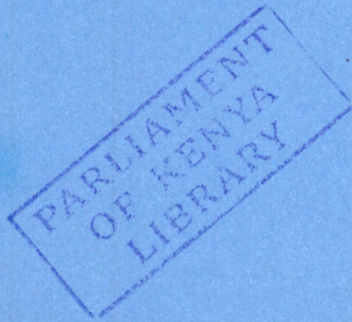


REPUBLIC OF KENYA



*Enhancing Accountability*



**REPORT**

07 DEC 2023

9/1/23

TABLED  
BY:

Hon Owen Bayo, CBS, MP  
Deputy majority leader  
Muhimbi

**OF**

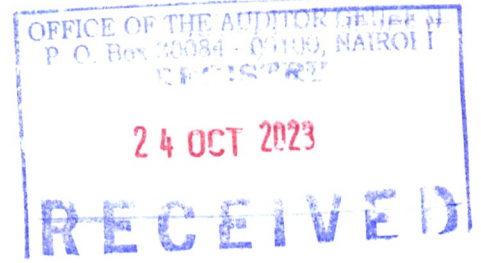
**THE AUDITOR-GENERAL**

**ON**

**FINANCIAL SECTOR SUPPORT  
PROJECT (IDA CREDIT NO.56270-KE)**

**FOR THE YEAR ENDED  
30 JUNE, 2023**

**THE NATIONAL TREASURY**



**REPUBLIC OF KENYA**

**FINANCIAL SECTOR SUPPORT PROJECT**

**THE NATIONAL TREASURY & ECONOMIC PLANNING**

**IDA CREDIT NUMBER 56270- KE**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR FINANCIAL YEAR ENDED**

**JUNE 30, 2023**

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**Prepared in accordance with the Cash Basis of Accounting Method under the  
International Public Sector Accounting Standards (IPSAS)**

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**1. Acronyms and Glossary of Terms**

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
Comparative FY	Financial year preceding the current financial year.
ACH	Automated Clearing House
AFI	Alliance for Financial Inclusion
AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
APA	Assistant Project Accountant
CBK	Central Bank of Kenya
CDSC	Central Depository and Settlement Corporation
CIS	Credit Information sharing
CMA	Capital Markets Authority
CPAK	Certified Public Accountants of Kenya
CSD	Central Securities Depository
DFID	UK Department for International Development
FLSTAP	Financial and Legal Sector Technical Assistance Project

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FSA	Financial Services Authority
FSSP	Financial Sector Support Project
GoK	Government of Kenya
ICT	Information and Communications Technologies
ICPAK	Institute of Certified Public Accountants of Kenya
IDA	International Development Association
IOSCO	International Organization of Securities Commissions
IRA	Insurance Regulatory Authority
IT	Information Technology
KDIC	Kenya Deposit Insurance Corporation
KSH	Kenya Shillings
LSK	Law Society of Kenya
MDA	Ministries, Departments, and Agencies
MTEF	Medium Term Expenditure Framework
MTP2	Medium Term Plan II
NT	National Treasury
NT-BFEA	National Treasury Budgets, Fiscal & Economics Affairs
OAJ &DoJ	Office of the Attorney General and Department of Justice
OSH	Occupation, Health & Safety
PDMO	Public Debt Management Office
PDO	Project Development Objective
PIU	Project Implementing Unit

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PPP	Public Private Partnerships
RBA	Retirement Benefits Authority
SACCO	Savings and Credit Cooperative
SASRA	SACCO Societies Regulatory Authority
TORs	Terms of Reference
TMD	Treasury Mobile Direct
WB	World Bank

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**2. Project Information and Overall Performance**

**2.1 Name and registered office**

**Name**

The project's official name is Financial Sector Support (FSSP) Project.

**Objective**

The main objective of the project is to strengthen the legal, regulatory and institutional environment for improved financial stability, access to, and provision of, affordable and long-term financing.

**Address**

The project is located at:  
Anniversary Towers, North Tower  
7th Floor,  
University Way/Monrovia Street  
NAIROBI

**Contacts:**

Telephone: (+254) 020-2210271/4  
E-mail: [info@piu.go.ke](mailto:info@piu.go.ke)

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**Project information and overall performance (continued)**

**2.2 Project Information**

Project Start Date:	30 <sup>th</sup> April 2015
Project End Date:	30 <sup>th</sup> June 2022
Project Manager:	Mr. Ray Charles Musau
Project Sponsor:	International Development Association (IDA)

**2.3 Project Overview**

Line Ministry/State Department of the project	The project is under the supervision of the National Treasury and Planning.
Project number	56270 –KE
Strategic goals of the project	<b>Overall Objective-</b> to strengthen the legal, regulatory and institutional environment for improved financial stability, access to, and provision of, affordable and long-term financing.
Summary of Project Strategies for achievement of strategic goals	<p><b>PROJECT DEVELOPMENT OBJECTIVE INDICATORS</b></p> <p><b>Indicator 1-</b> Implement Kenya Deposit Insurance Corporation (KDIC) bank resolution/crisis management operational framework.</p> <p>YR 5Target- Yes (target set for this reporting period)</p> <p>Performance- The Operational Framework was developed. It includes the Bank Resolution Policy &amp; Procedures Guidelines and the Risk Management Policy and Guidelines. The documents have been considered by the Technical Sub-Committee of the KDIC Board.</p>



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**Indicator 2- Reduced Net Interest Margin**

YR 5 Target- Yes (target set for this reporting period)

Performance- 5.88% (Annualised)

(iii) **Indicator 3- % of Long-term assets held by pension funds**

YR 5 Target- 52.00 %

Performance- 51.00 %

**INTERMEDIATE RESULT INDICATORS**

**Indicator 1-** Crisis simulation training and practice sessions undertaken regularly to activate KDIC operational framework for crisis management.

YR 5 Target- 3

Performance- One (1No.) training was held in December 2015 where 30 officers drawn from the Financial Sector Regulators were trained. Procurement of training facilitators for further trainings was unsuccessful. Alternative models to undertake the simulations are being pursued.

**Indicator 2- Number of MDA services using electronic payment instruments.**

YR 5 Target- 1000 MDAs

Performance- 350 MDAs (As of October 2021)

**Indicator 3- % Increase in Pension Coverage**

YR 5 Target- 20%

Performance- 21% (Target met)

**Indicator 4- Draft framework for sub-national entities on debt management**

YR 5 Target- Yes (target set for this reporting period)

Performance- • Assessment of financing gaps for Counties was concluded.

County borrowing Circular released by the CS/NT on 9th February 2021 providing clear guidance on borrowing by county Governments stipulating the minimum requirements before issuance.

Subsequently Counties such as Kisumu, Machakos and Bungoma became the first counties to complete a Public Credit Rating (March 2020) by GCR. The CMA and CRA Teams held a meeting on June 11, 2021 to update on the status and way forward in regard to progressing the County Financing project. The NT, CRA and CMA are planning a meeting to progress the project

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	<p>including pursue progress made by Laikipia County on their inaugural issuance.</p> <ul style="list-style-type: none"> <li>• The CMA &amp; NT met on 29th September 2021 to redress the outstanding issues impeding the full utilization of available capital market opportunities by Counties.</li> <li>• The CMA had a meeting with the CS/NT on 25th March 2022 to discuss among others outstanding policy issues geared towards a framework for market-based County Financing - specifically through the country's capital markets. This was part of the revised CMA Master Plan awaiting guidance/direction from the National Treasury</li> </ul> <p><b>Indicator 5- Increase in banked retail investor accounts accessing M-Akiba</b></p> <p>YR 5 Target- 150,000</p> <p>Performance- As at the closing of the M-Akiba bond issuance and last reporting (end of December 2020), the updated total number of retail accounts stood at 582,572 (M-Akiba accounts only). NT/PDMO working on affordable new issuance framework with multi-stakeholder engagement approach to ensure mitigation of potential pitfalls/risks in the issuance process</p> <p><b>Indicator 6- Draft legal framework for a secured transaction regime</b></p> <p>YR 5 Target- Yes (target set for this reporting period)</p> <p>Performance- The Secured Transaction Regime Act was assented into law on 16th May 2017 (Target met)</p> <p><b>Indicator 7- Depth of credit information index (0 to 8)</b></p> <p>YR 5 Target- 3</p> <p>Performance- 8 (Target Exceeded)</p> <p><b>Indicator 8 - Draft framework /regulation for new long term products</b></p> <p>YR 5 Target- 2</p> <p>Performance- The Capital Markets (Commodities Markets) Regulations 2020 and the Capital Markets (Coffee Exchange) Regulations 2020 were gazetted by the Cabinet Secretary for the National Treasury and Planning on 3rd April 2020</p> <ul style="list-style-type: none"> <li>• The Business Laws (Amendment) Bill, 2019 was also enacted into Law in March 2020 (The bill highlights the rights of offered to buy out minority shareholders).</li> <li>• The following regulations were developed under the draft Capital markets</li> </ul>
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	<p>Regulations 2021 and exposed to stakeholder engagements (1) Collective Investment Scheme (CIS)/ Alternative Investment Funds and (2) Investment-Based Crowdfunding Funded by FSD Africa.</p> <p>Regulations for example private equity, margin trading etc are still being conceptualized.</p> <p>Performance- 3 (Target Exceeded)</p> <p><b>Indicator 9- Increase in volume of secondary market transactions of government debt</b></p> <p>The Secondary Market Government Bond Turnover stood at Kshs. 190.95 Billion as at Q1 2022.</p> <p>A comparison with Q4 2021 indicates a 3% increase from the Kshs. 185.07 Billion turnover recorded during that quarter.</p> <p>This is also a 4.16% decrease from Q1 2021 whereby Kshs. 199.23 Billion turnover was recorded.</p> <p>In Q1 2022, a total of Kshs. 191.03 Billion worth of bonds has been traded at the Exchange.</p> <p>This is a 4.19% decrease from Q1 2021 whereby Kshs. 199.38 Billion worth of bonds had been traded.</p> <p><b>Indicator 10- Increase in insurance coverage</b></p> <p>YR 5 Target- 3.57 %</p> <p>Performance- 2.8 %</p>
<p>Other important background information of the project</p>	<p>The GoK's Vision 2030 explicitly puts financial services at the centre of higher economic growth in Kenya. The economic pillar of this strategy aspires to achieve high economic growth based on high national savings rates, which highlights the central role to be played by the financial sector. The financial sector is explicitly identified as one of the seven fast-track sectors in Vision 2030. Among its main objectives for financial sector development the strategy identifies: (i) improving stability; (ii) enhancing efficiency in the delivery of credit and other financial services, and; (iii) improving access to financial services products for a much large number of Kenyans.</p> <p>The Financial Services Medium term Plan II and III (MTP2 and MTP3) concretizes these goals by listing specific projects/programs that feature on the GoK's priority list.</p>

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<p>Areas that the project was formed to intervene</p>	<p><b>COMPONENT ONE—STRENGTHENING INSTITUTIONS</b></p> <p>This component focuses on the overarching reform, modernization, and capacity support to the financial sector institutional framework.</p> <p>This component delivers technical assistance to the various beneficiaries, mostly in the form of consultancies which will include amongst others; To design roadmaps and action plans and implementation support to realize the planned reforms. It will also support the upgrade of IT equipment and systems and deliver capacity support to ensure a more effective functioning of the financial architecture.</p> <p>a. <b>Reforming Financial Architecture:</b> The GoK has plans to streamline and make more efficient the overall financial architecture. This includes effecting:(i) a consolidation of all the non-banking regulators into a single Financial Services Authority (FSA); (ii) reforms necessary to create a more investor friendly environment in anticipation of the vast investment needs of the incipient natural resource economy; (iii) An improved interface for the public to access a range of public services through the digitization of the payments for these services and (iv) strengthening market conduct supervision.</p> <p><b>Progress</b></p> <p><b><u>National Treasury (NT-BFEA)</u></b></p> <ul style="list-style-type: none"> <li>- Purchase office equipment for NT-FSA - Contract signed on 28th February 2019. <b>Delivery, installation and commissioning concluded.</b></li> <li>-Consultancy to Develop Roadmap for the Consolidation of Clearing, Settlement Depository System in Kenya- <b>Assignment was concluded.</b></li> <li>-Recruitment of the 5 specialists to support the Government Digital Payments Taskforce to Scale-Up implementation of the Digitization Agenda in MDAs-EOI advertised on 30th May 2019 and closed on 13<sup>th</sup> June 2019 for two (2) senior systems/security administrators and two (2) system administrator specialists. Shortlist report was forwarded for approval. <b>Procurement cancelled</b></li> <li>- Purchase scanners for GDP - Contract signed on 28<sup>th</sup> February 2019. (Production document Scanners and production book Scanners). <b>Delivery, installation and commissioning concluded.</b></li> <li>- Consultancy to assist in developing the National Insurance policy framework. Contract signed with Russell Leith from Malawi from 1<sup>st</sup> May</li> </ul>
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2019. **Assignment concluded.**

- b. **Modernizing Supervision:** This sub-component supports: (i) Improving supervision: Banking, Non-Banking and Pensions (ii) Upgrading IT systems.

**Progress**

**National Treasury (NT-BFEA)**

-Consultancy on AML/CFT-First phase of the assignment was Concluded on 14th August 2017. Procurement underway of consultant for second phase of the assignment. **Procurement terminated due to re-allocation of FSSP funds towards Covid-19 emergency response**

- Consultancy to develop a comprehensive National Retirement Benefits Policy. **Assignment on-going using alternative support.**

**Capital Markets Authority (CMA)**

- Improve Information Management System including Technical financial analysis tools, E-Learning, and Communications Infrastructure. The consultancy contract was signed with International Securities Consultancy (ISC) Ltd on 28<sup>th</sup> August 2017. The second NCE was approved till June 2020. **Assignment completed**

- Procure (i) hardware, (ii) software and (iii) network related equipment to support information repository, business intelligence, E-Learning, Communication infrastructure.

Lot 1 - Install Data Repository & Business Intelligence System. The contract was signed on 30th September 2019 with Attain Enterprise Solutions Limited JV with ScienceSoft OY.

Lot 2 - Hardware (1) Infrastructure Delivery and Setup. The contract was signed on 30th September 2019 with Computech Ltd. Awaiting delivery. (2) Lot 2 - Video conferencing. The contract was signed on 30th August 2019 with Specicom Technologies. **Delivery and installation concluded.**

Lot 3 - Microsoft Software Upgrades. The contract was signed on 30th September 2019 with Attain Enterprise Solutions Limited. **Implementation concluded**

-Implementation of a trade reporting system for bond market- The consultancy contract was signed with FDHL Salonica Consortium on 5<sup>th</sup> March 2018. **Assignment concluded.**

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	<ul style="list-style-type: none"> <li>- Integration of CAPIZAR system to the upgraded NSE and CDSC systems. This was a direct procurement of CAPIZAR license. Contract signed on 28th March 2019 with Infotech Middle East FZ-LLC. <b>Assignment concluded.</b></li> <li>- Consultancy for the acquisition of a multi-asset surveillance system. Contract signed with Financial Services Volunteer Corps (FSVC) New York on 29<sup>th</sup> April 2019. <b>Assignment concluded.</b></li> <li>- Establishment an oversight framework for derivatives market. The consultancy contract with Mr. David White on 27<sup>th</sup> April 2017. 3rd NCE till 31st December 2019. <b>Assignment concluded.</b></li> <li>- Resident Advisor to support CMA to establish areas for self-regulation; scope; potential SRO candidates; regulatory Framework for SROs. EOI advertised on 30th May 2019. EOI closed on 13th June 2019. Contract signed with International Securities Consultancy (ISC) Hong Kong on 15<sup>th</sup> may 2020. <b>Assignment concluded.</b></li> <li>-Consultancy to assess the funding gap Funding gap report for the National and County government level. <b>Assignment concluded.</b></li> </ul> <p><b><u>Insurance Regulatory Authority (IRA)</u></b></p> <ul style="list-style-type: none"> <li>-Upgrading of IT Systems (Electronic Regulatory System) The consultancy contract was signed with Vizor Ltd on 24<sup>th</sup> April 2018. <b>Assignment concluded.</b></li> <li>- Upgrading of IRA Data Center Infrastructure and Network. Contract signed on 28th February 2019 by Jo World Ltd. <b>Delivery, installation and commissioning concluded.</b></li> <li>- Consultancy to review of the motor third party Liability market in Kenya. Contract signed with Actuarial Services (East Africa) Ltd. Assignment commenced on 29th April 2019. <b>Assignment completed.</b></li> <li>- Consultancy to develop a comprehensive legal and regulatory framework for regulation, supervision and development of Health Insurance in Kenya. EOI advertised on 30th May 2019. EOI closed on 13<sup>th</sup> June 2019. <b>Assignment on-going.</b></li> </ul> <p><b><u>Retirement Benefit Authority (RBA)</u></b></p> <ul style="list-style-type: none"> <li>-Enhancement of ERP and RBS systems; and to implement a Document Management System, and Stakeholder Interaction / Relationship Management system (SIRM). Contract signed with Attain Enterprise Solutions Limited on 6th</li> </ul>
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May 2019. **Assignment on-going and pending finalization.**

-Acquire a Business Continuity/ Disaster recovery solution. Contract signed on 28th February 2019 by BlueSky Limited. **Delivery, installation and training concluded.**

- Consultancy to improve the Risk-Based Supervision Framework. The consultancy contract was signed with Adriunus Vugs on 14<sup>th</sup> August 2017 and extended to 31st August 2018. **Assignment concluded.**

-Consultancy to undertake peer review of the effectiveness and quality of RBAs pension and education campaign. The contract was signed on 27<sup>th</sup> June 2018. Assignment on-going. **Assignment concluded.**

-Consultancy to review the Retirement Benefit Act & Regulations. EOI advertised on 30th May 2019 and closed on 13<sup>th</sup> June 2019. **Procurement cancelled**

- Consultancy to develop curriculum and manual for trustee development and capacity building of resource persons. EOI advertised on 30th May 2019 and closed on 13th June 2019. **Activity terminated due to re-allocation of FSSP funds towards Covid-19 emergency response**

**Kenya Deposit Insurance Corporation (KDIC)**

- Supply and Installation of a distant IT Disaster Recovery (DR) Site for KDIC in Kisumu. The contract was signed on 27<sup>th</sup> December 2017 with three firms namely; Technology Associates, Next Technologies and Intermass Technologies. **Assignment concluded.**

- Consultant Develop specifications for a data warehouse, Financial Analysis tools and Information Technology Infrastructure for the KDIC. EOI advertised on 30th May 2019 and closed on 13th June 2019. Contract was signed with BPO LLP London UK on 16th December 2019. **Assignment concluded.**

-Resident Advisor to establish KDIC as a Special Supervisor of the Banking Sector. The consultancy contract was signed on 17<sup>th</sup> March 2017 with Javier Bolzico. **Assignment concluded.**

- Hire PR agency to prepare and conduct publicity events for the KDIC. Contract signed on 24th June 2019 with Brand Strategy Design (BSD) Limited. **Assignment on-going.**

-Consultancy to facilitate & conduct three (3) Crisis preparedness and resolution simulation-workshops with stakeholders & Safety Net Players in the

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financial sector. EOI advertised on 30<sup>th</sup> May 2019 and closed on 13th June 2019. **Engagements on-going to carry out initial training and sensitization using local capacity.**

**Sacco's Societies Regulatory Authority (SASRA)**

- Furnish SASRA new offices. The supply contract was signed on 18<sup>th</sup> December 2017 with Viable décor furniture. The furniture and equipment were delivered. **Assignment concluded.**
- Purchase of equipment for SASRA new offices. Contract signed on 28th February 2019 with Specicom Technologies Ltd. **Delivery, installation and commissioning concluded.**
- Purchase Disaster recovery and Business Continuity Hardware specification. Contract signed on 28th February 2019 with Eurocom Systems Ltd to supply 2 servers and other office equipment to SASRA. **Delivery, Installation and Commissioning concluded.**
- Consultancy to review IT system; make recommendations for RBS system; upgrade of ERP. Contract signed with Market Edge Limited Assignment on-going. **Downstream procurement concluded and implementation on-going.**
- Consultancy to develop and Implement Risk-Based supervision policy framework. The consultancy contract was signed with Dave Grace & Associates on 21<sup>st</sup> June 2017. **Assignment was concluded.**
- Consultancy to conduct study on shared services. Contract signed with David Cracknell, Microsave Consulting Ltd, Kenya commencing 15<sup>th</sup> April 2019. **Assignment concluded.**
- Consultancy to support SASRA with the production of reliable supply-side statistics. The consultancy contract was signed with World Council of Credit Union on 31<sup>st</sup> July 2017. **Assignment concluded.**
- Consultancy to review the legal and financial framework to facilitate establishment of a DGF for DT SACCOs. The contract was signed with Mr. Madibo Camara of A2F Consulting LLC on 4<sup>th</sup> December 2017. **Assignment concluded.**
- Consultant to review the existing policy, legal, regulatory and institutional framework on market conduct regulations of SACCO Societies. Contract signed



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on 18th March 2019 by Prof. Gianfranco Antonio Vento, Net Present Value Limited, Malta, UK. **Assignment concluded.**

- Consultant to conduct regulatory Impact Assessment on the DT-SACCO Legal, Regulatory and Operational environment- Contract. Contract signed with M/S Dalberg Advisors on 25th June 2019. **Assignment concluded.**

- Hire a PR Firm to Develop and implement Public awareness and education programme. EOI advertised on 30th May 2019 and closed on 13<sup>th</sup> June 2019. **Pending approval to award.**

-Consultancy to enhance effectiveness and efficiency of SASRA's Human Resource function. EOI advertised on 30th May 2019 and closed on 13th June 2019. Negotiation concluded. **Procurement cancelled due to non-responsiveness.**

- Consultancy to Support a Sacco Shared Services Platform. **Activity completed.**

- Purchase of a Disaster Recovery Site, Primary Data Center, Security and Performance tools. **Activity completed.**

**Central Bank of Kenya (CBK)**

-Consultancy to enhance CBK's end to end onsite surveillance process to ensure its' efficiency and effectiveness. The consultancy contract was signed with a joint venture between KPMG and Azmasoft Consulting Ltd & Grande Afrique on 24th February 2017. **Assignment concluded.**

-Consultancy to review the human resource component of the Central Bank of Kenya. The consultancy contract was signed with KPMG Advisory Services on 4<sup>th</sup> September 2017. **Assignment concluded.**

- Project Manager for CSD - Tender advertised on 3<sup>rd</sup> May 2019 and closed on 17th May 2019. Evaluation concluded. **Procurement cancelled by CBK in October 2019.**

- Supply, installation and commissioning of a CSD – Awaiting approval of standard bidding document. Contract signed with Montran Corporation on 22<sup>nd</sup> may 2020. **Assignment completed.**

**Capacity Building:** The Project delivers capacity support to the following project beneficiaries; National Treasury, Central Bank of Kenya, Insurance Regulatory Authority, Retirement Benefit Authority, Kenya Deposit Insurance Corporation, Sacco's Societies Regulatory Authority, Capital Markets Authority, Public Debt Management Office, Office of the Attorney General & Department

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of Justice and Project Implementation Unit.

**Progress**

The table below shows the individual and group trainings that were supported during the period under review.

PBA	No of trainings held June 2022- June 2023	No of trainings (July 2015- June 2023)	Total number of individual officers trained (July 2015- June 2023)			No. of Group trainings
			Total	Male	Female	
NT	NIL	65	55	31	24	1 (675 pple)
PDMO	NIL	16	14	8	6	1 grp (30 pple)
CMA	NIL	46	49	35	14	4(149 pple)
IRA	NIL	10	16	12	4	1 (14 pple)
RBA	NIL	38	40	28	12	N/A
KDIC	NIL	37	51	28	23	1(38 pple)
SASRA	NIL	45	43	27	16	3(41 pple)
OAG	NIL	38	28	11	17	9 (505)
CBK	NIL	6	9	4	5	N/A
PIU	NIL	74	29	9	20	N/A
<b>TOTAL</b>	<b>NIL</b>	<b>375</b>	<b>334</b>	<b>193</b>	<b>141</b>	<b>20 Groups (1452 pple)</b>

**COMPONENT TWO- ENABLING EFFICIENT FINANCIAL INTERMEDIATION**

This component moves toward the financial inclusion agenda in Kenya with focus on strengthening the credit infrastructure and making more transparent the pricing of financial intermediation (savings and lending) so that more businesses and individuals have access to affordable financial products. The component supports activities related to:

- a) **Improving credit information data sharing:** One of the main issues with the pricing of credit in Kenya is the need to enhance transparency in the process. Credit providers are usually constrained for data, and the Project supports the expansion of the credit reporting system so that all

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credit providers can participate in full-file credit information sharing.

**Progress**

**National Treasury-BFEA**

- Consultant to review and identify gaps within the existing framework for credit information sharing; to propose areas across the financial sector in which the framework can be harmonized. Contract signed on 29th January 2019 with Rashid Ahmed. **Assignment concluded.**

-Consultancy PR Firm to Develop and implement Public awareness and education programme. Contract signed on 31st December 2018 with Apex Porter Novelli (APN). **Assignment on-going.**

(b) **Strengthening the regime for moveable collateral:** Support is provided to strengthen moveable collateral mechanisms to facilitate increased lending to SMEs at affordable rates by supporting the necessary legal and regulatory reforms for secured transactions, followed by the creation of an electronic moveable assets registry.

**Progress**

**- Office of the Attorney General & Department of Justice-Business Registration Services**

- Consultancy (Project Manager) to review the Review and support of the collateral registry system-BRS. EOIs advertised on 18th September 2018. EOI closed on 2nd October 2018. Contract signed with Norway Registers Development (NRD) on 4<sup>th</sup> May 2020. **Assignment terminated by BRS.**

- Consultancy to conduct training & Capacity build stakeholders on ST regime and public awareness. Contract signed by Wanyaga & Njaramba Advocates Sub-Consulting KIM and BSD Group from 17<sup>th</sup> June 2019. **Assignment completed.**

(c) **Supporting implementation of the new insolvency regime:** As the new Insolvency Bill is expected for debate in Parliament, the Project provides support for the implementation of the bill and building the capacity of key stakeholders to ensure robust regime is in place.

**Progress**

**- Office of the Attorney General & Department of Justice-Business Registration Services**

- Consultant to develop Insolvency Regulations. The contract with Prof.

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Peter Walton was signed on 8<sup>th</sup> September 2017 and extended to 10<sup>th</sup> June 2019. **Assignment concluded.**

(d) **Expanding the availability of alternative Savings Instruments:** The focus here is on facilitating additional savings mobilization by developing alternatives to bank deposits such as purchases of government bonds by retail investors using the mobile platform.

### **COMPONENT THREE—MOBILIZING LONG-TERM FINANCE**

This component focuses on strengthening the demand for and supply of long-term funds so that Kenya's growing development finance needs for long-term projects in infrastructure, housing, etc. can be met. The component supports.

a) **New Term Products:** The priority is to develop and support the uptake of instruments that can channel financing to infrastructure given Kenya's infrastructure investment gap. Such instruments include infrastructure project bonds and funds, sharia compliant instruments, housing finance products. Other instruments that could be improved to support infrastructure, as well as other long-term financing needs (e.g. housing and SME financing), include securitization and equity markets.

#### **Progress**

##### **Public Debt Management Office**

- Procurement of office furniture. The supply contract was signed with Viable Décor on 18<sup>th</sup> December 2017. The furniture was delivered. **Assignment completed**

-Procurement of office equipment. Contract signed on 28th February 2019 with E-time Solutions, Specicom Technologies and MFI Documents Ltd. **Delivery, installation and commissioning concluded.**

- Debt Specialist to provide strategic and tactical oversight of the Directorate of Public Debt Management Office (PDMO) (2<sup>nd</sup> procurement). Contract awarded Louis Jose Phillippe Maurel on 26th November 2019. **Assignment concluded.**

- Procure mechanism for electronic issuance, trading, surveillance and reporting on government debt performance. Tender advertised on 25th March 2019 and closed on 24<sup>th</sup> April 2019. **Assignment terminated.**

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-Consultancy PR Firm to undertake a financial literacy and public awareness campaign for M-Akiba. EOI advertised on 30<sup>th</sup> May 2019 and closed on 13<sup>th</sup> June 2019. Procurement terminated by the PDMO at negotiation phase. **Procurement terminated.**

**Capital Markets Authority**

- Undertake a study on identification and analysis of the funding gap at the National and county level to inform product and service development. The consultancy contract was signed with Mr. Adrianus Vugz on 15<sup>th</sup> April 2017. **Assignment concluded.**

**National Treasury-BFEA**

- Support initial operationalization of the Kenya Mortgage Refinance Company (KMRC). Contract signed on 13th December 2018 by NIC Capital Limited sub-consulting Mboya Wangong'u & Waiyaki Advocates. **Assignment concluded.**

- Consultancy to undertake a public awareness campaign for KMRC. EOI advertised on 30th May 2019 and closed on 13th June 2019. Contract signed with Media Edge Technologies on 23rd March 2020. **Assignment concluded.**

- Consultancy to support development of a strategic plan for KMRC. EOI advertised on 30<sup>th</sup> May 2019 and closed on 13<sup>th</sup> June 2019. Contract was signed with Genesis Analytics on 16th March 2020. **Assignment concluded.**

b) **Strengthening Institutional Investors:** The priority is to mobilize long term savings by bringing in new savers into the market and developing the local capacity among institutional investors, mainly pension funds and insurance companies, to invest in long term projects through capital markets instruments.

**Progress**

**Retirement Benefits Authority**

-Review the existing pensions' legal and regulatory framework to incorporate informal sectors: Revise existing MBOA pension scheme. The consultancy contract was signed with Pinbox in May 2017. **Assignment completed.**

-Review the existing pension's legal and regulatory framework with a view to broadening the pension fund investment scope to include long-term investments. The consultancy contract was signed with Andrew Slater in June

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	<p>2017. <b>Assignment Completed.</b></p> <p>-Review the Pension System in Kenya and recommendations on expansion of coverage. Negotiations failed. Negotiations failed with 1st, 2nd and 3rd shortlisted consultants. <b>Procurement cancelled</b></p> <p>-Consultancy to conduct a behavioral study of the youth on savings retirement in light of the high labor mobility. EOI advertised on 30<sup>th</sup> May 2019. EOI closed on 13<sup>th</sup> June 2019. Contract signed with IPSOS Kenya on 16<sup>th</sup> January 2020. <b>Assignment concluded.</b></p> <p><b>COMPONENT FOUR–SUPPORTING PROJECT MANAGEMENT</b></p> <p>The Project Implementation Unit is responsible for project operations with oversight from National treasury and World Bank.</p> <p><b>Progress</b></p> <p>-Five additional PIU staff members were recruited since March 2017 and they include; Assistant Project Manager, Procurement Specialist, Project Officer, Assistant Project Accountant and an Office Assistant.</p>
<p>Project duration</p>	<p>The project commenced on April, 2015 and closed on 30<sup>th</sup> June 2022, with a disbursing period to 28<sup>th</sup> February, 2023.</p>

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**Project Information and Overall Performance (Continued)**

**2.4 Bankers**

The following are the bankers for the project:

**a) Special Deposit Account**

Central Bank of Kenya

Haile Selassie Avenue

P.O.BOX 60000-00200

Nairobi, Kenya

**FSSP Account No. 1000237937**

**b) Local Project Account**

Central Bank of Kenya

Haile Selassie Avenue

P.O.BOX 60000-00200

Nairobi, Kenya

**FSSP Account No.1000237872**

**2.5 Independent Auditor**

The project is audited by:

Auditor General

The Office of the Auditor General

Anniversary Towers

University Way/ Monrovia Street

P.O.BOX 30084

**Nairobi, Kenya.**

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**2.6 Roles and Responsibilities**

The team is- based in Nairobi and responsible for the project management and coordination functions. The PCT comprises of the Project Coordinator and a team of Technical Officers. The PCT is also supported by other administrative staff.

The key staff, who form the Project coordinating team that is involved in the day-to-day management of the project and its implementation are:

	<b>Names</b>	<b>Title designation</b>	<b>Key Qualifications</b>	<b>Responsibilities</b>
1.	Mr. Albert K. Mwenda, HSC	Director General –BFEA	MA- Public & Economic Policy MBA	Project Coordination at the National Treasury
2.	Mr. Ray Charles Musau	Project Manager & Financial Sector Specialist	MBA B-Com	Project Management and Financial Sector Advisory
3.	CPA David Sandagi	Assistant Project Manager	MBA B-BM CPA-K	Support in Project Management, Financial Sector Advisory and Financial Management
4.	Mr. Paul Mwangi	Procurement Specialist	B-Com	Procurement Management
5.	Ms. Sheila Chanyisa	Project Officer- Financial Sector	BA- Economics	Support in Project Management,



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**2.7 Funding summary**

The Project was for a duration of 5(five) years from 30<sup>th</sup> April 2015 to 30<sup>th</sup> April, 2021, and was restructured to extend the closing date to 30<sup>th</sup> June 2022, with a disbursing period to 28<sup>th</sup> February 2023. The approved budget is US\$ 37.00 Million equivalent to KSh. 3.70Billion on 100% IDA (World Bank) funding. Below is the funding summary:

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(A) Source of funds

Source of funds	Donor Commitment-		Amount received to date (30 <sup>th</sup> June 2023)		Undrawn balance to date (30 <sup>th</sup> June 2023)	
	USD	KShs	USD	KShs	USD	KShs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
<b>(i) Loan</b>						
International Development Association (IDA)	37,000,000	3,700,000,000	21,015,007	2,466,615,492	15,984,993	1,208,796,375
<b>(ii) Counterpart funds (GOK)</b>						
			-	23,685,505	-	-
<b>(iii) Miscellaneous Receipts</b>						
				902,630	-	-
<b>Total</b>	37,000,000	3,700,000,000	21,015,007	2,491,203,627	15,984,993	1,208,796,375

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(B) Application of funds

<u>Application of funds</u>	<u>Amount received to date (30<sup>th</sup> June 2023)</u>		<u>Cumulative Amount paid to date (30<sup>th</sup> June 2023)</u>		<u>Unutilised balance to date (30<sup>th</sup> June 2023)</u>	
	<u>USD</u>	<u>Kshs</u>	<u>USD</u>	<u>Kshs</u>	<u>USD</u>	<u>Kshs</u>
	<u>(A)</u>	<u>(A')</u>	<u>(B)</u>	<u>(B')</u>	<u>(A)-(B)</u>	<u>(A')-(B')</u>
<b>(i) Loan</b>						
International Development Association (IDA)	21,015,007	2,466,615,492	21,015,070	2,466,615,492	-	-
<b>(ii) Counterpart funds (GOK)</b>	-	23,685,505	-	23,685,505	-	-
<b>(iii) Miscellaneous Payments</b>	-	902,630		902,630		
<b>Total</b>	21,105,007	2,491,203,627	21,015,070	2,491,203,627	-	-

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**Project information and overall performance (continued)**

**2.8 Summary of Overall Project Performance**

The Project incurred cumulative expenditure of Kshs. 2,491,203,625 since inception against an initial project credit of Kshs. 3,700,000,000. This represents utilization of 67%.

**2.9 Challenges Encountered**

The project encountered delays in restructuring prior to the closure date.

**2.10 Summary of Project Compliance**

There are no indications of non-compliance of the FSS Project on the overall project performance.

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**3.0 Statement of Performance against Project’s Predetermined Objectives**

The key development objectives of the Financial Sector Support Project are to:

- i. Implement Kenya Deposit Insurance Corporation (KDIC) bank resolution/crisis management operational framework.
- ii. Reduction in the Net Interest Margin
- iii. Increase in the percentage of Long-term assets held by pension funds.

**Progress on attainment of strategic development objectives**

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement.

Below we provide the progress on attaining the stated objectives:

<b>Project</b>	<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
Financial Sector Support Project	The main objective of the project is to strengthen the legal, regulatory and institutional environment for improved	Implement Kenya Deposit Insurance Corporation (KDIC) bank resolution/crisis management operational framework.	Kenya Deposit Insurance Corporation (KDIC) bank resolution/crisis management operational framework implemented	The Operational Framework was developed. It includes the Bank Resolution Policy & Procedures Guidelines and the Risk Management Policy and Guidelines. The documents have been considered by the Technical Sub-Committee of the

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	financial stability, access to, and provision of, affordable and long-term financing			KDIC Board.
		Reduction in the Net Interest Margin	Reduction in the Net Interest Margin	The net interest margin reduced to 5.88% (Annualised) at Project close.
		Increase in the percentage of Long-term assets held by pension funds	Increase in the percentage of Long-term assets held by pension funds to 52% by year 5	The Project registered an increase in the percentage of long-term assets held by pension funds to 51% at Project close.

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**4.0 Environmental and Sustainability Reporting**

The objective of the Project is to strengthen the legal, regulatory and institutional environment for improved financial stability, access to, and provision of, affordable and long-term financing. Vision 2030 acknowledges financial services as a key driver to economic growth. The economic pillar of this strategy aspires to achieve high economic growth based on high national savings rates, which highlights the central role to be played by the financial sector. The financial sector is explicitly identified as one of the seven fast-track sectors in Vision 2030. Among its main objectives for financial sector development, the strategy identifies: (i) improving stability; (ii) enhancing efficiency in the delivery of credit and other financial services, and (iii) improving access to financial services products for a much large number of Kenyans. The structure of project activities to the Medium Term Plan III assures continuity and sustainability of activities beyond the Project life.

**i. Sustainability strategy and profile**

The GoK has consistently demonstrated strong alignment of the role of the financial sector in the overall development agenda as outlined in Vision 2030. The reform agenda within the Financial Services Plan has been consistent and the interventions through the Project will be sustained. The activities are required to incorporate input from key stakeholders and beneficiaries with long-term implementation support.

**ii. Environmental Performance**

The Project activities are not expected to have significant, and/or irreversible environmental and social impacts.

**iii. Employee welfare**

The Project shall maintain, throughout the implementation of the Project, a Project Implementation Unit (PIU), vested with the responsibility of day-to-day

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administration. The PIU is resourced and composed of key staff, with qualifications, experience and under terms of reference acceptable to the Association and the Government of Kenya, to manage the Project. All National labour laws are applicable in the context of staff of the PIU.

**iv. Market place practices**

a) Responsible Supply chain and supplier relations-

Procurement under the Project is carried out in accordance with the World Bank Procurement guidelines and the Kenya Procurement framework.

b) Responsible ethical practices

The Project is subject to the World Bank Anti-Corruption Guidelines, dated October 15, 2006 and January 2011 and July 1, 2016 and the Kenyan Legislative framework on Anti-Corruption.

c) Regulatory impact assessment

The results matrix of the Project indicates the interrelationship between activities resulting to an improved legal and regulatory environment, strengthened capacity of the financial sector regulators and new entities arising out of the Project's intervention. The development of long-term investment products are the most tangible indicators of the project's impact.



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**5.0 Statement of Project Management responsibilities**

The Principal Secretary for the National Treasury and the Project Manager for Financial Sector Support Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the National Treasury and the Project Manager for Financial Sector Support Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the National Treasury and the Project Manager for Financial Sector Support Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the period ended June 30, 2023, and of the Project's financial position as at that date. The Principal Secretary for the National Treasury and Planning and Project Manager for Financial Sector Support Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the

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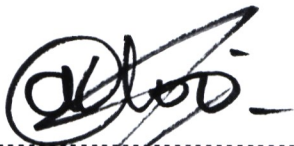
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preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the National Treasury and the Project Manager for Financial Sector Support Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

**Approval of the Project financial statements**

The Project financial statements were approved by the Principal Secretary for the National Treasury and the Project Manager for Financial Sector Support Project on 26<sup>TH</sup> SEPTEMBER 2023 and signed by them.



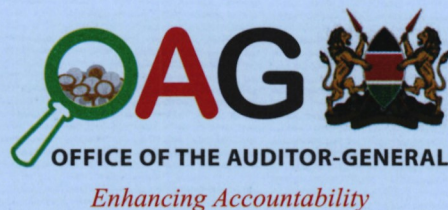
.....  
**Dr. Chris K. Kiptoo, CBS**  
**Principal Secretary**



.....  
**Ray Charles Musau**  
**Project Manager**

# REPUBLIC OF KENYA

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



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

## REPORT OF THE AUDITOR-GENERAL ON FINANCIAL SECTOR SUPPORT PROJECT (IDA CREDIT NO.56270-KE) FOR THE YEAR ENDED 30 JUNE, 2023 - THE NATIONAL TREASURY

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### PREAMBLE

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

- A. Report on the 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 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 Government achieves value for money and that such funds are applied for the intended purpose.
- 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, the risk management environment and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

#### Opinion

I have audited the accompanying financial statements of Financial Sector Support Project IDA Credit No.56270-KE set out on pages 1 to 29, which comprise of the statement of

financial assets as at 30 June, 2023, 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 have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Sector Support Project as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement No.56270-KE between the International Development Association and the Republic of Kenya dated 4 June, 2015 and the Public Finance Management Act, 2012.

Further, the special account statement presents fairly, transactions for the period, and the closing balance has been reconciled with the books of account.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Financial Sector Support Project Management in accordance with ISSAI 130 on 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 financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

### **Other Matter**

#### **Pending Bills**

Annex 4 to the financial statements discloses that the project had a pending bill of Kshs.10,024,584 as at 30 June, 2023. Management did not explain why the bill was not settled during the year when it occurred and when management intends to settle it. The project risks incurring significant interest costs and penalties with continued delay in payment.

Failure to settle bills during the year in which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by loan agreements signed between the Republic of Kenya and International Development Association (IDA Credit No.56270 - KE): I report based on my audit, that:-

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

## **Responsibilities of 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 (Cash 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 control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or 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 are in compliance 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 the 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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 and weakness 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 addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of

Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

17 October, 2023



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**7.0 Statement of Receipts and Payments for the year ended 30th June 2023.**

	Note	2022/2023		2021/2022		Cumulative to-date (From inception)	
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity		Payments made by third parties
<b>Receipts</b>		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Transfer from Government	1	-	23,685,505	23,685,505	-	-	23,685,505
Loan from external development partners	2				267,192,000	267,192,000	2,466,615,492
Miscellaneous Receipts	3						902,630
<b>Total receipts</b>		-	<b>23,685,505</b>	<b>23,685,505</b>	<b>267,192,000</b>	<b>267,192,000</b>	<b>2,491,203,627</b>
<b>Payments</b>							
Compensation to employees	4	-	17,920,170	17,920,170	23,001,570	23,001,570	120,752,418
Purchase of goods and services	5	9,776,197	5,765,335	15,541,532	125,261,210	125,261,210	1,478,918,852
Acquisition of non-financial assets	6	-	-	-	122,739,955	122,739,955	800,319,736
Other grants and transfers /payments	7	91,420,755	-	91,420,755	-	-	91,420,755

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	Note	Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Total	Cumulative to-date (From inception)
Prior Years Adjustments								(208,135)
<b>Total payments</b>		<b>101,196,952</b>	<b>23,685,505</b>	<b>124,882,457</b>	<b>271,002,735</b>	<b>-</b>	<b>271,002,735</b>	<b>2,491,203,627</b>
<b>Surplus/ (deficit)</b>		<b>(101,196,952)</b>	<b>-</b>	<b>(101,196,952)</b>	<b>(3,810,73)</b>	<b>-</b>	<b>(3,810,73)</b>	<b>0</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 26<sup>TH</sup> SEPTEMBER 2023 and signed by

  
 .....  
**Dr. Chris K. Kiptoo, CBS**  
**Principal Secretary**

  
 .....  
**Ray Charles Musau**  
**Project Manager**

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**8.0 Statement of Financial Assets as at 30<sup>th</sup> June 2023**

Description	Not e	2022/23	2021/22
		Kshs	Kshs
<b>Financial Assets</b>			
<b>Cash and Cash equivalents</b>			
Bank Balances	8	0	101,196,952
<b>Total Cash and Cash equivalents</b>		-	<b>101,196,952</b>
<b>Total Financial Assets</b>		-	<b>101,196,952</b>
<b>Financial Liabilities</b>			
<b>Net Assets</b>		-	<b>101,196,952</b>
<b>Represented By</b>			
Fund Balance B/fwd.	9	101,196,952	105,007,686
Surplus/(Deficit) for the Year		(101,196,952)	(3,810,735)
<b>Net Financial Position</b>		-	<b>101,196,952</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 26<sup>th</sup> SEPTEMBER 2023 and signed by:



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**Principal Secretary**



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**Project Manager**


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**9.0 Statement of Cashflow for the year ended 30<sup>th</sup> June 2023**

Description	Notes	2022/2023	2021/2022
		Kshs	Kshs
<b>Cashflow from operating activities</b>			
<b>Receipts</b>			
Transfer from Government entities	1	23,685,505	-
<b>Total receipts</b>		<b>23,685,505</b>	-
<b>Payments</b>			
Compensation of employees	4	(17,920,170)	(23,001,570)
Purchase of goods and services	5	(15,541,532)	(125,261,210)
Other grants and transfers	7	(91,420,755)	-
<b>Total Payments</b>		<b>(124,882,457)</b>	<b>(148,262,780)</b>
<b>Net receipts/(payments)</b>		<b>(101,196,952)</b>	<b>(148,262,780)</b>
<b>Net cash flow from operating activities</b>		(101,196,952)	(148,262,780)
<b>Cashflow from investing activities</b>			
Acquisition of non-financial assets	6	-	(122,739,955)
<b>Net cash flows from investing activities</b>		-	<b>(122,739,955)</b>
<b>Cash flow from financing activities</b>			
Proceeds from foreign borrowings	2	-	267,192,000
<b>Net cash flow from financing activities</b>		-	267,192,000
<b>Net increase in cash and cash equivalents</b>		(101,196,952)	(13,921,534)
<b>Cash and cash equivalent at beginning of the year</b>	<b>11</b>	<b>101,196,952</b>	<b>105,007,686</b>
<b>Cash and cash equivalent at end of the year</b>	<b>11</b>	-	<b>101,196,952</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 26<sup>th</sup> SEPTEMBER 2023 and signed by:

  
.....  
**Dr. Chris K. Kiptoo, CBS**  
**Principal Secretary**

  
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**Ray Charles Musau**  
**Project Manager**

**FINANCIAL SECTOR SUPPORT PROJECT  
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**10.0 Statement of Comparison of Budget and Actual amounts for year ended 30<sup>th</sup> June 2023**

Receipts/Payments Item	Original Budget <b>a</b>	Adjustments <b>b</b>	Final Budget <b>c=a+b</b>	Actual on Comparable Basis <b>d</b>	Budget Utilization Difference <b>e=c-d</b>	% of Utilization <b>f=d/c %</b>
<b>Receipts</b>						
Transfer from Government		23,685,505	23,685,505	23,685,505	-	100%
Balances b/f		101,196,952	101,196,952	101,196,952	-	100%
<b>Total Receipts</b>		<b>124,882,457</b>	<b>124,882,457</b>	<b>124,882,457</b>		
<b>Payments</b>						
Compensation to employees		17,920,170	17,920,170	17,920,170	-	100%
Purchase of goods and services		15,541,532	15,541,532	15,541,532	-	100%
Other grants and transfers		91,420,755	91,420,755	91,420,755	-	100%
<b>Total Payments</b>		<b>124,882,457</b>	<b>124,882,457</b>	<b>124,882,457</b>	-	<b>100%</b>
<b>Surplus or Deficit</b>		-	-	-		

Note: The significant budget utilisation/performance differences in the last column are explained in Annex 2 to these financial statements.

  
.....  
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Principal Secretary

  
.....  
Ray Charles Musau  
Project Manager

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**11.0 Significant Accounting Policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

**a) Statement of compliance and basis of preparation**

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

**b) Reporting entity**

The financial statements are for FSSP under the National Treasury. The financial statements are for the Financial Sector Support Project as required by Section 81 of the PFM Act, 2012 .

**c) Reporting currency**

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

**d) Recognition of receipts**

Financial Sector Support Project recognises all receipts from the various sources when the event occurs, and the related cash has been received.

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**i) Transfers from the Exchequer**

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

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**Significant Accounting Policies (continued)**

**ii) External Assistance**

External assistance is monies received through grants and loans from multilateral and bilateral development partners.

**iii) Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements at the time associated cash is received. FSSP did not collect any such receipts in the period under review

**iv) Donations and grants**

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. The project had no donations in the period under review.

**v) Proceeds from borrowing.**

Borrowing includes external loans acquired by the Project or any other debt the Project may take and will be treated on cash basis and recognized as a receipt during the year they were received, no proceeds of this nature were received in the year.

**vi) Undrawn external assistance**

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where



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conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. The project had drawn out its external assistance and utilized it during the project duration.

**e) Recognition of payments**

The Project recognises all payments when the event occurs, and the related cash has been paid out by the Project.

**i) Compensation to employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

**ii) Use of goods and services**

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

**iii) Interest on borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they incur and paid for. FSSP did not incur any interest cost in the duration of the project.

**iv) Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements. FSSP did not have any repayments on borrowings in the year under review.

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**Significant Accounting Policies (continued)**

**v) Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment. A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

**f) In-kind donations**

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded no such donations were received in the year.

**g) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

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**Significant Accounting Policies (Continued)**

**h) Restriction on cash**

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits. FSSP held no restricted cash amounts as at the end of the period under review.

**i) Imprests and Advances**

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements. All imprest issued to officer during the period under review were fully accounted for as at the end of the reporting period.

**j) Contingent Liabilities**

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
  - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

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- ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, The Project does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. FSSP had no contingent liability obligations for the period under review.

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**Significant Accounting Policies (Continued)**

**k) Contingent Assets**

Financial Sector Support Project did not recognize a contingent asset, nor disclose details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Financial Sector Support Project in the notes to the financial statements for the period under review. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**l) Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

**m) Budget**

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in

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the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been *included in an annex to these financial statements*.

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**Significant Accounting Policies (Continued)**

**n) Third party payments**

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments.

and are disclosed in the payment to third parties' column in the statement of receipts and payments.

**o) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates (Kenya Shillings). Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments. No such differences were realized in the financial year.

**p) Comparative figures**

Where necessary comparative figures for the previous financial year/period have been amended or reconfigured to conform to the required changes in financial statement presentation.

**q) Subsequent events**

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2023.

**r) Prior period adjustments**

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). FSSP did not recognize nor account for any prior period adjustments in the year under review.

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**12.0 Notes to the Financial Statements**

**1. Transfers from Government entities**

These represent counterpart funding and other receipts from government as follows:

<b>Description</b>	<b>Insert Current 2022/23</b>	<b>Insert Comparativ e 2021/22</b>	<b>Cumulative to-date (from inception)</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>Counterpart funding through The National Treasury</b>			
Counterpart funds Quarter 4	23,685,505	-	23,685,505
<b>Total (See Annex 3)</b>	<b>23,685,505</b>	<b>-</b>	<b>23,685,505</b>



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**Notes to the Financial Statements (Continued)**

**2. Loan from External Development Partners**

During the financial period to 30 June 2023, no loans were received from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Description	Date received	2022/2023			2021/2022		Cumulative to date
		Amount in loan currency	Loans received in actual amount	Loans received as direct payment *	Total amount in Kshs	Total amount in Kshs	
Name of Donor		USD	Kshs	Kshs	Kshs	Kshs	Kshs
Loans received from Multilateral Donors							
(International Development Association)		0	0	0	0	267,192,000	2,466,615,492
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>267,192,000</b>	<b>2,466,615,492</b>

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**Notes to the Financial Statements (Continued)**

**3. Miscellaneous Receipts**

Description	2022/23			2021/22		Cumulative to-date
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total receipts	Total receipts		
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Other receipts not classified elsewhere (Sale of tender documents)	-	-	-	-	-	902,630
<b>Total</b>	-	-	-	-	-	<b>902,630</b>

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**4. Compensation to Employees**

Description	2022/2023		2021/2022		Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Basic salary for contracted staff	0	17,920,170	17,920,170	23,001,570	120,752,418
<b>Total</b>	<b>0</b>	<b>17,920,170</b>	<b>17,920,170</b>	<b>23,001,570</b>	<b>120,752,418</b>

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Notes to the Financial Statements (Continued)

5. Purchase of Goods and Services

Description	2022/23			2021/22	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Other Operating Payments	9,776,197	5,765,335	15,541,532	125,261,210	1,478,918,852
<b>Total</b>	<b><u>9,776,197</u></b>	<b><u>5,765,335</u></b>	<b><u>15,541,532</u></b>	<b><u>125,261,210</u></b>	<b><u>1,478,918,852</u></b>

6. Acquisition of Non-Financial Assets

Description	2022/23			2021/22	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs.	Kshs.	Kshs	Kshs	Kshs
Purchase of office furniture & general equipment	-	-	-	122,739,955	800,319,736
<b>Total</b>	<b>=</b>	<b>=</b>	<b>=</b>	<b><u>122,739,955</u></b>	<b><u>800,319,736</u></b>

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**7. Other grants and Transfers**

	2022/23			2021/22	Cumulative to-date
Description	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Miscellaneous payments (Refund to IDA)	91,420,755	-	91,420,755	-	91,420,755
<b>Total</b>	<b>91,420,755</b>	<b>-</b>	<b>91,420,755</b>	<b>-</b>	<b>91,420,755</b>

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**Notes to the Financial Statements (Continued)**

**8. Cash And Cash equivalents**

<b>Description</b>	<b>2022/23</b>	<b>2021/22</b>
	<b>Kshs</b>	<b>Kshs</b>
Bank accounts (Note 8)	0	101,196,952
<b>Total</b>	<b><u>0</u></b>	<b><u>101,196,952</u></b>

Financial Sector Support Project has 1 number project accounts spread within the project implementation area and 1 foreign currency designated account managed by the National Treasury as listed below:

**8. A Bank Accounts**

**Project Bank Accounts**

<b>Details</b>	<b>2022/23</b>	<b>2021/22</b>
	<b>Kshs</b>	<b>Kshs</b>
<u>Foreign Currency Accounts</u>		
Central Bank of Kenya (Account No. 1000237937)	0	78,151
Total Foreign Currency balances	<u>0</u>	<u>78,151</u>
<u>Local Currency Accounts</u>		
Central Bank of Kenya (Account No. 100237872)	0	101,196,952
Total local currency balances	<u>0</u>	<u>101,196,952</u>
<b>Total bank account balances</b>	<b>0</b>	<b><u>101,196,952</u></b>

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**Notes to the Financial Statements (Continued)**

**Special Deposit Accounts**

The balances in the Project's Special Deposit Account(s) as at 30<sup>th</sup> June 2023 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. The Project refunded the balance to IDA within the 2022/23 financial year.

**Special Deposit Accounts Movement Schedule**

Description	2022/23	2021/22
	USD	USD
<b>(i) Central Bank of Kenya A/C No. 1000237937</b>		
Opening balance	78,151	1,024,649
Total amount deposited in the account	-	1,453,502
Total amount withdrawn (as per Statement of Receipts & Payments)	(78,151)	(2,400,000)
<b>Closing balance (<i>as per SDA bank account reconciliation attached</i>)</b>	<b><u>0.00</u></b>	<b><u>78,151</u></b>

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**Notes to the Financial Statements (Continued)**

**9. Fund Balance Brought Forward**

<b>Description</b>	<b>2022/23</b>	<b>2021/22</b>
	<b>Kshs</b>	<b>Kshs</b>
Bank accounts	101,196,952	97,746,486
<b>Total</b>	<b>101,196,952</b>	<b>97,746,486</b>



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**Other Important Disclosures (Continued)**

**10. Payments By Third Party on Behalf of The Project**

***10.1 Classification by Source***

	<b>2022/23</b>	<b>2021/22</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
National Government	23,685,505	-
<b>Total</b>	<b>23,685,505</b>	<b>-</b>

***10.2 Classification of payments made by Third Parties by Nature of expenses***

<b>Payments made by third parties</b>	<b>2022/23</b>	<b>2021/22</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Compensation of employees	17,920,170	-
Use of goods and services	5,765,335	-
<b>Total</b>	<b>23,685,505</b>	<b>-</b>

**FINANCIAL SECTOR SUPPORT PROJECT  
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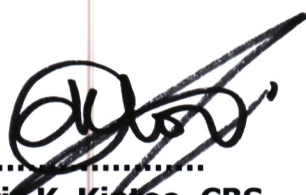
**13.0 ANNEXES**

**Annex 1: Prior Year Auditor-General's Recommendations**


<b>No</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>
1.	<p>Uncertainty in sustainability of services: The statement of comparison of budget and actual amounts reflects percentage utilization of expenditure on compensation of employees amounting to Kshs. 23,001,570 against a budget provision of Kshs. 27,537,084, or 84% of the approved budget. Although management explained the variance was due to delayed project restructuring, available information indicate the contracted staff contracts lapsed in April 2022 and they continued to offer services without compensation. Further, the project disbursing period was to lapse in October 2022 and lack of valid contracts of the PIU staff exposes operations to risk of external interference and casts doubt on finalization of project activities.</p>	<p>Contracts for the Project Implementation Unit staff were ratified and closure arrangements of the project completed.</p>	Resolved
2.	<p>Budgetary control and performance The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 1,816,346,218 and Kshs. 267,192,000 respectively resulting to an underfunding of Kshs. 1,549,154,218 or 85% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs. 1,816,346,220 and Kshs. 271,002,735 respectively</p>	<p>Following extension of the disbursing period to 28<sup>th</sup> February 2023, the project was able to facilitate payment of eligible expenditures</p>	Resolved

**FINANCIAL SECTOR SUPPORT PROJECT  
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<b>No</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>
	<p>resulting to an under expenditure of Kshs. 1,545,343,485 or 85% of the budget.</p> <p>Based on the approved estimates, the underfunding and under expenditure affected planned activities and may have impacted negatively on service delivery to the public.</p>	<p>outstanding as at June 30, 2022.</p>	
3.	<p>Pending bills</p> <p>Note 9 and Annex 1 to the financial statements indicates that the project had a pending bill of Kshs. 3,930,400 as at 30 June 2022. Management has not explained why the bill was not settled during the year when it occurred. The Project risks incurring significant interest costs and penalties with continued delay in payment. Failure to settle pending bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.</p>	<p>The pending bill was settled in the 2022/23 Financial year.</p>	<p>Resolved</p>



.....  
**Dr. Chris K. Kiptoo, CBS**  
**Principal Secretary**



.....  
**Ray Charles Musau**  
**Project Manager**

FINANCIAL SECTOR SUPPORT PROJECT  
 ANNUAL REPORT AND FINANCIAL STATEMENTS  
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**Annex 2: Variance explanations - Comparative Budget and Actual amounts for Current FY**

	<b>Final Budget</b>	<b>Actual on Comparable Basis</b>	<b>Budget Utilization Difference</b>	<b>% of Utilization</b>	<b>Comments on Variance (below 90% and over 100%)</b>
	<b>a</b>	<b>b</b>	<b>c=a-b</b>	<b>d=b/a %</b>	
<b>Receipts</b>					
Transfer from Government entities	23,685,505	23,685,505	-	100%	-
<b>Total Receipts</b>	<b>23,685,505</b>	<b>23,685,505</b>	<b>-</b>	<b>100%</b>	
<b>Payments</b>					
Compensation of employees	17,920,170	17,920,170	-	100%	
Purchase of goods and services	15,541,535	15,541,535	-	100%	
Other grants and transfers	91,420,755	91,420,755	-	100%	
<b>Total payments</b>	<b>124,882,457</b>	<b>124,882,457</b>	<b>-</b>	<b>100%</b>	

**FINANCIAL SECTOR SUPPORT PROJECT  
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**Annex 3: Reconciliation of inter-entity transfers**

<b>Project Name: Break down of transfers from the National Treasury</b>			
<b>a. Government Counterpart funding</b>	<b>Bank Statement Date</b>	<b>Amount (Kshs)</b>	<b>2022/23</b>
	2/05/2023	23,685,505	
<b>Total</b>		<b>23,685,505</b>	
<b>Total (A+B+C)</b>		<b>23,685,505</b>	

The above amounts have been communicated to and reconciled with the Parent Ministry/ State Department

Project Manager  
FSSP



Sign -----

Head of Accounting Unit  
The National Treasury



Sign-----

**FINANCIAL SECTOR SUPPORT PROJECT  
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**Annex 4: Analysis of Pending Bills**

<b>Supplier of Goods or Services</b>	<b>Date Contracted/ invoiced.</b>	<b>Original Amount</b>	<b>Amount (Kshs)</b>
Supply of services			
1.	Red Giant Media Agency Limited	Production of Television, Print Commercials and Financial Literacy Training Module Animations for the Kenya Deposit Insurance Corporation (KDIC)	<b>10,024,584</b>
<b>Grand Total</b>			<b>10,024,584</b>

**FINANCIAL SECTOR SUPPORT PROJECT  
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**Annex 5: Summary of Fixed Assets Register**

No.	Item Description	Model No.	Qty	@ Cost (Ksh.)	Total Cost
<b>Equipment(ICT Equipment)</b>					
	Tablets		20	77,270.00	1,636,748
	UPS		1		1,665,737
	Security Appliances7/18/2019:Check		3		10,211,066
	Toyota Land Cruiser prado	KDJ150R-GKFEY TX-L 3.0 L TURBO DIESEL	1		10,175,100
		HP Pro desk-CPUS	9		
	Desktop Computers	HP Pro desk-Monitors	9	98,000.00	882,000
	Television	60" LG TV	1	245,000	245,000
	Surface Tablets	Microsoft Surface Pro	8	155,000	1,240,000
	UPS	APC 1500 VA Smart UPS	9	53,000	477,000
	Server	2U HP Rack Mountable Server	1	1,250,000	1,250,000
	Heavy duty Multy functional Color printer	KYOCERA 6052CI	1	1,069,057	1,069,057
	Heavy duty shredder		1	122,387	122,387
	Projector and screens	SPECTRON	1	168,158	168,158
	Medium duty color printer	KYOCERA TASCALFA 8052ci	1	51,649	51,649
	Scanner	Kodak i3250 scanner	1	190,241	190,241
<b>GRAND TOTAL</b>					<b>29,384,142</b>

**FINANCIAL SECTOR SUPPORT PROJECT  
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**Annex 6: Reporting on Climate Relevant Expenditure**

Project Name	Project Description	Project Objectives	Project Activities	Source Of Funds				Implementing Partners
				Q1	Q2	Q3	Q4	
FSSP	N/A							



**FINANCIAL SECTOR SUPPORT PROJECT  
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**Annex 7: Reporting Disaster Management Expenditure**

<b>Programme</b>	<b>Sub-programme</b>	<b>Disaster Type</b>	<b>Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)</b>	<b>Expenditure item</b>	<b>Amount (Kshs.)</b>	<b>Comments</b>
FSSP	N/A					

**FINANCIAL SECTOR SUPPORT PROJECT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
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**Annex 8: Other Support Documents**

i. Bank Reconciliations statement as at 30<sup>th</sup> June 2023

AS AT 30.06.2023


Station: FSSP Anniversary Towers

CENTRAL BANK OF KENYA ACCOUNT NO. 1000237872

							Ksh
Balance as per Bank Statement							0.00
Less-							
	1	Payments in Cash Book not yet recorded in Bank Statement (Unpresented Cheques)					
	2	Receipts in Bank Statement not yet recorded in Cash Book					-
	3	Payments in Bank Statement not yet recorded in Cash Book					
		Bank Charges					
	4	Receipts in Cash Book not yet recorded in Bank Statement					
<b>Bank Balance as per Cash Book</b>							<b>0.00</b>
As per Schedule Attached							

PREPARED BY :

CERTIFIED BY :

  
15/7/2023

**FINANCIAL SECTOR SUPPORT PROJECT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2023**

Account Name FINANCIAL SEC.SUPP.PRJ-IDA 56270-KE  
 STATEMENT OF ACCOUNT Number 1000237872  
 CENTRAL BANK OF KENYA  
 BANKI KUU YA KENYA,  
 P.O.BOX 60000-0200,  
 NAIROBI.

Currency KES

Balance 0.00 Rundate : 05 JUN 2023  
 Working Balance 0.00 Runtime : 09:17:38  
 Customer number : 120373  
 Account number : 1000237872

Account name : FINANCIAL SEC.SUPP.PRJ-IDA 56270-KE-KES

STATEMENT PERIOD : From 01 JUN 2023 To 05 JUN 2023

Opening Balance : 91,420,754.75

No.	Txn. Date	Value Date	Reference No.	Transaction Details	Dr. Amount	Cr. Amount	Balance
1	02 JUN 2023	02 JUN 2023	FT2315346HT7	Payment Authority PA.131530	450.00	0.00	91,420,304.75
2	02 JUN 2023	02 JUN 2023	FT2315346HT7	Payment Authority PA.131530	91,420,754.75	0.00	-450.00
3	02 JUN 2023	02 JUN 2023	FT23153WLR09	Local Cash Deposit Bulk 263003090019810000000000	0.00	450.00	0.00
Totals					91,421,204.75	450.00	
Closing Balance :							0.00

**FINANCIAL SECTOR SUPPORT PROJECT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2023**

**ii. Board of Survey Report**

A/C NO. 1000237372 FINANCIAL SEC. SUPP, PRJ-IDA 56270-KE

F.o. 51

REPUBLIC OF KENYA

Date 3/7/2023

Report of the Board of Survey on the Cash and Bank Balances of THE NATIONAL TREASURY as at the close of business on 30/6/2023.

\*The Board, consisting of (Names and official titles)

Mr. GODFREY BUSOLO -CHAIRMAN

Mr. CHARLES N KISSINGU -MEMBER

Mr. JOSEPH M KOTHYA -MEMBER

assembled at the office of THE NATIONAL TREASURY (CASH OFFICE) at 9:30 AM (time) on 3/7/2023

and the following cash was produced:

Notes . . . . . Sh. NIL

Silver . . . . . Sh. NIL

Copper . . . . . Sh. NIL

Cheques (as per details On reverse) . . . . . Sh. NIL

It was observed that cheques amounting Sh. NIL Cts . . . . . had been on hand for more than 14 days prior to the date of the survey.

The cash consists of East African currency and does not contain any demonetized coin or notes.

The Cash Book reflected the following balances as at the close of business on the 30/6/2023

Cash on hand . . . . . Sh. \_\_\_\_\_  
Bank Balance . . . . . Sh. \_\_\_\_\_

The Bank Certificate of Balance showed a sum of Sh. NIL

cts. . . . . (Sh. . . . . cts. . . . .)

standing to the credit of the account

on . . . . . 19 . . . . .

The difference between this figure and the Bank Balance as shown by the Cash Book is accounted for in the Bank Reconciliation Statement (F.O. 30) attached.

Chairman

Date 3/7/2023

Members of the Board . . . . .

**FINANCIAL SECTOR SUPPORT PROJECT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2023**

iii. Special Deposit Account(s) reconciliation statement(s)

**FINANCIAL SECTOR SUPPORT PROJECT  
STATEMENT OF SPECIAL (DESIGNATED) ACCOUNT RECONCILIATION  
FOR THE YEAR ENDED 30 JUNE 2023**

Credit No.: IDA LOAN CREDIT NO.56270-KE (DA-A)

Bank Account No.: 1000237937 Held with CENTRAL BANK OF KENYA

	NOTES	AMOUNT USD	AMOUNT USD
1	Amount advanced by IDA		21,015,007.34
	<b>Less:</b>		
2	Total amount documented		21,015,007.34
3	<b>Outstanding amount to be documented</b>		<b>-</b>
	<b>Represented by:</b>		
4	Ending Special account Balance as as 30 June 2023		-
5	Amounts claimed but not credited as at 30 June 2023		-
6	<b>Amounts withdrawn and not claimed</b>		<b>-</b>
7	Service Charges (if not included in lines 5 and 6 above)		-
8	Interest earned (if included in Special Account)		-
9	<b>Total advance to Special Account Year ended 30 June 2023</b>		<b>-</b>

Discrepancy between total appearing on line 3 and 9

-

**Notes:**

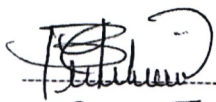
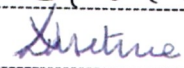
- 1 Explain the discrepancy between totals appearing on lines 3 and 9 above (e.g amount due to be refunded to cover ineligible expenditures paid from the Special/Designated Account)
- 2 Indicate if amount appearing on line 6 is eligible for financing by IDA and provide reasons for not claiming the expenditures

*Signature*

**AUTHORISED REPRESENTATIVE  
RESOURCE MOBILISATION DEPARTMENT  
THE NATIONAL TREASURY**

**DATE:** 25-08-2023

**FINANCIAL SECTOR SUPPORT PROJECT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2023**

<b>SPECIAL ACCOUNT STATEMENT</b>	
For period ending	<b>30th JUNE, 2023</b>
Account No.	<b>1000237937</b>
Depository Bank	<b>CENTRAL BANK OF KENYA.</b>
Address	<b>CENTRAL BANK OF KENYA.</b>
Related Loan	<b>FINANCIAL SECT SUPPORT PRJ-5627 KE</b>
Credit Agreement	
Currency	<b>USD</b>
<b><u>Part A - Account Activity</u></b>	
Beginning balance of 1st July, 2022 as per C.B.K. Ledger Account	<b>78,151.05</b>
<b>Add:</b>	
Total Amount deposited by World Bank	<b>0.00</b>
Total Interest earnings if deposited in account	
Total amount refunded to cover ineligible expenditure	
<b>Deduct:</b>	
Total amount withdrawn	<b>78,151.05</b>
Total service charges if not included above in amount withdrawn	
Ending balance on 30th June,2023	<b>0.00</b>
<b>AUTHORISED REPRESENTATIVE CENTRAL BANK OF KENYA</b>	SIGNATURE: 
	DATE: <b>24.07.2023</b>
<b>AUTHORISED REPRESENTATIVE EXTERNAL RESOURCES DEPARTMENT-TREASURY</b>	SIGNATURE: 
	DATE: <b>25.08.2023</b>

NOTE: The ending balance as per Central Bank of Kenya Ledger Account and the off-shore Special Account as at 30th June, 2023 have been reconciled and a copy of the supporting Reconciliation Statement is attached.