive Order Conditions

11.1. Delayed Final Close-Out Payments under USAID Boresha Jamii Award No. 72061521CA00004

The termination notice for Award No. 72061521CA00004 was issued to Jaramogi Oginga Odinga University of Science and Technology, (JOOUST) on 26 February, 2025. As stipulated in the notice, JOOUST was required to cease all project activities, terminate all subawards and contracts, and refrain from incurring any further obligations chargeable to the award, except for unavoidable costs directly related to the termination. In line with the Award Agreement, the Recipient was entitled to submit a claim within ninety (90) calendar days from the date of termination for any costs incurred for unpaid or incomplete milestones.

However, as at the time of audit, the final close-out payment had not yet been processed by USAID, although the closure period—scheduled to end on 26 May, 2025—had already lapsed by an additional month. This is contrary to the Award Agreement, which requires that final vouchers and close-out payments be completed within the ninety (90) day period following termination. The current status revealed the unpaid invoices fully signed with certificate of completion with the request for payment totalling USD 225,734 (approximately Kshs.29,119,686) remained un-honoured.

In the circumstances, delayed close-out payments may result in non-compliance with the Award Agreement, possible accumulation of unliquidated obligations, strained relationships with subrecipients and vendors, and potential disallowance of legitimate costs due to missed deadlines.

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

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by U.S Agency for International Development (USAID), I report based on my audit that I did not obtain all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit.

Responsibilities of the Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how Management 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.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with

Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I 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 authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

31 October, 2025