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**AUDITOR-GENERAL'S PERFORMANCE AUDIT REPORT ON
EFFICIENCY IN UTILIZATION OF DEBT FUNDS BY THE MINISTRY
OF AGRICULTURE AND LIVESTOCK DEVELOPMENT
CASE STUDY OF KENYA CLIMATE SMART
AGRICULTURE PROJECT(KCSAP)**

OCTOBER 2023

VISION

Making a difference in the lives and livelihoods of the Kenyan People.

MISSION

Audit Services that impact on effective and sustainable service delivery

CORE VALUES

Integrity

Credibility

Relevance

Accountability

Independence

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Enhancing Accountability

FOREWORD BY THE AUDITOR-GENERAL

I am pleased to present this Performance Audit Report on Efficiency in Utilization of Debt Funds by the Ministry of Agriculture and Livestock Development, A Case Study of Kenya Climate Smart Project (KCSAP). My Office carried out the audit under the mandate conferred on me by Article 229(6) of the Constitution of Kenya, 2010 and Section 36 of the Public Audit Act, 2015. The Act mandates the Office of the Auditor-General to examine the economy, efficiency and effectiveness with which public money has been expended pursuant to Article 229 of the Constitution of Kenya, 2010.

Performance, financial and compliance audits form the three pillars of the audit assurance framework that I have established to give focus to the varied and broad scope of the audit work done by my Office. The framework is intended to provide a high level of assurance to stakeholders that public resources are not only correctly disbursed, recorded and accounted for, but their use positively impacts the lives and livelihoods of the citizens. The main goal of our performance audit is to ensure effective use of public resources and promote service delivery to the citizens.

Our performance audits examine compliance with policies, obligations, laws, regulations, standards and whether the resources are managed in a sustainable manner. They also examine the economy, efficiency and effectiveness with which public resources have been expended. I am hopeful that corrective action will be taken in line with our recommendations in the report.

The report is submitted to Parliament in accordance with Article 229 (7) of the Constitution of Kenya, 2010 and Section 39 (1) of the Public Audit Act, 2015. I have also remitted copies of the report to the Principal Secretary, State Development for Crop Development, the Principal Secretary, The National Treasury and the Chief of Staff and Head of Public Service.


CPA Nancy Gathungu, CBS
AUDITOR- GENERAL
23 October, 2023

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LIST OF ABBREVIATIONS

Abbreviation	Description
AEZs	Agro-Ecological Zones
BoQ	Bill of Quantity
CARA	County Allocation Revenue Act
CDDC	Community Driven Development Committee
CIG	Common Interest Groups
COF	Chief Officer Finance
CPCU	County Project Coordinating Unit
CRF	County Revenue Fund
CSA	Climate Smart Agriculture
DA	Designated Account
FM	Financial Management
KCSAP	Kenya Climate Smart Agriculture Project
KMD	Kenya Meteorological Department
MDA	Ministry Department Agency
OAG	Office of Auditor-General
PAD	Project Appraisal Document
PFM	Public Finance Management
PO	Producer Organizations
SPA	Special Purpose Account
STEP	Systematic Tracking of Exchanges in Procurement
TIMPs	Technologies Innovation Management Practices
VMG	Vulnerable and Marginalized Groups

DEFINITION OF TERMS

Absorption: This is the utilization of debt funds

Designated Account (DA)-1: Refers to an account opened at the Central Bank of Kenya to support County level activities.

Designated Account (DA)-2: Refers to an account opened at the Central Bank of Kenya to support National level activities.

Efficient Debt Utilization: Refers to the use of any financial obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the National Government without waste, within a reasonable period and at the least cost.

Principal Investigator: is an individual who assumes full responsibility for a research study, including providing scientific and technical support to their respective research collaborators on project proposal development, articulation of expected outputs/outcomes, preparation of annual work plans and budgets, and implementation of their respective research project.

Statement of Expenditure: Refers to a financial document that describes all expenses incurred and results achieved by an implementing entity during a specific period.

EXECUTIVE SUMMARY

Background of the Audit

1. Article 229 (6) of the Constitution of Kenya, 2010 and Section 36 of the Public Audit Act, 2015 mandates the Auditor-General to examine and report on the economy, efficiency and effectiveness with which public money has been expended.
2. Efficient utilization of debt refers to the use of proceeds of a loan for the purpose for which it is borrowed, within a reasonable period, without waste and at the least cost. The State Department for Crop Development and Agricultural Research has been one of Kenya's highest consumers of external debt. However, the performance of the Country's agricultural sector has been highly volatile, with negative growth reported in nine (9) years between 2003 and 2012.
3. The audit sampled Kenya Climate Smart Project (KCSAP), whose financing agreement was signed between the International Development Association (IDA) and the Republic of Kenya on 7 April, 2017. The project cost was US\$279.7 million, equivalent of KES 29 billion, with US\$250 million financed by IDA and US\$29.7 million by the Government of Kenya and beneficiaries. The project aimed at improving agricultural productivity and resilience to climate change in Kenya's smallholder farming and pastoral communities while providing emergency response.

Motivation for the Audit

4. The factors that motivated the Office to conduct the audit include: -
 - i) According to the Annual Debt Report 2021, the Agricultural Sector experienced a 0.7% decline in growth, while other sectors showed positive growth. This decline raises concerns about the efficient management of the approximately thirteen (13) debt-funded projects within the Agricultural Sector and their ability to achieve the intended objectives.
 - ii) The media report dated 29 October, 2020¹, reported concerns about the low absorption of funds by counties, emphasizing the negative impact on county

¹ People Daily Newspaper -29 October 2020

- development, employment creation, and service delivery. Similarly, another media report published on 23 March, 2022², reported that the delay in establishing a framework for disbursement of debt funds from financiers has led to delays in funds reaching the counties. The publication highlighted the financiers' worries that failure to address the issue promptly would result in a recurrence of low absorption rates reported by counties, thereby affecting reporting and disbursement timelines.
- iii) The County Governments' Annual Budget Implementation Review Report for 2021/2022 revealed a decline in the absorption of development funds, with County expenditure on development activities decreasing from 62.1% in FY 2020/2021 to 50.9% in FY 2021/2022. Seventeen (17) counties recorded an absorption rate of 50% and below during the same period.
 - iv) In a Hansard report dated 28 November, 2018, Members of Parliament highlighted the importance of promoting climate-smart agricultural practices to address high land degradation caused by overgrazing, poor farming practices, deforestation, and climate change. The report also recognized the potential of the agricultural sector to alleviate unemployment and poverty in Kenya.
 - v) Target 2.4 of Sustainable Development Goal (SDG) 2 aims at ensuring that "By 2030, member countries have sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality".

Audit Objective

- 5. The main objective of the audit was to assess whether the Ministry of Agriculture and Livestock Development and in particular the State Department for Crop Development and other state actors have put in place measures to ensure efficient utilization of debt funds during implementation of KCSAP.

² Business Daily Newspaper-23 March,2022

Audit Scope

6. The audit examined the efficiency in utilization of Public Debt Funds by the State Department for Crop Development and other state actors through the Kenya Climate Smart Agriculture Project (KCSAP). The audit covered a period of five (5) financial years running between 2017/2018 to 2021/2022, which was also the project implementation life cycle.

Summary of Audit Findings

7. Review of documents and interviews with State Department for Crop Development and other major players revealed the following efforts and success as having been made by KCSAP in enhancing efficiency in utilization of debt funds:

Prompt Transfer of Funds from Special Purpose Account to Project Operation Account

8. Out of the sampled counties, the audit noted that Nyeri County, took the least time to transfer funds from the Special Purpose Account to Project Operations Account. It was noted that some funds were transferred to the project operations account the same day they were received in the special purpose account with the longest time taken to transfer the funds being 16 days.

Increased Agricultural Productivity in areas where Sub-Projects and Producer Organizations were Implemented.

9. The audit noted that sub-projects and producer organizations contributed to the achievement of increased agricultural productivity objective of KCSAP. For instance, in Kisumu County, it was noted that Gem Rae Irrigation Scheme increased the total acreage of land under irrigation from 150 to 400 acres with a possibility of additional 250 acres being brought under irrigation due to constant availability of water from the irrigation scheme. This in turn could lead to increased output from the farms.
10. Despite the efforts made as outlined above, there are still a number of challenges hindering the State Department for Crop Development and other state actors in implementation of the project, as detailed below:

1. Inadequate Measures to Facilitate Timely Disbursement and Transfer of Funds

11. Paragraph 14 of the Project Appraisal Document provides that the Borrower or Implementing Entities shall maintain, or cause to be maintained Financial Management (FM) arrangements that are acceptable to the World Bank arrangements to ensure that financial resources reach the implementing and executing agencies and ultimate project beneficiaries at the shortest time possible.

a) Delays in Disbursement of Funds from The National Treasury to the County Governments

12. The audit noted that there was delay in disbursement of funds from The National Treasury to the County Governments. Delay in disbursements of funds was attributed to late approvals of County Allocation of Revenue Act (CARA) by Parliament. For the financial years 2018/2019 to 2021/2022, the late disbursement of funds led to delays in implementation of the project.

b) Delays in Transfer of Project Funds from Special Purpose Account to Operations Accounts in Counties

13. In Kisumu County, review of bank statements revealed that the first disbursement was received in the SPA account on 30 January, 2019. However, the first transfer from the SPA to Operational Account was done 14 months later, on 25 March, 2020. translating to a delay of approximately four hundred and twenty (420) days or fourteen (14) months. No justification was given for the delays in transfer of funds. Arising from the delay, transfer of funds to facilitate payment to suppliers and disbursements to micro projects were consequently delayed.
14. In Isiolo County, review of the SPA and Operations Accounts bank statements revealed that transfer of funds from SPA to Operations Accounts was fragmented as the first disbursement to SPA of KES.32.966 million was transferred in three instalments without reason for the fragmentation.
15. Further, the audit noted significant delays in transfer of funds with the earliest time taken being 81 days or approximately 2.7 months and latest being 548 days or

approximately eighteen (18) months. Arising from this, the project operations (payments) would remain pending awaiting funds transfer to the Operation Account, thereby causing delays in achieving set milestone in implementation of the projects.

c) Failure to Adhere to the Mandatory Signatory Requirement

16. Paragraph 42 of KCSAP Finance Manual provides that each County should open a County Project Account in a commercial bank where the Government has interest. The signatories should be the County Project Coordinator as a mandatory signatory, the County Project accountant and the Head of Accounts/Finance as alternate signatories.
17. Review of signing mandate in Kisumu and Isiolo Counties revealed significant delays in transfer of funds to micro projects, sub-projects and payments to suppliers due to long time taken by the Chief Officer Finance to exercise their signing mandate. Interviews with the KSCAP County Coordinators for Isiolo and Kisumu revealed that the delay majorly occurred when the Chief Officers who are mandatory signatories were attending to other official engagements outside the County.

2. Inadequate Planning for Risk Management During Project Implementation

18. Paragraph 151 of KCSAP Finance Manual provides that every office, department, unit, or programme should ensure and demonstrate compliance with the risk management cycles and processes defined in the Risk Management Framework and Guidelines. County Offices are required to provide support to the micro-projects and to play key roles in monitoring and encouraging compliance to the guidelines. Risks, opportunities, and controls should be evaluated, analysed and monitored using standard methodologies and tools.

a) Inadequate Planning on Procurement of Farm Inputs Based on Farming Seasons

19. The audit noted that even though counties were implementing rain reliant value chains, they did not make adequate plans on procurement of key farms input such as seeds and cuttings and processes such as ploughing and harrowing before commencement of the long rains seasons. It was noted during a field interview with

Glory Disability CBO in Kisumu County that the total sorghum yield was low because long rains were missed as a result of delay in ploughing. Further, Wanganga Kwe Ber, a CIG in Kisumu did not receive cassava cuttings on time for the planting. This was attributed to county officials not instituting adequate plans to ensure procurement of farm inputs was done before the rainy season. Consequently, the farms missed the benefit of long rains leading to crop failure and non-realization of productivity which was a key objective under the “triple wins” of KCSAP of increased productivity; enhanced resilience to climate risks and reduce greenhouse gas emissions per unit of output.

b) Inadequate Adoption of Agricultural Technologies, Innovation, and Management Practices

20. The objective of Component 1 of KCSAP was to upscale implementation of Climate Smart Agricultural (CSA) practices in order to achieve the triple wins. The component was to focus on interventions that promote and facilitate the adoption of TIMPs to achieve the CSA triple-wins.
21. The audit however, noted through interviews and field verifications that some of the micro projects were implemented in clusters, hence the TIMPs adoption was confined to the individuals who were hosting the project rather than being implemented by each group member. This was common under indigenous chicken and dairy cow value chains where few individual farmers were in charge. The audit noted that Jitegemee Proud Bothers and Gracious Farmers in Kakamega and Nganywithe and Equity Dairy in Nyeri County, were implementing dairy cow and indigenous chicken value chains. It was however, observed that the projects were hosted at individual farmer's homestead. Interview with the farmers, revealed that there were no structured system for practical skills transfers to other group members. As a result, the adoption of Technologies Innovation Management Practices (TIMPs) was not realized as intended.

c) Inadequate Plans on Mitigation of Natural Disasters

22. Paragraph 145 of KCSAP Finance Manual provides that the project management should ensure that risk management processes are in place and advice is sought in

regard to major policies, projects, programs and plans at the inception phase. This should be done by having close collaboration with all relevant stakeholders.

23. Review of workplans and other documents and interview with the county Project Coordinator revealed that there were no plans or strategies designed or implemented for mitigation of floods which is a prevalent occurrence in Kisumu County, specifically, Kisumu East, Nyando and Nyakach, which were the sub-counties targeted for project implementation. Wanganga Kwe Ber, a CIG group in Nyakach Sub-County revealed during interviews that raging floods had swept their cassava produce leaving them with very little harvest.

d) Failure to Undertake Feasibility Study Before Commencement of Projects

24. Regulation 71 of the Public Procurement and Asset Disposal Regulations, 2020 provides that user departments should submit the requisition to the Head of the Procurement Function for processing which should be accompanied by feasibility studies or surveys and reports.
25. Review of project documents revealed that the County Government of Isiolo did not undertake feasibility studies for Parkuruk Catchment and Rehabilitation, and Sukuma Irrigation Project. Inspection of Parkuruk Catchment and Rehabilitation Project revealed that works had stalled after floods ravaged the constructed dam structure due to heavy rains that had hit the area in October 2019. Further, the rain horse irrigation system installed at Sukuma Irrigation Scheme Project had challenges of blockage and water wastage. These omissions in project designs were attributed to failure to undertake feasibility study prior to project commencement. No reasons were provided for the failure to undertake feasibility studies.

e) Inadequate Validation and Promotion of Proposed Agricultural Technologies Innovation Management Practices by Researchers

26. Paragraph 26 of the Collaborative Research Grants Manual requires that KALRO with support of National Project Coordinating Unit (NPCU) make research calls for 'Concept Notes' for collaborative research to test and validate Climate Smart Agriculture (CSA) TIMPs for application on identified high priority value chains and cross-cutting thematic areas. Paragraph 27 adds that validation trials be conducted in

relevant Agro-Ecological-Zones (AEZs) and soil environments and validated TIMPs be recommended and promoted for upscaling and adoption in the appropriate target counties AEZs.

27. The audit however, noted that some of the technologies proposed in the “full proposal” had not been validated and promoted. Interviews with a Principal Investigator (PI) of Egerton University, indicated that validation and promotion of sorghum-based products value chain was to be done in Kisumu, Kericho and Baringo counties. However, use of sorghum for ethanol production had not been validated. In addition, promotion activities such as distribution of mini-kits to farmers, preparation and distribution of leaflets and extension materials and field days had also not been conducted. This was attributed to short periods for project implementation and scarcity of seed for production. In addition, delays in procurement of equipment needed for validation of the technologies were also cited as a cause for inadequate validation of TIMPs.

3. Inadequate Oversight and Supervision

a) Inadequate Monitoring and Evaluation

28. Section III of the project description, Sub Component 4.2 of PAD provides that the “sub-component will finance a web-based monitoring and evaluation system to collect and process information at the national, county, and community levels and verify the inputs, outputs, effects and eventually the impacts of project activities over time”.
29. Interviews with Hera Ageing Self-Help Group, a CIG in Kisumu revealed that group members were not willing to continue with indigenous chicken rearing. They indicated that the management practises involved were too demanding for members with advanced age. In addition, other members had not initiated adequate measures to ensure distributed equipment were installed and working, an example being Wanyalo Self-Help Group in Kisumu County which had not installed a solar panel provided. The group attributed the non-installation to inadequate funds to hire a technician to undertake the works.

b) Failure to Implement Internal Audit Recommendations in Kisumu County

30. Regulations 165 (1) of PFM (County Government) Regulations, 2015 requires that the Accounting Officer of the concerned entity to be responsible for the implementation of the recommendations made in the audit reports and develop response and action plan which are submitted to the Chairperson of the Audit Committee within fourteen (14) days.
31. The audit noted that the Internal Audit Unit for Kisumu county had conducted an audit of KCSAP project implementation and presented a report Ref: KCSAP/IA/RPRT/01/VO.1/86 dated 19 June, 2022. The report highlighted delayed conclusion of procurement processes for sub-projects and non-compliance to the Bank mandatory signatories' requirements. Recommendations were made to address the issues. It was, however, established that the county government of Kisumu did not consider or initiate any measures to address the internal audit recommendations.

c) Inadequate Sustainability Measures by the Community Interest Groups

32. Section 3.2 of the Debt and Borrowing Policy 2020 provides that the burdens and benefits of the proceeds of debt will be shared equitably between present and future generations.
33. The audit team interacted with various Community Interest Groups (CIGs) during the audit and noted that there were sustainability challenges because the farmers received the debt funds but did not put much effort in planning for future continuation/ sustainability of the groups. Records reviewed during a visit to Wanyalo Self-Help Group in Kisumu County revealed that they were provided with chicks, chick feeds and equipment such as solar panels and gutters. However, it was observed that solar panel was not installed and there were no chickens in the coop. The group attributed failure to install the solar panel to lack of funds to hire a technician to do the installation.
34. In Isiolo County, sustainability of kitchen gardens was limited due to the harsh weather at the county and nomadic nature of the community. A visit to Apedor CIG in Isiolo revealed that the group had attempted to run kitchen gardens but their home area was not arable due to many stones and prolonged drought. It was further noted that

monitoring and evaluation was not undertaken to address challenges faced by CIGs, that would provide recommendations for implementation and sustainability.

4. Other Findings

a) Irregular Diversion of Project Funds in Isiolo County

35. Paragraph 17 of the Project Appraisal Document prescribes that project funds will flow from Designated Account 1 to County Revenue Fund Account to Special Purpose Account then to KCSAP Project Account. Paragraph 14 of KCSAP Project Appraisal Document requires financial management arrangements to be put in place to ensure, among other things that project resources are used to efficiently and economically finance only the intended activities.
36. Review of the Project's Special Purpose bank statements for Isiolo county revealed that KES.60 million was irregularly transferred on 04 June, 2021 to a Kenya Commercial Bank Account belonging to Isiolo County Government. This was later reversed but caused a three (3) months delay in project implementation.

b) Non-Compliance with Project Documents Preservation Requirements

37. Paragraph 97 of the Finance Manual Version 1 of 2018 requires that in case of Community Driven Development Committee (CDDC), Micro Project Committee will maintain the copies of expenditure documents and submit originals to the County Project Coordinating Unit (CPCU). The CPCU shall then file these documents in the respective micro project files.
38. It was however, established that original financial records and procurement documents were maintained at the community level by the Community Driven Development Committees and Producer Organizations and not at either the County Project Coordinating Units or nearby Government facility. Consequently, there were challenges in accessing these documents for examination.

c) Low Absorption of Loan Funds by Kenya Metrological Department

39. Annex 3, Paragraph 18 of the Project Appraisal Document (PAD) provides that Kenya Metrological Department (KMD) should open a separate Kenya Shillings segregated

project account to facilitate receipt of loan funds from the project account managed by the Ministry of Agriculture and Livestock Development.

40. Interviews with KMD officials revealed that KMD had not opened a project account as required by the PAD. This was attributed to KMD being a Department within the Ministry of Environment, Climate Change and Forestry, and therefore, not having mandate to run an independent project account. It was also established that the structural arrangement had an inherent long approval levels which impacted negatively on the approval process resulting to low absorption of funds. Consequently, KES.500 million of the total funds initially allocated to KMD was reallocated to the Ministry to support Agriculture Sector Transformation and Growth Strategy activities.

d)Lack of a Substantive Procurement Officer in Kisumu

41. Paragraph 6 of the CPCU Terms of Reference (ToRs) requires every participating county to second a procurement officer who was to be responsible for all the procurement activities. KCSAP Project Implementation Manual adds that in order to replace seconded staff from the CPCU, there must be a written justification for replacement while the proposed individual must meet the requirements defined in Terms of Reference for the position. In addition, written requests must be made by the county leadership to the Permanent Secretary (PS) on the proposal seeking clearance, and No Objection from the World Bank.
42. However, the audit revealed, through interviews with the CPC, that the substantive Procurement Officer for Kisumu county with World Bank's Systematic Tracking of Exchanges in Procurement (STEP) rights was transferred to the Department of Roads and Public Works on 23 July, 2021. No justification was provided by the county for the changes and the procedures for replacement were also not followed.

Conclusion

43. The Ministry of Agriculture and Livestock Development and Counties have to some extent put in place measures to ensure efficiency in utilization of debt funds during implementation of KCSAP. This has been achieved through increased acreage of land under irrigation, sensitization, validation, promotion and adoption of climate smart agricultural Technological Innovation Management Practises (TIMPs). In addition, the

Ministry has managed to support establishment of agro-meteorological and hydro-meteorological centres in participating counties to improve drought and flood forecasts through installation of new automated agro-weather stations to complement existing infrastructure and development of Early Warning System (EWS) at the Kenya Meteorological Department (KMD). However, the measures put in place by the Ministry of Agriculture and Livestock Development and Counties were inadequate in ensuring efficiency in utilization of debt funds.

44. The National Treasury, Ministry of Agriculture and Livestock Development (MA&LD) and Counties have not put adequate measures to facilitate timely disbursement of funds to counties, KALRO and KMD. This is caused by late disbursement of funds which resulted in delays in commencement of Participatory Integrated Community Development (PICD) processes. Further, there were inadequate plans to facilitate transfer of funds from the County Revenue Fund Accounts (CRF) to Special Purpose Accounts (SPA) and consequently to Operational Accounts.
45. The Ministry of Agriculture and Livestock Development and Counties have not put in place adequate plans to support efficient implementation of the project. This is owing to inadequate planning on prevention of natural disasters and procurement of farm inputs based on farming seasons, inadequate validation, promotion, and adoption of Technologies Innovation Management Practices (TIMPs) and failing to undertake feasibility study before commencement of projects.
46. The Ministry of Agriculture and Livestock Development and Counties have not developed adequate plans on project oversight to undertake comprehensive monitoring and evaluation for the project. This hampered effective response to emerging issues and emergencies and further put the sustainability of the project at risk due to unresolved challenges.

Recommendations

47. In view of the findings and conclusion of the audit, the following recommendations are made for implementation by the Ministry of Agriculture and Livestock Development and other state actors. This will ensure that the measures put in place are adequate

towards ensuring efficiencies in utilization of debt funds during implementation of KCSAP.

48. To ensure timely disbursement and transfer of funds, The National Treasury, Ministry of Agriculture and Livestock Development, and counties should coordinate to ensure that issues affecting the timely disbursement of project funds are addressed in the shortest time possible. They should ensure;

- I. Disbursement of funds are done for each quarter as per the budgets.;
- II. County governments adhere to the signatories mandate; and
- III. Timely transfers of Project Funds from Special Purpose Accounts to Operations Accounts in counties

49. To realize optimal production and increased productivity, the Ministry of Agriculture and Livestock Development and County governments should:

- I. Put in place measures to ensure preparation for the planting seasons is done early enough in order for the farms and inputs to be ready before the rains.
- II. Ensure that feasibility studies are done before undertaking construction projects, especially for dams and irrigation schemes.

50. To ensure adequate project oversight, the Ministry of Agriculture and Livestock Development and counties should ensure;

- I. That the monitoring and evaluation officers are adequately facilitated to enable them traverse the counties while undertaking monitoring and evaluation processes.
- II. That counties should put in place measures to ensure the adoption of recommendations from internal auditors.
- III. In addition, county governments should ensure proper preservation of project documents, substantive positions are duly filled and full adherence to the Project Appraisal Document and other relevant regulations while implementing projects.

51. To facilitate timely transfer of funds to counties, The National Treasury in collaboration with other key stakeholders should establish a framework for disbursement of conditional grants to counties and other implementing agencies.

1.0 BACKGROUND TO THE AUDIT

Introduction

- 1.1 The Office of the Auditor-General (OAG) is established under Article 229 of the Constitution of Kenya, 2010. The Constitution mandates the Office to oversee the management of public resources within the three arms of government (the Executive, Legislature and the Judiciary), the Constitutional Commissions, the Independent Office of the Controller of Budget and any other entity that is funded from public funds.
- 1.2 Article 229(6) of the Constitution mandates the Auditor-General to audit and report on the effective and lawful use of public resources. The audit reports of public entities are submitted to Parliament and the relevant County Assemblies for deliberations and action.
- 1.3 Efficient utilization of debt refers to the use of proceeds of a loan for the purposes for which it is borrowed, within a reasonable period, without waste and at the least cost.³
- 1.4 Ministries, Departments and Agencies (MDAs) are required to enhance prudent debt management by complying with all relevant laws governing the optimal utilization of proceeds from loans and grants to ensure value for money.⁴
- 1.5 The performance of Kenyan agriculture has been highly volatile, with negative growth reported in nine years between 2003 and 2012. Further, the State Department for Crop Development & Agricultural Research was Kenya's fourth largest consumer of external debt⁵. The combination of high debt and volatile growth in the agricultural sector motivated the audit to focus on this area.
- 1.6 The audit sampled the Kenya Climate Smart Agricultural Project (KCSAP) loan as a case study to assess the level of efficiency in the utilization of debt proceeds by the Ministry of Agriculture and Livestock Development. The Project was chosen as a case study because it was being implemented in 24 out of the 47 counties in the

³ Constitution of Kenya 2010

⁴ Section 74 of the Debt and Borrowing Policy, 2020

⁵ External Resource Handbook 2020/21

country, and the project was funded with approximately KES. 27 Billion (US\$279.7 million).

- 1.7 The objective of KCSAP project was to increase agricultural productivity and build resilience to climate change risks in the targeted smallholder farming and pastoral communities in Kenya and to provide immediate and effective response in the event of an eligible crisis or emergency.
- 1.8 The Financing Agreement for this project was signed under the Constitution of Kenya (CoK), 2010 dispensation, where county governments have the primary mandate of delivering agricultural services (crop and animal husbandry, extension, agricultural marketing, and other services) while the national government played the role of policy making, regulatory and research.

Motivation for the Audit

- 1.9 The factors that motivated the Office to conduct the audit include: -
 - i) According to the Annual Debt Report, 2021, there was a 0.7% decline in growth of the Agricultural Sector as all other sectors posted a positive growth. This is despite there being approximately thirteen (13) debt-funded projects in the Sector, which raises the question of whether the projects are efficiently managed to achieve the objective.
 - ii) The County Governments Annual Budget Implementation Review Report for 2021/2022, indicates that there was a decline in absorption of development funds as counties expenditure on development activities declined from 62.1% in Financial Year 2020/2021 to 50.9% in Financial Year 2021/2022. Seventeen (17) counties recorded an absorption rate of 50% and below in the same period.
 - iii) The Hansard report dated 28 November, 2018 indicated that members of Parliament underscored the need to promote climate smart agricultural practices in order to mitigate high land degradation caused by overgrazing, poor farming practices, deforestation and climate change. The report also recognized the prospects of agricultural sector to mitigate unemployment and poverty in Kenya.
 - iv) Media Publication dated 29 October, 2020 raised concerns on the low absorption of funds by counties. The publication highlighted that low absorption of

development funds was likely to impact negatively on the counties' development, employment creation and service delivery⁶.

- v) Another media report published on 23 March, 2022 reported that the delay in conclusion of a framework for disbursement of debt funds from financiers had delayed the disbursement of funds to counties. The publication adds that financiers were concerned that if the challenge was not timely addressed then the low absorption rate reported by counties will reoccur, and their reporting and disbursement timelines will not be realized⁷.
- vi) Target 2.4 of SDG 2 aims at ensuring that by 2030, member countries have sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.

⁶ The People Daily Newspaper of 29 October, 2020

⁷ Business Daily Newspaper of 23 March, 2022

2.0 DESIGN OF THE AUDIT

Audit Objective

- 2.1 The main objective of the audit was “To assess whether the Ministry of Agriculture & Livestock Development (State Department for Crop Development in particular) and other state actors have put in place adequate measures to ensure efficiency in utilization of debt funds during implementation of KCSAP”. Specifically, the audit sought to assess whether:
- i) The Ministry of Agriculture & Livestock Development through the State Department for Crop Development in which KSCAP is domiciled, has put in place adequate measures to ensure efficient implementation of KCSAP.
 - ii) The National Treasury and Planning has put in place measures to ensure timely disbursement of funds.
 - iii) The Ministry of Agriculture & Livestock Development through the State Department for Crop Development has put in place adequate measures to ensure optimal absorption of borrowed funds by counties and implementing agencies.
 - iv) The county governments and implementing agencies being Kenya Agricultural and Livestock Research Organization (KALRO) and Kenya Meteorological Department (KMD) have put in place measures to ensure optimal absorption of borrowed funds.

Audit Scope

- 2.2 The audit examined the efficiency in utilization of Public Debt Funds by the Ministry of Agriculture & Livestock Development, and in particular the State Department for Crop Development and other state actors through the Kenya Climate Smart Agriculture Project (KCSAP).
- 2.3 The audit covered a period of five (5) financial years running between 2017/2018 to 2021/2022 which was also the project implementation life cycle.

Methods of Data Collection

- 2.4 The team conducted the audit in accordance with International Standards of Supreme Audit Institutions (ISSAI) 3000 and audit policies and procedures established by the Office of the Auditor-General (OAG).
- 2.5 To obtain information on the implementation of KCSAP, the audit team reviewed documents, conducted interviews and physical verification in sampled counties. Purposive stratified sampling was used in selection of the counties and projects. This involved consideration of factors such as climate condition and absorption rates of the counties. The counties selected were Kakamega, Kisumu, Nyeri, Nakuru and Isiolo.
- 2.6 The lists of officers interviewed and documents reviewed are detailed in **Appendices I and II** respectively, while the list of projects verified is detailed in **Appendix III**.

Assessment Criteria

- 2.7 The audit assessed utilization of debt funds by the Ministry of Agriculture and Livestock Development against the following criteria: KCSAP Implementation Manual, KCSAP Procurement Management Manual, KSCAP Appraisal Document (PAD), and the National Treasury Debt and Borrowing Policy, 2020. The detailed criteria are shown in **Appendix IV**.

3.0 DESCRIPTION OF AUDIT AREA

Role of Ministry of Agriculture and Livestock Development

- 3.1 The Ministry of Agriculture and Livestock Development has two State Departments; the State Department for Livestock Development, and State Department for Crop Development where KCSAP is domiciled.
- 3.2 The Ministry of Agriculture and Livestock Development is mandated with: formulation, implementation and monitoring of agricultural legislations, regulations and policies, supporting agricultural research and promoting technology delivery, facilitating and representing agricultural state corporations in the Government, development, implementation and coordination of programmes in the agricultural sectors among other roles.

Kenya Climate-Smart Agriculture Project

- 3.3 The Kenya Climate-Smart Agriculture Project (KCSAP) is one of the debt-funded projects under the Agricultural and Rural Development Sector. The project was conceptualized to address the adverse effects of climate change by laying focus on Sustainable Development Goals (SDGs) one (1), two (2) and 13 which advocates for combating poverty, hunger and climate change and its impact.
- 3.4 The project was segmented into the following five (5) components ⁸ in order to streamline the implementation:
 - i. Up-scaling Climate Smart Agricultural Practices which was to be implemented by county governments. This component was to finance the sub-projects and farmer groups at the county, wards and community level and help them adopt the technologies developed under component 2.
 - ii. Strengthening Climate-Smart Agricultural Research and Seed System implemented by Kenya Agricultural Livestock & Research Organization (KALRO) and by extension Research Institutions (Universities). This component was to support the development, validation, and adoption of Climate Smart Agricultural (CSA) Technologies, Innovations and

⁸ Project Appraisal Document 2017

Management Practices (TIMPs) to target beneficiaries under component 1 and 3.

- iii. Support Agro-Weather, Market, and Advisory Services implemented by Kenya Meteorological Department (KMD). This component was to finance the development of Agro-weather forecasting and marketing information systems.
- iv. Project Coordination and Management which was to finance activities related to national and county level project coordination and management. This component was led by the National Project Coordination Unit (NPCU).
- v. Contingency Emergency Response – This was a zero-cost component provided to finance unforeseen emergencies in Kenya. This contingency facility could be triggered through formal declaration of a national emergency by the Government and upon a formal request from the Government of Kenya (GoK) to the World Bank through The National Treasury (TNT).

Project Institutional and Implementation Arrangements

- 3.5 The project adopted a three-tier institutional arrangement model with the national level forming the first tier, the county government and the community creating the second and third tier respectively ⁹.

a. Tier 1: National Level

- 3.6 At the National level, the National Project Coordination Unit (NPCU) was governed by two committees; the National Project Steering Committee (NPSC) whose functions were to provide overall project oversight and policy guidance and approve the project's Annual Work Plans and Budgets and National Technical Advisory Committee (NTAC) whose functions were to provide technical support to overall project implementation and approving the national and county level investment and CSA research proposals.
- 3.7 Further at this level, KALRO and the research institutions (Universities) were to support the development, validation, and adoption of Climate Smart Agricultural

⁹ The Project Appraisal Document (PAD)

(CSA) Technologies, Innovations and Management Practices. KMD was to support development of Agro-Weather Forecasting and Marketing Information Systems.

b. Tier 2: County Level

- 3.8 At the County level, the County Project Coordination Unit (CPCU) was governed by two committees; the County Project Steering Committee (CPSC) whose overall function was to provide project implementation oversight in the respective counties and County Technical Advisory Committee (CTAC) whose function was to be responsible for technical advice and quality assurance at the county level.

c. Tier 3: Community Level

- 3.9 At the Community level, the Community-Driven Development Committees (CDDCs) were established to steer project implementation at the community level through mobilizing communities into Common Interest Groups (CIGs) and Vulnerable and Marginalized Groups, through participatory approaches. It also included the Community Value Chain Development Committees who were responsible for ensuring the contracted service providers' milestones have been achieved which then triggers their payments.

Role of The National Treasury in Utilization of Debt Fund

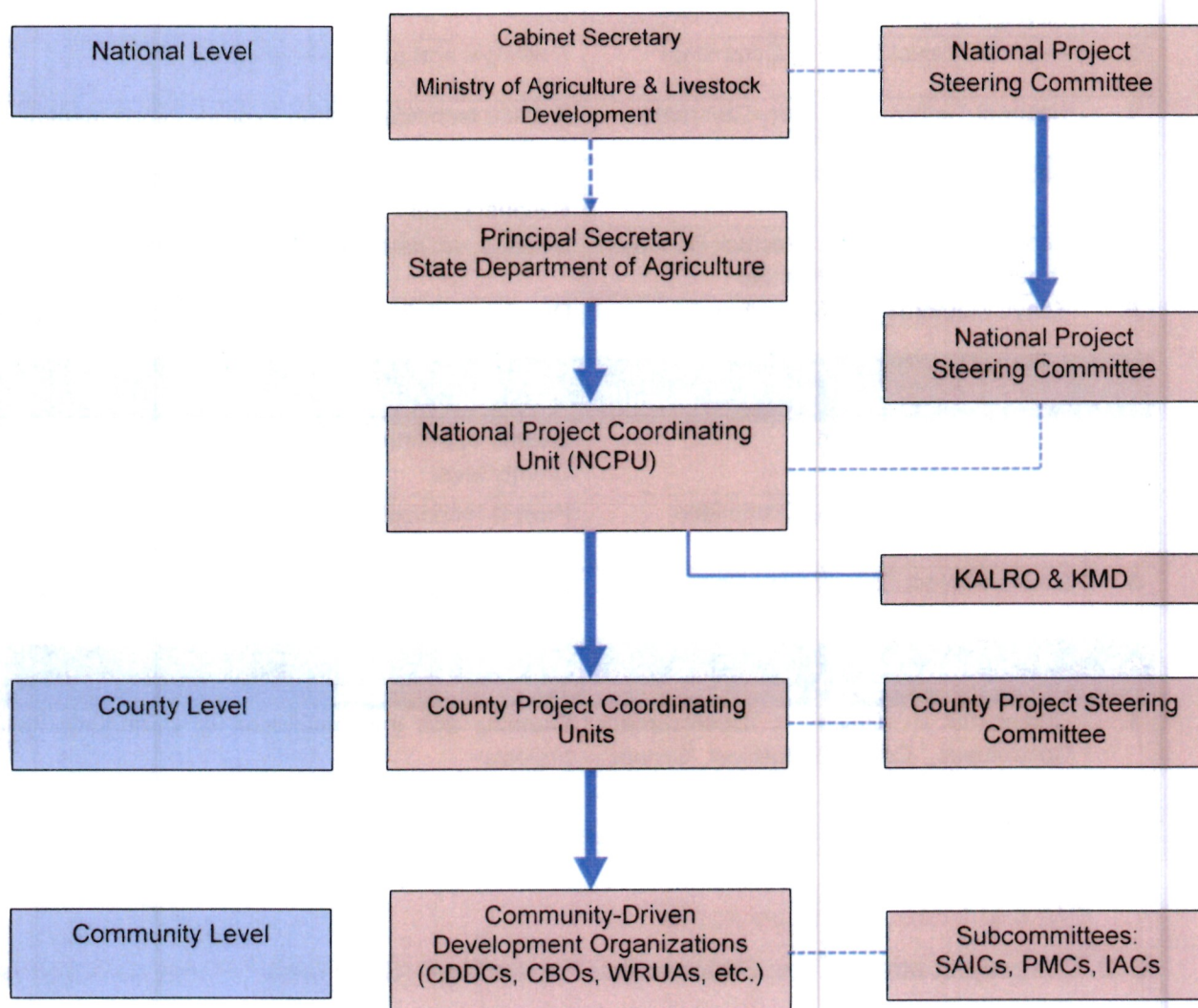
- 3.10 The Public Debt Management Office (PDMO), a Directorate under The National Treasury (TNT) is responsible for monitoring disbursement and absorption of external resources including reporting of the same by both national and county governments.¹⁰
- 3.11 The National Treasury is expected to conduct completion rate analysis from time to time and recommend to the Cabinet Secretary to take certain measures for project loans that are not being absorbed due to action or inaction of the implementing entities of debt-funded projects. This will be with a view of enhancing absorption of funds by the implementing entities of debt funded projects.¹¹

¹⁰ PFM (National Government) Regulations, 2015, Regulation 194 (z)

¹¹ Debt and Borrowing Policy, Section 45

3.12 The National Treasury should, at the beginning of every quarter and in any event not later than 15th day of the commencement of the quarter, disburse monies to county governments.¹²

Figure 1: The Project Management Structure



Source: Project Appraisal Document (PAD)

¹² Public Finance Management Act, 2012, Section 17 (6)

Table 1: Summary of Roles Played by Institutions Involved in Project Implementation

Institutions at National Level		
No.	Institution	Function
1.	Ministry of Agriculture and Livestock Development	Overall coordination and fiduciary management
2.	National Project Steering Committee	Oversight and policy guidance
3.	National Technical Advisory Committee	Provide technical support to project implementation
4.	National Project Coordination Unit	Day to day project implementation management at a National Level
5.	Kenya Agriculture and Livestock Research Organization and Universities	Develop, validate and disseminate TIMPS
6.	Kenya Meteorological Department	Develop and disseminate agro-weather information
Institutions at County Level		
1.	24 County Governments	Overall coordination and fiduciary management at County level
2.	County Project Steering Committee	Project technical support to project implementation and quality assurance at County level
3.	County Project Coordination Unit	Day to day project Implementation management at County level
Institutions at Community Level		
1.	Community Driven Development Committees, Common Interest Groups, Vulnerable & Marginalized Groups, Farmer Organizations	Planning and implementation of Community level projects.

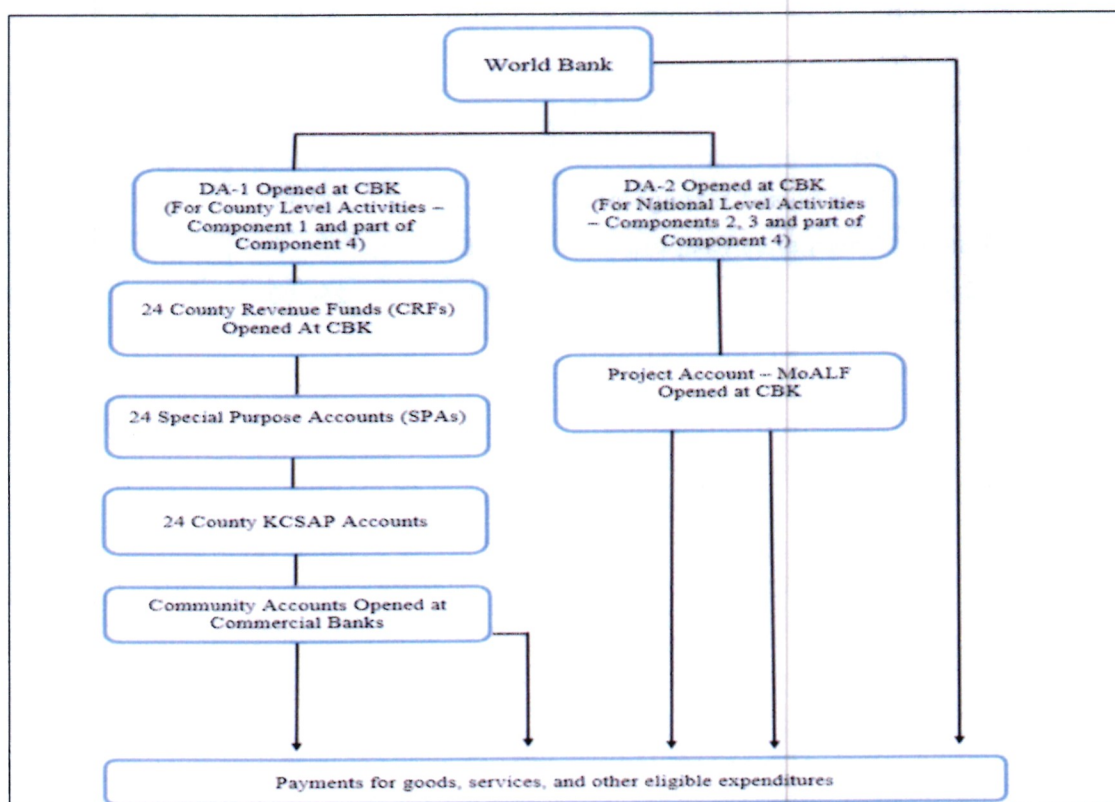
Flow of Funds Arrangements.

- 3.13 The project adopted the Statement of Expenditure (SoE) model where disbursement was based on a detailed account of all the expenses incurred by implementing entities in a specific time period. Two Designated Accounts (DAs), DA-1 and DA-2 denominated in US dollars were opened by The National Treasury at the Central Bank of Kenya (CBK), to facilitate receipt and subsequent disbursement of funds to implementing entities.
- 3.14 Upon receipt of funds in the Designated Account, funds are disbursed from DA-1 to the project account in Kenya shillings, opened by Ministry of Agriculture and

Livestock Development at the CBK or financial institution acceptable to the World Bank, from which the project's payments were to be made at the national level.

- 3.15 In respect to counties, MoALD was to trigger transfer of funds from DA-1 through the County Revenue Fund (CRF) accounts to the dedicated county Project Accounts (CPAs), which were to be opened to receive and disburse project proceeds at the county level. The CPAs were to be opened by each participating county at the CBK or in financial institutions acceptable to the World Bank. In addition, KALRO and KMD were to open a separate Kenya shillings segregate account to facilitate implementation of the national activities.
- 3.16 Beneficiary or community bank accounts were to be opened at commercial banks acceptable to the World Bank.

Figure 2:KCSAP Flow of Funds Arrangement



Source: Project Appraisal Document

Funding for the Project

- 3.17 The project approved budget was USD 279.7 million (approximately KES.29 billion). This was to be jointly financed by the World Bank and the Government of Kenya contributing USD 250 million and USD 29.7 million respectively. The Government co-financing included USD 5.5 million from project beneficiaries that was to be in cash or cash equivalent.

Table 2: The Project Approved Budget Financing

Project Component	Project Costs (US\$ million)	IDA Financing (US\$ million)	% IDA Financing	Co-financing (US\$ million)
Up-Scaling Climate Smart Agricultural Practices	163.80	150.00	92%	13.80
Strengthening CSA Research and Seed Systems	53.70	50.00	93%	3.70
Support Agro-Weather, Market, and Advisory Services	32.90	30.00	91%	2.90
Project Coordination and Management	29.30	20.00	68%	9.30
Contingency Emergency Response	0.00		90%	
Total Costs	279.70	250.00		29.70

4.0 AUDIT FINDINGS

- 4.1 The Ministry of Agriculture & Livestock Development (MoALD) and State Department for Crop Development in particular and other state actors have made efforts in ensuring efficient utilization of debt funds while implementing KCSAP project. The project received a total amount of KES. 29 billion in funding and as at the time of the audit KES. 25 billion had been utilized, representing 86.2% of utilization of debt funds.
- 4.2 The audit revealed that the following efforts were made by KCSAP in enhancing efficiency in utilization of debt funds as outlined below:

Prompt Transfer of Funds from Special Purpose Account to Project Operations Account

- 4.3 Out of the sampled counties, the audit noted that Nyeri County, took the least time to transfer funds from the Special Purpose Account to project operations account. It was noted that some funds were transferred the project operations account the same day they were received in the special purpose account with the longest time taken to transfer the funds with two account being 16 days as shown in Table 3.

Table 3: Time Taken to Transfer Funds from County Revenue Fund to Operations Account in Nyeri County

Financial Year	Allocation (RES)	Date of Receipt in County Revenue Fund (CRF) Account	Date funds were Transferred to Special Purpose Account (SPA)	No. of days Taken to transfer from CRF to SPA	Date funds were transferred to Operations Account	No. of days taken to transfer
2017/2018 (Tranche 1)						
2017/2018 (Tranche 2)						
2018/2019 (Tranche 1)	40,980,203.00	08 January 2019	15 January 2019	7	24 January 2019	9
2018/2019 (Tranche 2)						
2019/2020 (Tranche 4)	71,352,131.10	19 November 2019	22 November 2019	3	25 November 2019	3

Financial Year	Allocation (RES)	Date of Receipt in County Revenue Fund (CRF) Account	Date funds were Transferred to Special Purpose Account (SPA)	No. of days Taken to transfer from CRF to SPA	Date funds were transferred to Operations Account	No. of days taken to transfer
2019/2020 (Tranche 2)	74,236,237.30	26 June 2020	29 June 2020	3	29 June 2020	0
2020/2021 (Tranche 1)	72,416,032.95	16 November 2020	19 November 2020	3	23 November 2020	4
2020/2021 (Tranche 2)	60,766,493.20	05 January 2021	06 January 2021	1	15 January 2021	9
2020/2021 (Tranche 3)	71,813,988.30	23 April 2021	26 April 2021	3	12 May 2021	16
2020/2021 (Tranche 4)	77,345,476.00	21 June 2021	30 June 2021	9	30 June 2021	0
2021/2022 (Tranche 1)	137,121,540.90	13 June 2022	14 June 2022	1	15 June 2022	1
2021/2022 (Tranche 1)	98,612,770.00	28 June 2022	29 June 2022	1	30 June 2022	1
Total	704,644,872.75					

Source: OAG Analysis of County Bank Statements

Increased Agricultural Productivity in Areas Where Sub-Projects and Producer Organizations Were Implemented.

- 4.4 The audit noted that sub-projects and producer organizations contributed in the achievement of increased agricultural productivity objective of KCSAP. For instance, in Kisumu county, interviews and physical verification revealed that that Gem Rae Irrigation Scheme increased total acreage of land under irrigation from 150 to 400 acres with a possibility of additional 250 acres being brought under irrigation due to constant availability of water from the irrigation scheme. This in turn could lead to increased output from the farms. Farmers were also able to undertake agricultural activities throughout the year.
- 4.5 In Nyeri county, interviews and physical verification showed that Kiria Dam Irrigation Water Project in Kieni West increased capacity from 30,000 cubic to 100,000 cubic thus serving more farmers within the area.

- 4.6 In Kakamega county, the team interacted with a group of fish farmers running the Khwisero Fish Hatchery, a sub-project, who, through the project funding were able to increase the number of fish ponds from 14 to 29, thus increasing production capacity by double.
- 4.7 Despite the efforts made, there are still a number of challenges hindering the Ministry of Agriculture & Livestock Development and other state actors in implementation of the project as detailed below:

1. Inadequate Measures to Facilitate Timely Disbursement and Transfer of Funds

- 4.8 Paragraph 14 of the Project Appraisal Document provides that the borrower or implementing entities should maintain or cause to be maintained financial management arrangements that are acceptable to the World Bank arrangements, to ensure that financial resources reach the implementing and executing agencies and ultimate project beneficiaries at the shortest time possible. The audit revealed delays in disbursement of funds that affected project implementation as discussed below: -

a) Delays in Disbursement of Funds

- 4.9 Section 17 (6) of the Public Finance Management Act, 2012 states that The National Treasury (TNT) should at the beginning of every quarter and in any event not later than 15th day of the commencement of the quarter, disburse monies to county governments.
- 4.10 Comparative analysis of documents relating to budgeting, funds allocation by The National Treasury and Planning in line with County Allocation of Revenue Act (CARA) and dates when funds were released, revealed delays in disbursement of funds from the TNT to County Revenue Fund during the five (5) financial years, 2018/2019 to 2022/2023 as summarized in **Table 4** and detailed in **Appendix V**.

Table 4: Delays in Funds Disbursement Between the Financial Years 2018/2019 and 2022/2023

County	Period	2018/2019	2019/2020	2020/2021	2021/2022
	Quarter	Days	Days	Days	Days
Nyeri	1	177	92	124	333
	2	-	255	82	256
	3	-	-	98	-
	4	-	-	75	-
Kakamega	1	136	-	124	330
	2	-	247	54	255
	3	-	-	88	-
	4	-	-	67	-
Kisumu	1	136	108	124	330
	2	-	247	54	251
	3	-	-	88	-
	4	-	-	67	-
Isiolo	1	CRF Statement Was Not Provided for Audit Review	CRF Statement Was Not Provided for Audit Review	CRF Statement Was Not Provided for Audit Review	CRF Statement Was Not Provided for Audit Review
	2				
	3				
	4				

Source: OAG Analysis of County Bank Statements

- 4.11 Interview with the National Project Accountant, revealed that the delays in disbursement of funds to the counties was attributed to late approvals of County Allocation of Revenue Act (CARA) by Parliament. For the first four (4) financial years 2018/2019 to 2021/2022, the late disbursement of funds led to delays in implementation of the project.
- 4.12 Further, during the same interview, it was established that no funds were disbursed in the financial year 2017/2018 because the project line expenditure was not incorporated in the budget for the year. Arising from that, there was delays in commencement of Participatory Integrated Community Development (PICD)

process where community mobilization and establishment of the community organs to steer the project was to be done.

b) Delays in Transfer of Project Funds from the Special Purpose Account to the Operations Accounts in Counties

- 4.13 The Project Appraisal Document (PAD) Annex 3 paragraph 14 on financial management states that financial management arrangements are meant to ensure that financial resources reach the implementing and executing agencies and ultimate project beneficiaries at the shortest time possible.
- 4.14 In Kisumu County, review of bank statements revealed that the first disbursement was received in the SPA on 30 January, 2019. However, the first transfer from the SPA to Operational Account was done fourteen (14) months later, on 25 March, 2020. This translated to a delay of approximately four hundred and twenty (420) days or approximately fourteen (14) months. The audit also noted that the earliest time taken to transfer funds from the Special Purpose Account to the Operations Account was 57 days or approximately 2 months, as shown in **Table 5**.
- 4.15 No justification was given for the delays in transfer of funds. Arising from the delays, transfer of funds to facilitate payment to suppliers and disbursement to microprojects were consequently delayed.

Table 5: Analysis of Delays in Transfer of Project Funds from the Special Purpose Account to the Operations Account, Kisumu County

Financial Year	Allocation (KES)	Date of Receipt in CRF	Date funds Were Transferred to SPA	No. of days taken to transfer	Date funds were Transferred to Operations Account	No. of days taken to transfer
2017/2018 (Tranche 1)			N/A	NIA	N/A	
2017/2018 (Tranche 2)			NIA	NIA	N/A	
2018/2019 (Tranche 1)	39,654,018	28 November, 2018	30 January, 2019	63		
2018/2019 (Tranche 2)			NIA		NIA	
2019/2020 (Tranche 1)	45,394,174	31 October, 2019	19 January, 2020	80	25 March, 2020	66
2019/2020 (Tranche 2)	60,031,953	18 June, 2020	07 July, 2020	19		
2020/2021 (Tranche 1)	64,802,833	16 November, 2020	26 November, 2020	10	15 September, 2020	72
2020/2021 (Tranche 2)	35,652,286	08 December, 2020	23 December, 2020	15	17 May, 2021	145
2020/2021 (Tranche 3)	62,847,156	13 April, 2021	22 April, 2021	9	09 July, 2021	78
2020/2021 (Tranche 4)	66,324,006	21 June, 2021	06 July, 2021	15	06 October, 2021	92
2021/2022 (Tranche 1)	117,054,974	10 June, 2022	30 June, 2022	20	26 August, 2022	57
2021/2022 (Tranche 2)	43,479,837	23 June, 2022	07 July, 2022	14	08 November, 2022	124
Total	535,241,237					

Source: OAG Analysis of Kisumu County Bank Statements

4.16 Review of the SPA and Operations Accounts bank statements for Isiolo county revealed that transfers of funds from the SPA to the Operations Accounts was fragmented as the first disbursement to the SPA of KES. 32.966 million was transferred in three instalments.

4.17 Further, the audit noted significant delays in transfer of funds with the shortest time taken being 81 days or 2.7 months and longest being 548 days or approximately eighteen (18) months.

4.18 Arising from this, the project operations would remain pending awaiting funds transfer to the operation account, therefore delays in achieving set milestone in implementation of the projects.

Table 6 : Delays in Transfer of Project Funds from Special Purposes Account to Operations Account in Isiolo County

Period	Date of receipts in SPA	Amount Received	Fragmented Transfer to Operation Accounts- Date	Amount Received	Total Transferred and Bal c/d	No. of days taken to transfer
2018/19	21 December, 2018	32,966,823.00	12 March, 2019	12,000,000.00	12,000,000.00	81
					20,966,823.00	
	Total Received	32,966,823.00		12,000,000.00	32,966,823.00	
2019/20	Balance b/d	20,966,823.00	09 Sept, 2019	11,700,000.00		262
	28 November, 2019	65,496,041.90	22 January, 2020	24,683,098.00		397
			12 May, 2020	4,100,000.00	40,483,098.00	55
			Bal c/d		45,979,766.90	166
	Total Received	86,462,864.90	Total Transferred		86,462,864.90	
2020/21	Balance b/d	45,979,766.90	29 July, 2020	24,018,233.70		244
	02 July, 2020	79,408,318.39	15 October, 2020	3,000,000.00		322
	27 November, 2020	64,802,832.97	15 October, 2020	2,000,000.00		322
	05 January, 2021	35,652,285.79	30 October, 2020	1,260,000.00		426
	05 May 2021	60,854,526.59	27 January, 2021	7,637,000.00		426
	30 June, 2021	72,335,716.69	22 April, 2021	45,000,000.00	82,915,233.70	294
			Bal c/d		276,118,213.63	
	Total Received	359,033,447.33	Total Transferred		359,033,447.33	
2021/22	Balance b/d	276,118,213.63	31 August, 2021	60,000,000.00		425
	28 June, 2022	45,818,660.78	20 June, 2022	136,547,802.50	196,547,802.50	570
	30 June, 2022	223,914,891.95	Bal c/d		349,303,963.86	531
	Total Received	545,851,766.36	Total Transferred		545,851,766.36	
2022/23	Balance b/d	349,303,963.86	04 Nov, 2022	270,674,582.00	270,674,582.00	548
			Bal c/d		78,629,381.86	
Total		349,303,963.86			349,303,963.86	

Source: OAG Analysis of Isiolo County Bank Statements

c) Failure to Adhere to the Mandatory Signatory Requirement

4.19 Paragraph 42 of KCSAP Finance Manual provides that each County should open a County Project Account in a commercial bank where the Government has interest. The signatories should be the County Project Coordinator as the mandatory

signatory, the County Project Accountant and the Head of Accounts or Finance as alternate signatories.

- 4.20 Review of signing mandate in Kisumu and Isiolo counties revealed that the mandatory signatories were the County Project Coordinator, Chief Officer, Finance and Chief Officer, Agriculture. The audit revealed significant delays in transfer of funds to micro projects, sub-projects and payments to suppliers due to long time taken by the Chief Officer Finance to exercise their signing mandate. According to interviews with the KSCAP County Coordinators, the delay majorly occurred when the Chief Officers who are mandatory signatories were attending to other official engagements outside the County.

Table 7: Analysis of Project Signatories

County	Mandatory Signatories	Alternate Signatories
Kisumu	Project coordinator and CO Finance	Project Accountant
Isiolo	Project coordinator, CO Finance and CO Agriculture	Project Accountant

Source: OAG Analysis of Documents

- 4.21 The audit established during an interview with the CPCUs for Kisumu County that the non-adherence to mandatory signatory requirement was caused by mistrust in the county leadership. Consequently, the County reported delays in release of funds from project operations accounts to finance micro projects, sub-projects and to facilitate payment to project suppliers.

2. Inadequate Planning for Risk Management During Project Implementation

- 4.22 Paragraph 151 of KCSAP Finance Manual provides that every office, department, unit, or programme should ensure and demonstrate compliance with the risk management cycles and processes defined in the Risk Management Framework and Guidelines. County Offices are required to provide support to the micro-projects and to play keys role in monitoring and encouraging compliance to the guidelines. Risks, opportunities, and controls should be evaluated, analysed and monitored using standard methodologies and tools.

a) Inadequate Planning on Procurement of Farm Inputs Based on Farming Seasons

- 4.23 The audit noted that even though counties were implementing rain reliant value chains, they did not make adequate plans on procurement of key farms input such as seeds and cuttings and processes such as ploughing and harrowing before commencement of the long rains seasons. It was noted during field interview with Glory Disability CBO in Kisumu county that the total sorghum yield was low because long rains were missed as a result of delay in ploughing. Further, Wanganga Kwe Ber, a CIG in Kisumu did not receive cassava cuttings on time for the planting. This was attributed to county officials not instituting adequate plans to ensure procurement of farm inputs was done before the rainy season.
- 4.24 Arising from that, the farms missed the benefit of long rains leading to crop failure and non-realization of productivity which was a key objective under the “triple wins” of KCSAP.

b) Inadequate Adoption of Agricultural Technologies, Innovation, and Management Practices

- 4.25 The objective of Component 1 of KCSAP was to upscale implementation of Climate Smart Agricultural (CSA) practices in order to achieve the triple-wins of increased productivity; enhanced resilience and reduce greenhouse gas emissions per unit of output. The component was to focus on interventions that promote and facilitate the adoption of TIMPs to achieve the CSA triple- wins.
- 4.26 The audit, however, noted through interviews and field verifications that some of the micro-projects were implemented in clusters, hence TIMPs adoption was confined to the individuals who were hosting the project. This was prevalent under indigenous chicken and dairy cow value chains where few individual farmers were in charge. A case of Jitegemee Proud Brothers and Gracious Farmers in Kakamega and Nganywithe and Equity Dairy in Nyeri county shows the implementation of dairy cow and indigenous chicken value chains. It was however, observed that the projects were hosted at individual farmer homesteads. During the interview with the farmers, it was noted that there were no structured systems for practical skill transfers to other group members.

4.27 As a result, the adoption of Agricultural Technologies, Innovation, Management Practices was not realized as intended since other members of the CIG group were not actively participating in the implementation of the value chain. In addition, knowledge transfer was limited to the lead farmer.

c) Inadequate Plans for Mitigation of Natural Disasters

4.28 Paragraph 145 of KCSAP Finance Manual provides that the project management should ensure that risk management processes are in place and advice is sought in regard to major policies, projects, programs and plans at the inception phase. This should be done by having close collaboration with all relevant stakeholders.

4.29 Review of workplans and other documents provided and interview with the County Project Coordinator revealed that there were no plans or strategies designed or implemented for mitigation of floods which is a prevalent occurrence in Kisumu county, specifically, Kisumu East, Nyando and Nyakach, which were the sub-counties targeted for project implementation. Wanganga Kwe Ber, a CIG group in Nyakach sub-county revealed during interview that raging floods had swept their cassava produce, leaving them with very little harvest.

4.30 The audit also established during interviews with CIGs groups that the county government of Kisumu did not provide any flood warning information even though the Counties were receiving Agro-Weather Advisory from Kenya Meteorological Department (KMD).

4.31 As a result, CIG's farms along the lake and river line were destroyed by raging floods resulting in low productivity.

d) Failure to Undertake Feasibility Study Before Commencement of Projects

4.32 Regulation 71 of the Public Procurement and Asset Disposal Regulations, 2020 provides that user department should submit the requisition to the Head of the Procurement Function for processing, which should be accompanied by feasibility studies or surveys and reports.

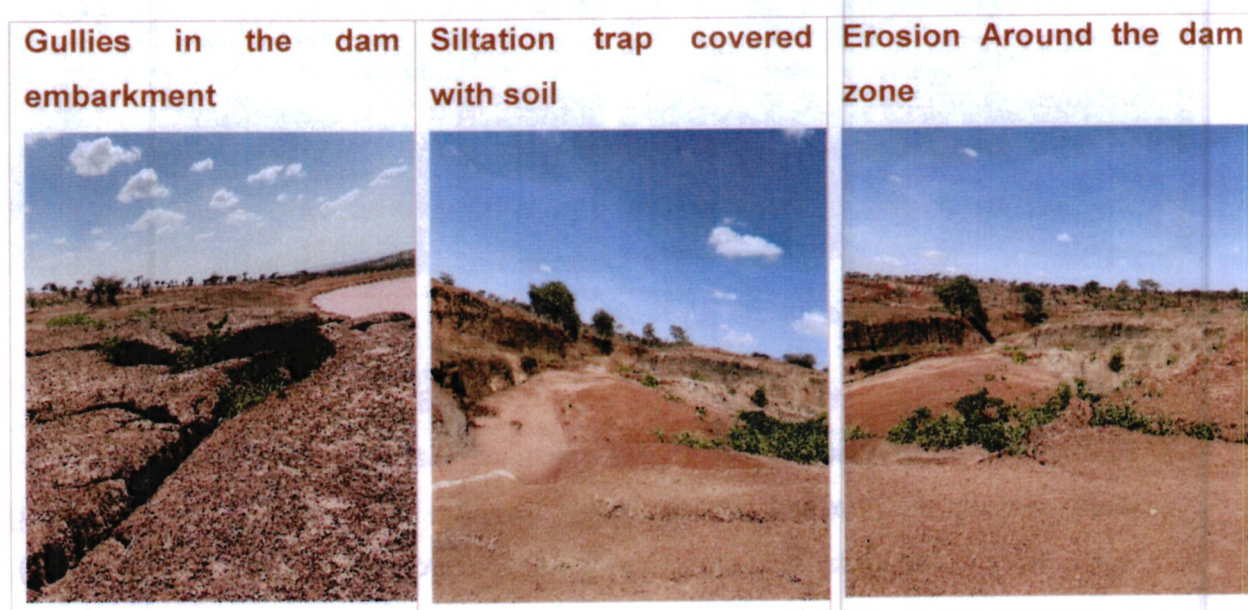
I. Stalled Parkuruk Catchment and Rehabilitation Project

4.33 Review of project documents revealed that the County Government of Isiolo did not undertake feasibility studies to evaluate the subsurface soil conditions at the

proposed dam site for implementation of Parkuruk catchment. It was noted that the project had stalled after floods ravaged the constructed dam structure after heavy rains that had hit area in October 2019. The destruction was attributed to the loose nature of the soil which is prone to erosion. No justification was given on why a feasibility study was not undertaken before commencement of the project.

- 4.34 Consequently, the project stalled since the total funds allocated for the project had been utilized¹³ and additional funding was required to finance ancillaries. The ancillaries included; laying of gabions, supply and installation of solar system for pumping water, construction of 50m³ masonry tank, construction of water kiosks and piping, installation of rain hose irrigation system, fencing of dam and 1ha farm, construction of pit latrine, stone pitching of spillway and desilting of silt trap and planting of grass within the dam area.

Figure 3: Picture of Parkuruk Catchment and Rehabilitation Project Site



Source: Photos by OAG Team in February 2023

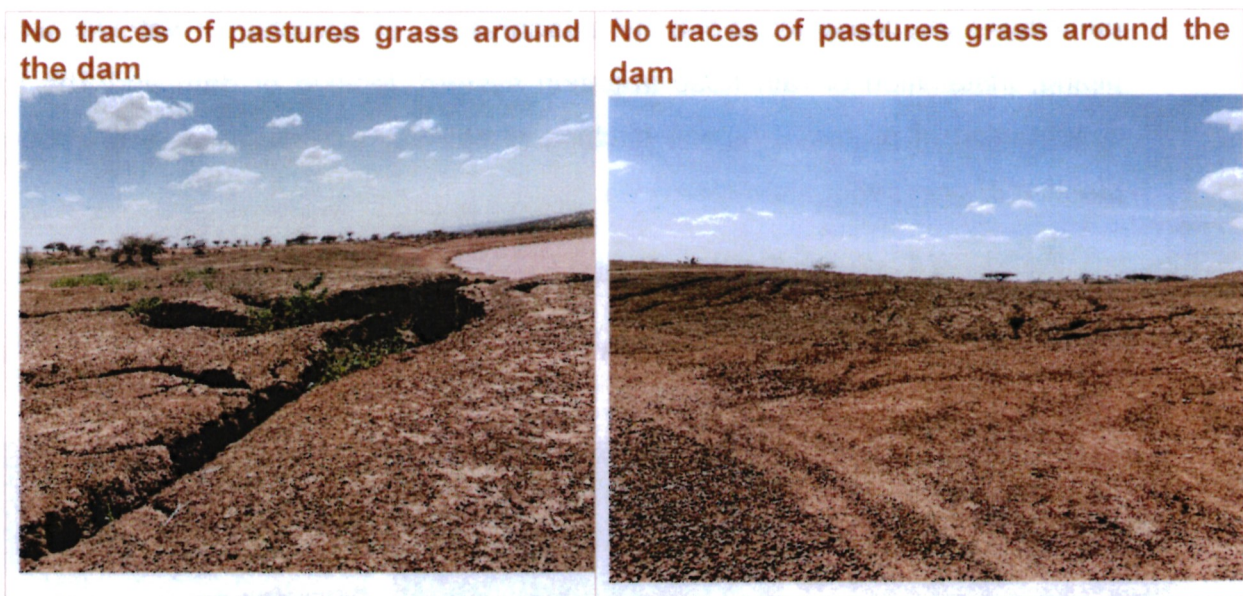
- 4.35 Further, review of records showed that the County Project Coordinator through an internal memo dated 30 October, 2019 requested the Chief Officer, Agriculture to

¹³ Parkuruk Project Status

facilitate purchase of grass seeds for Parkuruk Catchment. The contract was awarded for supply and delivery of grass seeds at a sum of KES.2,000,000.

- 4.36 Review of counter receipt voucher 9503824 dated 20 March, 2020 revealed that 2,000kgs African foxtail and Maasai love grass seeds were delivered. However, during the field verification there was no evidence of pasture grass seen even though it was more than three years later.

Figure 4: No Traces of Pastures Grass Around the Dam



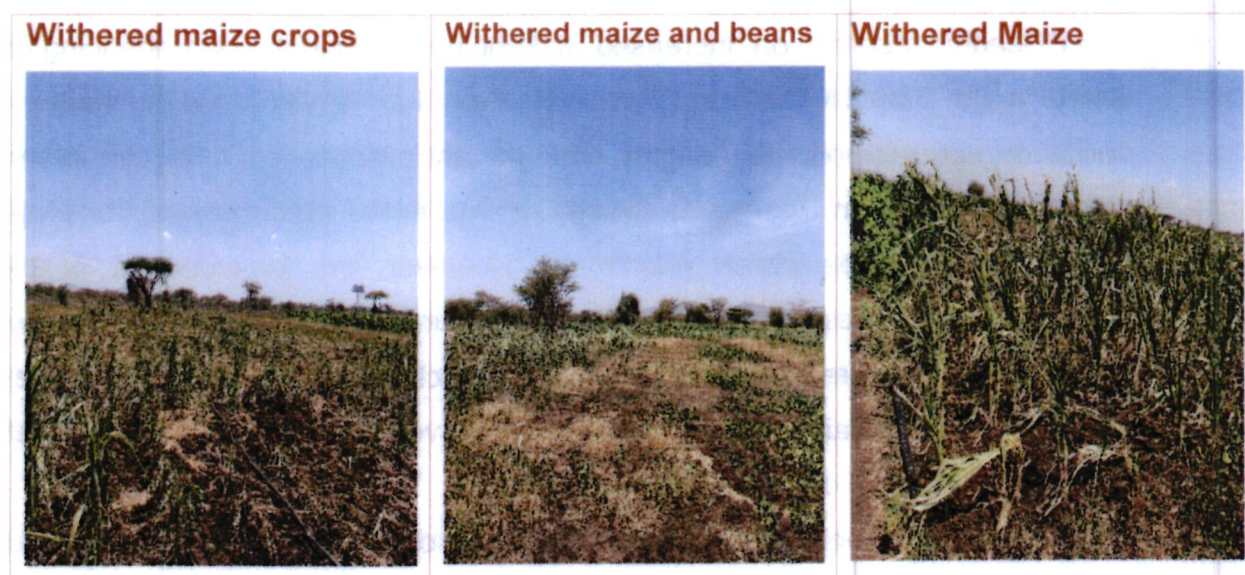
Source: Photos by OAG Team in February 2023

II. Inadequate Water to Support Irrigation in Sukumu Irrigation Scheme

- 4.37 The audit established during field verification that the water pumped using the installed solar was not enough to support irrigation of the twenty (20) plots sitting on the 10acre piece of land. It was noted that the project Bill of Quantities (BoQ) did not incorporate solar batteries to store power necessary to support pumping of water when there is no sufficient sunlight. It was also established that the rain horse irrigation system installed had challenges of blockage and water wastage. These omissions in project design were attributed to the failure to undertake a feasibility study prior to project commencement. The audit was not provided with justification on why a feasibility study was not undertaken before the commencement of the project.

4.38 As a result, the project was not running optimally as most of the crops had dried up due to lack of water. The project, therefore, did not fully realize the key objective of increasing agricultural productivity and building resilience to climate change risks in the targeted smallholder farming.

Figure 5: Pictures of Withered Crops in Sukuma Irrigation Scheme



Source: Photos by OAG Team in February 2023

III. Inadequate Validation and Promotion of Proposed Agricultural Technologies Innovation Management Practices by Researchers

- 4.39 Paragraph 26 of the Collaborative Research Grants Manual required that KALRO, with the support of NPCU make research calls for 'Concept Notes' for collaborative research to test and validate Climate Smart Agriculture, TIMPs for application on identified high priority value chains and cross-cutting thematic areas. Paragraph 27 adds that validation trials should be conducted in relevant Agro-Ecological-Zones (AEZs) and soil environments and validated TIMPs was to be recommended and promoted for upscaling and adoption in the appropriate target Counties' AEZs.
- 4.40 The audit however noted that some of the technologies proposed in the "full proposal" had not been validated and or promoted as summarized in **Table 8** and detailed in **Appendix VI**. Interviews with a Principal Investigator (PI) at Egerton University, the audit noted that validation and promotion of sorghum-based products

value chain was to be done in Kisumu, Kericho and Baringo counties. However, use of sorghum for ethanol production had not been validated. In addition, promotion activities such as distribution of mini-kits to farmers, preparation and distribution of leaflets and extensions materials and field days had also not been conducted. This was attributed to short period for project implementation and scarcity of seed for production.

- 4.41 The PI leading research on “Increased Stakeholder Participation in Enhancing Food Safety in The Camel Milk Value Chain in Northern Kenya” attributed the inadequate validation and promotion to lengthy procurement processes. During an interview with the PI based in Egerton University, it was noted that some of the projects required use of specialized equipment. However, the procurement of these equipment experienced delays. Specifically, procurement of milk coolers which were key equipment required for validation of the value chain had not been delivered even after over a year's waiting period. The Principal Investigator explained that transfers of procurement staff contributed to this delay.
- 4.42 Delays in procurement of equipment was also cited as a cause for inadequate validation of TIMPs in Karatina University. During an interview with the PI undertaking study on “Integrated Land and Water Management Strategies for Restoration and Protection of Water Resources in Agro-Pastoral Systems -Kenya it was established that the procurement lead time for some of the requisitioned equipment was longer than one year. Equally, some of the procured items were rejected for failing to meet the user requirement.
- 4.43 Consequently, 15 of the proposed Agricultural Technologies Innovation Management Practices were not validated and therefore the Project Objective of supporting climate smart agricultural research and innovations was not fully realized.

Table 8: Technology Innovation Management Practices that were not Validated

Project Implementor	Institutions	Project Title	No. of TIMPs Not Validated and or Promoted
Prof. Richard Mulwa	Egerton University	Unlocking the potential in production and marketing of Cassava in Lamu, Kisumu and Busia	1
Dr. Stephen Kagio	Egerton University	Climate Smart Beekeeping for Improved Incomes, Food and Nutrition Security in Kajiado, Siaya and Tana River Counties	2
Prof. Joseph W. Matofari	Egerton University	Increased Stakeholder Participation in Enhancing Food Safety in The Camel Milk Value Chain in Northern Kenya	3
Prof Samuel Mwonga	Egerton University	Project coordination, validation of agronomic technologies, sorghum-based products	5
Dr Meshack Obonyo	Egerton University	Validation of technologies: mobile platform, solar drier and briquettes	1
Dr E. Kahariri	Karatina University	Enhancing Banana Productivity using climate smart technologies in Kenya	1
Dr. Hellen Kamiri	Karatina University	Integrated Land and Water Management Strategies for Restoration and Protection of Water Resources in Agro-Pastoral Systems -Kenya	2
		Total	15

Source: Egerton University

3. Inadequate Oversight and Supervision

a) Inadequate Monitoring and Evaluation

4.44 Section III of the project description, Sub-component 4.2 of PAD provides that the sub-component was to finance a web-based monitoring and evaluation system to collect and process information at the national, county, and community levels and verify the inputs, outputs, effects and eventually the impacts of project activities over time.

- 4.45 The audit noted several issues that could have been resolved through regular monitoring and evaluation. For instance, some CIGs were not willing to continue with implementation of their value chains while others had not initiated adequate measures to ensure that equipment received were installed and working. Specifically, Hera Ageing Self-Help Group, a CIG in Kisumu stated during an interview that the group members were not willing to continue with indigenous chicken rearing because the management practises involved were too demanding for members who were advanced in age. Further, the audit observed that Wanyalo Self-Help Group also in Kisumu county had not installed a solar panel provided. The group attributed the non-installation to inadequate funds to hire a technician to undertake the works. Equally, there was no evidence of indigenous chicken rearing as there were no chicken in constructed chicken coop.
- 4.46 In Isiolo county, it was established during physical verification and interviews with the CIGs that chicken rearing value chain experienced total loss due to deaths of the chicks provided. In spite of this, the audit team was not furnished with monitoring and evaluation report indicating the cause of death and interventions initiated.
- 4.47 During interviews with the CPCU, the non-availability of the comprehensive monitoring and evaluation was attributed to the vast geographical county and insufficient funds.
- 4.48 Consequently, the project objective of increased agricultural productivity and build resilience to climate change risks in the targeted smallholder farming and pastoral communities in Kenya, was not fully realised.

b) Failure to implement Internal Audit Recommendations in Kisumu County

- 4.49 Regulations 165 (1) of the PFM (County Government) Regulations, 2015 requires that the Accounting Officer of the concerned entity be responsible for the implementation of the recommendations made in the audit reports and develop response and action plan which should be submitted to the Chairperson of the audit committee within fourteen days.
- 4.50 The audit noted that the Internal Audit Unit for Kisumu county had conducted an audit of KCSAP project implementation and presented a report Ref: KCSAP/IA/RPRT/01/VO.1/86 dated 19 June, 2022. The report highlighted

delayed conclusion of procurement processes for sub-projects and non-compliance to the bank mandatory signatories' requirements. Recommendations were made to address the issues. It was, however, established that the county government of Kisumu did not consider or initiate any measures to address the internal audit recommendations.

4.51 Arising from the delayed procurement, the county failed to implement four sub-projects worth KES.137.5 million. These projects were;

- i) Rehabilitation of Alungo Irrigation Scheme
- ii) Jowi Water Pan
- iii) Semeki Poultry Hatchery and Incubation Centre
- iv) Kaloka BMU Aquaculture Park.

c) Inadequate Sustainability Measures by the Community Interest Groups

4.52 Section 3.2 of the Debt and Borrowing Policy 2020 provides that the burdens and benefits of the proceeds of debt will be shared equitably between present and future generations.

4.53 The audit team interacted with various Community Interest Groups (CIGs) during the audit and noted that there were sustainability challenges because the farmers received the debt funds and did not put much effort in planning for future continuation/ sustainability of the groups. Some of the projects were not functional as at time of audit. An example is Hera Aging Group members in Kisumu county, who were not willing to continue with chicken farming because this value chain involved a lot of work and needed members to be vigilant, and due to the group members' old age, they were not able to keep up with the requirement of rearing chicken. Another example, Wanyalo Self-help still in Kisumu county were provided chicks, chick feeds and equipment such as solar panels and gutters. A visit to the group revealed that, the solar panel was still not installed and there was no evidence of chicken in the coop. The group explained that they lacked the funds to hire a technician to do the installation.

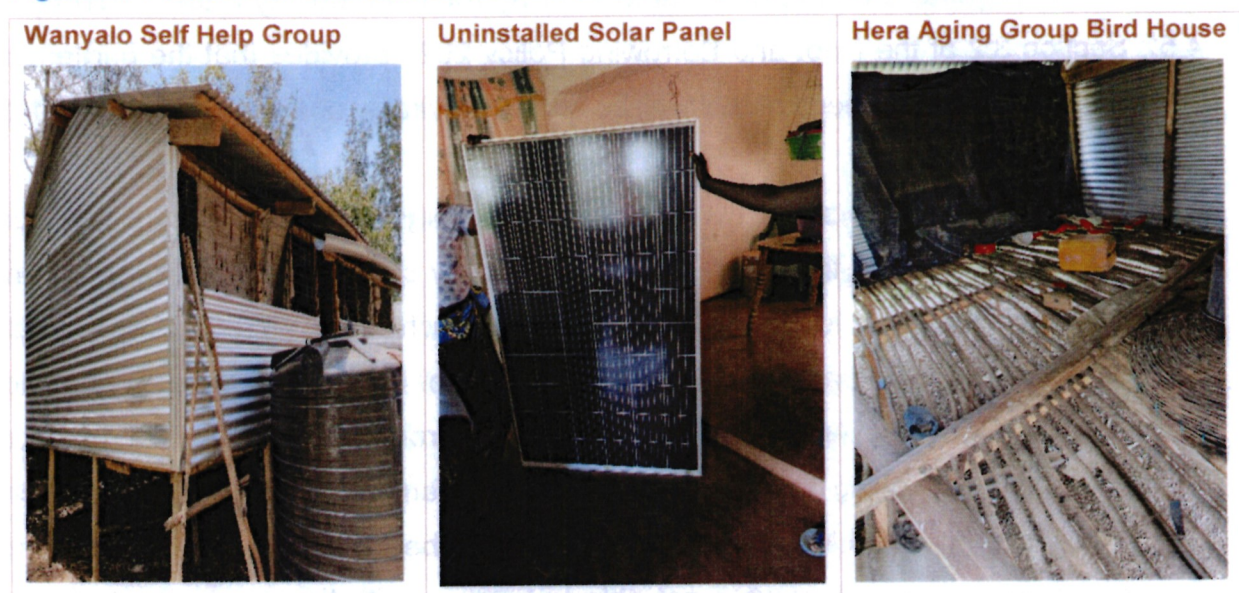
4.54 In Isiolo county, sustainability of kitchen gardens was limited due to the harsh weather conditions of the county and nomadic nature of the community. During a

visit to Apedor CIG in Isiolo, it was established that the group tried to run a kitchen garden but their home area was not arable due to many stones and prolonged drought. Sustainability of chicken rearing value chain was not realized in Isiolo county because all the chicks procured for the CIGs died.

4.55 It was also noted there was inadequate monitoring and evaluation undertaken to address these challenges faced by CIGs early enough to provide alternate recommendations.

4.56 Failure to implement the value chains at CIG level posed a risk in the sustainability of the project and realization of its objectives. This leaves the burden of repaying the debt to current and future generation without according them the chance to enjoy the benefits from the debt funded projects.

Figure 6: Pictures of Uninstalled Solar Panel and Unused Bird House



Source: Photos by OAG Team

4. Other Findings

a. Irregular Diversion of Project Funds in Isiolo County

4.57 Paragraph 17 of the Project Appraisal Document prescribes that project funds will flow from Designated Account 1 to County Revenue Fund Account to Special Purpose Account, then to KCSAP Project Account. Paragraph 14 of KCSAP Project Appraisal Document requires financial management arrangements to be put in place

to ensure, among other things, that project resources are used to efficiently and economically finance only the intended activities.

4.58 Review of the Project's Special Purpose bank statements for Isiolo county revealed that KES.60 million was irregularly transferred on 04 June, 2021 to a Kenya Commercial Bank Account belonging to Isiolo county government. This was later reversed but caused a three (3) months delay in project implementation.

4.59 The diversion of the project funds for a period of three months stalled the operations of the project, thus, resulting into low absorption of funds as payments could not be processed then.

b. Non-Compliance with Project Documents Preservation Requirements

4.60 Paragraph 97 of the Finance Manual version 1 of 2018 requires that in case of Community Driven Development Committee (CDDC), Micro Project Committee will maintain the copies of expenditure documents and submit originals to the County Project Coordinating Unit, the CPCU will file these documents in the respective micro project files.

4.61 The audit noted that funds were to be allocated to facilitate purchase of metal filing cabinet or metal boxes in which project official documents, including payment vouchers, minutes and cheque books were to be securely stored. To further enhance security, the project staff were to liaise and make arrangements with the Internal Security Ministry, to have such crucial records stored at existing and nearby GoK facilities. This applied to project documents generated at the community level.

4.62 It was, however, established that original financial records and procurement documents were maintained at the community level by the Community Driven Development Committees and Producer Organizations and not at the County Project Coordinating Units or stored in a nearby Government facility. Consequently, there were challenges in accessing these documents for examination.

c. Low Absorption of Loan Funds by Kenya Metrological Department

4.63 Annex 3, Paragraph 18 of the PAD provides that KMD should open a separate Kenya Shillings segregated project account to facilitate receipt of loan funds from the project account managed by the Ministry of Agriculture and Livestock Development.

- 4.64 Interviews with KMD officials revealed that KMD had not opened a project account as required by the PAD. This was attributed to KMD being a Department within the Ministry of Environment, Climate Change and Forestry, therefore, not having a mandate to run an independent project account.
- 4.65 It was also established that the structural arrangement at the Ministry of Environment, Climate Change and Forestry had inherent long approval levels which delayed the approval process resulting in a low absorption of funds.
- 4.66 Consequently, KES.500 million of the total funds initially allocated to KMD was reallocated to the Ministry to support Agriculture Sector Transformation and Growth Strategy activities. KMD was therefore not able to undertake training on climate modelling, procurement and installation of automatic rain gauges, participatory scenario planning in the counties and procurement of early warning system, upgrading of studio and sensors and upgrading of data processing section.

d. Lack of a Substantive Procurement Officer in Kisumu

- 4.67 Paragraph 6 of the CPCU Terms of Reference (ToRs) requires every participating county to second a procurement officer who was to be responsible for all the procurement activities. KCSAP Project Implementation Manual indicates that to replace seconded staff from the CPCU, there must be a written justification for replacement while the proposed individual must meet the requirements defined in Terms of Reference for the position. In addition, a written request must be made by the county Leadership to the PS on the proposal seeking clearance and No Objection from the World Bank.
- 4.68 However, interviews with the CPC revealed that the substantive Procurement Officer for Kisumu County with World Bank's Systematic Tracking of Exchanges in Procurement rights was transferred to the Department of Roads and Public Works on 23 July, 2021. No justification was provided by the county for the changes and the procedure for replacement was also not followed. The audit also established through review of the transfer letter and other correspondences provided, that the transfer was done at the conclusion phase of the project in which stability in the CPCU was key in assuring a successful completion, and it was deemed not economical to train a new procurement officer.

4.69 The internal audit of Kisumu County issued a report Ref: KCSAP/IA/RPRT/01/VO.1/86 dated 29 June, 2022. The report highlighted delayed conclusion of procurement process for sub-projects due to lack of procurement officer. Consequently, there were inadequate fiduciary support of the procurement unit domiciled in the CDDC.

5.0 CONCLUSION

- 5.1 The Ministry of Agriculture and Livestock Development and Counties have to some extent put in place measures to ensure efficiency in utilization of debt funds during implementation of KCSAP. This has been achieved through increased acreage of land under irrigation, sensitization, validation, promotion, and adoption of climate-smart agricultural Technological Innovation Management Practises In addition, the Ministry has managed to support the establishment of agro-meteorological and hydro-meteorological centres in participating counties, to improve drought and flood forecasts through the following; installation of new automated Agro-Weather Stations to complement existing infrastructure; and development of Early Warning System at the Kenya Meteorological Department However, the measures put in place by the Ministry of Agriculture and Livestock Development and Counties were inadequate in ensuring efficiency in utilization of debt funds.
- 5.2 The National Treasury, Ministry of Agriculture and Livestock Development and Counties have not put adequate measures to facilitate timely disbursement of funds to Counties, KALRO and KMD. This is caused by late disbursement of funds which resulted in delays in commencement of Participatory Integrated Community Development processes. Further, there were inadequate plans to facilitate transfer of funds from the County Revenue Fund Accounts to Special Purpose Accounts (SPA) and consequently to Operational Accounts.
- 5.3 The Ministry of Agriculture and Livestock Development and Counties have not been able to put adequate plans to support efficient implementation of the project. This is owing to inadequate planning on mitigation of natural disasters and procurement of farms inputs based on farming seasons, inadequate validation, promotion, and adoption of Technologies Innovation Management Practices and failing to undertake feasibility study before commencement of projects.
- 5.4 The Ministry of Agriculture and Livestock Development and cCounties have not been able to develop and implement adequate plans on project oversight to undertake comprehensive monitoring and evaluation for the project. This hampered effective response to emerging issues and emergencies and further put the sustainability of the project at risk due to unresolved challenges.

6.0 RECOMMENDATIONS

- 6.1 In view of the findings and conclusion of the audit, the Office makes the following recommendations for implementation by the Ministry of Agriculture and Livestock Development and other state actors. This will ensure that the measures put in place are adequate for ensuring efficiencies in the utilization of debt funds during the implementation of KCSAP.
- 6.2 To ensure timely disbursement and transfer of funds, The National Treasury, Ministry of Agriculture and Livestock Development, and counties should coordinate to ensure that issues affecting the timely disbursement of project funds are addressed in the shortest time possible, they should ensure;
- i) Disbursements of funds are done for each quarter as per the budgets.;
 - ii) County governments adhere to the signatories mandate; and
Timely transfers of Project Funds from Special Purpose Accounts to Operations Accounts in counties.
- 6.3 To realize optimal production and increased productivity, the Ministry of Agriculture and Livestock Development and County governments should:
- i) Put in place measures to ensure preparation for the planting seasons is done early enough in order for the farms and inputs to be ready before the rains.
 - ii) Ensure that feasibility studies are done before undertaking construction projects, especially for dams and irrigation schemes.
- 6.4 To ensure adequate project oversight, the Ministry of Agriculture and Livestock Development and counties should ensure;
- i) That monitoring and evaluation officers are adequately facilitated to enable them traverse the counties while undertaking their work.
 - ii) That counties should put in place measures to ensure the adoption of recommendations from internal auditors.
- 6.5 In addition, county governments should ensure proper preservation of project documents, substantive positions are duly filled and full adherence to the Project Appraisal Document and other relevant regulations while implementing projects.

6.6 To facilitate timely transfer of funds to counties, The National Treasury in collaboration with other key stakeholders should establish a framework for disbursement of conditional grants to counties and other implementing agencies.

7.0 APPENDICES

Appendix I: List of Interviewed Officials and Reason for Interview

Organization	Position of the Interviewee	Purpose of the Interview
The National Treasury	Deputy Director, Disbursement PDMO – National Treasury	To get a general understanding of the drawdown process for loan disbursement
Ministry of Agriculture & Livestock Development	Agriculture Secretary - Agriculture Transformation Office (ATO) and National Technical Advisory Committee (NTAC)	To understand the role of NTAC in the implementation of KCSAP project. To confirm whether the Agricultural Transformation Office received the reallocated project funds from KCSAP.
KCSAP National Office - NPCU	National Project Coordinator Project Accountant Monitoring & Evaluation Officer	To get the general understanding and operations of the project from the national level. To understand the challenges that the project has experienced. To understand the Monitoring and evaluation process of the project from the National level.
KALRO HQ	KCSAP Livestock Coordinator KCSAP Crops Coordinator Accountant	To understand component 2 on strengthening climate smart agriculture – Research & Seed systems. To understand the transfer of funds to the Research Institutions.
KALRO Njoro	Centre Director and Accountant	To understand the operations of the project being funded by KCSAP
KALRO Naivasha	Accountant and the Researchers	To gain an understanding of the research projects being undertaken within the institution.

Organization	Position of the Interviewee	Purpose of the Interview
KMD	Deputy Director - KMD	To understand component 3 of KCSAP project Supporting Agro-weather, Climate and Advisory services. To understand the reason for the reallocation of funds from the institution
Kakamega County	County Project Coordinator Project Accountant Project Procurement Officer Project M & E	To understand component 1 of KCSAP project on Upscaling Climate Smart Agricultural practices, the procurement processes and the flow of funds from the County to the CIGs.
Kisumu County	County Project Coordinator Project Accountant Project Procurement Officer Project M & E Internal Auditor	To understand component 1 of KCSAP project on Upscaling Climate Smart Agricultural practices, the procurement processes and the flow of funds from the County to the CIGs.
Nyeri County	County Project Coordinator Project Accountant Project Procurement Officer	To understand component 1 of KCSAP project on Upscaling Climate Smart Agricultural practices, the procurement processes and the flow of funds from County to the CIGs.
Isiolo County	Chief Officer Agriculture	To understand his role in the implementation of the project and in ensuring proper flow of project funds.
Isiolo County	County Project Coordinator Project Accountant Project Procurement Officer Project Statistics Officer	To understand component 1 of KCSAP project on Upscaling Climate Smart Agricultural practices, the procurement process, and the flow of funds to the CIGs.

Organization	Position of the Interviewee	Purpose of the Interview
Maseno University	KCSAP Project Principal Investigator, Co-PI Project Accountant	To understand component 2 of KCSAP project on strengthening Climate Smart Agricultural Research and Seed systems and the flow of funds from KALRO to the institutions
Egerton University	Ag. Director - Research & E Research Accountant Principal Investigators PIs (5) Procurement	To understand component 2 of KCSAP project on strengthening of Climate Smart Agricultural Research and Seed systems and the flow of funds from KALRO to the institutions. To understand the procurement process at the University level.
Karatina University	KCSAP Principal Investigators, Co-PIs Procurement	To understand component 2 of KCSAP project on strengthening of Climate Smart Agricultural Research and Seed systems and the flow of funds from KALRO to the institutions To understand the procurement process at the University level.
Common Interest Groups (CIGs) across the Counties sampled.	Official members of the CIGs	To confirm that the groups received the project funds, were trained and are implementing the relevant climate smart technologies according to the value chains adopted.

Appendix II: Reviewed Documents and the Reason for Review

	Document	Information needed from the documents
1.	The Constitution of Kenya, 2010.	To assess whether the Ministry through the National Treasury planned for the borrowings.
2.	The Public Finance Management Act, 2012	To obtain information on the mandate of National Treasury.
3.	The Debt & Borrowing Policy, 2020	To obtain information on the guidelines on loan absorption.
4.	The Public Finance Management Regulations (National Government) 2015	To obtain information on the mandate of National Treasury.
5.	The County Government, PFM Regulations, 2015	To obtain information on the mandate of County Government.
6.	KCSAP Financing Agreement 2017	To obtain information on the guidelines on drawdowns and implementation of the project.
7.	Project Appraisal Document	To get a deeper understanding of KCSAP project and the project objectives To obtain information on the procedures to be followed for loan absorption and funds reallocation.
8.	Project Implementation Reports	To obtain information on the status and data of the project.
9.	County Monitoring & Evaluation Reports	To obtain information on the project evaluations undertaken within the Counties.
10.	Public Procurement and Disposal Act (PPAD)	To obtain information on the public procurement procedures.
11.	Project Implementation Manual	To obtain information on the project guidelines and procedures and how the project will be implemented.
12.	Project Implementation Plan	To obtain information on the plans that guide the implementation of the project.

	Document	Information needed from the documents
13.	Project Financial Manual	To obtain information on the accountability and utilization of the project funds.
14.	Aid Memoirs	To obtain information on the changes happening within the project structure, reallocation of any funds.
15.	County Procurement Files and Accounting records	To obtain information on procurement processes and accounting for the same.

Appendix III: List of Projects Visited

	County	Name of Project	Type of Project	Value Chain
1	Isiolo	Anolei Women Group	Producer Organization	Camel Milk
2		Livestock Market Association- Ngare Mara	Producer Organization	Livestock (Goats)
3		Apedor Ankanupak	CIG	Goats, Chicken & Kitchen garden
4		Parkuruk Earth Dam	Sub Project	Irrigation
5		Sukuma Irrigation	Sub Project	Irrigation
6	Kisumu	Gem Rae irrigation scheme	Sub project	Irrigation
7		Holo Orucho water pan Nyando	Sub project	Irrigation
8		Wanyalo Self Help Group	CIG	Fish farming
9		Hera Ageing women Group	CIG	Chicken
10		Flamboyant Self-Help Group	CIG	Cassava
11		Glory Disability CBO	CIG	Sorghum, Vegetables Indigenous chicken
12		Wanganga Kwe Ber	CIG	Cassava
13	Nyeri	Mukwereini Wakulima Dairy	Producer Organization	Milk Production
14		Natural Ways Food Supplement	PPP	Porridge flour value addition
15		Kieni West irrigation water project	Sub Project	Irrigation
16		Nganywithe Equity Dairy Farming	CIG	Dairy Farming

	County	Name of Project	Type of Project	Value Chain
17		Kiria Dam Irrigation Water Project	Sub Project	Irrigation
18		Kagongo Welfare SHG	CIG	Irish Potatoes
19		Gakawa Intergrated SHG	CIG	Fortified pellets
20		Lusoi Environmental SHG	Sub project	Irrigation
21	Kakamega	Baharini Dam	Sub Project	Irrigation
22		Khwisero Fish Hatchery	Sub Project	Fish Farming
23		Elohe Junction	CIG	Chicken farming
24		Jitegemee Proud Brothers Diary	CIG	Dairy Farming
25		Kungangana bodaboda SHG	CIG	Chicken farming
26		Gracious Farmers	CIG	Chicken farming, vegetables farming

Appendix IV: Audit Sub-Objective, Criteria and Source of Audit Criteria

S.N	Sub Objective	Audit Criteria	Source of Criteria
1.	To assess whether the Ministry has put in place measures to ensure efficient implementation of KCSAP.	The Project Steering Committee (NPSC) is responsible for overall project oversight and policy guidance and approve annual work plans and budgets. The Ministry (NPCU) is responsible for coordinating the project at the National level. National Technical Advisory Committee (NTAC) responsible for providing technical support to overall project implementation and approving the County level investment and Climate Smart Agriculture (CSA) research proposals.	KCSAP Project Appraisal Document (PAD) Annex 3 paragraph 3. KCSAP Project Appraisal Document (PAD) Annex 3 paragraph 5. KCSAP Project Appraisal Document (PAD) Annex 3 paragraph 4.
2.	To assess whether the National Treasury and Planning has put in place measures to ensure timely disbursement of funds.	The National Treasury is responsible for disbursing moneys to County Governments.	The Public Finance Management Act, 2012 Section 17 (6) KCSAP PAD Annex 3 paragraph 14.
3.	To assess whether the Ministry has put in place measures to ensure optimal absorption of borrowed funds.	The Ministry of Agriculture & Livestock Development is responsible for triggering transfer of funds from DA1 through the CRF Accounts to the dedicated County project account.	The Debt & Borrowing Policy, 2020 Section 74(b) KCSAP Project Appraisal Document (PAD) Annex 3 paragraph 17.

S.N	Sub Objective	Audit Criteria	Source of Criteria
4.	To assess whether the County Governments and implementing agencies (KALRO, KMD) have put in place measures to ensure optimal absorption of borrowed funds	The Counties should open a dedicated County Project Account meant to receive and disburse project funds at County level. KALRO and KMD were each expected to open a separate KES segregated project accounts to facilitate receipt of loan proceeds from the Ministry of Agriculture. The Counties and implementing agencies were expected to procure goods and services as per the procurement Act.	KCSAP Project Appraisal Document (PAD) Annex 3 paragraph 17. KCSAP Project Appraisal Document (PAD) Annex 3 paragraph 18. Public Procurement and Disposals Act (PPDA) 2015 KCSAP Procurement Management Manual

Appendix V: Detailed Analysis of Funds Disbursement Between the Financial Years 2018/2019 and 2021/2022

County	Quarter	2018/2019				2019/2020				2020/2021				2021/2022			
		Expected	Disbursement	Delay	Expected	Disbursement	Delay	Expected	Disbursement	Delay	Expected	Disbursement	Delay	Expected	Disbursement	Delay	Delay
Nyeri	1	15 July, 2018	08 January, 2019	177	15 July, 2019	19 November, 2019	92	15 July, 2020	16 November, 2020	124	15 July, 2021	13 June, 2022	333				
	2	15 October, 2018	No disbursement made		15 October, 2019	26 June, 2020	255	15 October, 2020	05 January, 2021	82	15 October, 2021	28 June, 2022	256				
	3	15 January, 2019	No disbursement made		15 January, 2020	No disbursement made		15 January, 2021	23 April, 2021	98	15 January, 2022	No disbursement made					
	4	15 April, 2019	No disbursement made		15 April, 2020	No disbursement made		15 April, 2021	29 June, 2021	75	15 April, 2022	No disbursement made					
Kakamega	1	15 July, 2018	28/11/2018	136	15 July, 2019	31 October, 2019	108	15 July, 2020	16 November, 2020	124	15 July, 2021	10 June, 2022	330				
	2	15 October, 2018	No disbursement made		15 October, 2019	18 June, 2020	247	15 October, 2020	08 December, 2020	54	15 October, 2021	17/ June, 2022	245				
	3	15 January, 2019	No disbursement made		15 January, 2020	No disbursement made		15 January, 2021	13 April, 2021	88	15 January, 2022	No disbursement made					
Kisumu	4	15 April, 2019	No disbursement made		15 April, 2020	No disbursement made		15 April, 2021	21 June, 2021	67	15 April, 2022	No disbursement made					
	1	15 July, 2018	28 November, 2018	136	15 July, 2019	31 October, 2019	108	15 July, 2020	16 November, 2020	124	15 July, 2021	10 June, 2022	330				
	2	15 October, 2018	No disbursement made		15 October, 2019	18 June, 2020	247	15 October, 2020	08 December, 2020	54	15 October, 2021	23 June, 2022	251				
	3	15 January, 2019	No disbursement made		15 January, 2020	No disbursement made		15 January, 2021	13 April, 2021	88	15 January, 2022	No disbursement made					
	4	15 April, 2019	No disbursement made		15 April, 2020	No disbursement made		15 April, 2021	21 June, 2021	67	15 April, 2022	No disbursement made					

Appendix VI: Technology Innovation Management Practices Not Validated and/or Promoted

Institutions	Project Title	TIMPs Not Validated and/or Promoted	No. of Activities
Egerton University	Unlocking the potential in production and marketing of Cassava in Lamu, Kisumu and Busia	1. Cassava Beer	1
Egerton University	Climate Smart Beekeeping for Improved Incomes, Food and Nutrition Security in Kajiado, Siaya and Tana River Counties	1. Improved food/ nutrition security and incomes 2. Improved Crop Pollination services	2
Egerton University	Increased Stakeholder Participation in Enhancing Food Safety in The Camel Milk Value Chain in Northern Kenya	1. Solar Milk Coolers 2. On-farm feed formulation 3. Promotion of camel milk marketing	3
Egerton University	Project coordination, validation of agronomic technologies, sorghum-based products	1. Validation and promotion of sorghum-based products in secondary schools 2. Validation of sorghum varieties for ethanol production 3. Distribution of mini-kits to farmers 4. Preparation and distribution of leaflets and extensions materials 5. Conducting of field days	5
Egerton University	Validation of technologies: mobile platform, solar drier and briquettes	1. Electronic bird deterrent	1
Karatina University	Enhancing Banana Productivity using climate-smart technologies in Kenya	1. Banana production system, constraints and management practices	1
Karatina University	Integrated Land and Water Management Strategies for Restoration and Protection of Water Resources in Agro-Pastoral Systems - Kenya	1. Uptake of climate smart crops and soil and water management strategies 2. Promotion of markets for pasture, legumes and fruits	2

Appendix VII: Ministry of Agriculture Response to Audit Findings

Paragraph	Comment	Auditors' Comments
15 of the proposed Technology Innovation Management Practices (TIMPs) as shown in Table 8 and Appendix VI were not validated. (Para 4.43)	It is not correct to conclude that most of the TIMPs were not validated. We had 51 projects under adaptive research (see attached table). 270 TIMPs were to be validated. At the conclusion of the projects, 254 TIMPs were validated. From these figures 94.07% of the TIMPs were validated	The finding remains as reported since this was the true and fair observation as at the time of conclusion of the audit.
	Some of 'TIMPs listed as not validated and or promoted' in Column 4 are not TIMPs. For example, in row 5, the project implemented by Egerton University lists i) preparation and distribution of leaflets and extension materials and ii) Conducting of field days. The two are not TIMPs and could therefore not be validated nor promoted.	Amended. The activities were listed as part of TIMPs to be either promoted or validated.
The audit noted that internal audit unit Kisumu County had conducted an audit of KCSAP project implementation. The audit report highlighted delayed conclusion of procurement process sub- projects among other issues. Arising from the delayed procurement, the County failed to	Funds for the sub-projects that failed did not revert to NPCU but were used in the same counties to support micro projects	The finding has been amended.

Paragraph	Comment	Auditors' Comments
implement four sub-projects worth KES 137.5 million. (Para 4.50 - 4.51)		
Review of the Project's Special Purpose bank statements for Isiolo county revealed that KES.60 million was irregularly transferred on 04 June, 2021 to a Kenya Commercial Bank Account belonging to Isiolo county government. This was later corrected but caused a three (3) months delay in project implementation (Para 4.58)	Isiolo County and even others have been sensitized not to repeat the anomaly	The finding remains as reported since the response does not negate it.
KES.500 million of the total funds initially allocated to KMD was reallocated to the Ministry to support Agriculture Sector Transformation & Growth Strategy activities. KMD was therefore not able to undertake training on climate modelling, procurement and installation of automatic rain gauges, participatory scenario	The KES 500 million was not reallocated to component 4 but allocated through restructuring to the MOALD to support Agriculture Sector Transformation & Growth Strategy activities	This is noted and has been amended.

Paragraph	Comment	Auditors' Comments
planning in the counties and procurement of early warning system, upgrading of studio and sensors and upgrading of data processing section. (Para 4.66)		

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