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15/6/23*

**REPUBLIC OF KENYA**

**THIRTEENTH PARLIAMENT – SECOND SESSION**

**THE NATIONAL ASSEMBLY**

**SPECIAL FUNDS ACCOUNTS COMMITTEE**

**FIRST REPORT**

ON THE CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR WOMEN ENTERPRISE FUND, COFFEE CHERRY ADVANCE REVOLVING FUND, STRATEGIC FOOD RESERVE TRUST FUND, EQUALIZATION FUND, MECHANICAL AND TRANSPORT FUND, NATIONAL RESEARCH FUND, YOUTH ENTERPRISE DEVELOPMENT FUND, UWEZO FUND, AND CIVIL SERVANTS HOUSING SCHEME FUND.

Directorate of Audit, Appropriations, and Other Select Committees  
National Assembly  
Parliament Buildings  
NAIROBI

JUNE, 2023

THE NATIONAL ASSEMBLY	
DATE: 15 JUN 2023 THURSDAY	
TASLED BY:	Chairperson Special Funds Accounts Hon. Fatuma Z. Mohamed
CLERK AT THE TABLE:	Finlay

Funds Accounts

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**ANNEXURES**

- Annexure 1 - Committee Minutes
- Annexure 2 - Adoption List

## **LIST OF ABBREVIATIONS AND ACRONYMS**

CoK	-	Constitution of Kenya, 2010
CRA	-	Commission on Revenue Allocation
FY	-	Financial Year
MDAs	-	Ministries, Departments and Agencies
PFM	-	Public Finance Management
OAG	-	Office of the Auditor-General
PAWDEP	-	Pamoja Women Development Program
SIDEP	-	Social Initiative and Development Entrepreneurs Program
CWEs	-	Constituency Women Enterprise Scheme
LPO	-	Local Purchase Order
CRB	-	Credit Reference Bureau
PSASB	-	Public Sector Accounting Standards Board
EACC	-	Ethics and Anti-Corruption Commission
CUFMCs	-	Constituency Uwezo Fund Management Committee
ERP	-	Enterprise Resource Planning
WIP	-	Work in Progress

## CHAIRPERSON'S FOREWORD

Hon. Speaker, on behalf of the Special Funds Accounts Committee and under Standing Order 199, it is my pleasant duty and honor to present to the House the report of the Committee on audited financial statements for:

- 1) Women Enterprise Fund for the financial years 2018/2019, 2019/2020 and 2020/2021.
- 2) Coffee Cherry Advance Revolving Fund for the financial years 2019/2020 and 2020/2021.
- 3) Strategic Food Reserve Trust Fund for the financial year 2020/2021.
- 4) Equalization Fund for the financial year 2020/21.
- 5) National Youth Service – Mechanical and Transport Fund for the financial year 2020/2021.
- 6) National Research Fund for the financial years 2019/2020 and 2020 /2021.
- 7) Youth Enterprise Development Fund for the financial years 2018/2019, 2019/2020 and 2020/2021.
- 8) Uwezo Fund for the financial years 2018/2019, 2019/2020 and 2020/2021.
- 9) Civil Servants Housing Scheme Fund for the financial years 2020/2021 and 2021/2022.

Oversight over national revenue and expenditure is amongst the roles of the National Assembly as stipulated under Article 95 (4) (c) of the Constitution of Kenya, 2010. Further, Article 226 of the CoK provides that an Act of Parliament shall provide for the designation of an Accounting Officer in every public entity at the national level who is accountable to the National Assembly for its financial management. In addition, Article 229(8) mandates this House to debate and take appropriate action on audit reports from the Auditor-General.

In fulfilment of these constitutional provisions, the National Assembly established various Committees to examine reports of the Auditor-General to ascertain whether public funds are utilized in a lawful, authorized, effective, efficient, economical, and transparent manner. The Special Funds Accounts Committee, which was established in the Fifth Session of the Eleventh Parliament following the review of the National Assembly's Standing Orders, is one of the Committees of the Thirteenth Parliament that examines reports of the Auditor-General.

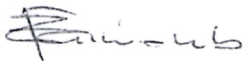
Examination of reports of the Auditor-General for Fund and the Equalization Fund is amongst the mandate of the Special Funds Accounts Committee as provided under Standing Order 205A, the National Assembly Standing Orders.

The Committee held a total of thirty (30) meetings where it received evidence from the Accounting Officers:

- 1) Eng. Charles Mwirigi, Chief Executive Officer, Women Enterprise Fund
- 2) Mr. Timothy M. Mirugi, Managing Director New Kenya Planters Co-operative Union (Coffee Cherry Advance Revolving Fund)
- 3) Mr. Kello Harsama, Principal Secretary State Department for Crop Development and Agricultural Research
- 4) Mr. Guyo Buro, Chief Executive Officer, Equalization Fund
- 5) Amos N. Gathecha EBS ndc(K) Principal Secretary State Department for Public Service
- 6) Prof. Dickson Andala, Chief Executive Officer, National Research Fund
- 7) Josiah Moriasi, Chief Executive Officer, Youth Enterprise Development Fund
- 8) Mr. Peter Lenyapiani, Chief Executive Officer Uwezo Fund
- 9) Mr. Charles Hinga, Principal Secretary State Department for Housing and Urban Development

The oral and written submissions received formed the basis of observations, findings and recommendations of the Committee as outlined in this report under each of the audit queries. These are also contained in the Minutes and Hansard Reports of Committee proceedings.

Hon. Speaker, I wish to express appreciation to the Honourable Members of the Committee, the Office of the Speaker and the Clerk of the National Assembly, the Parliamentary Liaison Offices of the Auditor-General and the National Treasury and the Committee Secretariat for facilitating the Committee in the production of this report.



**HON. FATUMA ZAINAB MOHAMMED, M.P.**  
**CHAIRPERSON, SPECIAL FUNDS ACCOUNTS COMMITTEE**

## CHAPTER ONE

### 1. PREFACE

#### 1.1 Establishment and Mandate of Special Funds Accounts Committee

1. The Special Funds Accounts Committee is one of the six Watchdog Committees of the National Assembly established under Standing Order 205. It is mandated to examine the reports of the Auditor General on the following:

- i) *Funds established by statute or by subsidiary legislation, except Funds under Standing Order 205B (Decentralized Funds Accounts Committee)*
- ii) *The Equalization Fund;*
- iii) *The Equalization Fund Advisory Board;*
- iv) *The Political Parties Fund; and*
- v) *Other funds as may be communicated by the Honorable Speaker*

#### 1.2 Committee Membership

2. The Committee comprises the following members:

S/N	Name	Constituency	Party
1	Hon. Fatuma Zainab Mohammed, MP (Chairperson)	Migori (CWR)	Independent
2	Hon. Dawood Abdul Rahim, HSC, MP (Vice Chairperson)	North Imenti	Independent
3	Hon. Faith Wairimu Gitau, MP	Nyandarua (CWR)	UDA
4	Hon. Charles Ngusya Nguna	Mwingi West	Wiper
5	Hon. Dr. Christine Ombaka Oduor, MP	Siaya (CWR)	ODM
6	Hon. Erastus Kivasu Nzioka, MP	Mbooni	Wiper
7	Hon. Eve Akinyi Obara, MP	Kabondo Kasipul	ODM
8	Hon. Joseph Majimbo Kalasinga, MP	Kabuchai	FORD-K
9	Hon. Tom Mboya Odege, MP	Nyatike	ODM
10	Hon. Catherine Nakhabi Omanyoo, MP	Busia (CWR)	ODM
11	Hon. Cecilia Asinyen Ngitit, MP	Turkana (CWR)	UDA
12	Hon. Erick Kahugu Wamumbi, MP	Mathira	UDA
13	Hon. Joseph Kimutai Cherorot, MP	Kipkelion East	UDA
14	Hon. Joshua Odongo Oron, MP	Kisumu Central	ODM
15	Hon. Paul Kibichi Biego, MP	Chesumei	UDA

### 1.3 Committee Secretariat

3. The Secretariat facilitating the Committee comprises the following staff:

S/N	NAME	DESIGNATION
1	Mr. Leonard Machira	Senior Clerk Assistant
2.	Ms. Comfort Achieng	Clerk Assistant III
3	Mr. Silvanus Makau	Clerk Assistant III
4	Mr. Robert Ngetich	Fiscal Analyst II
5	Ms. Judith Kanyoko	Legal Counsel II
6	Ms. Bevaline Mosoti	Research Officer III
7	Mr. Geoffrey Kwatamba	Media Relations Officer III
8	Ms. Pauline Sifuna	Hansard Officer III
9	Ms. Maryam Gabow	Public Communications Officer III
10	Ms. Pauline Sifuma	Hansard Editor III
11	Mr. Peter Mutethia	Hansard Audio Officer III
11	Mr. Benard Omondi	Serjeant At Arms

#### **1.4 GENERAL OBSERVATIONS AND RECOMMENDATIONS**

4. During the examination of the audited reports, the Committee made the following general observations and recommendations which apply across the examined Funds.

##### **a. Late submission of documents**

5. The Committee observed that:

- i. Most of the audit queries raised by the Auditor- General were as a result of the failure by accounting officers to submit the necessary accounting documentation for verification during the audit process as provided in Section 31 of the Public Audit Act, 2015;
- ii. The late submission of accounting documentation was because some Funds relied on staff from other Ministries Departments and Agencies (MDAs) to file and submit returns on expenditures- the staff are not accountable to the accounting officer of the Fund. Uwezo Fund for instance depends on the Sub County Youth Officers for the submission of Constituency returns. The officers cover more than one Constituency; and leading to delay in submission of accounting documentation;
- iii. Many Funds operations are manual making them take time to prepare and submit the financial documents.

##### **The Committee recommends that:**

- i. The Accounting Officers to put in place mechanisms to ensure that the Fund receives accounting documentation on time in compliance with the provisions section 68(2)(b) and (c) Public Finance Management Act, of 2012 and regulation 100 of the Public Finance Management (National Government) Regulations, 2015;
- ii. The Accounting Officers to ensure timely submission of accounting documentation required for audit verification during the audit as per the provisions of Section 31(4) of the Public Audit Act, 2015; and
- iii. The Accounting Officers to initiate appropriate mechanisms to ensure automation of the Funds processes and operations.

**b. Long outstanding receivables**

The Committee observed that the recoveries of the loans issued by the Funds to youth, women, and financial intermediaries are not up to date with some receivables remaining unrecovered for more than one year.

**The Committee recommends that:**

- i. The Accounting Officer to ensure that all contracts entered into by the Fund are lawful and are complied with in accordance with Section 68 (2) (d) of the PFM Act, 2012; and
- ii. Within three (3) months upon the adoption of this report, the Accounting Officers should submit the status report for non-performing loans and recoveries made to the Auditor general for audit verification.

**c. Presentation and inaccuracies in the financial statements**

The Committee observed that the issue of presentation and inaccuracies in the financial statements was noted in almost all the examined audit reports with cases of; wrong classifications of assets and expenditures, unexplained and unreconciled variances, and Non-compliance to the format prescribed by the public sector accounting standards board (PSASB) amongst others.

**The Committee recommends that:**

The accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2012.

**d. Unresolved prior-year matters**

The Committee observed that Prior-year audit issues remained unresolved at the end of the financial year against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012 which requires the accounting officer to take appropriate measures to resolve any issues arising from audit which may remain outstanding.

The Committee also observed that some accounting officers do not disclose the progress on follow-up of the auditor's recommendations in the financial statements as required by the Public Sector Accounting Standards Board.

**The Committee recommends that:**

- (i) Within three (3) months upon the adoption of this report, the Accounting Officer should take appropriate measures to resolve the outstanding prior audit issues as required by Section 68(2)(1) of the Public Finance Management Act, 2012 and submit the necessary documentation to the Auditor-General for audit verification;
- (ii) The accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2012.

**e. Weak internal control systems**

The Committee observed that there were weaknesses in the internal control systems resulting in: inadequate documentation, accounting, and reconciliation of accounting records as well as filing of expenditure returns; deficiency in documentation, authorization, approval, and recovery of loans.

**The Committee recommends that;**

The Accounting Officers ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2012.

**f. Grounded assets**

The Committee observed that:

- i. The Mechanical and Transport Fund has seven (7) motor vehicles that have been grounded for a long time due to various mechanical reasons; and
- ii. The Youth Enterprise Development Fund has eight (8) motor vehicles and one hundred and five (105) motorcycles that have been grounded due to various mechanical reasons, and 907 outdated hatcheries.

**The Committee recommends that:**

The Accounting Officers seek approval to dispose the mentioned assets in accordance with the provisions of the Public Procurement and Asset Disposal Act, 2015, and its regulations within three months upon the adoption of this report.

The Accounting officers to ensure there are proper control systems to eliminate theft, losses, wastage and misuse of the Fund's assets in compliance with Regulation 139 of the Public Finance Management (National Government) Regulations, 2012.

## CHAPTER TWO

### 2.0 INTRODUCTION

#### 2.1 Background Information

6. The National Assembly's roles include oversight over the national revenue and expenditure as per Article 95(4) (c) of the Constitution of Kenya. Article 229(8) mandates the National Assembly to debate and take appropriate action on audit reports within three months of receipt of the reports from the Auditor-General. Further, section 68(1) of the Public Finance Management (PFM) Act, 2012 requires accounting officers for national government entities, including public funds, Parliamentary Service Commission, and the Judiciary, to be accountable to the National Assembly through the relevant Committee.
7. The Special Funds Accounts Committee is among the Committees of Parliament established under Article 124 of the Constitution of Kenya, 2010, to assist the National Assembly in undertaking its constitutional mandate geared towards enhanced accountability in handling public funds.
8. The Committee draws its mandate from Standing Order 205A of the National Assembly Standing Orders, which requires it to examine accounts of Funds established by law as the Speaker may direct.

#### 2.1 Guiding Principles: Constitutional and Legal Provisions on Public Finance

9. The principles of public finance under Article 201 of the Constitution of Kenya 2010 guided the Committee in the execution of its mandate. The principles require openness, accountability, public participation in financial matters, prudence, and responsible use of public funds, Further, Article 226 (5) provides that *"If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not"*.
10. The various legal provisions, including the PFM Act, 2012; the Public Audit Act, 2015; the Public Procurement and Asset Disposal Act, 2015 as well as established customs, traditions, practices and usages also guided the Committee. Section 68 (1) of the PFM Act, 2012 provides, inter alia, that- *"An accounting officer for a national government entity including Public Funds, Parliamentary Service Commission and the Judiciary is*

*accountable to the National Assembly. The Accounting Officer is required to ensure that the resources of the respective entity for which he or she is responsible are used in a way that is lawful and authorized, and effective, efficient, economical and transparent.*”

11. The Committee relied on these constitutional and legal provisions as the basis for inviting the accounting officers of the Funds to respond to issues raised by the Auditor-General. During consideration of the audit reports, the Committee also relied on additional information submitted to it on the administration and performance of the Funds to come up with general recommendations geared towards effective management and operations of the Funds as well as improved accountability and financial reporting.

## **CHAPTER THREE**

### **3.0 CONSIDERATION OF REPORT ON THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR WOMEN ENTERPRISE FUND**

#### **3.1 WOMEN ENTERPRISE FUND**

12. Eng. Charles Mwirigi, the Chief Executive Officer, Women Enterprise Fund, appeared before the Committee on 23<sup>rd</sup> February, 2023 and 21<sup>st</sup> March 2023 to adduce evidence on the audited financial statements for the Women Enterprise Fund for the Financial Years 2018/2019, 2019/2020 and 2020 /2021. The minutes of the Committee sittings and submissions tabled by the Accounting Officer are annexed to this report. The Accounting officer was accompanied by:

- |                       |                                      |
|-----------------------|--------------------------------------|
| 1. Mr. Raphael Kimolo | - Credit Manager                     |
| 2. Ms. Mariam Sadik   | - Legal Officer                      |
| 3. Mr. Paul Wangai    | - Finance and Administration Manager |

#### **3.1.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR WOMEN ENTERPRISE FUND FOR THE FINANCIAL YEAR 2018/2019**

##### **Basis for Qualified Opinion**

##### **(1.)Receivables from Exchange Transactions**

13. The statement of financial position as at 30 June, 2019 reflects a balance of Kshs 3,167,100,168 in respect of receivables from exchange transactions. Examination of records revealed the following anomalies:

##### **a) Non-performing Loans to Financial Partners**

14. The balance of Kshs 3,167,100,168 in respect of receivables from exchange transactions, included non-performing loans totaling Ksh 71,780,000 due from eight (8) financial intermediary partners. However, Management had not made any provision for bad debts, making the recovery of the loans doubtful.

##### **Submission by the Accounting Officer**

15. The Accounting Officer submitted that the Fund disbursed Kshs1.84 billion through Financial Intermediaries between 2007 and 2014. The amount was disbursed to 163,380 beneficiaries through 110 institutions. He acknowledged that Ksh 71,330,000 was outstanding from the eight (8) institutions as reported in the financial year 2018/2019.

16. He further submitted that the management undertook the following measures to recover the outstanding loan:

- a) The Fund instituted legal proceedings against Pamoja Women Development Program (PAWDEP), Social Initiative Development Entrepreneurs Program (SIDEPE), Adok Timo and African Women Foundation.

- b) A Judgment was issued in favour of the Fund against Pamoja Women Development Program (PAWDEP) and Social Initiative and Development Entrepreneurs Program (SIDEPE) for the outstanding loan balance plus cost and interest.
- c) The Fund was enlisting new auctioneers to auction the securities before the end of the Financial Year 2022/2023.

The general loan provision of 1%, as provided in the financial report, was in line with the credit policy of the Fund.

### **Observations and Findings of the Committee**

17. The Committee observed that:

- i. The Fund had non-performing loans of Kshs 71,780,000 as at the end of the financial year 2018/2019 due from eight (8) financial intermediary partners;
- ii. The Fund instituted legal proceedings against the financial intermediaries and a judgment was issued in favour of the Fund against Pamoja Women Development Program (PAWDEP) and Social Initiative and Development Entrepreneurs Program (SIDEPE) for the outstanding loan balance plus cost and interest.
- iii. Management did not make any provision for bad and doubtful debts in the financial statements.
- iv. The matter remained unresolved.

### **Recommendations of the Committee**

18. The Committee recommends that:

- i. **The Accounting Officer implements the Judgement issued in favour of the Fund within three months of the adoption of this Report to recover the long-outstanding loans of Ksh 71,780,000 plus costs and interest from Pamoja Women Development Program (PAWDEP) and Social Initiative and Development Entrepreneurs Program (SIDEPE).**
- ii. **The Accounting Officer should ensure that all contracts entered into by the Fund are lawful and comply with Section 68 (2) (d) of the PFM Act, 2012.**
- iii. **Within three (3) months of the adoption of this report, the Accounting Officer submits the status report for non-performing loans and recoveries made to the Auditor - General for audit verification.**

#### **b. Doubtful Recovery of LPO Financing and CWEs Loans**

19. The receivables from exchange transactions balance of Kshs 3,167,100,168 included Kshs 8,130,960 for loans relating to LPO financing, which were due but not paid as at 30 June 2019. While Kshs 732,649,283 due from the Constituency Women Enterprise Scheme (CWEs) had been outstanding for over a year. The balance of Kshs 732,649,283 included an amount of Kshs 50,370,500, which remained dormant during the year under review.

20. The recoverability of these loans is doubtful since they were in arrears beyond the respective repayment periods stipulated in the loan agreements. Further, the 1% provision for bad debts is inadequate to cover potential defaulters.

#### **Submissions by the Accounting Officer**

21. The Accounting Officer submitted that:

##### **Doubtful Recovery of LPO financing**

- a) The LPO financing product was rolled out in 2015, and the Fund disbursed Kshs 68,869,050 between 2015 and 2019. Further, one hundred and eleven (111) women entrepreneurs benefitted and Kshs 52,923,247 was repaid on time.
- b) The outstanding loan balance for LPO financing as of 30<sup>th</sup> June 2019 was Kshs 14,378,565 and out of which Kshs 8,130,960 had been outstanding for more than a year.

This was due to delays in payment by procuring entities and the diversion of payments by some clients.

- c) The Fund employed the following strategies to recover the outstanding amount:
  - i. Issued demand letters to the defaulters.
  - ii. Listed the directors of the companies with Credit Reference Bureau (CRB).
  - iii. Conducted physical visits to the respective procuring entities' offices to confirm whether the LPOs are serviced and made follow-ups on the payment of defaulted amounts.
  - iv. Instituted legal suits to recover the outstanding amounts.
  - v. Engaged auctioneers to repossess and dispose of the securities provided.
- d) As a result of the above measures, the clients repaid Kshs 4,339,762, Ksh 3,626,003 and Ksh 4,017,400 in the financial years 2019/2020, 2020/2021 and 2021/2022, respectively.

##### **Doubtful Recovery of Constituency Women Enterprise Scheme Loans (CWES Loans)**

22. The Accounting Officer submitted that:

- a) The CWES receivables from exchange transactions balance as at 30<sup>th</sup> June, 2019 was Ksh 2,945,722,015 and it was outstanding from the CWES loan product, which included loans in arrears.
- b) The arrears for the period under review was Kshs 732,679,283. The figure included outstanding balances of more than one year and an amount of Kshs 50,370,500 having zero repayments.
- c) The Fund reduced the zero-repayment account by Kshs 11,000,000 during the financial year.
- d) Management applied the following strategies to recover the arrears:
  - a) Deployed recovery teams in low repayment areas.
  - b) Worked with key stakeholders, like Chiefs and Ward Administrators.
  - c) Created a debt recovery unit within the credit department.

- e) Consequently, the efforts resulted in the reduction of the zero-repayment amount from Kshs 50,370,500 to Kshs 39,880,500 as at 30th June, 2022.
- f) However, the Fund experienced the following challenges in the recovery of loans, including:
  - a. Disintegration and internal wrangles in groups after officials and a few members share the loan proceeds without the knowledge of the entire group.
  - b. Unforeseen calamities such as droughts, floods, and fires lead to the rescheduling of the loans after the loss of business.
  - c. Urban-to-rural migration, as well as insecurity, lead to the displacement of the borrowers.
  - d. The negative public perception that the loans given are grants from the Government hence the lack of commitment to servicing the loans
  - e. The general loan provisions of 1% was in line with the existing policy, and the same was under review to reflect the current market trends.

#### **Observations and findings of the Committee**

23. The Committee observed that:

- i. The Fund had an outstanding loan balance for LPO loans of Kshs 14,378,565, out of which Kshs 8,130,960 had been outstanding for more than a year as of 30th June 2019;
- ii. The Fund had Constituency Women Enterprise Scheme Loans (C-WES Loans) arrears of Kshs 732,679,283, which was outstanding for more than one year with Kshs 50,370,500 having zero repayments; and
- iii. The matter remained unresolved.

#### **Recommendations of the Committee**

24. The Committee Recommends that:

- i. The Accounting Officer recovers the outstanding LPO financing loans of Kshs 14,378,565 and Constituency Women Enterprise Scheme Loans of Kshs 732,679,283.**
- ii. Within three (3) months upon the adoption of this report, the Accounting Officer submits a status report for non-performing loans and recoveries made to the Auditor - General for audit verification.**
- iv. The Accounting Officer to ensure that all contracts entered by the Fund are lawful and comply with Section 68 (2) (d) of the PFM Act, 2012.**

#### **(2.) Unsupported Receivable Balance**

25. The receivables from the exchange transaction balance of Kshs 3,167,150,168 included Piki Loan Financing of Kshs 1,049,239, which had no detailed supporting analysis of the opening balance. The loan schedule provided showed an outstanding loan balance as at 30th June, 2018 of Kshs 949,500, which differed from the reported balance in the certified

statements of Kshs 1,391,604. The variance has not been explained or reconciled. Further, the opening loans are indicated as having been issued on 30th June, 2018, and repayments were done for thirteen (13) months in the year under review. This also has not been explained.

26. The accuracy and recoverability of the receivables from exchange transactions of Kshs 3,167,100,168 reflected in the financial statements as at 30 June, 2019 would not be verified and confirmed.

#### **Submission by the Accounting Officer**

27. The Accounting Officer submitted that the Piki-piki loans are advanced to field officers to aid in their work, specifically to assist in the recovery of loans. The loans are recovered through a payroll check-off system. The loan arrears of Kshs 283,333 was attributed to staff who exited the Fund. However, the loans were recovered from the terminal dues of the field officers.

#### **Observations and Findings of the Committee**

28. The Committee observed that:
- i. The Piki-piki loans were advanced to field officers to assist in the recovery of loans and have since been recovered through payroll check-off.
  - ii. The detailed supporting analysis and schedule of the opening balance of Kshs 1,391,604 has since been availed and verified by the Office of the Auditor General.
  - iii. The loan schedule provided showed the outstanding loan balance as at 30th June, 2018 of Kshs 949,500, which differed from the reported balance in the certified statements of Kshs 1,391,604 giving a variance of Kshs 442,104, which has not been reconciled.
  - iv. The variance between the supporting loan schedule and financial statements of Kshs 442,104 has not been explained or reconciled.
  - v. The matter remains unresolved.

#### **Recommendations of the Committee**

29. **The Committee recommends that the Accounting Officer reconciles the variance of Kshs 442,104 and submit the supporting documents to the Office of the Auditor General for audit verification within three months upon the adoption of this report.**

#### **(3.) Accuracy of cash and cash equivalents balances**

30. As disclosed in Note 17 to the financial statements, the statement of the financial position reflects cash and cash equivalents of Kshs 1,249,736,527, which includes an amount of Kshs 151,308,747 held under Mpesa Account. However, the verification for the Mpesa balance disclosed that an amount of Kshs 6,235,982 under the utility account balance was excluded from the total balance.

31. Management did not give any explanation or reconciliation for the omission. Under the circumstances, the accuracy of the cash and cash equivalents of Kshs 1,249,736,527 as at 30 June 2019 could not be confirmed.

#### **Submissions by the Accounting Officer**

32. The Accounting Officer submitted that the utility account is a holding account from which receipts from M-pesa collections are cleared before they are moved to the MMF account of the Fund prior to transfer to the Fund's bank account. Further, Kshs 6,235,982 was in the M-pesa utility/holding account, and it had not been cleared.
33. Consequently, it was not readily available for utilization and did not qualify to be recognized under cash and cash equivalent. However, the same amount of money was subsequently cleared on 1st of July 2019 and moved to the MMF account.

#### **Observations and findings of the committee**

34. The Committee observed that:
- i. The amount of Kshs 6,235,982 was in the M-pesa utility/holding account since it had not been cleared. Hence, it did not qualify to be recognized under cash and cash equivalent.
  - ii. The amount of money was subsequently cleared and moved to the MMF account.
  - iii. The matter was resolved.

#### **Recommendations of the Committee**

35. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015**

#### **(4.) Ineligible Rental Expense**

36. As disclosed in Note 14 to the financial statement, the statement of financial performance reflects a balance of Kshs 9,173,046 in respect of the rental expense. However, the expenditure included Kshs 542,880 paid to National Social Security Fund (NSSF) in two equal installments on 21<sup>st</sup> January and 18<sup>th</sup> April 2019 for parking space. These payments were not made based on any valid lease agreement as the agreement in place was entered into on 1<sup>st</sup> January 2017 and was valid for a period of twenty-four (24) months, thus rendering it invalid after 31 December 2018. Consequently, the validity of the rental expenses totalling Kshs 9,173,046 for the year ended 30th June 2019 could not be confirmed.

### **Submissions by the Accounting Officer**

37. The Accounting Officer submitted that:

- i. The Fund contracted parking slots from the NSSF in 2011. The contracts were renewed every year until 2021, when the Fund terminated the tenancy.
- ii. Regarding the 2019 contract, the Fund had executed its part, although, there was a delay in execution by the landlord. The payment was made based on a long-standing good relationship with the landlord, and the parking slots were already in use.
- iii. The contracts were under execution, and the failure to pay would have resulted in the slots being allocated to other users, given the high demand for parking space.

### **Observations and Findings of the Committee**

38. The Committee observed that:

- i. The Accounting Officer paid Kshs 542,880 for parking space without a valid lease agreement in place.
- ii. There was a delay in the renewal of the lease agreement, but the Fund was already using the parking space. The Lease was later formalized.
- iii. The matter is resolved.

### **Recommendations of the Committee**

39. **The Committee recommends that the Accounting Officer should ensure that all expenses incurred by the Fund are lawful and authorized in compliance with Section 68 (1) and (2)(a) of the Public Finance Management Act, 2012.**

### **Other Matters**

#### **(5.) Unresolved Prior year matters**

40. In the audit report for the previous year, several paragraphs were raised based on various matters affecting the running of the Fund. The matters have remained unresolved and have not been deliberated on by the Public Accounts Committee.

### **Submission by the Accounting Officer**

41. The Accounting Officer submitted that:

- i. Management resolved some of the prior-year matters while others had not been resolved.
- ii. The pending issues included loan repayment and matters that are pending in court.

### **Observations and findings of the Committee**

42. The Committee observed that:

- i. Prior-year audit issues remained unresolved at the end of the financial 2018/2019 against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012;

- ii. The Fund did not disclose the progress on follow-up of the auditor's recommendations in the financial statements as required by the Public Sector Accounting Standards Board; and
- iii. The matter remained unresolved.

#### **Recommendations of the Committee**

43. **The Committee recommends that the Accounting Officer takes appropriate measures to resolve the outstanding prior audit issues as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015 within three (3) months upon the adoption of this report and submit the status report to the Auditor-General for audit verification.**

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

#### **(6.) Un- Procedural Procurement**

44. The statement of financial performance reflects an amount of Kshs 39,158,565 in respect of travel, conference and accommodation. Examination of records revealed that the Fund procured conference services at a total cost of Kshs 3,588,780 for two-day regional review meetings across the country. However, the procurements were awarded without signed professional opinions from the head of procurement, outlining the basis for recommendations for the award, as required by law.

#### **Submissions by the Accounting Officer**

45. The Accounting Officer submitted that:
- i. On each of the procurements undertaken on travel, conferences and accommodation, quotations were sourced from at least three establishments and the same were subjected to analysis before issuance of LSOs.
  - ii. The Fund did not have a substantive officer with the capacity to issue professional opinions when the procurements were carried out. Subsequently, an officer was hired, and the opinions were made as per the required law.

#### **Observations and findings of the committee**

46. The Committee observed that:
- i. The Accounting Officer violated the Public Procurement and Asset Disposal Act, 2015 by awarding the tenders without a signed professional opinion from the Head of Procurement as required by Section 84 of the Act.
  - ii. The matter remained unresolved.

#### **Recommendations of the Committee**

47. The Committee recommends that:

- i. **The Accounting Officer complies with the Public Procurement and Asset Disposal Act, 2015 Section 84 and Regulations when awarding tenders; and**
- ii. **The Cabinet Secretary Ministry of Public Service, Gender and Affirmative Action should within three months upon the adoption of this Report, institute disciplinary measures against the Accounting Officer for violating the procurement procedures.**

**(7.) Employee Costs-Compliance with the Human Resources Policies**

48. The statement of financial performance reflects an amount of Kshs 207,802,643 in respect of employee costs. This includes an expenditure of acting allowance of Kshs 1,461,580 paid to ten (10) officers who were appointed in acting capacities during the year. The officers, however, acted for more than six months contrary to the Public Service Commission (PSC) Human Resource and the Women Enterprise Fund Human Resource Policy.
49. Further acting allowance totalling Kshs 1,272,388 were paid to fourteen (14) ineligible staff who were not within the allowable Job Grade 2 to 5, which is eligible for acting allowance in line with Women Enterprise Fund Human Resource Policy.

**Submission by the Accounting Officer**

50. The Accounting Officer submitted that:
- i. The officers were appointed in acting positions to improve efficiency in service delivery. This was after the operationalization of eight new regional offices.
  - ii. The officers were paid an acting allowance beyond six (6) months and the Fund was guided by the merger circular, which barred the Fund from filling in the vacant positions/recruiting staff until the merger process was concluded.
  - iii. Management had no choice but to issue acting appointments for an additional period of six months, since the positions in question directly affect the mandate and service delivery to customers.

**Observations and findings of the Committee**

51. The Committee observed that:
- i. The Accounting Officer paid acting allowances amounting to Kshs 1,461,580 to ten (10) officers who were appointed on acting capacities and acted for more than six months contrary to the Public Service Commission (PSC) Human Resource Policies and Procedures Manual and Women Enterprise Fund Human Resource Policy;
  - ii. Allowances amounting to Kshs 1,272,388 were paid to fourteen (14) ineligible staff who were not within the allowable Job Grade 2 to 5, which is eligible for acting allowance in line with Women Enterprise Fund Human Resource Policy.
  - iii. The matter remained unresolved.

### **Recommendations of the Committee**

52. The Committee recommends that:

- i. **The Accounting Officer recovers the amount paid to the relevant officers in contravention of the human resource policy within three months upon the adoption of this report; and**
- ii. **The Accounting Officer complies with the Public Service Commission (PSC) Human Resource Policies & Procedures Manual and Women Enterprise Fund Human Resource Policy when dealing with human resource issues.**

### **(8.) Compliance with the Income Tax Regulations**

53. As disclosed under note 10 to the financial statement, the Fund incurred communication, electricity, water and other supplies and services, amounting to Kshs 18,776,868. The expenditure included staff airtime allowances amounting to Kshs 6,224,923, comprising of monies paid to staff monthly during the year. This amount was, however, not subjected to tax in line with the Income Tax Act, and no explanation has been provided for the non-compliance. Consequently, management is in breach of the law.

### **Submissions by the Accounting Officer**

54. The Accounting Officer submitted that:

- i. The credit administration process required officers to conduct callbacks to applicants for loans. This strengthens the 'know your customer principle and is undertaken before the loans are disbursed. Consequently, the Fund reimburses staff for telephone costs monthly.
- ii. The cost management strategy was a departure from the requirement of having fixed lines where calls would be made and the same was well captured in the staff's appointment letters.

### **Observations and findings of the Committee.**

55. The Committee observed that:

- i. Management paid airtime allowances totaling to Kshs 6,224,923 to staff without tax deductions as provided in the Income Tax Act.
- ii. The matter remained unresolved.

### **Recommendations of the Committee**

56. The Committee recommended that:

- i. **The Accounting Officer recovers the applicable tax due from airtime allowances paid to staff of Kshs 6,224,923 and remits the recovered amount to KRA in compliance with the Income Tax Act within three months upon the adoption of this report; and**

- ii. **The Accounting Officer ensures compliance with all the tax laws in execution of the Fund's mandate.**

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

### **(9) Lack of Functional Board of Directors**

57. The term for the last Board of Directors expired on 28 April 2018. Consequently, the Fund operated throughout the year without a functional Board. This meant that the stewardship of the Fund lacked strategic guidance while some of the decisions made by management lacked approval. This could lead to a lack of checks and balances, which is critical for proper corporate governance.

### **Submission by the Accounting Officer**

58. The Accounting Officer submitted that:

- i. The Advisory Board approved policy documents to guide the operations of the Fund before the expiry of its term, including the budget, work plan and procurement plan for execution by management.
- ii. There were no new policies that were approved/affected during the year. Management worked closely in consultation with the Principal Secretary on matters requiring strategic guidance.
- iii. Subsequently, a new Board was inaugurated in September 2019.

### **Observations and findings of the Committee**

59. The committee observed that:

- i. The Fund operated throughout the year without a board of directors after the expiry of the term of the previous board.
- ii. The Fund lacked strategic guidance while some of the decisions made by management lacked approval.
- iii. The appointing authority was in breach of the law.
- iv. The matter remained unresolved.

### **Recommendations of the Committee**

60. The Committee recommends that:

- i. **The Accounting Officer should always ensure that s/he notifies the appointing authority to commence the appointment of a new board of directors and chair at least six (6) Months before the expiry of the term of the existing board.**
- ii. **The appointing authority should appoint a new board of directors immediately after the expiry of the term of the existing board for strategic and oversight reasons.**

### **3.1.2 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR WOMEN ENTERPRISE FUND FOR THE FINANCIAL YEAR 2019/2020**

#### **(1.) Receivables from Exchange Transactions**

61. As disclosed in Note 18 to the financial statements, the statement of financial position reflects a balance of Kshs 3,374,822,384 in respect of receivables from exchange transactions. Examination of records relating to the expenditure revealed the following anomalies.

##### **a. Doubtful Receivables – LPO Loans / Financing**

62. Included in the balance of Kshs 3,374,822,384 are loans relating to LPO financing of Kshs 15,157,590 that were due but not paid as at 30 June, 2020. Out of the latter balance, an amount of Kshs 8,072,303 has been outstanding for more than one (1) year, contrary to the loan policy of the Fund.

63. The recoverability of these loans is doubtful since they were in arrears beyond their respective repayment periods as stipulated in the loan agreements.

#### **Submission by the Accounting Officer**

64. The Accounting Officer submitted that:

- a) Since the rollout of the LPO Financing product in 2015, the Fund had disbursed a total of Kshs 90,176,050. Out of the said amounts, Kshs 76,621,550 was repaid promptly. The balance remained outstanding largely due to payment delays by the procuring entities (MDAs & County Governments). The defaulters were also listed with the Credit Reference Bureau (CRB).
- b) The Fund engaged auctioneers to repossess the pledged securities and instituted legal suits to recover the outstanding amounts. As a result of the above measures, the clients paid a total of Ksh 3,626,003 and Ksh 4,017,400 in the Financial Years 2020/21 and 2021/22, respectively.

#### **Observations and findings of the Committee**

65. The Committee observed that:

- i. The fund had disbursed Kshs 90,176,050 benefiting 134 women entrepreneurs since 2015, when the LPO financing was rolled out;
- ii. The LPO loan balance of Kshs 13,554,500 was in arrears in the financial year 2019/2020;
- iii. Management experienced challenges of late repayment which lagged down reconciliations; and
- iv. The matter for LPO loan arrears of Kshs 13,554,500 remained unresolved.

### **Recommendations of the Committee**

66. The Committee recommends that:

- i. **The Fund uses Guarantors instead of security as one of the Conditions to advance the Loans to Women Enterprises**
- ii. **Within three (3) months upon the adoption of this report, the Accounting Officer submits a status report for LPO loan recoveries and long outstanding loan balances to the Auditor general for audit verification.**

#### **b. Doubtful Receivables – Constituency Women Enterprise Scheme Loans**

67. Included in the balance of Kshs 3,374,822,384 is Kshs 785,844,387 due from Constituency Women Enterprise Scheme, which had been outstanding for more than one (1) year. Out of the latter balance of Kshs 785,844,387, no repayments were made in respect of receivables of Kshs 47,530,500 during the year under review. Although the Fund made a general provision for doubtful debts of 1% in line with its credit policy and guidelines, its adequacy cannot be confirmed.

### **Submissions by the Accounting Officer**

68. The Accounting Officer submitted that:

- i. The Constituency Women Enterprise Scheme (CWES) product targeted women in registered self-help groups, the majority of whom are vulnerable and unbanked. The bigger percentage were in the rural areas/informal settlements, and therefore the loans are unsecured;
- ii. The Fund disbursed a total of Kshs 17,974,374,530 as at 30th June, 2020 to 1,653,022 beneficiaries under this product since inception. From this cumulative disbursement, a total of Kshs 785,844,387 had been outstanding for more than one year, with Kshs 47,530,500 having zero repayments;
- iii. The Fund deployed recovery teams in low repayment areas and worked with Chiefs, Ward Administrators, and elected leaders in the respective constituencies to recover the arrears; and
- iv. A debt recovery unit was also created within the credit department. These efforts resulted in the reduction of the zero-repayment amount from Kshs 50,370,500 to Kshs 39,880,500 as at June, 2022.

69. The zero repayment accounts with Kshs 39,880,500 outstanding for more than one year were because of the following reasons:

- (a) Disintegration and internal wrangles in groups after officials and a few dishonest members shared the loan proceeds without the knowledge of the entire group.
- (b) Unforeseen calamities e.g., Droughts, floods, and fires hence prompting the Fund to reschedule the loans after the loss of business.
- (c) Urban to Rural migration as well as insecurity leading to the displacement of the borrower.

- (d) The misleading public perception that the loans given were grants from the Government hence the lack of commitment to servicing the facilities.
- (e) The Covid-19 global pandemic triggered a financial crisis for the borrowers.

70. The provision for bad and doubtful debts was based on section 4 (h) of the accounting policy of the Fund, which provides for a general provision of 1% of the loan balance at the end of a financial year. The policy was under review in the financial year 2022/2023 to reflect the current market trends.

#### **Observations and findings of the Committee**

71. The Committee observed that:

- i. The Fund had an outstanding balance of Kshs 15,157,590 for LPO loans and out of which Kshs 8,072,303 had been outstanding for more than a year as at 30th June 2020;
- ii. The Fund had Constituency Women Enterprise Scheme Loans (C-WES Loans) arrears of Kshs 785,844,387 which was outstanding for more than one year and with Kshs 47,530,500 having zero repayments; and
- iii. The matter remained unresolved.

#### **Recommendations of the Committee**

72. The Committee recommended that:

- i. The Accounting Officer of the Fund recovers outstanding LPO financing loans of Kshs 15,157,590 and Constituency Women Enterprise Scheme Loans of Kshs 785,844,387;**
- ii. Within three (3) months upon the adoption of this report, the Accounting Officer should submit the status report for non-performing loans and recoveries made to the Auditor-General for audit verification; and**
- iii. The Accounting Officer ensures that all contracts entered into by the Fund are lawful and are complied with.**

#### **c) Non-Performing Loans to Financial Intermediaries/ Partners**

73. The receivables from exchange transactions balance include amounts due from eight (8) financial intermediary partners with non-performing loans totaling to Kshs 71,330,000 (Financial year 2018/2019-Kshs 71,062,200). There are ongoing court cases between the Fund and the Intermediaries and with indications that the loans may not be recoverable in full. Further, there were no collaterals to support an advance of Kshs 60,000,000 to two (2) financial intermediaries which did not make any repayments during the year.

74. No specific provisions by way of bad debt adjustments were made in the financial statements to recognize the impairment.

### **Submission by the Accounting Officer**

75. The Accounting Officer submitted that:

- i. The Fund disbursed a total of Ksh1.84 billion through 110 financial intermediaries between the years 2007 and 2014. The funds benefited a total of 163,380 entrepreneurs. Out of the total disbursements, of Kshs 71,330,000 remained outstanding from the institutions;
- ii. The Fund took the following actions against the defaulting intermediaries:
  - a) Instituted legal proceedings against Pamoja Women Development Program (PAWDEP), Social Initiative and Development Entrepreneurs Program (SIDEPE), Adok Timo and African Women Foundation. Judgement was issued in favour of the Fund against Pamoja Women Development Program (PAWDEP) and Social Initiative and Development Entrepreneurs Program (SIDEPE) for outstanding loan balance plus cost and interest.
  - b) Enlisted auctioneers to auction off the properties of the defaulting intermediaries. The auctions are scheduled for 2022/2023 Financial Year.

### **Observations and findings of the Committee**

76. The Committee observed that:

- i. The Fund had non-performing loans of Kshs 71,330,000 due from eight (8) financial intermediary partners at the end of the financial year 2019/2020.
- ii. The Fund instituted legal proceedings against the financial intermediaries (PAWDEP and SIDEPE) and a judgment was issued in favour of the Fund to recover the outstanding loan balance plus cost and interest.
- iii. There were no collaterals to support an advance of Kshs 60,000,000 to two (2) financial intermediaries which did not make any repayments during the year.
- iv. The Fund is in the process of enlisting new auctioneers to auction the securities before the end of the financial year 2022/2023; and
- v. The matter remained unresolved.

### **Recommendations of the Committee**

77. The Committee recommends that:

- i. **The Accounting Officer enforces the Judgment issued in favour of the Fund within three months after the adoption of this report to recover the long-outstanding loans of Ksh 71,330,000 from the eight (8) financial intermediary partners.**
- ii. **Within three (3) months upon the adoption of this report, the Accounting Officer submits a status report for non-performing loans and recoveries made to the Auditor - General for audit verification.**
- iii. **The Accounting Officer should ensure that all contracts entered into by the Fund are lawful and are complied with.**

**d) Piki Piki Loan Financing**

78. Included in the receivables from exchange transactions balance of Kshs 3,374,822,384 is Piki loan amount of Kshs 1,297,916, for loans advanced to field officers. The amount includes outstanding loans totaling Kshs 150,000 from two (2) staff members for whom no recoveries have been effected over the last one (1) year.

**Submissions by the Accounting Officer**

79. The Accounting Officer submitted that:

- i. The Piki-Piki loans were advanced to field officers to assist in the recovery of loans and management undertook to recover the loans through the payroll check-off system. The loan balance in arrears was attributed to staff who exited the Fund.
- ii. Management recovered Kshs 28,792.94 of the amounts owing from the terminal dues of the relevant staff and withheld logbooks for the motorcycles as collateral for the loans.
- iii. The list of field officers with outstanding loan balances at the end of the financial year 2019/2020 has been provided

**Observations and findings of Committee**

80. The Committee observed that:

- i. The Fund has outstanding Piki Piki loans totaling Kshs 150,000 whose recoveries have not been effected for over one (1) year;
- ii. The loans were advanced to two (2) staff members who have since exited the Fund.
- iii. Receivables balance of Kshs 3,374,822,384 were from exchange transactions (Loan arrears).
- iv. The matter remained unresolved.

**Recommendations of the Committee**

81. The Committee recommends that:

- i. The Accounting Officer should recover the outstanding Piki Piki loans totaling Kshs 150,000 from staff who exited from the Fund.**
- ii. Within three (3) months upon the adoption of this report, the Accounting Officer should submit the status report for non-performing loans and recoveries made to the Auditor- General for audit verification.**
- iii. The Accounting Officer ensures that all contracts entered into by the Fund are lawful and are complied with.**

**e) Imprests and Advances**

82. Further, included in the receivables from exchange transactions account balance are Imprests and advances of Kshs 1,697,024. This amount includes salary advances of Kshs 184,584 owed by staff who have exited the service. The recoverability of the balance is, therefore, doubtful. In view of the foregoing, the accuracy and fairness of the statement of

receivables from exchange transactions balance of Kshs 3,374,822,384 as at June 2020 could not be confirmed.

#### **Submission by the Accounting Officer**

83. The Accounting officer submitted that:

- i. The audit observation was correct, and the amounts owed to the Fund by staff arose due to staff who were issued with salary advances but exited the service by way of interdiction, termination, or resignation.
- ii. The said amount of Ksh 184,584 was computed and recovered from the staff's terminal dues.

#### **Observations and findings of the Committee**

84. The Committee observed that:

- i. Outstanding salary advances of Kshs 184,584 were for staff who exited the service.
- ii. The salary advances owed were recovered from the terminal dues of staff who left the Fund.
- iii. The Accounting Officer adequately addressed the issue.
- iv. The matter was resolved.

#### **Recommendation of the Committee**

85. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **2. Accuracy of Financial Statements**

##### **a) Unreconciled Training Expense Ledger**

86. The statement of financial performance reflects the expenditure of Kshs 108,460,546 under general expenses. Included in the amount are training expenses totaling Kshs 32,308,404, which was at variance with the supporting schedule figure of Kshs 32,979,908. Consequently, there was an unexplained and unreconciled difference of Kshs 671,504.

#### **Submission by the Accounting Officer**

87. The Accounting Officer submitted that the error in the ledger was corrected and reconciled. The revised ledger agreed with the accounts.

#### **Observations and findings of the Committee**

88. The Committee observed that:

- i. The Accounting Officer satisfactorily addressed the issue; and

- ii. The matter was resolved.

#### **Recommendations of the Committee**

- 89. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **b. Unsupported CWES Loans Adjustment**

- 90. Note 18 to the financial statements discloses loans due from Constituency Women Enterprise Scheme amounting to Kshs 3,060,508,499. However, the ledger presented in support of the amount includes an adjustment of Kshs 11,388,465, which was not explained. Consequently, the accuracy of the financial statements could not be confirmed.

#### **Submission by the Accounting Officer**

- 91. The Accounting Officer submitted that:
  - i. During the audit, it became necessary to revise the CWES balances in line with the audited figure of Kshs 3,060,508,499 net of provision for bad debts.
  - ii. The schedule/ledger provided reflected the corrected balance.

#### **Observations and findings of the Committee**

- 92. The Committee observed that:
  - i. The Accounting Officer satisfactorily addressed the issue; and
  - ii. The matter was resolved.

#### **Recommendations of the Committee**

- 93. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **Other Matters**

##### **3. Unresolved Prior Year Matters**

- 94. Various prior-year audit issues remained unresolved as at 30<sup>th</sup> June 2020. Management has not provided reasons for the delay in resolving the prior year's audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow-up of the auditor's

recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

#### **Submission by the Accounting Officer**

95. The Accounting Officer submitted that;
- i. Management had resolved some of the prior year matters while others had not been resolved.
  - ii. Matters mainly pending were issues to do with the Loan Repayment and matters that are pending in court.

#### **Observations and findings of the Committee**

96. The Committee observed that:
- i. Prior-year audit issues remained unresolved as at 30 June 2020 against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012;
  - ii. The Fund did not disclose the progress on follow-up of the auditor's recommendations in the financial statements as required by the Public Sector Accounting Standards Board.

#### **Recommendations of the Committee**

97. The Committee recommends that:
- i. **The Accounting Officer takes appropriate measures to resolve the outstanding prior audit issues as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015 within three (3) months upon the adoption of this report and submit the status report to the Auditor-General for audit verification; and**
  - ii. **The Accounting Officer ensures compliance with Public Sector Accounting Standards when preparing financial statements as required by the Public Sector Accounting Standards Board.**

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

#### **Basis for Conclusion**

##### **4. Imprest Management and Control**

98. During the year under review, the Fund did not maintain a complete imprest management record to aid in the issuance and control of the imprests. This resulted in the issuance of multiple imprests totalling Kshs 1,142,285 to staff before clearing the previous ones and un-surrendered imprests amounting to Kshs 470,637 as at 30 June, 2020. Consequently, it was not possible to confirm whether the imprests issued were managed lawfully and in an effective manner.

### **Submission by the Accounting Officer**

99. The Accounting Officer submitted that:

- i. The Fund strictly adhered to the imprest regulations and did not allow officers to hold multiple imprests. Management had put in place sufficient controls to ensure compliance.
- ii. All overdue imprests were recovered through the payroll system as a matter of priority. Further, all unsurrendered imprests as at 30 June, 2020 amounting to Kshs 470,637 were fully accounted for and the relevant surrender documents were available for review.

### **Observations and findings of the of the committee**

100. The committee observed that;

- i. Staff were issued with multiple imprests before surrendering the existing one in contravention of the provisions of the PFM (National government) Regulations, 2015;
- ii. Unsurrendered imprest amounting to Kshs 470,637 as at 30 June, 2020 was fully recovered;
- iii. The Accounting Officer satisfactorily addressed the issue;
- iv. The matter was resolved.

### **Recommendations of the Committee**

101. **The Committee recommended that the Accounting Officer should ensure that section 71(2) of the PFM Act, 2012, and Regulation 93 (5) and (6) of the Public Finance Management (National Government) Regulations, 2015 are always complied with when issuing imprest to staff.**

#### **5. Staff Appointments Not Meeting the Requisite Criteria**

102. The Fund placed an advertisement on the Government website on 12<sup>th</sup> November, 2019, to fill eight (8) vacant positions of Assistant Credit Managers. The minimum requirements for an appointment to this position, amongst others, were membership to a relevant professional body and good standing status. However, a review of employment records and documentation revealed that three (3) of the eight (8) staff appointed did not meet the required criteria or qualifications for being members of a relevant professional body at the time of application.

103. No justification was rendered for this inconsistency. Under the circumstances, the legality of the appointment of three (3) officers not meeting the requisite criteria could not be confirmed.

### **Submissions by the Accounting Officer**

104. The Accounting Officer submitted that:

- i. The Fund shortlisted 19 candidates for the position of Assistant Credit Managers and out of which only six were members of a professional body;

- ii. The three officers under question were among nineteen shortlisted candidates who were not members of a professional body but stood out in terms of relevant experience and qualifications. The shortlist report was tabled before the board and approved;
- iii. Sixty-three (63) of the longlisted candidates had Professional membership, out of which only forty-one (41) of the candidates had the required Bachelor's and Master's degree qualifications. Therefore, sixteen (16) were shortlisted from the list of forty-one (41) candidates;
- iv. Further, out of the total nineteen (19) shortlisted candidates, only three (3) didn't possess the Professional membership but were considered due to gender, regional balance and since they possessed the all-other requisite qualifications;
- v. Five out of the eight officers who were finally recruited were members of a professional body; and
- vi. Other considerations that were made during the recruitment process included gender and regional balance and the candidates met all other qualifications. Therefore, the recruitment process was proper and went beyond the criteria set to accommodate all applicants equally and fairly.

#### **Observations and findings of the Committee**

105. The Committee observed that:

- i. The Fund employed three (3) staff who did not meet the required criteria or qualifications.
- ii. The Accounting officer breached the law to accommodate the three (3) employees.
- iii. The matter remained unresolved.

#### **Recommendations of the Committee**

106. **The Committee recommends that:**

- i. **The Accounting Officer should always ensure that the Public Service Commission Human Resource Policies and Procedures and the Fund's Human resource policies are complied with when recruiting new employees.**
- ii. **The Accounting Officer submits a report to the National Assembly on the efforts made by the affected staff to acquire membership of the professional body within three months upon the adoption of this report.**

### **3.1.3 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR WOMEN ENTERPRISE FUND FOR THE FINANCIAL YEAR 2020/2021**

#### **Basis for Qualified Opinion**

##### **(1) Doubtful Receivables from Exchange Transactions**

107. As disclosed in Note 18 to the financial statements, the receivables from exchange transactions balance of Kshs 3,633,751,652 includes loans relating to LPO financing of Ksh. 14,967,403 that were due but not paid as at 30 June, 2021. Included in the unpaid figure is an amount of Kshs 12,257,403 that has been outstanding for more than one (1) year contrary to the loans policy of the Fund. The recoverability of these loans is doubtful since they have been in arrears beyond their respective repayment periods as stipulated in the loan agreements.
108. Further, the receivables from exchange transactions balance of Kshs 3,633,751,652 includes an amount due from Constituency Women Enterprise Schemes of Kshs 3,264,504,009 which has been outstanding for more than one (1) year. Although the Fund made a general provision for doubtful debts of 1% in line with its credit policy and guidelines, its adequacy cannot be confirmed.
109. Further, the receivables from exchange transactions balance includes piki piki loan amount of Kshs 1,106,920 which represents loan advanced to field officers. The amount includes non-performing loans totalling Kshs 283,333 from members who have failed to repay the loans over several years.
110. In addition, the receivables from exchange transactions include imprests and advances of Kshs 3,693,920. The amount includes salary advances of Kshs 184,581 owed by former staff who have exited the service. The recoverability of the balance is therefore doubtful. In view of the foregoing, the accuracy and fair statement of receivables from exchange transactions balance of Kshs 3,633,751,652 as at 30 June, 2021 could not be confirmed

#### **Submissions by the Accounting Officer**

##### **b. Doubtful receivables from exchange transactions (LPO loan financing)**

111. The Accounting Officer submitted that:
- i. The outstanding loan balance for the LPO loan product as at 30th June, 2022 was Kshs 15,704,964 and out of which Kshs 6,619,500 was outstanding beyond one (1) year. This was attributed to the delay in payment by procuring entities and diversion of payments by some clients;
  - ii. The Fund listed the directors of respective companies with CRB and initiated loan recovery/legal proceedings with some of the defaulters; and
  - iii. As a result of the above measures taken, the clients responded and paid a total of Kshs 4,017,400 in the financial year 2021/2022.

### **Observations and findings of the Committee**

112. The Committee observed that;

- i. The LPO financing loans of Kshs 14,967,403 were due but not paid as at 30 June, 2021. The unpaid loans included an amount of Kshs 12,257,403 which was outstanding for more than one (1) year contrary to the loans policy of the Fund;
- ii. The outstanding amounts was partly due to non-payment of pending bills by both county and National Government; and
- iii. The matter remained unresolved.

### **Recommendations of the Committee**

113. The Committee recommended that:

- i. **The Accounting Officer should come up with strategies to recover the long-overdue loans within three months of the adoption of this report.**
  - ii. **Within three (3) months of the adoption of this report, the Accounting Officer should submit the status report for non-performing loans and recoveries made to the Auditor General for audit verification.**
- b. **Doubtful receivables from exchange transactions (Constituency Women Enterprise Scheme (CWES))**
114. The Accounting Officer submitted that:
- i. The Fund reduced the Zero repayment amount to Kshs 40,680,500 as of 31st January 2023. The Fund collaborated closely with key stakeholders, like the chiefs, ward administrators, and elected leaders in the respective constituencies to recover the outstanding loans.
  - ii. During the Financial Year 2020/2021, a total of Kshs 3,023,302,140 was received as loan payments against loan disbursement of Kshs 3,010,700,000. Management put mechanisms in place to ensure loans disbursed are repaid as scheduled through reminders via bulk SMSs, besides rigorous loan recovery activities in the field.
  - iii. The general loan provisions of 1% as provided in the financial reports is in line with the Fund's credit policy.

### **Observations and findings of the Committee**

115. The Committee observed that;

- i. Loans amounting to Kshs 3,264,504,009 from Constituency Women Enterprise Schemes were outstanding for more than one (1) year; and
- ii. The matter remained unresolved.

### **Recommendations of the Committee**

116. The Committee recommends that;

- i. **Management to come up with measures to recover the long outstanding loans from the financial intermediaries.**

- ii. **Within three (3) months of the adoption of this report, the Accounting Officer submits the status report for non-performing loans and recoveries made to the Auditor General for audit verification.**

**c. Doubtful receivables from exchange transactions (Piki Piki Loan Financing)**

**Submissions by the Accounting Officer**

117. The Accounting Officer submitted that;

- i. The outstanding balance in arrears of Ksh 283,333 was attributable to staff who exited the Fund.
- ii. The Fund recovered the amount owing through their terminal dues.

**Observations and findings of the committee**

118. The Committee observed that:

- i. The Fund has non-performing Piki Piki loans totaling Kshs 283,333 whose recoveries have not been effected for several years;
- ii. The loans had been advanced to staff members who exited the service;
- iii. The Accounting Officer should review Internal Control measures to ensure staffs pay their loans before exiting service; and
- iv. The matter remained unresolved.

**Recommendations of the Committee**

119. **The committee recommended that:**

- i. **The Accounting Officer recovers the outstanding loans totaling Kshs 283,333 within three months of the adoption of this report.**
- ii. **The Accounting Officer ensures that all contracts entered into by the Fund are lawful and are complied with in accordance with Section 68(2)(d) of the PFM Act 2012.**

**d. Doubtful receivables from exchange transactions (Imprests and advances)**

**Submission by the Accounting Officer**

120. The Accounting officer submitted that;

- i. The amounts owed arose due to staff who were issued with salary advances but exited the service by way of interdiction, termination, or resignation.
- ii. The said amount of Ksh 184,584 was computed and recovered from the staff's terminal dues.

**Observations and findings of the Committee**

121. The Committee observed that:

- i. The amount was recovered from the staff's terminal dues.
- ii. The matter was resolved.

### **Recommendations of the committee**

122. **The Accounting Officer should always ensure that, provisions of the PFM Act,2012, and the PFM (National Government) Regulations, 2015 are always complied with when applying to public resources.**

### **(2.) Non-Performing Loans to Financial Intermediaries**

123. The receivables from exchange transactions balance of Kshs 3,633,751,652 also includes amounts due from eight (8) financial intermediary partners with non-performing loans totalling to Kshs 71,330,000. As previously reported, there are ongoing court cases between the Fund and the Intermediaries which are indicative that the loans may not be recovered in full. Further, there are no collaterals to support an advance of Kshs 60,000,000 made to two (2) financial intermediaries who have failed to service the loans.

124. No specific provisions by way of bad debt adjustments have been made in the financial statements to recognize the impairment. Consequently, the accuracy of the receivables from exchange transactions could not be confirmed.

### **Submissions by the Accounting Officer**

125. The Accounting Officer submitted that:

- i. The Fund disbursed a total of Kshs 1.84 billion through 110 financial intermediaries between the years 2007 and 2014. The funds benefited a total of 163,380 entrepreneurs. Out of the total disbursements, an amount of Kshs 71,330,000 remained outstanding from the institutions.
- ii. The Fund took the following actions against the defaulting intermediaries:
  - a) Instituted legal proceedings against Pamoja Women Development Program (PAWDEP), Social Initiative and Development Entrepreneurs Program (SIDEPE), Adok Timo and African Women Foundation. Judgement was issued in favour of the Fund against Pamoja Women Development Program (PAWDEP) and Social Initiative and Development Entrepreneurs Program (SIDEPE) for outstanding loan balance plus cost and interest.
  - b) Enlisted auctioneers to auction off the properties of the defaulting intermediaries. The auctions are scheduled for the 2022/2023 Financial Year.

### **Observations and findings of the Committee**

126. The Committee observed that:

- i. The Fund had non-performing loans of Kshs 71,330,000 due from eight (8) financial intermediary partners at the end of the financial year 2020/2021;
- ii. The Fund instituted legal proceedings against the financial intermediaries (PAWDEP and SIDEPE) and a judgment was issued in favour of the Fund to recover the outstanding loan balance plus cost and interest;

- iii. There were no collaterals to support an advance of Kshs 60,000,000 to two (2) financial intermediaries which did not make any repayments during the year;
- iv. The Fund is in the process of enlisting new auctioneers to auction the securities before the end of the financial year 2022/2023; and
- v. The matter remained unresolved.

#### **Recommendations of the Committee**

127. The Committee recommends that:

- i. **The Accounting Officer enforces the judgement within three months of the adoption of this report to recover the long-outstanding loans of Ksh 71,330,000 from the eight (8) financial intermediary partners.**
- ii. **Within three (3) months of the adoption of this report, the Accounting Officer submits the status report for non-performing loans and recoveries made to the Auditor General for audit verification.**
- iii. **The Accounting Officer ensures that all contracts entered into by the Fund are lawful and are complied with in accordance with the Section 68(2)(d) of the PFM Act 2012.**

#### **(3.) Unsupported Travel, Conferences and Accommodation**

128. As disclosed in Note 14 to the financial statements, the statement of financial performance reflects a balance of Kshs 113,461,414 under general expenses which includes an expenditure of Kshs 21,789,005 in respect of travel, conferences, and accommodation. However, review of records revealed an expenditure totalling to Kshs 1,735,400 in respect to travel, conferences and accommodation which was not supported with user requisitions, approval, and taxi receipts. In the circumstances, the validity and completeness of the expenditure totalling to Kshs 21,789,005 on travel, conference and accommodation could not be confirmed.

#### **Submission by the Accounting Officer**

129. The Accounting Officer submitted that:

- i. Before a taxi service is used, a requisition is raised for every trip, and approval made on the request before M/s Trip start are engaged. After the trip a receipt is issued stating the areas covered and signed by the user.
- ii. The respective vouchers were availed for audit review.

#### **Observations and findings of the committee**

130. The committee observed that;

- i. Expenditures totalling to Kshs 1,735,400 for travel, conferences and accommodation were not supported with user requisitions, approval and taxi receipts at the time of audit

- ii. The Accounting officer satisfactorily addressed the issue;
- iii. The matter was resolved.

#### **Recommendations of the committee**

131. **The Committee recommends that the accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(4.) Irregular Payment of Extraneous Allowances**

132. The statement of financial performance reflects the expenditure of Kshs 287,163,324 under employee costs which includes an amount of Kshs 2,859,659 for extraneous allowances paid to volunteers engaged by the Fund during the year under review. However, the payments were not approved by the Salaries and Remuneration Commission. Management did not provide justification for paying the extraneous allowance in addition to monthly stipends to volunteers who are not staff of the Fund or on permanent and pensionable terms of employment. In the circumstances, the validity and completeness of the expenditure totalling to Kshs 2,859,659 on extraneous allowances could not be confirmed.

#### **Submissions by the Accounting Officer**

133. The Accounting Officer submitted that:

- i. The payments were regular and the allowance was duly budgeted for during the year under review;
- ii. The officers at the Constituencies were not volunteers. They were graded by SRC and designated as Credit Assistants qualified for extraneous allowances; and
- iii. The extraneous allowance was provided for within the Public Service and the requisitions for the payment were done and approved in the normal process.

#### **Observations and findings of the Committee**

134. The Committee observed that:

- i. An amount of Kshs 2,859,659 for extraneous allowances was paid to volunteers engaged by the Fund during the year under review;
- ii. The payments were approved by the Salaries and Remuneration Commission;
- iii. The Accounting Officer satisfactorily addressed the issue; and
- iv. The matter was resolved.

#### **Recommendations of the Committee**

135. **The Committee recommends that the Accounting Officer should ensure that, provisions of the PFM Act,2012, and the PFM (National Government) Regulations, 2015 are always complied with when dealing with staff allowance.**

### **Other Matters**

#### **(5) Unresolved Prior Year Audit Matters**

136. Various prior year audit issues, as disclosed under the progress on follow-up of Auditor General's recommendations section of the financial statements, remained unresolved as at 30 June, 2021. The Management did not provide explanations for the delay in resolving the prior year's audit issues.

#### **Submission by the Accounting Officer**

137. The Accounting Officer submitted that:

- i. The management resolved some of the prior-year matters while others had not been resolved.
- ii. The unresolved issues included Loan Repayment and matters pending in court.

#### **Observations and findings of the Committee**

138. The Committee observed that:

- i. Prior-year audit issues remained unresolved as at the end of the financial year 2020/ 2021 against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012;
- ii. The Fund did not disclose the progress on the follow-up of the Auditor General's recommendations in the financial statements as required by the Public Sector Accounting Standards Board; and
- iii. The matter remained unresolved.

#### **Recommendations of the Committee**

139. **The Committee recommends that:**

- i. **Within three months of the adoption of this report the Accounting Officer resolves the outstanding prior year audit issues as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015 and submits a report to Office of the Auditor General.**
- ii. **The Accounting Officer should ensure compliance with Public Sector Accounting Standards when preparing financial statements as required by the Public Sector Accounting Standards Board.**

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES BASIS FOR CONCLUSION**

#### **6. Irregular Procurement of Motor Vehicle Repairs**

140. The statement of financial performance reflects an expenditure of Kshs 14,924,291 under repairs and maintenance which, as disclosed in Note 13 to the financial statements, includes an amount of Kshs 4,487,174 in respect of motor vehicle repairs. The balance includes

maintenance expenses totalling to Kshs 453,256 whose supporting procurement records such as original tender bid documents, tender evaluation minutes, professional opinion, and award minutes were not provided for audit review.

141. This is contrary to Section 68(2)(d)(iii) of the Public Procurement and Asset Disposal Act, 2015, which requires an entity to keep a summary of the proceedings of the opening of tenders, evaluation, and comparison of the tenders, proposals, or quotations, including the evaluation criteria used. Consequently, the Management was in breach of the law.

#### **Submissions by the Accounting Officer**

142. The Accounting Officer submitted that;

- i. In each of the cases relating to the expenditure of Ksh 453,256, quotations were sourced from prequalified service providers from either the National Government or the County Government in the specific regions;
- ii. The quotations were analyzed to get the most competitive/responsive bidder. Therefore, there was value for money on these procurements as proper due diligence was carried out before the awards were done;
- iii. Further, during the audit review the Fund did not have an officer who would issue a professional opinion, but recommendations for the awards were done by competent valuation teams as per the law; and
- iv. The committee recommendations were also considered by the CEO and approved.

#### **Observations and findings of the Committee**

143. The Committee observed that:

- i. Maintenance expenses totaling to Kshs 453,256 were not supported by procurement records such as original tender bid documents, tender evaluation minutes, professional opinion, and award minutes;
- ii. The Fund did not have an officer who would issue a professional opinion as a requirement of the Public Procurement and Asset Disposal Act, 2015 and Regulations;
- iii. The Accounting officer was in breach of the law; and
- iv. The matter remained unresolved.

#### **Recommendations of the Committee**

144. The Committee recommends that:

- i. **The Accounting Officer submits the procurement records, such as, original tender bid documents, tender evaluation minutes, professional opinion, and award minutes to the Office of the Auditor General for audit verification within three months of the adoption of this report.**
- ii. **The Accounting Officer should always ensure that the Public Procurement Act, 2015 and Regulations are complied with when procuring goods and services.**

- iii. **The Cabinet Secretary reprimands the Accounting Officer for violating the Public Procurement Asset Disposal Act.**

=====**End**=====

#### **4.0 CONSIDERATION OF REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR COFFEE CHERRY ADVANCE REVOLVING FUND**

145. Mr. Timothy M. Mirugi, Managing Director, New Kenya Planters Co-operative Union, appeared before the Committee on Tuesday, 21<sup>st</sup> February 2023, to adduce evidence on the audited financial statements for the Coffee Cherry Advance Revolving Fund the Financial Year 2020 /2021. The minutes of the Committee sittings and submissions tabled by the Accounting Officer are annexed to this report. He was accompanied by:

1. Ms. Sheila Wahome - Administrative Officer – New Kenya Planters Cooperative Union
2. Ms. Angeline Ndambuki - Operations Manager
3. Mr. Zacheus Ndirangu -Finance Manager

#### **4.0 Brief Introduction of the Coffee Cherry Advance Revolving Fund**

146. Coffee Cherry Advance Revolving Fund (CCARF) is a National Government Fund established in February 2020 under the Public Finance Management Act (CCARF Regulation,2020) and placed under the New Kenya Planters' Cooperative Union Public Limited Company (New KPCU Plc). The CCARF is in the State Department of Cooperatives which falls under the Ministry of Agriculture, Livestock, Fisheries and Cooperatives.

147. The objective and purpose of the fund is to provide affordable, sustainable and accessible coffee advance to smallholder scale coffee growers. The Financial Year ending 30<sup>th</sup> June 2021 is the first year of operation for the CCARF. Fund disbursement started slowly and has not picked due to inadequate funds for operationalization, lack of extensive reach across coffee growing areas and unfunded sensitization awareness programs and activities.

#### **4.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR COFFEE CHERRY ADVANCE REVOLVING FUND FOR THE FINANCIAL YEAR 2019/2020 AND 2020/2021**

##### **The Basis for Unmodified (unqualified) Opinion**

148. There were no material issues that were noted during the audit of the financial statements of the Fund for the two financial years.

##### **Report on lawfulness and effectiveness in the use of public resources.**

149. There were no material issues relating to lawfulness and effectiveness in the use of public resources for the two financial years.

## **REPORT ON EFFECTIVE OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

150. There were no material issues relating to the effectiveness of internal controls, Risk management and Governance for the two financial years.

151. However, the Committee identified the following issues in the report and financial statements which required further clarification:

- i. The statement of cash flows for the year ended on 30<sup>th</sup> June 2021 indicated that the Fund received Kshs 2,764,094,521, but only Kshs 48,713, 943 was disbursed to farmers as of 1<sup>st</sup> July 2021. This was an indication of a slow uptake of funds and required clarification;
- ii. Management needed to Indicate when the New Kenya Planters Cooperative Union (NKPCU) transferred funds received from the National Treasury into the bank account of the Coffee Cherry Advance Revolving Fund at Cooperative Bank for the purpose of determining interest earned during the period.
- iii. Management needed to clarify whether they obtained approval of the Board regarding the opening of a bank account at a Co-operative Bank for the Coffee Cherry; and
- iv. Management needed to clarify whether the Cherry Advance Revolving Fund was managed separately from the new Kenya Planters Cooperative Union accounts, considering that the union (New KPCU) administered the Fund.

152. In this regard, the Accounting Officer was directed to provide additional information and documentary evidence to address the concerns of the Committee.

### **Submissions by the Accounting Officer:**

153. The Accounting Officer made the oral and written submissions on Tuesday, 21<sup>st</sup> February 2023 vide Ref NKPC/MD/Ext/Vol.4/585 date 22<sup>nd</sup> March 2023 as follows:

- a. The management prepared the annual report and financial statements in accordance with the provisions of the PFM Act,2012, Public audit Act,2015, the Public Finance Management (Coffee cherry Advance revolving Fund) Regulations. 2019 and other applicable laws and regulations.
- b. The report of the Auditor General did not have any audit reservations on the annual report and financial statements which were submitted for audit verification.

**154. Evidence on the transmission of funds from the New Kenya Planters Cooperative Union to the Coffee Cherry Revolving Fund Account.**

- i. The Coffee Cherry Advance revolving funds were transferred from the National Treasury through the normal exchequer requisition under vote 1173---State Department for Cooperative and transmitted directly to the current bank account number 011209180000 at Co-operative Bank Wakulima House on 31<sup>st</sup> January, 2020.
- ii. The funds were held in a call account in the Co-operative Bank. The essence of the call account was to allow availability and timely use of the money whenever the need arose.

**155. Interest earned from funds held at Co-operative Bank from 1st January to 30th June 2020**

- i. The Coffee Cherry Revolving funds were meant for immediate disbursement to the qualifying coffee farmers who delivered coffee cherry to the coffee marketers. The Funds were therefore placed in a non-interest-earning current account – 01120959180000.
- ii. The funds were not placed in any form of interest-earning arrangement because the requirement for monitoring and disbursement of the funds needed the approval of the Board of Directors and appointment of the Fund Manager.
- iii. The Fund Manager was appointed with effect from 13<sup>th</sup> August 2020. Afterwards, the disbursement to qualifying coffee farmers started in earnest and by 30<sup>th</sup> December 2020, it was apparent that the Fund uptake would be slow and therefore required intervention through sensitization programs for coffee farmers to adopt it.
- iv. Requests for placing undisbursed funds in interest-earning call accounts were made in December 2020 and the approval was received on 22<sup>nd</sup> December 2020 and on 15<sup>th</sup> February 2021. Consequently, no interest was earned from 31<sup>st</sup> January 2020 to 31<sup>st</sup> December 2020. Hence, no interest income was considered for the financial year 2019/2020 in the statement of comprehensive income (Profit and Loss statement) as of 30<sup>th</sup> June 2020.
- v. The money held in the Co-operative Bank account had earned Kshs 205,000,000 in interest, which was well documented. He explained that part of the interest was used to run the new KPCU.

**156. Low uptake of funds**

- i. There was a low uptake of funds during its inception due to lack of public awareness. The uptake had significantly improved in the past six months as evidenced by the disbursement of Kshs 611 million to coffee farmers;

- ii. Since the establishment of the Fund, Kshs 589.7 million has been disbursed to 66,652 coffee farmers across the country to date. New KPCU management and the board of directors have developed the following strategies to increase the uptake of the Fund;
- iii. Developing and implementing key strategic policies and procedures on the advance application, disbursement, and recovery is in the advanced stages;
- iv. Automation of the Fund processes is now in the final piloting stages and is expected to be rolled out soon;
- v. Partnership/collaborations with key stakeholders like National Coffee Co-operative Union (NACCU) and counties; and
- vi. Decentralize administration of Coffee Cherry Advance Revolving Fund. (CCARF)

**Observations and Findings of the Committee:**

157. The Committee observed that:

- i. The Auditor - General expressed an unmodified(unqualified) opinion on the annual reports and financial statements for the Coffee Cherry Advance Revolving Fund for the 2019/20 and 2020/21;
- ii. The management did not submit approval by the board of directors to open the bank account at the co-operative bank, that is, the approved and signed minutes of the board of directors for New KPCU Public Ltd co. This is because it is an oversight board of the Coffee Cherry advance revolving fund (ref: Section 7 of the PFM (coffee cherry advance Revolving Fund) Regulations,2019);
- iii. The Coffee Cherry Advance Revolving Fund does not have any bank account in its name at co-operative bank as indicated in the financial statements under cash and cash equivalents in contravention of sections 19(1), (2) and (3) of the PFM (Coffee Cherry Advance Revolving Fund) Regulations,2019;
- iv. The money for coffee Cherry Advance Revolving Fund is irregularly held by New KPCU.
- v. The amount of Kshs 2,764,094,521.00 disbursed by the National Treasury to the CCARF was not deposited into its bank account as stipulated in the PFM regulations; and
- vi. The Coffee Cherry Advance Revolving Fund is a separate legal entity from New KPCU, which can sue and be sued, can own property, Assets, etc. It is a body which must keep its books and records as provided in Section 28(1) and 29(1), (2) and (3) of the PFM (Coffee Cherry Advance Revolving Fund) Regulations,2019.

**Recommendations of the Committee**

158. The Committee recommends that:

- i. **The board of New Kenya Planters Co-operative Union opens a bank account for the Cherry Fund and transfers its funds in compliance with the PFM Act,2012, and Coffee Cherry Fund Regulations, 2019 within three months of the adoption of this report; and**
  
- ii. **The management of New Kenya Planters Co-operative Union should within three months of the adoption of this report, keep separate books and financial records of Coffee Cherry Advance Revolving Fund in accordance with sections 28(1) and 29(1), (2), and (3) of the PFM (Coffee Cherry Advance Revolving Fund) Regulations,2019.**

=====**End**=====

## **5.0 CONSIDERATION OF AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR STRATEGIC FOOD RESERVE TRUST FUND**

159. Mr. Kello Harsama, Principal Secretary State Department for Crop Development and Agricultural Research, appeared before the Committee on 28<sup>th</sup> April, 2023 to adduce evidence on the audited financial statements for the Strategic Food Reserve Trust Fund for the Financial Year 2020/2021. The minutes of the Committee sittings and submissions tabled by the Accounting Officer are annexed to this report. He was accompanied by:

- |    |                     |                                 |
|----|---------------------|---------------------------------|
| 1. | Mr. John Kariuki    | -Head of Operations of the Fund |
| 2. | Ms. Irene Ndonga    | -Head of Accounting             |
| 3. | Mr. Tobias Osano    | -Chief Finance Officer          |
| 4. | Mr. Richard Bii     | -Accountant                     |
| 5. | Mr. Wesley Kiplimo  | -Accountant                     |
| 6. | Mr. John Gichumo    | -Accountant                     |
| 7. | Ms. Charity Muriuki | -Personal Assistant             |

### **5.1 Brief background of the Strategic Food Reserve Trust Fund**

160. The Strategic Food Reserve Trust Fund (SFRTF) was established under the Public Finance Management (Strategic Food Reserve Trust Fund) Regulations, 2015 (L.N. No. 15 of 2015). Strategic Food Reserve includes maize, beans, rice, fish, powdered milk and canned beef.

161. The object and purpose for which the Fund was established was to provide a Strategic Food Reserve in physical stock and cash equivalent and specifically the Fund was used to Stabilize the food supply and prices in the country; Arrange for procurement, storage and sale of food commodities; Maintain adequate strategic food reserves in physical stock or cash equivalent at any one given time; and Mobilize resources to support strategic food reserve related activities.

162. The initial capital of the Fund was two billion and two hundred million shillings appropriated by Parliament in the financial Fund & year 2014/15 and additional capital of the fund made in the subsequent financial years' budgets.

163. The Fund shall consist of;

- a) monies appropriated by Parliament for purposes of the Fund;
- b) grants, donations, bequests or other gifts made to the Fund;
- c) income generated from the proceeds of the Fund; and (d) monies from any other source approved by the Cabinet Secretary.

164. The Strategic Food Reserve Oversight Board (SFROB) was established under the same PFM Act (2012) and the SFRTF regulations of 2015 and mandated to provide oversight and

policy direction to the fund. The Cabinet Secretary responsible for Finance, issued a legal notice to dissolve the board through the Public Finance Management (Strategic Food Reserve Trust Fund) (Revocation) Regulations, 2020, (Legal Notice No 61 of 14th April 2020 now pending approval by the National Assembly.

165. The National Cereals and Produce Board had earlier been established as a State Corporation under an Act of Parliament (Cap 338) of 1985 for related purposes and with a view to eliminate duplicity of effort, the SFRTF was expected to execute its mandate as outlined above while NCPB acts as its' agent for purposes of storage and distribution.

### **5.1.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR STRATEGIC FOOD RESERVE TRUST FUND FOR THE FINANCIAL YEAR 2020/2021**

#### **Basis for Adverse Opinion**

#### **(1.) Unexplained variances between the statements of financial position and changes in net assets.**

166. The statement of financial position as at 30 June, 2021 reflects balances of Kshs 20,308,437,162 and Kshs 6,841,477,890 accumulated surplus and total net assets and liabilities, which varies with the statement of changes in net assets related account items balances of Kshs 16,284,725,589 and Kshs 20,308,437,162, respectively. The resulting respective variances of Kshs 4,023,711,573.80 and Kshs 13,466,959,272.48 were not explained or analyzed.

#### **Submissions by the Accounting Officer**

167. The Accounting Officer submitted that the raised query has been corrected in the revised financial statements for the year 2020/21.

#### **Observations and Findings of the Committee**

168. The Committee observed that:

- i. Accumulated surplus variance of Kshs 4,023,711,573.80 and total net assets and liabilities variance of Kshs 13,466,959,272 between the Statement of Financial Position and the Statement of Changes in Net Assets were not explained or analyzed; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

169. The Committee recommends that:

- i. **Within three months of the adoption of the report, the Accounting Officer ensures that the variances of Kshs 4,023,711,573.80 and Kshs 13,466,959,272.48 are reconciled and analyzed with necessary supporting documents submitted to the Auditor-General for audit verification; and**
- ii. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation**

of the financial statements in compliance with Public Finance Management Act, 2012, and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.

**(2.) Inconsistencies between the statement of comparison of budget and actual amounts and the statement of financial performance**

170. The statement of comparison of budget and actual amounts reflects the final budget total revenue figure of Kshs 2,689,496,699. However, there was no budget allocation for the Fund during the year under review. Further, total actual expenditure for the year of Kshs 9,842,697,213 shown in the same statement differs with the total expenditure figure of Kshs 2,078,532,937 reflected in the statement of financial performance, resulting in unexplained variance of Kshs 7,764,164,275.

**Submissions by the Accounting Officer**

171. The Accounting Officer submitted that the matter had been corrected in the revised financial statements for the year 2020/21. He further noted that the total expenditure of Ksh 2,078,532,937.39 comprised of depreciation, interest expenses and board expenses.

**Observations and Findings of the Committee**

172. The Committee observed that:

- i. Total actual expenditure for the year of Kshs 9,842,697,213 in the statement of comparison of budget differed from the total expenditure figure of Kshs 2,078,532,937 reflected in the statement of financial performance resulting in unexplained variance of Kshs 7,764,164,275; and
- ii. The matter remains unresolved.

**Recommendations of the Committee**

173. The Committee recommends that:

- i. **The Accounting Officer reconciles the unexplained variance of Kshs 7,764,164,275 within three months upon the adoption of this report and submits the reconciliations to the Auditor-General for verification and reporting in the next audit cycle.**
- ii. **The Accounting Officer to ensure timely provision of accounting documentation required for audit verification as per the provision of Section 31 of the Public Audit Act, 2015; and**
- iii. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012, and in accordance with the standards prescribed by the Public Sector Accounting**

**Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

**(3.) Inaccurate disclosures in the notes to the financial statements**

174. Note 6 to the financial statements reflects nil revenue on transfers from other Government entities which differs with the statement of financial performance figure of Kshs 2,689,496,699. Further, the statement of financial performance reflects Kshs 2,074,562,537 under interest expenses.

175. However, there is no disclosure in the notes to the financial statements giving details of the figure and no verifiable documents were provided for audit to support these expenses.

**Submissions by the Accounting Officer:**

176. The Accounting Officer submitted that the matter had been corrected in the revised financial statements for the year 2020/21. He noted that Ksh 2,689,496,699.25 reflected in the statement of financial performance was erroneously posted in the SFRT and the funds were received in the state department recurrent bank account not SFRT bank account. He further explained that Kshs 2,074,562,537.39 reflected as interest expense was disclosed under note 36 –Trade and other payables.

**Observations and Findings of the Committee**

177. The Committee observed that:

- i. There was no disclosure in the notes to the financial statements giving details of the Kshs 2,074,562,537 under interest expenses and no verifiable documents were provided for audit to support these expenses.
- ii. The matter remains unresolved.

**Recommendations of the Committee:**

178. **The Committee recommends that:**

- i. Within three months of adoption of this report, the Accounting Officer to reconcile and analyse the Kshs 2,074,562,537 interest expenses and submit the necessary supporting documents to the Auditor-General for audit verification; and**
- ii. The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012, and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(4) Statement of cash flows**

179. The reflects comparative year's figures of Kshs 18,287,773,060, Kshs 28,281,773.060 and Kshs 4,725,613,502 under net cash flows from investing activities, net cash flows used in financing activities and net increase/decrease in cash and cash equivalents which differs with the previous year's audited financial statements figure of Kshs 14,500,000, nil, and Kshs 9,842,697,213, respectively.
180. Further the statement of cashflows does not reflect revenue from non-exchange transactions and interest expense of Kshs 2,689,496,699.25 and Kshs 2,074,562,537.39 respectively. In the circumstance the accuracy completeness presentation and disclosure of the statement of cashflows for the year ended 30<sup>th</sup> June 2021 could not be confirmed.

#### **Submissions by the Accounting Officer**

181. The Accounting Officer submitted that the matter had been corrected in the revised financial statements for the year 2020/21. He noted that the comparatives brought forward related to 2018/19 financial statements instead of 2019/20 financial statements.

#### **Observations and Findings of the Committee**

182. The Committee observed that:
- i. The statement of cash flows did not reflect revenue from non-exchange transactions and interest expense of Kshs2,689,496,699 and Kshs2,074,562,537, respectively at the time of audit; and
  - ii. The matter remained unresolved.

#### **Recommendations of the Committee**

183. **The Committee recommends that:**
- i. **Within three months of adoption of the report, the Accounting Officer ensures Kshs 2,689,496,699 and Ksh2,074,562,537 from non-exchange transactions and interest expense are reconciled and analyzed with the necessary supporting documents submitted to the Auditor-General for verification and reporting in the next audit cycle.**
  - ii. **The accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012, and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(5) Unsupported Receivables from Exchange Transactions**

184. The statement of financial position as at 30 June, 2021 reflects the current portion of receivables from exchange transactions of Kshs7,322,218,136 and as disclosed under Note

29(a) to the financial statements. Included in this amount is Kshs434,996,371 relating to proceeds from sale of imported maize by National Cereals and Produce Board (NCPB). The sales proceeds were not supported by the records on sales of maize and the validity of the amount of Kshs434,996,371 owing from proceeds from sale of maize could not be confirmed.

185. In addition, as reported in the previous year, the current portion of receivables from exchange transactions of Kshs7,322,218,136 includes other exchange debtors amounting to Kshs6,865,220,613 relating to receivables from the State Department for Special Programmes which has been long outstanding and whose recoverability is doubtful.

#### **Submissions by the Accounting Officer**

186. The Accounting Officer submitted that the sales records were available at the selling point which is the NCPB - the analysis of the imported sale proceeds is tabulated. He noted that the receivable from Special program to SFRTF for Kshs 6,865,220,613.00 arose from distribution of relief food to different affected counties. He explained that the same was fully supported and acknowledged by the state department for Devolution and ASAL (then).

187. He further noted that the internal audit report dated 30th March 2020 confirmed that the released of maize was duly authorized by SFRTF board and the distribution was above board. He explained that the state Department of Special programs was not trading but just co-ordinating the relief activities and it didn't receive exchequer funding for the same.

#### **Observations and Findings of the Committee**

188. The Committee observed that:

- i. The validity of the amount of Kshs434,996,371 owing from proceeds from sale of maize which could not be confirmed at the time of audit has since been availed at the selling point which is the NCPB;
- ii. The exchange debtors amounting to Kshs 6,865,220,613 relating to receivables from the State Department for Special Programmes which had been long outstanding and whose recoverability was doubtful has since been fully supported and acknowledged by the state department for Devolution and ASAL;
- iii. The matter was also before 2019/2020 Public Account Committee (Paragraph 1368) deliberations and marked as resolved;
- iv. The explanation given by the Accounting Officer and documents provided regarding unsupported receivables from exchange transactions was satisfactory; and
- v. The matter was resolved.

#### **Recommendations of the Committee**

189. **The Committee recommends that:**

- i. **The Accounting Officer should ensure timely provision of accounting documentation required for audit verification as per the provision of Section 31 of the Public Audit Act, 2015; and**

- ii. **The accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012, and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

(i) **Long Outstanding Receivables from Non-exchange Transactions**

190. The statement of financial position reflects receivables from non-exchange transactions of Kshs700,000,000 and as disclosed under Note 30 to the financial statements. This receivable arose because of a memorandum of understanding signed in the year 2016 between the Fund and the New Kenya Cooperative Creameries (KCC).
191. From the minutes of meetings of the oversight Board, the Fund resolved to transfer Kshs700,000,000 to New KCC for purchase of surplus milk from farmers for the establishment of a strategic reserve of milk powder. However, although New KCC acknowledged receipt of the funds and recognized the liability as disclosed in their financial statements, it was not holding any stocks of milk powder on behalf of the Fund as at 30 June, 2021.

**Submissions by the Accounting Officer:**

192. The Accounting Officer submitted that the powdered milk stock held at Kenya Creameries Cooperative (KCC) amounting to Kshs 700,000,000.00 that has been outstanding in the records had been converted into a debt as reflected in the Financial Statement for the year ended 30th June 2021. He further noted a letter had been written to new KCC to refund Kshs700 million owed to SFRTF and the amount has since been reflected as debts from New KCC.
193. Inventories of powdered milk amounting to Kshs 700,000,000 held by New KCC was discussed in financial year 2018/19 and following recommendation made: -  
***Within three (3) months after tabling and adoption of this report, the EACC to initiate an investigation into the purported inventories paid for and held by New KCC.***

**Observations and Findings of the Committee:**

194. The Committee observed that:
- i. Although New KCC acknowledged receipt of Kshs 700,000,000 and recognized the liability as disclosed in their financial statements, it was not holding any stocks of milk powder on behalf of the Fund as at 30 June, 2021 hence its recoverability could not be confirmed

- ii. Kshs700,000,000 has since been reflected as a debt owing from New KCC. However, the stocks of powdered milk have not been accounted for; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

195. **The Committee recommends that, within three (3) months of that after the adoption of this report, the Ethics and anti- Corruption Commission (EACC) should investigate the purported inventories paid for and held by New Kenya Cooperative Creameries (New KCC) and to submit a report of the investigations to the National Assembly.**

#### **(ii) Unsupported Inventories**

196. As reported in the previous year, the statement of financial position reflects the inventory balance of Kshs 34,802,500 and as disclosed under Note 31 to the financial statements which comprises of consumable stores—maize. However, the inventories balance of Kshs 34,802,500 which was carried forward from the previous year, was not supported by any verifiable record.

#### **Submissions by the Accounting Officer:**

197. The Accounting Officer submitted that the documents supporting the carried forward stock were available at NCPB. He noted that the said maize was later sold by NCPB.

#### **Observations and Findings of the Committee**

198. The Committee observed that:

- i. The inventories balance of Kshs 34,802,500 which was carried forward from the previous year, was not supported by any verifiable record at the time of audit;
- ii. The Submission by the Accounting Officer relating to unsupported inventories was not supported by any record; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

199. The Committee recommends that:

- i. **Within three months upon adoption of this report, the Accounting Officer should provide supporting documents for the inventories balance of Kshs 34,802,500 to the Auditor-General for audit verification and reporting in the next audit cycle;**
- ii. **The accounting officer ensures timely provision of accounting documentation required for audit verification as per the provision of Section 31 of the Public Audit Act, 2015;**
- iii. **The accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012, and in accordance with the standards prescribed by the**

**Public Sector Accounting Standards Board as per Regulation 101(4) of the  
Public Finance Management (National Government) Regulations, 2015.**

**(iii) Unsupported Trade and Other Payables**

200. The statement of financial position reflects a trade and other payables balance of Kshs1,226,417,747 and as disclosed under Note 36 to the financial statements. The balance includes an amount of Kshs12,380,355,021 brought forward from the previous financial year which was not supported by any verifiable records. Following verification exercises carried out in the month of August and September, 2020 by a team drawn from the Ministry of Agriculture, Livestock, Fisheries and Cooperatives, The National Treasury and Planning and the Executive Office of the President, the verified pending bills amounted to Kshs14,454,917,559 including interest on delayed payments.
201. This resulted in variance of Kshs2,074,562,538 between Kshs14,454,917,559 and Kshs12,380,355,021. This has been disclosed as an interest expense but not supported by any verifiable records.

**Submissions by the Accounting Officer**

202. The Accounting Officer submitted that the balance of Kshs12,380,355,021.15 brought forward from the previous financial year were agency costs (fumigations costs, storage charges, sales commission among other charges) that had accumulated over a period. Which was reconciled between NCPB and SFRT records. He noted that the verified pending bills amounted to Kshs 14,454,917,558 included interests on the delayed payments and the pending bills were paid by the state department of crop development as per the detailed analysis provided.
203. Further, He explained that the payment vouchers were available at the SD CD&AR and had been verified by the auditor. He noted that the variance of Kshs 2,074,562,537.69 between Kshs 14,454,917,558.84 and Kshs 12,380,355,021.15 which had been disclosed as interest expense was being reconciled between the NCPB and SFRT records.

**Observations and Findings of the Committee**

204. The Committee observed that:
- i. The balance of Kshs12,380,355,021 brought forward from the previous financial year has since not been supported by any verifiable records;
  - ii. The variance of Kshs2,074,562,538 between Kshs14,454,917,559 and Kshs12,380,355,021 disclosed as interest expense was not supported by any verifiable records; and
  - iii. The matter remains unresolved.

### **Recommendations of the Committee**

205. The Committee recommends that:

- i. **The Accounting Officer should within three months upon the adoption of this report provide the supporting documentation relating to the variance of Kshs2,074,562,538 on interest expense to the Auditor General for audit verification;**
- ii. **The accounting officer to ensure timely provision of accounting documentation required for audit verification as per the provision of Section 31 of the Public Audit Act, 2015;**
- iii. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012, and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

=====End=====

## **6.0 CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENT OF THE EQUALIZATION FUND**

206. Mr. Guyo Boru, Chief Executive Officer and Secretary the Equalization Fund Advisory Board, appeared before the Committee on 18<sup>th</sup> March 2023 to adduce evidence on the audited financial statements for the Equalization Fund for the Financial Year 2020 /2021. The minutes of the Committee sitting, and submissions tabled by the Accounting Officer are annexed to this report. He was accompanied by:

1. Ms. Grace Atala - Deputy Director Audit
2. Mr. Benjamin Matheka -Accountant

### **6.1 Brief background of the Equalization**

#### **207. Establishment of the Fund**

- a. The Equalization Fund is established under Article 204(1) of the Constitution of Kenya, 2010 which requires that one half per cent (0.5%) of all the revenue collected by the National Government each year calculated based on the most recent audited accounts of revenue received, as approved by the National Assembly be paid into the Equalization Fund.
- b. Article 204(2) further provides that the National Government shall use the fund only to provide basic services, including water, roads, health facilities and electricity to marginalized areas, to bring the quality of the services in those areas to the level generally enjoyed by the rest of the nation.
- c. As a precondition to the allocation and utilization of the equalization fund, Article 216(4) of the constitution requires that the Commission on Revenue Allocation (CRA) determines, publishes, and regularly reviews a policy in which it sets out the criteria by which to identify marginalized areas.
- d. Article 204 of the Constitution which establishes the fund provides that it lapses twenty years after the effective date unless parliament enacts legislation extending the fund for a further fixed period of six years.

#### **The Equalization Fund Advisory Board**

208. Up to November 2019 the Equalization Fund was administered directly through Guidelines published through Gazette Notice No 1711 dated 13<sup>th</sup> March, 2015. However, on 5<sup>th</sup> November, 2019 the High Court made a ruling on Petition no. 272 of 2016 which declared the Equalization Fund Guidelines unconstitutional, null and void. This in effect disbanded the Equalization Fund Advisory Board and barred any further expenditure from the Equalization Fund.

209. The Court directed the National Treasury to develop a statutory instrument on the administration of the Equalization Fund within six months. It is on this basis, that a multi-agency committee comprising of representatives from National Treasury, National

Assembly, Senate, Council of Governors, Commission of Revenue Allocation and Controller of Budget was put in place to develop a new Equalization Fund statutory instrument.

210. The team developed the Public Finance Management (Equalization Fund Administration) Regulations, 2021 which was then published through Kenya Gazette supplement No. 69, Legal Notice No 54 of 29<sup>th</sup> April, 2021 and approved by Parliament paving way for the operationalization of the Fund.

211. The PFM (Equalization Fund Administration) Regulations, 2021 provides for:

- i. Establishment and functions of the Equalization Fund Advisory Board;
- ii. Guidance on the administration and management of the Fund;
- iii. Establishment and functions of the Secretariat;
- iv. Establishment and functions of county technical committee and all other committees responsible for identification, implementation, monitoring and evaluation of all projects to be financed from the Fund;
- v. Functions of various stakeholders in relations to the Fund;
- vi. Criteria for identification of projects;
- vii. Workplans preparation and reporting requirements; and
- viii. Withdrawals from the Fund; and winding up of the Fund.

#### **Highlight of PFM (Equalization Fund Administration) Regulations, 2021**

212. The highlights of the Regulation 2021 are as follows:

- i. Establish an unincorporated board to advise the cabinet secretary on the proper and effective performance of the Fund;
- ii. Provide guidance on the administration and management of the Fund;
- iii. Provide for the withdrawals from the Fund;
- iv. Provide for completion of ongoing projects under the First Policy;
- v. Provide for implementation of new projects under all subsequent policies; and
- vi. Provide for the procedures in relation to winding up of the Fund.

#### **Utilization of Equalization Funds**

213. Regulation 24(1) of the PFM (Equalization Fund Administration) Regulations, 2021 provides that the Equalization Fund shall be utilized *indirectly* as conditional grants to the affected counties in accordance with the Division of Revenue Act and the Equalization Fund Appropriation Act for the respective financial year.

**6.1.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS OF THE  
EQUALIZATION FUND FOR THE FINANCIAL YEAR 2020/21  
REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC  
RESOURCES**

**Basis for Unmodified Opinion**

**(1.) Non-Compliance with the Constitution and the Law**

214. Article 204(1) of the Constitution of Kenya, 2010 requires that one half per cent (0.5%) of all the revenue collected by the National Government each year calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly be paid into the Equalization Fund.

215. The purpose of the Equalization Fund is to provide basic services including water, roads, health facilities and electricity to marginalized areas, to bring the quality of the services in those areas to the level generally enjoyed by the rest of the nation.

216. As reported in the previous year, a review of the financial statements for the Equalization Fund for the year ended 30 June, 2021 revealed that only an amount of Kshs 12,400,000,000 out of the expected Kshs 30,786,056,051 of the total entitlement from the financial years 2011/2012 to 2019/2020 had been transferred to the Equalization Fund Account as tabulated below:

<b>Financial Year</b>	<b>Approved Audited Revenues (Kshs)</b>	<b>Equalization Fund Entitlement (Kshs)</b>	<b>Amount Transferred to the Fund (Kshs)</b>
2011/2012	465,811,210,150	2,329,056,051	-
2012/2013	526,653,500,000	2,633,267,500	-
2013/2014	526,653,500,000	2,633,267,500	-
2014/2015	773,015,500,000	3,865,077,500	6,400,000,000
2015/2016	773,015,500,000	3,865,077,500	-
2016/2017	773,015,500,000	3,865,077,500	6,000,000,000
2017/2018	773,015,500,000	3,865,077,500	-
2018/2019	773,015,500,000	3,865,077,500	-
2019/2020	773,015,500,000	3,865,077,500	-
<b>Total</b>	<b>6,157,211,210,150</b>	<b>30,786,056,051</b>	<b>12,400,000,000</b>

217. The National Treasury had not remitted the remaining balance of Kshs 18,386,056,051 to the Fund as at 30 June, 2021. Management has stated that funds were not disbursed during the period under review due to a court ruling that declared the Guidelines on the

Administration of the Equalization Fund published on 13 March, 2015 null and void. Lack of disbursements casts doubt on realization of the Fund's intended objective of providing basic services to the marginalized areas. The National Treasury is, therefore, in breach of the Constitution.

**Submissions by the Accounting Officer**

218. The Accounting Officer submitted that:

- i. The National Treasury breached the Constitution by not remitting the remaining balance of Kshs 18,386,056,051 to the Fund.
- ii. In the first three years after the establishment of the Fund, i.e., the financial years 2011/2012, 2012/2013 and 2013/2014, the Fund had no allocation, and this was because the First policy to identify the marginalized areas had not been developed by the Commission on Revenue Allocation.
- iii. The total entitlement to the Fund since inception was Kshs 54,035,184,050.
- iv. The total allocation to the Fund Since inception (approved by Parliament) was Kshs 26,293,791,644 and an amount of Kshs 12,400,000,000 was appropriated through the Equalization Fund Appropriation Act 2017 and subsequent re-appropriation in the Equalization Fund Appropriation Act 2018.
- v. Parliament approved outstanding amount of Kshs 13,893,791,644 which comprised of Kshs 6,825,317,433 and Kshs 7,068,474,211 for FY 2021/2022 and FY 2022/2023 respectively which was appropriated through the Equalization Fund Appropriation Bill, 2023, that was published on 31<sup>st</sup> January 2023 and is awaiting further consideration and approval by Parliament.
- vi. Considering the total allocation to the Fund (approved by Parliament) since inception (Kshs 26,293,791,644) against the total entitlement of Kshs 54,035,184,050 there is an arrears of Kshs 27,741,392,406 entitlement that needs to be appropriated by Parliament.
- vii. There is need for National Treasury to provide a funding plan to progressively clear the arrears entitled to the Equalization Fund.

219. The entitlements and allocations for the Equalization Fund since inception were as detailed in the table below:

S/N.	Financial Year	Most recent audited revenues approved by the National Assembly	Equalization Fund Allocation	Equalization Fund Entitlement (0.5% of most recent audited	Amount Reflected in the DORA

		Base Year for most recent audited revenues approved by National Assembly	Audited and approved revenues by National Assembly  (Kshs)		and approved revenues)  (Kshs)	
	(a)	(b)	(c)	(d)	(e)	(Kshs)
1)	2011/12	2008/2009	468,151,970,000	0	2,340,759,850	0
2)	2012/13	2009/2010	529,300,000,000	0	2,646,500,000	0
3)	2013/14	2009/2010	529,300,000,000	0	2,646,500,000	0
4)	2014/15	2009/2010	529,300,000,000	400,000,000	2,646,500,000	3,400,000,000
5)	2015/16	2012/2013	776,900,000,000	6,000,000,000	3,884,500,000	6,000,000,000
6)	2016/17	2013/2014	935,653,000,000	6,000,000,000	4,678,265,000	6,000,000,000
7)	2017/18	2013/2014	935,653,000,000	0	4,678,265,000	7,727,000,000
8)	2018/19	2013/2014	935,653,000,000	0	4,678,265,000	4,700,000,000
9)	2019/20	2014/2015	1,038,035,000,000	0	5,190,175,000	5,760,000,000
10)	2020/21	2016/2017	1,357,698,000,000	0	6,788,490,000	6,788,490,000
11)	2021/22	2016/2017	1,357,698,000,000	6,825,317,433	6,788,490,000	6,825,317,433
12)	2022/23	2017/2018	1,413,694,840,000	7,068,474,211	7,068,474,200	7,068,474,211
<b>GRAND TOTAL</b>			<b>10,807,036,810,000</b>	<b>26,293,791,644</b>	<b>54,035,184,050</b>	<b>54,269,281,644</b>

**Source:**

Division of Revenue Act, 2022: Division of Revenue Act, 2021: Division of Revenue Act, 2020: Division of Revenue Act, 2019: Division of Revenue Act, 2018: Division of Revenue Act, 2017: Division of Revenue Act, 2016: Division of Revenue Act, 2015: Division of Revenue Act, 2014

220. In the FY 2022/23 Supplementary Budget, the National Treasury considered and included Kshs 6,825,317,433 being Equalization Fund budget allocation for FY 2021/22. However, the amount was reduced to Kshs 3,261,843,222 by Parliament.

221. To facilitate application, utilization and implementation of Equalization Fund Bill 2023 once approved by Parliament, there is need to request for consideration of the Kshs 3,563,474,211 deficits in the FY 2024 Budget Policy Statement and subsequently in the FY 2023/24 budget estimates as allocation to the Equalization Fund since the full amount (Kshs 6,825,317,433 FY 2021/22) had been factored in the Equalization Fund Appropriation Bill 2023.

222. The FY 2023 Budget Policy Statement, the National Treasury considered and included Kshs 7.867 billion being Equalization Fund budget allocation for FY 2023/24.

223. Management of the Fund undertook the following measures to ensure that the amount is recovered.

- a) Ensured that the Kshs 13,900,000,000 for the 352 projects in the 2018 policy was covered in the Budget Supplementary Estimates for the Financial Year 2023/2024 to facilitate the implementation of pending project
- b) Lobbied the National Treasury to double allocation for the next seven (7) years to cover the funds not remitted.

### **Submissions by the Principal Secretary National Treasury**

224. The Principal Secretary National Treasury made written submissions dated 2<sup>nd</sup> May, 2023, as follows:

#### **(1.) Entitlement to the Fund**

225. Article 204 (1) of the Constitution of Kenya 2010, stipulates that Equalization Fund annual inflow shall be one half per cent (0.5%) of all the revenue collected by the national government each year calculated based on the most recent audited accounts of revenue received, as approved by the National Assembly. This is the basis upon which the National Treasury arrived at the Fund's entitlements since financial year 2011/2012.

226. The Constitution also requires in Article 204(3)(a), that usage of the Equalization Fund by the National Government shall be only to the extent that expenditure of those funds has been approved in an Appropriation Bill enacted by Parliament. Accordingly, the funds disbursed were underpinned by the Equalization Fund Appropriation Acts for the financial years 2016/2017 and 2017/2018 approved by the National Assembly. The Fund's entitlement as per the most recently audited accounts of revenue as at 30<sup>th</sup> June, 2021 was **Kshs 30,786,056,051** out of which **Kshs 12,400,000,000** had been disbursed to the Fund leaving arrears amounting to **Kshs 18,386,056,051**.

#### **2. Challenges Encountered**

227. The Fund was operationalized in FY 2015/2016 and implementation has faced various challenges which have contributed to the delay in disbursements. Some of the challenges were highlighted as follows:

- i. The first policy on identifying marginalized areas was intended to cover the FYs 2011/2012, 2012/2013 and 2013/2014. However, there was a delay in approval of the policy (approved in December, 2015). The approved policy covered FYs 2014/2016 and 2016/2017;
- ii. There was an initial delay in granting approval of the guidelines for administration of the Equalization Fund. The guidelines were approved by the National Assembly in 2016;

- iii. Delayed disbursement of funds from Equalization Fund due to lapse of the Equalization Appropriation Act 2017. Although Article 204 (5) of the Constitution indicates that any unexpended money in the Equalization Fund at the end of a particular financial Year shall remain in that Fund, there was need to harmonize the two to enable release of the retained funds. A legal opinion was sort from the Attorney General that granted continuous use of the Appropriation Act 2018;
- iv. On 5<sup>th</sup> November 2019 the High Court made a ruling on Petition No.292 of 2016. The ruling declared the Equalization Fund guidelines as unconstitutional, null and void. This in effect disbanded the Equalization Fund Advisory Board and stopped any further expenditure from the Equalization Fund and funding of the same;
- v. The National Treasury was directed to develop new statutory instrument on the administration of the Equalization Fund and the lengthy process of developing new statutory instrument caused more delays in operationalization of Equalization Fund;
- vi. Tight fiscal space to allocate and appropriate the full Equalization fund entitlement;
- vii. Development of a legal instrument to allow funding under the new Equalization Fund Regulations has taken time to actualize. The Equalization Appropriation Bill 2023 is currently at the National Assembly awaiting review. Funds will henceforth be disbursed through counties as either conditional or unconditional grants; and
- viii. The National Treasury is committed to ensure that the Fund is allocated necessary resources. In the current budget for Financial Year 2022/2023, Kshs10.3billion has been appropriated for the Equalization Fund.

#### **Observations and findings of the Committee**

##### **228. The Committee observed the following.**

- i. The National Treasury has not remitted the remaining amount of Kshs18,386,056,051.
- ii. The Court Order delayed the remittance of funds by the National Treasury.
- iii. The National Treasury committed to allocating Kshs 10.3 billion to the Fund in the current budget for Financial Year 2022/2023.
- iv. The matter remained unresolved.

#### **Recommendations of the Committee**

**229. The Committee recommends that the National Treasury disburses Kshs18,386,056,051 owed to the Equalization Fund in the 2023/2024 Financial Year.**

=====End=====

## **7.0 CONSIDERATION OF THE REPORT OF THE AUDITOR- GENERAL ON THE FINANCIAL STATEMENT OF THE MECHANICAL AND TRANSPORT FUND- NATIONAL YOUTH SERVICE**

230. Mr. Amos N. Gathecha, EBS, 'ndc', (K) the Principal Secretary, State Department for Public Service, appeared before the Committee on Thursday, 13th April 2023, to adduce evidence on the audited financial statements for the National Youth Service – Mechanical and Transport Fund for the Financial Year 2020 /2021. The minutes of the Committee sitting, and submissions tabled by the Accounting Officer are annexed to this report He was accompanied by;

1. Ms. Annie Haji - Head of Operations, NYS
2. Mr. Samuel Okeyo – Accountant
3. Ms. Jenifer Mureithi – Accountant
4. Mr. Gad Etyang - Accountant

### **7.1 Brief Background of the Mechanical and Transport Fund-National Youth Service**

231. National Youth Service Mechanical and Transport Fund is established under the legal notice No. 15 of 30th January 2011. The Fund's principal activity is to provide mechanical and transport services. These include provision of equipment for development and maintenance of infrastructure and wide range of mechanical and technical services to both the public and private sector.

232. The object and purpose of the Fund is to ensure sustainability of commercial and enterprise activities of the Service through; - commercializing some of the operations of the Service; initiating, supporting and facilitating enterprise activities of the Service; providing resources for the purchase, maintenance, renewal, and replacement of plant, machinery and equipment of the Service; and supporting any other activities incidental to the sustainability of the Fund.

233. The sources of the Fund consist of ;-monies appropriated by the National Assembly for the purposes of the Fund; income generated from commercial and enterprise activities of the Service; monies received as user charges or fees; grants, donations and other gifts to the Fund; any earnings, accruals or income generated from monies held by the Fund; income from disposal of assets of the Fund subject to existing laws and regulations; income from investment proceeds of the Fund; and money from any other source approved by the Cabinet Secretary. The Administrator of the Fund is the Director-General of the Service

## **7.1.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MECHANICAL AND TRANSPORT FUND-NATIONAL YOUTH SERVICE FOR THE FINANCIAL YEAR 2020/2021**

### **The Basis for Qualified Audit Opinion**

#### **(1). Inaccuracy of Non-Current Assets**

234. The Statement of financial position, as disclosed in Note 19, reflects a total non-current assets balance of Ksh 4,059,317,242. However, since inception, the Management has not valued the assets for financial reporting purposes, and the Council has not approved the depreciation policy. In the circumstances, the accuracy and completeness of the non-current asset balance of Ksh 4,059,317,242 could not be confirmed.

#### **Submissions by the Accounting Officer**

235. The Accounting Officer submitted the following:

- i. The valuation of non-current assets commenced in 2019 and was split into two phases. Phase one was completed by State Department for Public Works officers mandated to undertake the exercises. Phase two is almost complete. The figure posted, therefore, is the book value of the non-current assets and will be updated upon receipt of the figure from the valuation report.
- ii. The National Youth Service Council approved the Finance and Accounts Policies and procedures manual during its 12th meeting held on 21st January 2021 under Minute Number NYSC 08/21/01/2021. The policy outlines, among other finance and accounts policies and procedures, the depreciation of the non-current assets of the service.
- iii. A copy of phase I valuation report, extracts of the council minutes and the depreciation of non-current assets of the Service, and a copy of the Finance and Accounts Policies and Procedures Manual were availed to the Auditor General for verification.

#### **Observations and findings of the Committee**

236. The Committee observed that:

- i. The Fund had not valued its assets since its inception and did not have an approved depreciation policy.
- ii. The Fund has since developed and approved Finance and Accounts Policies and Procedures Manual which outlines, among others the depreciation of the non-current assets of the Service.
- iii. The valuation of the non-current assets was ongoing.
- iv. The matter remained unresolved.

#### **Recommendations of the Committee**

237. **The Committee recommends that the Accounting Officer puts in place adequate measures to ensure all applicable accounting and financial policies, controls, systems,**

**standards, laws and procedures are followed in accounting and preparation of financial statements in compliance to the Provisions of the Public Finance Management Act, 2012 and its Regulations.**

**(2.) Unsupported Receivables**

238. The statement on the financial position reflects receivables from the National Youth Service units' balances of Ksh 1,003,517,664 and receivables from external operations of Kshs 641,736,869 totalling Ksh 1,645,254,533. However, supporting schedules were not provided for audit verification. In addition, provisions for bad and doubtful debts were not made for the receivables to recognize a possible impairment of the debts. In the circumstances, the validity, accuracy and completeness of the receivables totalling Ksh 1,645,254,533 could not be confirmed.

**Submissions by the Accounting Officer**

239. The Accounting Officer submitted that the failure to provide the stated schedules was an omission and a copy of schedules for receivables from the NYS Units and external customers was later submitted for audit verification. He also indicated that the National Youth Service Council had approved the Finance and Accounts Policies and Procedures Manual during its 12th meeting on 21st January 2021 under minute number NYSC 08/21/01/202.

240. He further noted that the policy provides, among other provisions, for bad and doubtful debts. An extract of the manual's provisions for bad and doubtful debts was submitted for audit verification.

**Observations and findings of the Committee**

241. The Committee observed that:

- i. The Fund has since provided the schedules for the receivable balances as well as the manual for provisions for bad and doubtful debts for audit verification; and
- ii. The matter is resolved.

**Recommendations of the Committee**

242. The Committee recommends that:

- i. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per the provision of Section 31 of the Public Audit Act, 2015; and**
- ii. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012, and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

### **(3.) Unsupported overpayment for supplies**

243. The statement of financial performance reflects an expenditure of Ksh 2,620,000 under the supply of firefighting/disaster materials which, as disclosed in Note 13 to the financial statements, includes an amount of Ksh 1,220,000 paid to a supplier during the year under review. Records indicated that the supplier was issued an undated Local Purchase Order (LPO) for supplying and delivering various items at the cost of Ksh 1,220,000.

244. However, the supplier could only supply materials worth Ksh 720,000, resulting in an unexplained overpayment of Ksh 500,000. In addition, whether due diligence was carried out to evaluate the firm's capacity to supply the items has not been disclosed. In the circumstances, the validity and completeness of the expenditure totalling Ksh 500,000 could not be confirmed.

### **Submissions by the Accounting Officer**

245. The Accounting Officer submitted that:

- i. The officer in charge signed LPO No. 3777073 but did not indicate the date for signing the LPO. The LPO was issued to M/S Bamine Enterprise for the supply of firefighting materials of Ksh 1,220,000. The supplier delivered part of the materials valued at Ksh 720,000. Due to importation logistic challenges, the merchant could not service the remaining order at the closure of the financial year. Consequently, the supplier issued a credit note for the un-serviced order amounting to Ksh 520,000.
- ii. The Fund management realized when preparing the financial report that the LPO value of Ksh 1,220,000 was captured instead of the actual value of Ksh 700,000 worth of materials supplied. Consequently, the correction was made by expending Ksh 700,000 instead of Ksh 1,220,000.
- iii. The Copies of the payment voucher, invoice LPO, delivery note, credit note, and other documents were submitted for audit verification.

### **Observations and findings of the Committee**

246. The Committee observed that:

- i. The contracted supplier had no capacity to deliver firefighting/disaster materials contracted at Ksh 1,220,000. The supplier delivered the materials worth Kshs 720,000 and returned Kshs 520,000.
- ii. The matter is resolved.

### **Recommendations of the Committee**

247. **The Committee recommends that the Accounting Officer ensures that due diligence is carried out when evaluating the capacity of suppliers in compliance with the Public Procurement and Asset Disposal Act, 2015 and its Regulation.**

### **(4.) Unresolved Prior year audit issues**

Submission by the Accounting Officer

248. The Accounting Officer submitted that the issues were discussed during the examination of the State Department of public service accounts for the financial year 2019/2020, during the appearance before the Public Accounts Committee meeting on 9<sup>th</sup> November, 2021 and recommendations were issued therein.

#### **Observations and findings of the Committee**

249. The Committee observed that:

- i. Some of the prior-year audit issues remained unresolved as at 30 June 2021 against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012;
- ii. The matter remained unresolved.

#### **Recommendations of the Committee**

250. **The Committee recommends that the Accounting Officer should within three months upon the adoption of this report, take appropriate measures to resolve any audit issues that remain outstanding as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015 and submit the status to the Office of the Auditor-General for audit verification.**

#### **(5.) Grounded Motor Vehicle**

251. A review of the Fund's assets revealed that seven (7) motor vehicles had been grounded for a long time due to various mechanical reasons. Management has not made any efforts to repair or to seek approval for the disposal of the vehicles. In the circumstances, the assets continued to deteriorate, and any salvage value that could have been realized may be lost.

#### **Submission by the Accounting Officer**

252. The Accounting Officer submitted that:

- i. The disposal of the seven (7) motor vehicles that were grounded was delayed awaiting the approval of the Asset Disposal Policy by the NYS Council. In addition, the delay in undertaking the phase 2 valuation of assets which covered motor vehicles affected the disposal.
- ii. Subsequently, the seven grounded motor vehicles were approved for disposal. However, a circular REF OP/CAB.39/ 1A dated 14 April 2022 from the Head of Public Services, stopped the exercises until further notice.

#### **Observations and findings of the Committee**

253. The Committee observed that:

- i. The circular REF OP/CAB.39/ 1A dated 14 April 2022 from the head of public services allowed entities to dispose obsolete goods with approval of the Cabinet
- ii. The matter is unresolved.

**Recommendations of the Committee**

254. The Committee recommends that:

- i. **The Accounting Officer should seek the approval of the Cabinet as per the circular REF OP/CAB.39/ 1A to dispose the grounded vehicles.**
- ii. **The Accounting Officer to ensure compliance with the provisions of the Public Procurement and Asset Disposal Act, 2015, and its Regulations in the disposal of the grounded vehicles.**

=====**End**=====

## **8.0 CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENT OF THE NATIONAL RESEARCH FUND**

255. Prof. Dickson Andala, the Chief Executive Officer, National Research Fund, appeared before the Committee on 28<sup>th</sup> April 2023, to adduce evidence on the audited financial statements for the National Research Fund for the Financial Year 2019/2020 and 2020 /2021. The minutes of the Committee sittings and submissions tabled by the Accounting Officer are annexed to this report. He was accompanied by:

1. Mr. Charles Kunyoria - Senior Accountant
2. Mr. Elvis Musotsi - Accountant
3. Ms. Esther Wakere - Records Management Officer
4. Ms. Linet Koskei - Senior Research Grants Officer
5. Mr. Emmanuel Lutomia - Grants Officer

### **8.1 Brief background of the National Research Fund**

256. The National Research Fund (NRF) was established under PART VII of the Science, Technology, and Innovation (ST&I) Act (No, 28 of 2013). NRF falls under the Ministry of Education, State Department for University Education and Research. At the Ministry level, the Cabinet Secretary for the Ministry of Education is responsible for the general policy and strategic direction of NRF.

#### **Mandate of the Fund.**

257. The Act stipulates that, “the objective of the Fund shall be to facilitate research for the advancement of Science, Technology and Innovation.” The Fund monies may be applied for the following purposes:

- i. Award of contracts, grants, scholarships or bursaries or any other award determined by the Commission to persons or institutions;
- ii. Provide financial support for the acquisition or establishment of research facilities;
- iii. Develop appropriate human resources and research capacity in the areas of Science, Technology and Innovation
- iv. Financing research systems in all sectors and all levels of education:
- v. Funding the cooperation and sharing of research information and knowledge, including supporting conferences, workshops, seminars, meetings and other symposia;

**The functions of NRF are to:**

- i) Mobilize resources for the national innovation systems from the Government, the private sector, venture capital, development partners and other sources:
- ii) Prudently manage and invest the funds so mobilized.
- iii) Support the development of human resources through grants to persons or research institutions or universities pursuing postgraduate programs in prioritized areas of Science, Technology, and Innovation with priority being given to marginalized indigent communities:
- iv) Support the development of research capacities in the national priority areas of Science, Technology and Innovation.
- v) Allocate funds for research and promote multi-disciplinary collaboration among universities and research Institutions, Evaluate the needs, status and results of research financed through the Fund.
- vi) Provide financial support for the development of research facilities by universities, research institutions and other bodies identified by the Commission.
- vii) Provide financial support for participation in international scientific activities through maintaining membership to appropriate international science organizations.
- viii) Provide financial support for collaboration, cooperation and sharing of research information and knowledge, including supporting conferences, workshops, seminars, meetings and other symposia;
- ix) Promote the provision of an information infrastructure linking research institutions to facilitate cooperation and sharing of research information and knowledge.
- x) Initiate liaison with bodies involved in the protection of intellectual property rights;
- xi) Compile and maintain national database of research and innovation funded by the Fund.
- xii) Perform the monitoring and evaluation of the results and impact of the research activities financed out of the Fund.

## **8.1.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NATIONAL RESEARCH FUND FOR THE FINANCIAL YEAR 2019/2020**

### **The basis of a Qualified opinion**

#### **(1.) Unconfirmed Research Program Grants**

258. The statement of financial performance reflects research program grants of Kshs1,032,477,159. However, confirmations by the recipients of grants amounting to Kshs872,989,151 [2019: Kshs635,657,943] were not provided for audit verification. Under the circumstances, the accuracy and validity of the reported balance of Kshs1,032,477,159 for research program grants could not be confirmed.

#### **Submission by the Accounting Officer**

259. The Accounting officer submitted that the grants un-acknowledged from the institutions had been fully acknowledged as per the schedule of copies. He indicated that currently the grants issued to institutions were acknowledged in time and up to date due to the monitoring and evaluation committee in place.

#### **Observations and findings of the Committee**

260. The Committee observed that:

- i. The grants which had not been acknowledged have since been fully acknowledged as per the schedules provided;
- ii. A monitoring and evaluation committee is currently in place to ensure that grants issued are acknowledged in time;
- iii. The matter was resolved.

#### **Recommendations of the Committee**

261. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(2) Unexplained Adjustments**

262. The statement of financial position reflects a cash equivalents balance of Kshs131,544,510 which was arrived at after an unexplained adjustment of Kshs41,224,066 in the financial year 2018/2019. Further, the statement of financial position reflects a payables balance of Kshs71,034,553 which was also adjusted by an unexplained amount of Kshs39,759,660 in financial year 2018/2019.

263. In addition, the statement of cash flows reflects cash and cash equivalents at end of year balance of Kshs130,188,831 which differs from the balance of Kshs131,544,510 reflected in

the statement of financial position as at 30 June 2020. The resultant difference of Kshs1,355,679 was not explained or reconciled. Under the circumstances, the accuracy and validity of the cash and cash equivalents balance of Kshs131,544,510 and payables of Kshs71,034,553 as at 30 June 2020 could not be confirmed.

#### Submissions by the Accounting Officer

264. The Accounting Officer submitted that the adjustment of Kshs41,224,066 in the statement of financial position as well as payable of Kshs39,759,660 was due to reconciliation error. He indicated that the difference in the cash and cash equivalent of Kshs 1,355,679 was due to a pre-payment in the financial year 2018/19 that was not recognized. He provided that the Payables balance of Kshs71,034,553 is as detailed in the table below:

Date	Payee	Voucher.NO	Amount (Ksh)
13/11/2020	126 PHD Grant projects	001	24,790,022
13/11/2020	Innovation Grants	002	28,770,000
10/02/2023	Research Grants	001	1,302,159
7/03/2022	Administration and operating expenses	010	8,038,292
30/04/2021	Alpex Consulting Africa Limited	377	2,300,280
29/01/2021	Alpex Consulting Africa Limited	236	3,833,800
12/12/2021	Auditor General	0293	1,000,000
14/07/2021	Auditor General	027	1,000,000
		<b>TOTAL</b>	<b>71,034,553</b>

265. Further, He informed to the committee that currently the reconciliations were up to date since the fund had employed its own staff.

#### Observations and findings of the Committee

266. The Committee observed that:

- i. The unexplained adjustment of Ksh41,224,066 as well as payables of Kshs39,759,660 was due to reconciliation error;

- ii. The difference in the cash and cash equivalent of Kshs 1,355,679 was due to a pre-payment in the financial year 2018/19 that had not been recognized; and
- iii. The matter was resolved.

#### **Recommendations of the Committee**

267. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(3) Financial performance**

268. The statement of financial performance as at 30 June, 2020 reflects a deficit of Kshs243,357,001 reducing the accumulated surplus from Kshs334,404,494 reported as at 30 June, 2019 to Kshs91,047,493 as at 30 June, 2020. If strategies are not put in place to reverse the trend the Fund is likely to face financial challenges soon.

#### **Submission by the Accounting Officer**

269. The Accounting Officer submitted that the delay of government exchequer and reduced budget allocation during the year affected expenditure and planned activities. He noted that the operations were also affected by COVID-19 pandemic restrictions including lockdown.

#### **Observations and findings of the Committee**

270. The Committee observed that:

- i. The financial performance reflected a deficit of Ksh243,357,001.
- ii. The deficit was because of the delay of government exchequer and reduction of budget allocation which affected expenditure and planned activities.
- iii. The operations were also affected by Covid 19 pandemic restrictions.
- iv. The Matter remained unresolved

#### **Recommendations of the Committee**

271. **The Committee recommends that the National Treasury should fund the Entity to effectively achieve its objectives and mandate.**

#### **(4) Budgetary control and performance**

272. The statement of comparison of budget and actual amounts reflects an approved revenue budget of Kshs1,623,037,923 against actual receipts of Kshs822,718,961 resulting to a deficit of Kshs800,318,962 or 49%. Similarly, the statement reflects an approved expenditure budget of Kshs1,623,037,923 against actual spending of Kshs1,066,075,890 resulting in an under-expenditure of Kshs556,962,033 or 34%.

273. The receipts deficit was attributed to a reduction in Government grants and subsidies during the year under review. The under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

**Submission by the Accounting Officer**

274. The Accounting Officer submitted that the reduction of government grants and subsidies during the year affected expenditure and planned activities. In addition, he noted that the operations were also affected by covid 19 pandemic restrictions including lockdown. He indicated that the budget was now balanced.

**Observations and findings of the Committee**

275. The Committee observed that:

- i. The under expenditure was due to the reduction of government grants and subsidies which affected expenditure and planned activities.
- ii. The operations were also affected by Covid-19 pandemic restrictions.
- iii. The matter was resolved.

**(5) Lack of Substantive Office Holders**

276. During the year under review, the Fund had no permanent staff and its operations were carried out by seven (7) officers seconded from the State Department for University Education and Research. The Chief Executive Officer was also serving in an acting capacity. This impaired the operation of the Fund as segregation of duties was not achievable. Further, there seems to be no initiative by the board of trustees to recruit its own employees for effective and efficient operation. In the circumstances, good governance for efficient operations of the Fund was not achieved.

**Submissions by the Accounting Officer**

277. The Accounting Officer submitted that the anomaly had been rectified and the Fund currently had a substantive Chief Executive Officer and employees recruited in the 2022/2023 financial year. He also noted that the segregation of duties was due to the increase in available staff.

**Observations and findings of the Committee**

278. The Committee observed that:

- i. Management experienced staffing challenges where they were understaffed.
- ii. Management currently had eleven (11) staff, paid by the Fund, twelve (12) deployed by the Government and they were expecting two more to be deployed.
- iii. The Matter remained unresolved.

**Recommendations of the Committee**

279. **The Committee recommends that the Accounting Officer ensures optimal staffing levels for effective operationalization of the Fund.**

## **8.1.2 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NATIONAL RESEARCH FUND FOR THE FINANCIAL YEAR 2020/2021**

### **(1.) Unconfirmed Research Programs Grants**

280. The statement of financial performance reflects research programs grants expenditure amount of Kshs254, 369,475 as disclosed in Note 10 to the financial statements. Included in the total grant expenditure are grants totaling Kshs248, 990,475 that were confirmed and acknowledged by the respective recipients leaving an un-acknowledged and un-confirmed amount of Kshs5, 379,000. In the circumstances, the accuracy of the Un-acknowledge grants of Kshs5, 379, 000 could not be confirmed.

#### **Submissions by the Accounting Officer**

281. The Accounting Officer submitted that the unacknowledged grants amounting to Kshs5,379,000 had since been acknowledged to the tune of Kshs4,833,240. He explained that currently the grants issued to institutions were acknowledged in time and are up to date since there is a monitoring and evaluation committee in place.

#### **Observations and findings of the Committee**

282. The Committee observed that:

- i. The grants un-acknowledged from the institutions has been fully acknowledged as per the schedule of copies;
- ii. A monitoring and evaluation committee was currently in place to ensure that grants issued were acknowledged in time; and
- iii. The Matter was resolved.

#### **Recommendations of the Committee**

283. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standard, laws and procedures are followed in the preparation of Annual Reports and financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with regulation 101 (4) of the public finance management (National Government) Regulations, 2012.**

### **(2.) Unsupported cash and cash equivalents balance**

284. The statement of financial position reflects cash and cash equivalents amount of Kshs60,106,917, as disclosed in Note 11 to the financial statements, which includes a balance of Kshs11,162,390 referred to as returned payment of grants. However, no supporting documents were provided for the returned payment of grants. In the circumstances, the accuracy of cash and cash equivalents balance of Kshs11,162,390 could not be confirmed.

#### **Submissions by the Accounting Officer**

285. The Accounting Officer submitted that the amount of Kshs11,162,390 had been returned from Moi University as reflected in the bank statement of KCB on 11/08/2021 and recorded in the cashbook on 11/08/2021. He explained the anomaly was supported by the bank statement, extract of the cashbook and Receipt voucher Number.

#### **Observations and findings of the Committee**

286. The Committee observed that:

- i. The amount of Kshs11,162,390 was returned from Moi University as reflected in the bank statement of KCB and recorded in the cashbook;
- ii. The Amount was supported by the cashbook and Receipt voucher Number; and
- iii. The matter was resolved.

#### **Recommendations of the Committee**

287. **The Committee recommends that the Accounting Officer should ensure that all applicable accounting and financial controls, systems, standard, laws and procedures are followed in the preparation of Annual Reports and financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with regulation 101 (4) of the public finance management (National Government) Regulations, 2012.**

#### **(3.) Unexplained adjustments included in the payables balance**

288. The statement of financial position reflects payables amounts of Ksh15,464,549 that as previously reported is the net of an unexplained adjustment of Ksh39,759,660 that was passed in the financial year 2018/2019. In the circumstances, the accuracy of the payables balance of Kshs 15,464,549 could not be confirmed.

#### **Submissions by the Accounting Officer**

289. The Accounting Officer submitted that the adjustment of Kshs41,224,066 in the statement of financial position as well as payable of Kshs39,759,660 was due to reconciliation error. He indicated that the difference in the cash and cash equivalent of Kshs 1,355,679 was due to a pre-payment in the financial year 2018/19 that was not recognized. He stated that the payables balance of Kshs71,034,553 is as detailed in the table below;

<b>Date</b>	<b>Payee</b>	<b>Voucher.NO</b>	<b>Amount (Ksh)</b>
13/11/2020	126 PHD Grant projects	001	24,790,022
13/11/2020	Innovation Grants	002	28,770,000
10/02/2023			

	Research Grants	001	1,302,159
7/03/2022	Administration and operating expenses	010	8,038,292
30/04/2021	Alpex Consulting Africa Limited	377	2,300,280
29/01/2021	Alpex Consulting Africa Limited	236	3,833,800
12/12/2021	Auditor General	0293	1,000,000
14/07/2021	Auditor General	027	1,000,000
		<b>TOTAL</b>	<b>71,034,553</b>

290. Further, he informed the committee that currently the reconciliations were up to date since the fund had employed its own staff.

#### **Observations and findings of the Committee**

291. The Committee observed that:

- i. The unexplained adjustment of Kshs41,224,066 as well as payables of Kshs39,759,660 was due to a reconciliation error.
- ii. The difference in the cash and cash equivalent of Kshs 1,355,679 was due to a pre-payment in the financial year 2018/19 that had not been recognized;
- iii. The Fund had employed its own staff resulting to reconciliations being up to date; and
- iv. The matter was resolved.

#### **Recommendation of the Committee**

292. **The Committee recommends that the Accounting Officer should ensure that all applicable accounting and financial controls, systems, standard, laws and procedures are followed in the preparation of Annual Reports and financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with regulation 101 (4) of the public finance management (National Government) Regulations, 2015.**

#### **(4.) Irregular Payments to Board Members**

293. The statement of financial performance reflects board expense totaling Ksh8,445,244. The board expenses include a balance of Ksh182,000 paid for a full board meeting held on 17th July, 2020 where three board members were paid at a rate higher than the approved rate contrary to Office of the President Circular on Guidelines on Terms and Conditions of Service for State Corporations Chief Executive Officers, Chairmen and Board Members

dated 23rd November, 2004 which provided taxable sitting allowance of up to a maximum of Ksh20,000 per sitting to the chairman and directors. Under the circumstances, the accuracy and validity of the board expense amount of Ksh182,000 could not be confirmed.

#### **Submissions by the Accounting Officer**

294. The Accounting Officer submitted that the payment schedule was for Ksh182,000. He noted that three board members had attended two meetings and were paid a net of Ksh30,000 each. while the other five board members had attended one meeting and each paid Kshs15,000 net of PAYE at the rate of 25% on gross. In addition, he noted that one board member (the chairperson) was paid Kshs17,000 which was meant for one meeting comprising of Kshs15,000 for sitting allowance and Kshs2,000 for lunch. He further explained that the members were paid based on attendance.

#### **Observations and findings of the Committee**

295. The Committee observed that:

- i. The payment schedule provided was for Ksh182,000;
- ii. Three of the board members had attended two meetings each while the other five board members had attended one meeting each;
- iii. One board member (the chairperson of the board) was paid both sitting allowance and lunch for one meeting;
- iv. The board members were paid based on attendance; and
- v. The matter was resolved.

#### **Recommendation of the Committee**

296. **The Accounting Officer should ensure that all applicable accounting and financial controls, systems, standard, laws and procedures are followed in the preparation of Annual Reports and financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with regulation 101 (4) of the public finance management (National Government) Regulations, 2015**

#### **(5.) Financial performance**

297. The statement of financial performance reflects a deficit of Kshs31,120,383 for the year resulting in the depletion of accumulated surplus from Kshs91,047,493 reported as at 30 June, 2020 to Kshs59,927,110 as at 30 June, 2021. In the circumstances, the Fund is likely to face financial challenges soon if strategies are not put in place to reverse the trend.

#### **Submissions by the Accounting Officer**

298. The Accounting Officer submitted that that the delay of government exchequer and reduction of budget allocation during the year under Audit had an effect on expenditure and planned activities. He noted that the operations were also affected by COVID-19 pandemic restrictions including lockdown.

### **Observations and findings of the Committee**

299. The Committee observed that:

- i. The financial performance reflected a deficit of Kshs31,120,383;
- ii. The deficit was because of the delay of government exchequer and reduction of budget allocation which affected expenditure and planned activities;
- iii. The operations were also affected by COVID -19 pandemic restrictions; and
- iv. The matter remained unresolved.

### **Recommendation of the Committee**

300. **The Committee recommends that the National Treasury should ensure timely disbursements of Funds.**

### **(6.) Budgetary Control and Performance**

301. The statement of comparison of budget and actual amounts reflects an approved revenue budget of Kshs345,437,923 against actual receipts of Kshs303,037,923 resulting to a revenue shortfall of Kshs42,400,000 or 12% of the budget. Similarly, the statement reflects an approved expenditure budget of Kshs345,437,923 against actual spending of Kshs334,158,306 resulting to an under-expenditure of Kshs11,279,617 or 3% of the budget. The receipts deficit was attributed to a reduction in Government grants and subsidies during the year. The under-funding and under-expenditure affected the planned activities of the Fund and impacted negatively on service delivery to the public.

### **Observations and findings of the Committee**

302. The Committee observed that:

- i. The Budget performance reflected a revenue shortfall of Kshs42,400,000 or 12% of the budget and an under-expenditure of Kshs11,279,617 or 3% of the Budget;
- ii. The deficit and under expenditure were due to the reduction of government grants and subsidies which had an effect on expenditure and planned activities;
- iii. The operations were also affected by COVID-19 pandemic restrictions; and
- iv. The matter was resolved.

### **(7) Unresolved prior-year issues**

303. In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management did not resolve the issues as required or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board template.

#### **Submission by the Accounting Officer**

304. The Accounting Officer submitted that the matter had been resolved by the appointment of Board of Trustees who manage the Fund operations. He explained that the Risk management issue had been addressed through the employment of the internal auditor. He Further noted that the Fund had an operational monetary and evaluation committee that monitors and evaluates grants received and issued to institutions for research.

#### **Observations and findings of the Committee**

305. The Committee observed that:

- i. A Board of Trustees has been appointed to Manage the Fund Operations.
- ii. An internal Auditor was employed by the fund to addresses the risk management issue.
- iii. The Fund had an operational monetary and evaluation committee that monitors and evaluates grants received and issued to institutions for research.
- iv. The matter was resolved.

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

#### **(8) Lack of a substantive Board Chairperson**

306. During the year under review, the Fund operated without a board chairperson contrary to Section 32(4) of the Science, Technology, and Innovation Act, 2013, which states that the Fund shall be managed by a Board of Trustees which shall consist of nine members to be appointed by the Cabinet Secretary. The Chairperson, being a person with knowledge and experience in matters related to finance, investment, and fundraising. The Board was therefore not properly constituted due to the delay in appointing a substantive Chairperson which may have affected the deliberations and decisions by the Board. In the circumstances, the Fund operated in breach of the law.

#### **Submissions by the Accounting Officer**

307. The Accounting Officer submitted that there was no substantive board chair during the year under audit and some of the board members' term had expired. He however informed the committee that currently they had a Board of Trustees and a chairperson whor was appointed on 13<sup>th</sup> of July 2022.

#### **Observations and findings of the Committee**

308. The Committee observed that:

- i. At the time of audit there was no substantive board chair or board of trustees.
- ii. Currently a board of trustees and a chairperson were appointed on 13<sup>th</sup> July, 2022.
- iii. Management was in breach of law in the matter as they operated without a Board of trustees and a chairperson of the board.

- iv. The Matter remains unresolved.

#### **Recommendations of the Committee**

309. The committee recommends that:

- i. **The Accounting Officer should ensure that the appointing authority is notified to appoint the new board of directors and chair at least 6 months before the expiry of the term of the existing board.**
- ii. **The appointing authority should appoint a new board of directors immediately after the expiry of the term of the existing board for effective operations and management of the Fund.**

#### **(8) Unapproved Extra Board and Committee meetings**

310. Review of records revealed that the Fund paid for ten (10) full board meetings and eight (8) Finance and Administration Committees' meetings which exceeded the stipulated maximum number of six (6) meetings in a financial year as provided in OP circular reference OP/CAB.9/IA dated 11 March, 2020. No approval from the parent ministry Cabinet Secretary was provided contrary to Paragraph A (3) of the circular which states that approval for any extra board meetings (including special board meetings) above the maximum number specified shall require a justification by the board as to the source of funds, and implications thereof, and reasons why the same cannot be adjudicated in regular meetings, which request shall be submitted for approval by the relevant Cabinet Secretary, in consultation with SCAC. In the circumstances, management was in breach of the guidelines.

#### **Submissions by the Accounting Officer**

311. The Committee recommends that the Accounting Officer admitted that unapproved extra board and committee meetings were paid for during the financial year. He explained that during that period, the Board of Trustees were involved in the process of recruitment. He noted that it was an oversight by the Fund management and committed that it would not be repeated.

#### **Observations and findings of the Committee**

312. The Committee observed that:

- i. Management paid for unapproved extra board and committee meetings;
- ii. Management was in breach of law in the matter; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

309 The Committee recommends that:

- i. **The Accounting Officer should within three months of the adoption of this report, recover the amount paid to the relevant Board Members in contravention of the Board**

manual, the Board Charter service Charter and the Science Technology and Innovation Act; and

- ii. The Accounting Officer should comply with the Public Service Commission (PSC) Human Resource Policies and Procedures Manual and NRF Human Resource Policy, Board manual and Charter, and the Service Charter when dealing with human resource and Board issues.

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

### **Lack of Substantive Office Holders**

313. During the year under review, the Fund had no permanent staff and its operations were carried out by seven (7) officers seconded from the State Department of University Education and Research. The Chief Executive Officer was also serving in an acting capacity. This impaired the operation of the Fund as segregation of duties was not achievable. Further, there seemed to be no initiative by the board of Trustees to recruit its own employees for effective and efficient operation. In the circumstances, good governance for efficient operations of the Fund was not achieved.

### **Submission by the Accounting Officer**

314. The Accounting Officer submitted that the anomaly was rectified and the Fund currently had a substantive Chief Executive Officer and the recruited in the 2022/2023 financial year. He also noted that the segregation of duties was due to the increase in available staff.

### **Observations and Findings of the Committee**

315. The Committee observed that:

- i. The Fund had eleven (11) staff, paid by the Fund, twelve (12) deployed by the Government and they were expecting two more;
- ii. The Matter remained unresolved.

### **Recommendations of the Committee**

316. **The Committee recommends that the Accounting Officer ensures optimal staffing levels for effective operationalization of the Fund.**

=====End=====

## **9.0 CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENT OF THE YOUTH ENTERPRISE DEVELOPMENT FUND**

317. Mr. Josiah Moriasi, the Chief Executive Officer of Youth Enterprise Development Fund, appeared before the Committee on 27<sup>th</sup> April 2023 to adduce evidence on audited financial statements for the Youth Enterprise Development Fund for the financial years 2018/2019 to 2020/2021. The minutes of the Committee sittings and submissions tabled by the Accounting Officer are annexed to this report. He was accompanied by:

- |                          |                                     |
|--------------------------|-------------------------------------|
| 1. Mr. Benson Muthendi   | - Cooperate, Communication Manager, |
| 2. Ms. Maureen Bosire    | - Ag, Supply Chain Officer          |
| 3. Mr. Robert Mururi     | - Senior Accountant                 |
| 4. Mr. Benedict Atavachi | - Finance Manager                   |
| 5. Mr. Samuel Kibuti     | - Credit Manager                    |

### **9.1 Brief Background of the Youth Enterprise Fund**

318. The Youth Enterprise Development Fund was established under the Legal Notice No.63 of May 2007, The Youth Enterprise Development Fund is domiciled in Kenya and has offices in all 47 counties. The Fund falls under the Ministry of ICT, Innovation and Youth Affairs, which is responsible for the Fund's general policy and strategic direction.

319. The mission of the Youth Enterprise Development Fund is to increase economic opportunities for and participation by Kenyan youth in nation-building. The Fund was established to:

- a. Provide loans to and for on-lending to youth enterprises.
- b. Attract and facilitate investment in micro, small and medium enterprises oriented commercial infrastructure to benefit youth enterprises.
- c. Support youth-oriented micro, small and medium enterprises to develop linkages with large enterprises.
- d. Facilitate marketing of products and services of youth enterprises both in the domestic and the international markets
- e. Provide business development services to youth enterprises
- f. Facilitate employment of youth in the international labour

## **9.1.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR THE YOUTH ENTERPRISE DEVELOPMENT FUND FOR THE FINANCIAL YEAR 2018/2019**

### **The basis for the Adverse opinion**

#### **(1) Unsupported Cash flow Statements**

320. The statement of cash flows reflects a balance of Kshs176,921,415 under cash and cash equivalents. However, the net operating profit before working capital changes includes prior year adjustments of Kshs2,160,330 and accumulated depreciation charges of Kshs2,302,953 all totaling to Kshs4,463,283 which have not been explained. Under the circumstances, the accuracy of the cash and cash equivalents balance of Kshs176, 921,415 as at 30 June, 2019 could not be confirmed.

#### **Submission by the Accounting Officer**

321. The Accounting Officer submitted that Kshs 2,302,953 relates to the correction of overstated depreciation, and Kshs2,160,330 relates to various transactions omitted in the year 2017/18

#### **Observations and Findings of the Committee**

322. The Committee observed that:

- i. The Fund did not provide explanations and schedules supporting the prior year adjustments of Kshs2,160,330 and accumulated depreciation charges of Kshs2,302,953; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

323. The Committee recommends that:

- i. **The Accounting Officer should within three months upon the adoption of this report submit the supporting schedules of Kshs2,160,330 and accumulated depreciation charges of Kshs2,302,953 to the Auditor-General for Audit verification;**
- ii. **The Accounting Officer fast tracks the process of digitizing the Fund's accounting operations;**
- iii. **The Accounting Officer to ensure timely provision of accounting documentation required for audit verification as per the provision of Section 31 of the Public Audit Act, 2015;and**
- iv. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the public sector Accounting standards Board and in compliance with regulation 101 (4) of the public finance management (National Government) Regulations, 2012.**

#### **(2.) Non- Compliance with IPSAS Accrual Basis of Accounting – Tuck Shops rental**

324. The statement of financial performance reflects a balance of Kshs42, 096,471 under revenue from exchange transactions, including interest and fees of Kshs41, 199,302. The interest and fees included Kshs202,075 for rental income from tuck shops. However,

information and records availed for audit indicated that rent revenue from tuck shops was recognized when received and not when earned, contrary to the International Public Sector Accounting Standards (IPSAS) accrual basis of accounting.

325. Further, information and records availed for audit verification indicated that during the year under review, the Fund owned one hundred and fifty - nine (159) tuck shops, all of which were occupied by tenants as evidenced by the lease agreement and the occupation was for twelve (12) months. In this case:

- i. Kshs 202,075 in rental income from the tuck shop was recognized when received and not when earned.
- ii. Kshs4,476,000 was the expected return on 159 tuck shops, but only Kshs202,750 was recognized, resulting in a variance of Kshs4,273,925.

#### **Submissions by the Accounting Officer**

326. The Accounting Officer submitted that:

- i. The stalls were established as a social enterprise, and an incubation period was given to the business outlets to enable them to gain traction.
- ii. The amount of Kshs202,075 was collected from the stalls after the incubation period.
- iii. Kshs4,273,925 related to unoccupied tuck shops, which, if billed, would have contravened the accruals concept.

#### **Observations and Findings of the Committee**

327. The Committee observed that:

- i. The Fund did not provide any documentary evidence to show that the premises were not occupied;
- ii. The Fund did not provide any documentation to show a waiver of payments in incubation period;
- iii. The Fund violated the International Public Sector Accounting Standards (IPSAS) accrual basis of accounting by recognizing rent revenue when received and not when earned; and
- iv. The matter remains unresolved.

#### **Recommendations of the Committee**

328. The Committee recommends that:

- i. **Within three (3) months after the adoption of this report, the Accounting Officer provides documentary evidence to show that the Fund did not receive rent revenue from the premises which were not occupied and that there was a waiver of payments during the incubation period; and**
- ii. **The Accounting Officer prepares the financial statements in a form that complies with the relevant accounting standards prescribed by the Public Sector Accounting Standards Board in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations.**

### **(3.) Depletion of Revolving Fund**

329. The statement of financial position as at 30 June, 2019 reflected a revolving fund balance of Kshs3, 802,458,856. However, although the amount was supposed to represent the loans advanced to the youth and any balance held in the bank account, the current assets balance of Kshs2, 708,619,514 had a shortfall of Kshs1, 093,839,342 to match the revolving fund.

330. This implied that the Fund Management had, over time, utilized Kshs1, 093,839,342 of the revolving funds for recurrent expenditure, thereby affecting the sustainability of the Fund. Further, no reallocation approvals were availed for audit verification to support the utilization of conditional grants on recurrent expenditure. Under the circumstances, the sustainability of the revolving Fund was at risk and doubtful.

#### **Submissions by the Accounting Officer**

331. The Accounting Officer submitted that the difference was attributed to the acquisition of capital assets, other receivables, and reallocation to various programs under the Fund's mandate as follows:

- |  |               |
|--|---------------|
| a) Purchase of hatchery (for on-lending) - | 199,500,000   |
| b) Purchase of fixed Assets –              | 556, 605, 332 |
| c) Program Support Expenses                | 337, 734,010  |

332. He further noted that the recurrent and development expenditure were lumped together, but an approved budget supported every expenditure.

#### **Observations and Findings of the Committee**

333. The Committee observed that:

- i. The accounting officer did not provide supporting documents on journal entries, approval of the journals, revised ledgers, and approved budgets to explain the depletion of the revolving fund for audit verification; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

334. The Committee recommends that:

- i. **The Accounting Officer takes appropriate measures to resolve the outstanding audit issue as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015 within three months upon the adoption of this report.**
- ii. **The Accounting Officer provides supporting documents on journal entries, approval of the journals, revised ledgers, and approved budgets to the Auditor-General for Audit verification within three months upon the adoption of this report.**

#### **(4.)Statement of Changes in Net Assets**

335. The statement of changes in net assets under accumulated surplus reflects a figure of Kshs5,000,000 described as a change in the accumulated fund for which no supporting documentation or explanations were provided for audit verification. Further, as reported previously, the opening balance on the statement of changes in net assets balance as at 30 June, 2016 totaled Kshs2,774,049,064 after recasting, which was at variance with the recorded balance of Kshs2,774,482,625 resulting in a variance of Kshs. 432,999, which has not been explained or reconciled to date. Consequently, the accuracy of the statement of changes in net assets for the year ended 30 June 2019 could not be confirmed.

#### **Submissions by the Accounting Officer**

336. The Accounting Officer submitted that the net assets under the statement of financial position, the statement of changes in net assets, note 20 and 21 should all be the same. The inclusion of the Kes 5,000,000 in the statement of changes in net assets instead of the Kes 2,160,330 which appears under note 20, note 21 and the statement of net assets is purely an error.

337. A similar scenario explains the variance of Kes 432,999 under statement of changes in net assets for the financial year 2015/16 which was discussed in the previous presentation to Parliamentary Committee during the 2016/17 & 2017/18 deliberations.

#### **Observations and Findings of the Committee**

338. The Committee observed that:

- i. The Fund did not maintain an accurate and complete asset register as per the requirements of Regulation 143 of the Public Finance Management (National Government) Regulations;
- ii. The Fund did not provide supporting documentation or explanations for audit verification on the variance of Kshs432,999, and Kshs5,000,000 reflected under the statement of changes in net assets; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

339. The Committee recommends that:

- i. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per the provision of Section 31 of Public Audit Act, 2015;**
- ii. **The Accounting Officer should within three months of the adoption of this report ensure that financial statements are accurate, reliable, complete and ensure adherence to accounting standards prescribed by the Public Sector Accounting Standards Board as provided by Section 81(3) of the Public Finance Management Act, No. 18 of 2012 and PFM (NG) Regulation 100 and 101(4); and**
- iii. **The Accounting Officer should within three months of the adoption of this report ensure that the Fund maintains a complete asset register as per the requirements of**

**Regulation 143 of the Public Finance Management (National Government) Regulations.**

**(5.) Accumulated Surplus**

340. The statement of financial position reflects an accumulated deficit balance of Kshs1, 021,008,021. However, the balance does not agree with the accumulated deficit balance as per the statement of changes in net assets of Kshs1, 023,847,695. The resultant difference of Kshs2, 839,675 between the two sets of figures has not been explained or reconciled. Further, Note 20 to the financial statements reflects a prior year adjustment of Kshs2, 160,330 that has neither been supported nor explained. Consequently, the accuracy of the accumulated deficit balance of Kshs1, 021,008,021 as at 30 June, 2019 could not be confirmed.

**Submissions by the Accounting Officer**

341. The Accounting Officer submitted that the variance was an error. He further noted that the fund had automated its financial system hence no recurrence of errors was expected going forward.

**Observations and Findings of the Committee**

342. The Committee observed that:
- i. The Fund did not provide supporting documentation and schedules on the prior year adjustment of Kshs2,160,330 and the variance of Kshs2, 839,675 between the statement of changes in net assets and statement of financial position; and
  - ii. The matter remained unresolved.

**Recommendations of the Committee**

343. The Committee recommends that:
- i. **The Accounting Officer should within three months of the adoption of this report provide the supporting documentation and schedules of the prior year adjustment of Kshs2,160,330 and the variance of Kshs2, 839,675 to the Auditor - General for verification.**
  - ii. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per the provision of Section 31 of the Public Audit Act, 2015;**
  - iii. **The Accounting Officer ensures that financial statements are accurate, reliable, complete and ensure adherence to accounting standards prescribed by the Public Sector Accounting Standards Board as provided by Section 81(3) of the Public Finance Management Act, No. 18 of 2012 and PFM (NG) Regulation 100 and 101(4).**

**(6.) Undisclosed material uncertainty**

344. The statement of financial performance reflects a deficit of Kshs163, 200,489 for the year ended 30 June, 2019 (2017/2018 Kshs281, 140,720). The trend of the Fund continuing to

incur deficits over the last four years may erode the capital invested in the revolving Fund and impair the ability of the Fund to sustain its core duty and services, as intended in its formation. This material uncertainty which casts significant doubt on the continued ability of the Fund to discharge its mandate in the foreseeable future, has, however, not been disclosed in the financial statements.

#### **Submission by the Accounting Officer**

345. The Accounting Officer submitted that the Fund had made necessary disclosure in the subsequent financial reports. Necessary disclosures were made in 2021/22

#### **Observations and Findings of the Committee**

346. The Committee observed that:

- i. The Fund did not disclose in the financial statements the material uncertainty of the Fund as required in the financial reporting template and in compliance with the IPSAS;
- ii. The Fund recorded dismal performance with the statement of financial performance reflecting a deficit of Ksh163, 200,489 which eroded the capital invested in the revolving Fund;
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

347. The Committee recommends that:

- i. **The Accounting Officer puts in place appropriate recovery strategies, institutional policies and procedures, and good business practices to ensure improved financial performance;**
- ii. **Within three months after the adoption of this report by the House, the Accounting Officer submits to the Auditor General a report on the actions taken to ensure improved financial performance as per Section 53(1) of the Public Audit Act, 2015; and**
- iii. **The Accounting Officer prepares the financial statements in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(7.) Revenue from Exchange Transactions – Interest and Fees**

348. The statement of financial performance reflects a balance of Kshs327, 755,495 under revenue from exchange transactions, including Kshs41,199,302 relating to interest and fees charged on loans issued by the Fund. However, no accurate information relating to the number of loans that gave rise to the reported interest has been provided by the management to enable confirmation of the accuracy and completeness of the interest and fee revenue. Under the circumstances, the accuracy and validity of the interest fee of Kshs41, 199,302 for the year ended 30 June 2019 could not be confirmed.

### **Submissions by the Accounting Officer**

349. The Accounting Officer submitted that the schedule of loans and applicable management/processing fees were availed to the Auditor General for verification.

### **Observations and Findings of the Committee**

350. The Committee observed that:

- i. The Accounting Officer did not provide the number of loans that gave rise to the reported interest of Kshs41,199,302 to confirm the accuracy and completeness of the interest and fee revenue;
- ii. The matter remains unresolved.

### **Recommendations of the Committee**

351. The Committee recommends that:

- i. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per the provision of Section 31 of Public Audit Act, 2015; and**
- ii. **The Accounting Officer should within three months of the adoption of this report submit supporting documents on the reported interest of Kshs41,199,302 to the Auditor-General for audit verification.**

#### **(8.) Irregular payment of Commuted Leave for Cash**

352. The statement of financial performance reflected a balance of Kshs211, 377,152 relating to human capital expenses. The amount included two payments amounting to Kshs739 726 paid for leave commutation for forty - five (45) days based on two (2) leave application forms filed in the personal file of an officer. However, the payments had the following anomalies;

- a) The immediate supervisor did not approve the leave commutation of the officer, nor was it approved by the responsible officer in the human resources department.
- b) The leave commutation application form was authorized and approved by one officer for both the immediate supervisor of the applying officer and user department and the human resource manager.
- c) The commutation amount was computed based on the gross pay of the applying officer, which was Kshs493, 150 instead of the basic pay of Kshs335,000, resulting in an overpayment of Kshs237, 226. This contradicts Section E.4 (3) of the Public Service Commission Human Resource Policies and Procedures Manual for the Public Service approved in May, 2016.
- d) The pending leave days were not validated by the Human Resource Manager as required before the payment was affected hence the accuracy and validity of the days paid could not be confirmed.

353. Consequently, the accuracy and authenticity of the expenditure of Kshs739,726 included in the balance of Kshs211,377,152 for human capital expenses could not be confirmed.

### **Submissions by the Accounting Officer**

354. The Accounting Officer submitted that:

- i. The Chief Executive Officer of the Fund was authorized to approve leave commutation in special circumstances if it was been determined that an employee cannot proceed on

- annual leave due to exigencies of service. This was the basis of approving the leave, since the Officer was not granted leave permission due to exigencies of service.
- ii. A duly approved internal memo was used as the leave commutation form.
  - iii. The current YEDF Human Resource Policies & Procedures Manual 2018 was silent on the figure to use to compute the amounts hence the use of the gross salary of Kshs500,000.
  - iv. The officer had accumulated 80 leave days from the leave year of November 2016/217 to August 2018/2019, the time he applied for his annual leave of 15 days and 30 days, respectively, and the commuted leave days were prepared by the Human Resource office and verified by the Deputy Human Resource Management who signed for the Human Resource Manager.

#### **Observations and Finding of the Committee**

355. The Committee observed that:

- i. The Accounting Officer made payment of commuted leave for cash without following due procedure and which led to an overpayment of Kshs237,226;
- ii. The Accounting Officer has not made any effort to recover the money from the staff; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

356. The Committee recommends that:

- i. **The Accounting Officer ensures compliance of Human Resource Policies & Procedures of the Fund;**
- ii. **The Accounting Officer should within three months of the adoption of this report recover from the concerned officer, the overpayment of Kshs. 237,226;**

#### **(9.) Inadequately Supported Travel Costs**

357. The statement of financial performance reflected a balance of Kshs104, 452,900 relating to general expenses, which includes an amount of Kshs4, 445,925 in respect of travel costs. The travel costs included an amount of Kshs160, 000 relating to surrenders of imprests issued to various officers to carry out various activities. However, the surrenders were not adequately supported as details of invitations to the venues where the activities were being undertaken, and attendance registers were not availed for audit verification.

#### **Submissions by the Accounting Officer**

358. The Accounting Officer submitted that:

- i. The approval of two officers to attend the events was necessitated the need to have proper representation since the Fund was in the initial stages of Maisha certification.
- ii. The officers attended a two-day conference at Masai Mara University and an exhibition on the third day. The 4<sup>th</sup> day per diem was for the travelling day since the officers were

expected to begin the program on time and could not travel on the day the conference began.

### **Observations and Findings of the Committee**

359. The Committee observed that:

- i. The surrenders of imprests of Kshs160,000 were not adequately supported as details of invitations and attendance registers were not availed for audit verification; and
- ii. The matter remains unresolved.

### **Recommendations of the Committee**

360. The Committee recommends that:

- i. **The Accounting Officer should within three months of the adoption of this report provide the supporting documents on surrenders of imprests of Kshs160,000 to the auditor general for audit verification; and**
- ii. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per the provision of Section 31 of Public Audit Act, 2015.**

#### **(10.) Non-Current Assets**

##### **10.1 Intangible Assets**

361. The statement of financial position as at 30<sup>th</sup> June, 2019 reflects intangible assets balance of Kshs47, 231,782 which includes an unsupported payment in the previous year of Kshs14, 124,652. The amount relates to Enterprise Resource Planning Software (ERPS) acquired at a cost of Kshs54, 960,000. However, procurement and payments supporting documents relating to the ERPS were not availed for audit verification as they were reportedly being held by the Ethics and Anti - Corruption Commission (EACC).

362. Further, and as disclosed in Note 17 to the financial statements, the additions during the year of Kshs14,448,138 includes an amount of Kshs9,338,300 relating to purchase of hardware which should have been categorized under property, plant and equipment (computers and accessories ) under Note 15 to the financial statements . The effect of the wrong classification is that depreciation has been charged at the rate of 25 % instead of 33.33 % hence resulting in understatement by 8.3 % equivalent to Kshs775, 078.

363. In addition, as reported in the financial year 2016/2017, the statement of financial position reported balance of intangible assets of Kshs47, 231,782 includes assets acquired in the financial year 2014/2015 at a total cost of Kshs2, 670.648 which have no supporting documents. The amount also includes cabling and networking acquired at a cost of Kshs6, 612,686 and additions amounting to Kshs1, 980,000 which do not qualify as intangible assets in line with the International Public Sector Accounting Standard (IPSAS) 31. Consequently, the accuracy, completeness, existence and the valuation of the intangible assets balance of Kshs47, 231,782 could not be confirmed.

### **Submissions by the Accounting Officer**

364. The Accounting Officer submitted as follows:

- i. The documents relating to the acquisition of Enterprise Resource Planning software were availed to the Auditors for verification during subsequent audits after EACC released the documents after giving the process a clean bill of health.
- ii. The adjusting entries for intangible assets were based on 33.3% and not 25% as alluded. See attached the entries as passed in the books of account. This was effected in the FY 2019/2020. See Appendix 4 FY 2019/2020.
- iii. The supporting documents for intangible assets of Kshs2,670,648 as per FY 2014/15 were availed and issue deliberated with the committee during the 2016/17 & 2017/18 presentations.
- iv. Reclassification entries relating to the additions of Kes 1,980,000 were effected in the FY 2019/2020.

### **Observations and Findings of the Committee**

365. The Committee observed that:

- i. The Fund did not provide the supporting documentation on the Ksh 14,231,782 relating to payment for Enterprise Resource Planning Software (ERPS);
- ii. The documents relating to acquisition of Enterprise Resource Planning software were availed to the Auditors for verification during subsequent audits;
- iii. The Fund did not provide supporting documents for assets acquired in the financial year 2014/2015 at a total cost of Kshs2,670,648;
- iv. There was wrong classification of assets which is against the International Public Sector Accounting Standard (IPSAS);
- v. The matter remains unresolved.

### **Recommendations of the Committee**

366. The Committee recommends that:

- i. **The Accounting Officer should within three months upon the adoption of this report provide the supporting documentation for assets acquired in the financial year 2014/2015 at a total cost of Kshs2,670,648 to the auditor general for verification;**
- ii. **The Accounting Officer should within three months upon the adoption of this report provides proof of reclassification of assets to the Office of the Auditor General; and**
- iii. **The accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

## **10.2 Property, Plant and Equipment**

367. The statement of financial position reflected a balance of Kshs65, 470,483 under property, plant, and equipment, including partitions at a cost of Kshs35, 983,375 for the Lonrho House offices, which the Fund ceased using in 2015/2016. Further, examination of records in relation to motor vehicles and motorcycles revealed that as of the time of the audit, five (5) out of eighteen (18) motor vehicles and one hundred and five ( 105 ) out of two hundred and ten ( 21) motorcycles owned by the Fund were grounded. Management continued to reflect the grounded assets as part of the property plant and equipment even though they were not used. No provision for impairment had been provided in the financial statements.
368. In addition, as previously reported, the property, plant and equipment value of Kshs65, 470,483 (2017/2018 - Kshs121, 562,744) had the following anomalies:
- i. In 2014/2015, the Fund spent Kshs1, 980,000 on the purchase of iPad tablets for the Board of Directors. The Directors who were issued with the tablets have since left the service, and as a result, the physical existence of the tablets cannot be ascertained.
  - ii. In 2014/2015, the Management procured mobile phones for Kshs400, 000. The phones were subsequently written off. Approval for the write-offs has not been provided for the audit review.
  - iii. The Fund acquired 50 laptops, desktop computers and printers in 2014/2015. However, on verification, four laptops valued at Kshs119 840 each and one printer valued at Kshs87, 000 were found to be missing. Management has to date not provided evidence indicating how it is addressing the issue of loss of these assets.
369. Under the circumstance, the accuracy, valuation and existence of property, plant and equipment balance of Kshs65, 470,483 could not be ascertained.

### **Submissions by the Accounting Officer**

370. The Accounting Officer submitted as follows:
- i. Fund wrote off the partitions after handing them over to Huduma Kenya Secretariat.
  - ii. Some directors have since returned the tablets, and the Fund continued to follow up on the rest.
  - iii. Mobile phones were written off in FY 2015/2016.
  - iv. Lost laptops were reported to the police. While the printer was compensated by an insurance company (MADISON) at Kshs56,000

### **Observations and Findings of the Committee**

371. The Committee observed that:
- i. The Fund had five (5) motor vehicles and one hundred and five (105) motorcycles which were grounded;
  - ii. No provision for impairment had been provided in the financial statements;

- iii. The Fund had a weak internal control systems to safeguard against theft, misuse, and loss of the entity's assets; and
- iv. The matter remains unresolved.

#### **Recommendations of the Committee**

372. The Committee recommends that:

- i. **The Accounting Officer ensures that the Fund's assets are handed over by the Board upon the expiry of the term;**
- ii. **The Accounting Officer seeks authority for the disposal of grounded motor vehicles and motorcycles within three months upon the adoption of this report;**
- iii. **The Accounting Officer to ensure compliance with the provisions of the Public Procurement and Asset Disposal Act, 2015, and its regulations in the disposal of grounded vehicles and motorcycles.**
- iv. **The Accounting Officer to ensure there are proper control systems to eliminate theft, losses, wastage, and misuse of the Fund's assets in compliance with Regulation 139 of the Public Finance Management (National Government) Regulations, 2012; and**
- v. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(11.) Investment Property**

373. The investment property balance of Kshs32, 858,742 reflected in the statement of financial position as at 30 June, 2019 related to bus shelters constructed by the Fund in public places on land which does not belong to the Fund. The property does not satisfy the conditions set out under International Public Sector Accounting Standard (IPSAS) 16 and therefore does not qualify to be accounted for as investment property.

374. Further, the depreciation charge for investment property is at a rate of 2 % per annum, translating to a period of fifty years whereas the agreement between the Fund and the respective County Government gives the Fund a duration of fourteen years for usage. This implies an undercharge in depreciation against investment property amounting to Kshs1, 867,294 per annum for three years, totalling Kshs7, 469,176 and an equivalent overstatement in the investment property balance over the same period.

375. Consequently, the accuracy, ownership, and fair statement of the investment property balance of Kshs32, 858,742 could not be ascertained.

#### **Submission by the Accounting Officer**

376. The Accounting Officer responded as follows:

- i. IPSAS 16 defines investment property as property (land or building or part of a building –or both) held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or administrative purposes or sale in the ordinary course of business.
- ii. The bus shelters, including the tuck shops, were constructed on land leased to the Fund by county governments for 14 years. The purpose of the tuck shops was to earn rental income for the Fund.
- iii. The treatment of the investment has since been adjusted, and the investment property is now depreciated over its useful life of 14 years.

#### **Observation and Findings of the Committee**

377. The Committee observed that:

- i. The Fund had treated the bus shelters as investments contrary to International Public Sector Accounting Standard (IPSAS) 16;
- ii. The Fund has since adjusted the accounting treatment of the bus shelters.
- iii. The investment property is now depreciated over its useful life of 14 years; and
- iv. The matter is resolved.

#### **Recommendations of the Committee**

378. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(12.) Trade Debtors**

##### **(12.1) Unsupported Trade Debtors Balances**

379. The statement of financial position reflected a balance of Kshs2, 303,216,545 receivables from exchange transactions. The balance consisted of trade debtors' balance of Kshs2, 485,960,200 and other exchange debtors of Kshs2.618.998 less impairment allowance and suspense account of Kshs124, 428,960 and Kshs60.933.693, respectively, relating to trade debtors for 2018/2019. The balance of Kshs2, 303,216,545 as at 30 June, 2019 could not be confirmed as detailed listings did not support the amount.

380. Further, no detailed ageing analysis was provided to support the above loan balances and impairment figures applied to the revolving fund balance. Also, as reported in the previous year, the balance of Kshs2, 303,216,545 under receivables from exchange transactions included unquantified amounts of interest, penalties, and principal from financial intermediaries. The amount also included unknown and unquantified amounts of long

outstanding default penalties owed by finance intermediaries whose recoverability is doubtful.

#### **Submissions by the Accounting Officer**

381. The Accounting Officer submitted that the aged, detailed loan analysis was shared with the Auditor General in soft copy, and the impairment was based on a 5% provision.

#### **Observations and Findings of the Committee**

382. The committee observed that:

- i. The Fund did not provide detailed listings and aging analysis supporting the outstanding loan balance of Kshs 2, 303,216,545.
- ii. The loan balance of Kshs2, 303,216,545 includes unquantified amounts of interest, penalties, long outstanding default penalties and principal from financial intermediaries; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

383. The Committee recommends that:

- i. **The Accounting Officer should ensure that the Fund keeps adequate financial and accounting records in compliance with the provisions of the Public Finance Management Act, 2012 section 68(2)(b) and (c) and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015; and**
- ii. **The Accounting Officer should within three months upon the adoption of this report resolve the outstanding audit issue as required by Section 68(2)(I) of the Public Finance Management Act, 2012, and Section 53(1) of the Public Audit Act, 2015.**

#### **12.2 Loans to Untraceable Welfare Group**

384. Receivables from exchange transactions included loan balances totaling Kshs150,000 and Kshs500,000 disbursed in 2007 to Cooper Group in Ijara District and Nomads Welfare in Dujis and Garissa respectively. These welfare groups had never been traced to confirm the outstanding loans and their recoverability. The balances remained the same in the current year.

#### **Submissions by the Accounting Officer**

385. The Accounting Officer submitted that Funds were disbursed in 2007 when the Fund was established, and efforts to trace the institutions were ongoing.

#### **Observations and Findings of the Committee**

386. The Committee observed that:

- i. The loan balances include Kshs150,000 and Kshs500,000 disbursed in 2007 to Cooper Group in Ijara District and Nomads Welfare in Dujis and Garissa respectively.

- ii. The Accounting Officer had not traced welfare groups for purposes of confirming their outstanding loans and their recoverability.
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

387. The Committee recommends that:

- i. **The Accounting Officer should ensure that the loans owed by the welfare groups are fully recovered; and**
- ii. **The Accounting Officer ensures the Fund revises its credit policies on issuance of loans by introducing a thorough vetting process of persons seeking loans from the Fund as a measure of enhancing loan recoverability.**

#### **12.3 Other Exchange Debtors**

388. The receivables from exchange transactions balance of Kshs2,303,216,608 included staff imprests of Kshs3,739,667 under exchange debtors, some dating back to August 2011. The staff imprests included Kshs1, 994,848 and Kshs292 800. which were irregularly issued to the former Chief Executive Officer and Board Chairman.

#### **Submissions by the Accounting Officer**

389. The Accounting Officer submitted that the former Chief Executive Officer, Ms Catherine Namuye and former Board Chairman, Mr. Bruce Odhiambo were all deceased. The Fund had therefore made full provision for doubtful debts. The Fund requested that the committee consider a write-off since the two were deceased.

#### **Observations and Findings of the Committee**

390. The Committee observed that:

- i. The balance of receivables from exchange transactions includes Kshs2,287,648 relating to imprest issued to the late Catherine Namuye and the late Bruce Odhiambo; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

391. **The Committee recommends that the Accounting Officer should within three months of the adoption of this report make a request for writing-off the losses of Kshs2,287,648 (relating to imprest issued to the late Catherine Namuye and the late Bruce Odhiambo) in accordance with Section 69 of the PFM Act, 2012 and Regulation 148 of the Public Finance Management (National Government) Regulations, 2015 within three months of the adoption of this report.**

#### **12.4 Provision of Impairment Allowances**

392. The receivables from exchange transactions balance of Kshs2, 303,216,545 is net of an impairment allowance of Kshs124,428,960, and an unidentified and unsupported loan repayment of Kshs60,933,693. However, the impairment allowance is computed at 5% of

the outstanding loan balance of Kshs2, 488,579, 198 was not backed by any previous trend or Fund policy.

#### **Submissions by the Accounting Officer**

393. The Accounting Officer submitted that the approved Board finance policy provided a 5% general provision for bad debts.

#### **Observations and Findings of the Committee**

394. The Committee observed that:

- i. The Fund's Finance Policy and Procedures Manual Section 8.4.15 provided for a 5 % general provision for bad debts; and
- ii. The matter was resolved.

#### **12.5 Unsupported Loan Balances**

395. The trade debtors' balance of Kshs2, 485,960,200 as at 30 June, 2019 included Kshs180, 184,855 owed by Chase Bank Limited that had not been supported to date by any documentary evidence. The amount originated from unsupported payments made by the bank, for which the bank had not produced documents to support the withdrawals.

#### **Submission by the Accounting Officer**

396. The Accounting Officer submitted as follows:

- i. An Anti-corruption case arose from the fraudulent Chase bank transfers of Ksh 115,710,000 on February 23, 2015 and Ksh 64,654,789 on May 4, 2015; and
- ii. The Fund had instituted legal proceedings to recover the Ksh 180, 363,789 fraudulently wired to Quorum Limited.

#### **Observations and Findings of the Committee**

397. The Committee observed that:

- i. The Kshs180, 184,855 represents a fraudulent withdrawal/payment of the fixed deposit amount which was being held at Chase Bank Ltd.
- ii. A civil matter is currently before the court in a bid to recovery the same. Criminal aspect of the court case was determined in favor of the fund with the accused proven guilty; and
- iii. The issue is unresolved.

#### **Recommendations of the Committee**

398. The Committee recommends that the Accounting Officer submit an update to the Auditor-General on the recovery of Kshs180, 184,855 within three months upon adoption of this report.

#### **12.6 Default Penalty on Loans to Financial Intermediaries**

399. As reported in 2017/2018, included in the trade debtors balance of Kshs2, 485,960,200 was a receivable from default penalty on loans to financial intermediaries of Kshs300,

550,837 for the year 2016/2017. No comprehensive ageing analysis in support of this amount had been provided for audit verification. It is, however, evident that no settlement of the default penalty account had been made by any financial intermediary since the inception of the Fund. Consequently, the accuracy, completeness and existence of the receivables from exchange transactions balance of Kshs2, 303,216,545 as at 30 June, 2019 could not be confirmed.

#### **Submissions by the Accounting Officer**

400. The Accounting Officer submitted that the updated schedule had been availed, and reminders had been sent on outstanding default penalties.

#### **Observations and Findings of the Committee**

401. The Committee observed that:

- i. The Fund did not provide a comprehensive ageing analysis in support of default penalty on loans of Kshs300,550,837 for audit verification;
- ii. No settlement of the default penalty account had been made by any financial intermediary since the inception of the Fund; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

402. The Committee recommends that:

- i. **The Accounting Officer should within three months upon the adoption of this report provides a comprehensive ageing analysis in support of default penalty on loans of Kshs300,550,837 to the Auditor-General; and**
- ii. **the Accounting Officer ensures that all contracts entered into by the Fund are lawful and are complied with in compliance with Section 68(2)(d) of the Public Finance Management Act 2012.**

#### **(13.) Current Receivables**

403. As reported in the previous year, included in the receivables from exchange transactions balance of Kshs2, 303,216,545 is an amount of Kshs245, 000,000 relating to the Credit Guarantee Scheme regarding monies advanced to Rafiki Deposit Taking Micro Finance and Indo Africa Finance amounting to Kshs95, 000,000 and Kshs150, 000,000 respectively, which to date had not been secured by deeds of guarantee. No provision for impairment had been included in these financial statements regarding the Credit Guarantee Scheme balance of Kshs245, 000,000 even though the recovery of these amounts is doubtful based on the court cases between the Fund and the two Intermediaries. Consequently, the accuracy, validity, and recoverability of receivables from exchange transactions of Kshs245 000,000 could not be ascertained.

#### **Submissions by the Accounting Officer**

404. The Accounting Officer submitted that:

- i. The Fund instituted various recovery methods, including court cases. The Rafiki DTM case was determined in favour of the Fund, and the Fund was waiting to receive the money.;
- ii. A general 5% provision for impairment has been made in the books; and
- iii. copies of the deeds of guarantee signed between the Fund and the two institutions were submitted to the Auditor General for verification.

#### **Observation and Findings of the Committee**

405. The Committee observed that:

- i. The Fund had not made provision for the Credit Guarantee Scheme balance of Kshs245, 000,000 in the financial statements;
- ii. The Fund has since made a 5% general provision for impairment in the financial statements; and
- iii. The matter is addressed.

#### **Recommendations of the Committee**

406. The Committee recommends that:

- i. **The Accounting Officer ensures that all contracts entered into by the Fund are lawful and are complied with in accordance with Section 68(2)(d) of the Public Finance Management Act 2012.**
- ii. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(14.) Trade Payables**

407. The statement of financial position reflects a balance of Kshs72,729,725 under trade and other payables from exchange transactions, which includes payables totaling to Kshs5,511,045 relating to four (4) contractors outstanding as at 30 June, 2014 and Kshs4,650,750 outstanding as at 30 June, 2015. However, no satisfactory explanations have been given for failure to settle the accounts payable in the year in which the expenses were incurred or subsequent financial years.

408. The trade and other payables from exchange transactions balance of Kshs72,729,725 also includes payables to contractors of Kshs1,083,600 and Kshs4,427,445 both outstanding as at 30 June, 2014 owed to two contractors respectively, and Kshs1,426,800 and Kshs3,223,950 both outstanding as at 30 June, 2015 owed to two service providers respectively. No satisfactory explanation has been given for failure to settle the accounts payables in the year in which the expenses were incurred or subsequent financial years. Consequently, the

existence and validity of the trade payables balance of Kshs72, 729,725 as at 30 June. 2019 could not be ascertained.

#### **Submissions by the Accounting Officer**

409. The Accounting Officer submitted that a reconciliation had not been carried out. However, the verified amounts were paid in 2021/2022.

#### **Observations and Findings of the Committee**

410. **The Committee observed that:**

- i. The Fund has long outstanding payables of Ksh5,511, 045 and Kshs4, 650.750 since 30 June, 2014 and 30 June, 2015 respectively; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

411. The Committee recommends that:

- i. **The Accounting Officer should within three months upon the adoption of the report submit a reconciliation of the outstanding payables of Ksh5,511, 045 and Kshs4, 650,750 to the Office of the Auditor-General for audit verification.**
- ii. **The accounting officer to ensure that the Fund settles its payables within three months upon the adoption of this report in compliance with the Public Finance Management Act, 2012, and Public Procurement and of the Asset Disposal Act, 2015.**

#### **(15.) Inventories**

412. As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs172, 330,000 under inventories. The balance relates to automatic hatching machines that were procured in the financial year 2012/2013. The inventory continues to be carried at cost in the books of accounts which is non-compliant with IPSAS 12, which requires that the valuation be the lower of cost and net receivable value. The realizable value of the hatching machine has been provided below cost at Kshs60. 000 per unit instead of Kshs190, 000 that is the current carrying value.

413. Also, as reported in the previous year, the inventories balance of Kshs175, 659.930 as at 30 June, 2017 also included 907 units of hatcheries valued at Kshs172, 330,000 which was the same as at 30 June, 2016. In 2014/2015, there were 906 units of hatcheries valued at Kshs172, 140,000 as at 30 June, 2015 even though there were no sales, returns or purchases reported by Management during the year 2015/2016. The stock records however, reflected

907 units of hatcheries valued at Kshs172, 330,000. The increase both in quantity and value of hatcheries during the year 2015/2016 has to date not been adequately explained.

414. Further, although it is clear the incubator inventory is slow moving and is thereby impaired, no provision for impairment has been made against the balance of Kshs172, 330,000 in the financial statements. In addition, physical verification exercise undertaken in June, 2019, indicated the total number of hatcheries as 886 units even though there has been no disposal or sale since the financial year 2014/2015.

415. Additionally, as reported in the previous year's audit report, the balance of stock (907) worth Kshs172,330,000 as at 30 June, 2019 stored at Kasarani Stadium and the National Youth Service stores in Mombasa continues to attract storage costs amounting to Kshs1,153,600 annually. Management is yet to provide the storage contracts between the Sports Stadium Management Board and the Fund. Under the circumstances, it is not possible to confirm that the inventories balance of Kshs172, 330,000 as reflected in the financial statements is fairly stated.

#### **Submissions by the Accounting Officer**

416. The Accounting Officer submitted as follows:

- i. The Fund had since revalued hatcheries at a lower cost and net realizable value and adjusting entries effected in the FY 2021/2022;
- ii. The incubators had since been moved to a rent-free space at the National Youth Service, Ruaraka at no storage cost. The National Stadium did not charge the Fund anything and to date no amount is outstanding for storage purposes; and
- iii. Discussed with the Committee in previous meetings when discussing reports up to FY 2016/17 & 2017/18 and awaiting the committee's recommendation.

#### **Observations and Findings of the Committee**

417. The Committee observed that:

- i. The automatic hatching machines procured in the financial year 2012/2013 continued to be carried at cost in the books of accounts in violation of IPSAS 12, which requires that the valuation be the lower of cost and net realizable value;
- ii. The Fund did not make provision for impairment against the balance of Kshs172, 330,000 in the financial statements;
- iii. The incubators have since been moved to a rent-free space at the National Youth Service, Ruaraka at no storage cost; and
- iv. The matter remains unresolved.

#### **Recommendations of the Committee**

418. The Committee recommends that:

- i. **The Accounting Officer seeks approval to dispose of the hatcheries within three months upon the adoption of this report.**

- ii. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

**(16.) General Expenses**

419. The financial statements reflected a figure of Kshs104, 452,900 under general expenses. The figure included Kshs8, 434,670 relating to legal fees, which included two payments to legal service providers totaling Kshs5, 179,200. Examination of these payments revealed the following anomalies:

- i. The quotation forms for the provision of the services were opened by an Adhoc Committee of three (3) members on a date not indicated in the opening minutes. The legality of the constitution of the tender opening committee could not be verified as no appointment letters from the Chief Executive Officer were availed for audit verification to support compliance with Section 78(1) of the Public Procurement and Asset Disposal Act, 2015.
- ii. The quotation forms were opened by a three (3) member committee on a date that was not indicated in the opening minutes and whose membership could not be verified as there were no appointment letters.
- iii. The approval of the professional opinion was granted on 28 June, 2018, the same day the contract was signed. The service provider issued an invoice, and the Management certified the invoices for payment on the same date the contract was signed. The payment was made before the services were rendered.
- iv. No documentation was availed for audit verification in support of the adhoc tender evaluation committee that the Chief Executive Officer purportedly appointed to carry out the evaluation.
- v. No explanation has been provided for non-compliance with the law on procurement.

**Submissions by the Accounting Officer**

420. The Accounting Officer submitted as follows:

- i. Procurement procedure was followed as per the Public Procurement and Asset Disposal Act, 2015. The purchase requisition was raised on 20/6/2018 and the professional opinion was signed by the Supply Chain Management and the Accounting Officer of YEDF on 28/6/2018. We therefore clarify that the

- professional opinion as contained in the evaluation report of bidders did not precede formal purchase requisition to procure the said services.
- ii. The three YEDF officers were picked by the accounting officer to open the quotation forms. The quotations were opened on the deadline of submission which was on 26/06/2018.
  - iii. Maximum level for quotation was Kshs3,000,000; and
  - iv. The Invoice was accrued in June 2019 but payment was made in September 2019.

#### **Observations and Findings of the Committee**

421. The Committee observed that:

- i. The Fund flouted public procurement procedures in procuring for legal service providers- the quotation forms were opened on a date not indicated in the opening minutes; appointment letters of the Opening Committee could not be verified; quotation forms were opened on a date that was not indicated in the opening minutes and whose membership could not be verified as there were no appointment letters; the payment was made before the services were rendered; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

422. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial policies, controls, laws, and procedures are followed in the procurement of goods and services in compliance with the provisions of the Public Procurement and Asset Disposal Act, 2015 and its Regulations.**

#### **17. Unresolved Prior Year Issues**

423. As disclosed under the progress on follow-up of the Auditor's recommendations section of the financial statements, various prior year audit issues remained unresolved as at 30 June, 2019. Management had not provided reasons for the delay in resolving the prior year's audit issues.

#### **Submissions by the Accounting Officer**

424. The Accounting Officer submitted that the Prior year matters were discussed by the committee and the Fund was awaiting the outcome of issues discussed.

#### **Observations and Findings of the Committee**

425. The Committee observed that prior-year audit issues remained unresolved as at 30 June 2019 against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012.

#### **Recommendations of the Committee**

426. The Committee recommends that the Accounting Officer resolves all audit issues that remain outstanding as required by Section 68(2)(I) of the Public Finance Management Act, 2012 within three months upon the adoption of this report.

### **9.1.2 THE AUDITED FINANCIAL STATEMENTS FOR THE YOUTH ENTERPRISE DEVELOPMENT FUND FOR THE FINANCIAL YEAR 2019/2020**

#### **Audit Opinion- Adverse Opinion**

##### **(1) Undisclosed material uncertainty**

427. The Fund continued to register dismal performance where the statement of financial performance reflected a **Kshs42, 663,881** deficit (2019 deficit of **Kshs163, 200,489**). The situation had prevailed over the past five years. This material uncertainty which casts significant doubt on the continued ability of the Fund to discharge its mandate in the foreseeable future, has, however, not been disclosed in the financial statements. Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2020 could not be confirmed.

##### **Submission by the Accounting Officer**

428. The Accounting Officer responded that adequate measures were being taken to reverse the trend resulting in a reduction in the deficit. He also indicated that disclosures were made in 2020/21.

#### **Observations and Findings of the Committee**

429. The Committee observed that:

- i. The Fund continued to register dismal performance where the statement of financial performance reflected a **Kshs42, 663,881** deficit in the year under review.
- ii. The material uncertainty which casts significant doubt on the continued ability of the Fund to discharge its mandate in the foreseeable future, was not disclosed in the financial statements.
- iii. The disclosures were not made in the audit year.
- iv. The matter remained unresolved.

#### **Recommendations of the Committee**

430. The Committee recommends that the accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.

##### **(2) Errors in Financial statements – Unsupported Statement of Cash flows**

431. The statement of cash flows reflected a closing cash and cash equivalents balance of **Kshs306, 863,299**. However, the balance included an unexplained prior-year adjustment of

**Kshs84, 855** under operating profit before working capital changes. Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

**Submissions by the Accounting Officer**

432. The Accounting Officer responded that the prior year adjustment of Kes 84, 855 related to ledger entries on income and expenditure items for the prior year, which was not captured, thus the correcting entry.

**Observations and Findings of the Committee**

433. The Committee observed that:

- i. The balance included an unexplained prior-year adjustment of Kshs84,855 under operating profit before working capital changes;
- ii. The matter was still pending since supporting documents of journal vouchers were not provided; and
- iii. The matter remains unresolved.

**Recommendations of the Committee**

434. **The Committee recommends that within three (3) months after the adoption of this report, the Accounting Officer provides documentary evidence to show the unexplained prior-year adjustment of Kshs84,855 under operating profit before working capital changes to the Auditor General for audit verification.**

**(3) Receivable from Non-Exchange Transactions**

435. As disclosed under Note 18 to the financial statements, the statement of financial position reflected a balance of Kshs1, 151,594 relating to receivables from non-exchange transactions, out of which an amount of Kshs951, 593 related to rental deposits for offices that the Fund vacated in 2017, but the recovery was yet to be made. Management did not provide an explanation for not recovering the amounts. No provision for bad and doubtful debts has been provided for in the financial statements. Consequently, the validity of the reported balance for receivables from non-exchange transactions amounting to Kshs951, 593 as at 30 June, 2020 could not be confirmed.

**Submissions by the Accounting Officer**

436. Accounting Officer submitted the status of the deposits, as tabulated below:

**a) Running contracts whose deposits cannot be liquidated**

Deposit Holder	Location	Deposit	Remarks
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1	Prof. Mutuku Mutinga	Machakos	190,000	The contract was renewed,, and the deposit is still required.
	Total		190,000	

**b) Lapsed Leases whose amounts the Fund is pursuing recovery**

	Deposit Holder	Location	Deposit	Remarks
1	Holden Investments Limited	Kakamega	126,382	The amount was partially recovered, and the issue will be closed FY 2022/2023
2	Nairobi Homes - Mombasa	Mombasa	189,680	Amounts partially recovered, and the issue will be closed FY 2022/2023
3	Pioneer Holdings	Kisumu	60,000	Recovery was being pursued, and the issue will be closed in 2022/2023
4	Centrif Ltd	Nakuru	239,300	The Fund continues to pursue the refund, which is expected to clear during this financial year.
5	Kirem properties	Eldoret	139,200	The Fund continues to pursue the refund which is expected to clear during this financial year.
6	Nyeri	Nyeri	7,031.60	The Fund continues to pursue the refund, and is expected to clear during this financial year.

437. From the above analysis, total deposits as at the end of the financial year was Kshs951, 593 out of which Kshs190, 000 was a running contract, and the fund was pursuing the balance of Kshs761, 593.60. The Accounting Officer also informed the committee that efforts were being made to recover the outstanding deposits.

**Observations and Findings of the Committee**

438. The Committee observed that:

- i. The balance of receivables from non-exchange transactions includes Kshs761,593.60 relating to rental deposits whose leases lapsed but have not been recovered; and
- ii. The matter remains unresolved.

**Recommendations of the Committee**

439. The Committee recommends that:

- i. **The Accounting Officer pursues the recovery of the outstanding deposits of Kshs761,593.60 within three months upon the adoption of this report**
- ii. **The Accounting Officer ensures that, all contracts entered into by the Fund are lawful and are complied with and in accordance with Section 68(2)(d) of the Public Finance Management Act 2012.**

#### **(4) Tuck Shops Rental Income**

440. The statement of financial performance reflects an amount of Kshs71, 671,267 in respect of interest and fees on loans. The interest and fees amount includes Kshs1, 999,500 relating to rental income generated from tuck shops. However, verification of records revealed that, during the year under review, the Fund owned one hundred and fifty-seven (157) tuck shops, all occupied by tenants for the entire twelve (12) months under review as evidenced by lease agreements.

441. Based on the number of tuck-shops and the monthly rental charge per shop, the expected revenue was Kshs2, 916,000 as compared to the reported revenue of Kshs1, 999,500 leading to an understatement of revenue by Kshs916, 500. The Management did not provide an explanation for the difference. Consequently, the accuracy and completeness of the interest and fees of Kshs1, 999,500 for the year ended 30 June, 2020 could not be confirmed.

#### **Submissions by the Accounting Officer**

442. The Accounting Officer responded as follows:

- i. The stalls were running as social enterprises. incubation handholding period was given to struggling businesses to enable them to gain traction.
- ii. **Kshs1,999,500** was realized from the stalls after the incubation period. Further, the COVID-19 pandemic affected the achievement of a 100% occupancy of the stalls.
- iii.

#### **Observations and Findings of the Committee**

443. The Committee observed that:

- i. The Fund did not provide any explanation and documentation for the difference in the expected revenue of Kshs2,916,000 as compared to the reported revenue of Kshs1,999,500 leading to an understatement of revenue by Kshs916,500.
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

444. **The Committee recommends that within three (3) months after the adoption of this report, the Accounting Officer provides documentary evidence to the Office of the Auditor-General to explain the difference in the expected revenue of Kshs2,916,000 as compared to the reported revenue of Kshs1,999,500 leading to an understatement of revenue by Kshs916,500.**

#### **(5) Unauthorized Utilization of Revolving Funds**

445. The statement of financial position as at 30 June, 2020 reflects a revolving fund balance of Kshs4, 137,798,856. However, although the amount is supposed to represent the total loans advanced to the youth and any balance held in the bank account, the total current assets balance stood at Kshs3, 055,294,822 as at 30 June, 2020, reflecting a shortfall of Kshs1, 082,504,034 to match the revolving fund balance.

446. This implies the Fund Management has, over time, utilized Kshs1, 082,504,034 of the revolving funds to finance recurrent expenditure, thereby negatively affecting the sustainability of the Fund. No reallocation approvals were availed for audit verification to support the utilization of conditional grants on recurrent expenditure. Under the circumstance, the accuracy and existence of the revolving fund balance of Kshs4, 137,798,856 as at 30 June, 2020 could not be confirmed.

#### **Submission by the Accounting Officer**

447. The Accounting Officer responded as follows:

- i. The Board and the National Treasury approved the budgets.
- ii. The development budget contains two components: loan disbursement and capital expenditure, funded by grants from the Government of Kenya. The amount above was spent based on the approved budget as follows:
  - iii. Purchase of hatching machines
    - (Being carried as inventories for on-lending)* - Kshs 199,500,000
    - Purchase of Capital Asset* - Kshs 567,259,575
    - Programme Support Expenses* - Ksh315,744,459
- iv. A distinction was not made between revolving and capital accounts. The adjusting figures for the entries were made in FY 2021-22

#### **Observations and Findings of the Committee**

448. The Committee observed that:

- i. No reallocation approvals were availed for audit verification to support the utilization of conditional grants on recurrent expenditure;
- ii. The ledger showing original entries, explanations, supporting documents on journal entries, approval of the journals and revised ledgers were not provided for verification; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

449. The Committee recommends that:

- i. **The Accounting Officer takes appropriate measures to resolve the outstanding audit issue as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015;**

- ii. **Within three months of the adoption of this report, the Accounting Officer provides the supporting documentation on ledgers showing original entries, journal entries, approval of the journals and revised ledgers to the office of the Auditor-Generation to support the utilization of the Revolving Fund.**

#### **(6) Property Plant and Equipment**

450. As disclosed in Note 20 to the financial statements, the statement of the financial position reflects a balance of Kshs50, 733, 824 under property, plant and Equipment. However, Management did not revalue these assets for a long time. Further, Management has reclassified additions relating to the financial year 2018-2019 amount of Kshs9, 338,300 relating to purchase of hardware under property, plant, and equipment (computers and accessories) as disclosed under Note 20 to the financial statements.

451. However, corrections on the effect of the wrong classification on depreciation which was charged at the rate of 25% instead of 33.33% hence resulting in understatement by 8.3% cumulatively Kshs1, 550,156 as at 30 June, 2020 has not been made.

452. Under the circumstance, the accuracy, valuation and existence of property, plant, and equipment balance of Kshs50, 733,824 could not be ascertained.

#### **Submissions by the Accounting Officer**

453. The Accounting responded that the re-valuation was not done due to financial constraints. However, the exercise was carried out in FY 2021/2022 and the accounts adjusted. He added that the adjusting entries were based on 33.3% not 25%.

#### **Observations and Findings of the Committee**

454. The Committee observed that:

- i. There was no re-evaluation of Ksh,50,733,824 assets for a long time;
- ii. Corrections on the effect of the wrong classification on depreciation which was charged at the rate of 25% instead of 33.33% resulting in understatement by 8.3% cumulatively Kshs1, 550,156 as at 30 June, 2020 had not been made at the time of audit;
- iii. The re-valuation was not done due to financial constraints;
- iv. The exercise was carried out in FY 2021/2022 and the accounts adjusted;
- v. The adjusting entries were based on 33.3% not 2%; and
- vi. The matter was resolved.

#### **Recommendations of the Committee**

455. **The Committee recommends that the accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by**

**the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

**(7) Investment Property**

456. As reported in the previous years, the investment property balance of Kshs30, 189,970 reflected in the statement of financial position as at 30 June, 2020 relates to bus shelters constructed by the Fund in public places on land which does not belong to the Fund. The property does not satisfy the conditions set out under International Public Sector Accounting Standard (IPSAS) 16 and therefore does not qualify to be accounted for as investment property. Consequently, the ownership of the investment property balance of Kshs30, 189,970 could not be ascertained.

**Submissions by the Accounting Officer**

457. The matter was discussed under query no. 11 in FY 2018/19 and as per evidence provided in response showing that the classification was justified.

**Observations and Findings of the Committee**

458. The Committee observed that:

- i. The investment property balance of Kshs30, 189,970 relating to bus shelters was constructed by the Fund in public places on land which does not belong to the Fund;
- ii. The property did not satisfy the conditions set out under International Public Sector Accounting Standard (IPSAS) 16 and therefore did not qualify to be accounted for as investment property;
- iii. The matter was discussed under query no. 11 in FY 2018/19 and as per evidence provided in response showing that the classification was justified as follows:
  - IPSAS 16 defines investment property as property (land or building or part of a building –or both) held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or administrative purposes or sale in the ordinary course of business.
  - The bus shelters, including the tuck shops, were constructed on land leased to the Fund by county governments for 14 years. The purpose of the tuck shops was to earn rental income for the Fund.
  - The treatment of the investment has since been adjusted, and the investment property is now depreciated over its useful life of 14 years.
- iv. The matter was resolved.

**Recommendations of the Committee**

459. **The Committee recommends that the accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012 and in accordance with the standards prescribed by**

**the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

**(8) Trade Debtors.**

**a. Unsupported Trade Debtors Balance**

460. The statement of financial position reflects a balance of Kshs2, 574,949,929 under receivables from exchange transactions. The balance consists of trade debtors' balance of Kshs2, 787,240,570 and other exchange debtors of Kshs2, 667,212 less impairment allowance and suspense account of Kshs135,448,830 and Kshs79,509,023, respectively, relating to trade debtors for 2019/2020.

461. The balance of Kshs2, 574,949,929 as at 30 June, 2020 could not be confirmed as detailed listings of debtors did not support the amount. Further, no detailed ageing analysis was provided to support the above debtors' balances and impairment figures applied to the revolving fund balance.

**Submissions by the Accounting Officer**

462. The Accounting Officer responded that a detailed loan ageing analysis was shared in soft copy with the Committee and copied to the Auditor. The impairment was based on a 5% provision on the debtors' balance.

**Observations and Findings of the Committee**

463. The Committee observed that:

- i. The Fund's trade debtors balance of Kshs2, 574,949,929 as at 30 June, 2020 was not supported with detailed listings of debtors to support the amount;
- ii. The Fund has since provided the detailed loan aging analysis for audit verification to confirm the trade debtors' balances;
- iii. The matter is resolved.

**Recommendations of the Committee**

464. **The Committee recommends that the Accounting Officer ensures timely provision of accounting documentation required for audit verification as per the provision of Section 31 of the Public Audit Act, 2015.**

**b. Other Exchange Debtors**

465. The receivables from exchange transactions balance of Kshs2,574,949,929 includes staff imprests of Kshs3,739,667 under exchange debtors, some dating back to August 2011. The staff imprests include Kshs1, 994,848 and Kshs292, 800 which were irregularly issued to the former Chief Executive Officer and Board Chairman, respectively. The recovery of these advances is doubtful, and no provision for impairment has been made in the financial statements.

#### **Submissions by the Accounting Officer**

466. The matter was discussed under query no. 12.3 in FY 2018/19.

#### **Observations and Findings of the Committee**

467. The Committee observed that:

- i. The balance of receivables from exchange transactions includes Kshs2,287,648 relating to imprest issued to the late Catherine Namuye and the late Bruce Odhiambo who are both deceased; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

461. **The Committee recommends that the Accounting Officer should within three months upon the adoption of this report, writes-off the losses of Kshs2,287,648 (relating to imprest issued to the late Catherine Namuye and the late Bruce Odhiambo) in accordance with Section 69 of the PFM Act, 2012 and Regulation 148 of the Public Finance Management (National Government) Regulations, 2015.**

#### **(9) Provision of Impairment Allowance**

462. As disclosed in Note 17 to the financial statements, the receivables from exchange transactions balance of Kshs2,574,949,929 is net of an impairment allowance of Kshs135,448,830 and an unidentified and unsupported loan repayment of Kshs79,509,023. However, the impairment allowance of the outstanding loan balance of Kshs2,785,818,410 was not backed by any rate or policy.

#### **Submissions by the Accounting Officer**

463. The Accounting Officer responded that the matter was discussed under query no. 12.4 in FY 2018/19.

#### **Observations and findings of the Committee**

464. The Committee observed that:

- i. The Fund availed the Board Finance Policy to the Auditor General outside the timelines stipulated under section 31 of the Public Audit Act, 2015; and
- ii. The matter is resolved.

#### **Recommendations of the Committee**

465. **The Committee recommends that in subsequent financial years, the Accounting Officer provides all documents to Auditor General within the timelines stipulated under section 31 of the Public Audit Act, 2015.**

#### **(10) Unsupported Loan Balances**

466. The trade debtors balance of Kshs2,574,949,929 as at 30 June, 2020 includes an amount of Kshs180,184,855 owed by Chase Bank Limited, which was not supported by any

documentary evidence. The amount originated from payments made by the bank and for which the bank has not produced documents to support the withdrawals.

#### **Submissions by the Accounting Officer**

467. The Accounting Officer responded as follows:

- i. The matter was discussed under query no. 12.4 in FY 2018/19.
- ii. The matter was purely a fraud, and a case was filed in court, leading to the accused being sentenced to 27 years in prison.
- iii. He further informed the committee that the Auditor General had advised the management to consider writing off the matter.

#### **Observations and findings of the Committee**

468. The Committee observed that:

- i. The amount of Ksh 180, 363,789 had not been recovered;
- ii. The accused person in the fraud case was sentenced to 27 years in prison;
- iii. The civil case against Quorandum Limited was still active in court; and
- iv. The Matter remained unresolved.

#### **Recommendations of the Committee**

469. The Committee recommended that:

- i. **The Accounting Officer should provide a status update to the Office of the Auditor General on the pending civil case against Quorandum Limited in the subsequent financial year;**
- ii. **Within three months of the adoption of this report, the Accounting Officer provides a status report to the Auditor-General on measures it has put in place to strengthen its internal controls to minimize opportunities for fraud.**

#### **(11) Unsupported Interest on Investment**

470. As disclosed under Note 8 to the financial statements, the statement of financial performance reflects interest on bank balances amounting to Kshs1, 632,801. However, the supporting schedule detailing the list of deposits and approval for such deposits were not availed for audit verification. Further, the basis for the computation of the interest paid by the bank to the Fund has not been provided for verification.

471. Hence the accuracy and completeness of the reported revenue could not be confirmed. Under the circumstances, the accuracy of interest on the bank balance amounting to Kshs1 632,801 for the year ended 30 June, 2020 could not be confirmed.

#### **Submissions by the Accounting Officer**

472. The Accounting Officer responded as follows:

- i. The Fund does not invest any Funds in any financial institution;

- ii. The interest earned during the year represented interest earned on the bank balances; calculated based on the bank interest rate applicable at the time; and
- iii. Consequently, there was no agreement in place so far as the interest earned was concerned.

#### **Observations and findings of the Committee**

473. The Committee observed that:

- i. The Fund availed the supporting schedules to the Auditor General outside the timelines stipulated under section 31 of the Public Audit Act, 2015; and
- ii. The matter was resolved.

#### **Recommendations of the Committee**

474. **The Committee recommends that the Accounting Officer ensures that all supporting documentation are provided for audit verification within the timelines stipulated under section 31 of the Public Audit Act.**

#### **(12) Long Outstanding Trade Payables**

475. The statement of financial position reflects a balance of Kshs84, 314,687 under trade and other payables from exchange transactions, which includes payables to a contractor of Kshs5,511,045 outstanding since 30 June, 2014 and Kshs4,650,750 outstanding since 30 June, 2015 all totaling to Kshs10,161,795.

476. No satisfactory explanation has been given for failure to settle the accounts payables in the year the expenses were incurred or subsequent financial years. Consequently, the existence and validity of the trade payables amount of Kshs10, 161,795 as at 30 June, 2020 could not be ascertained.

#### **Submissions by the Accounting Officer**

477. The Accounting Officer submitted that the matter was discussed under query no. 14 in FY 2018/19.

#### **Observations and Findings of the Committee**

478. The Committee observed that:

- i. The Fund has long outstanding payables of Ksh5,511, 045 and Kshs4, 650,750 since 30 June, 2014 and 30 June, 2015 respectively;
- ii. The matter remained unresolved.

#### **Recommendations of the Committee**

479. **The Committee recommends that the Accounting Officer ensures that the Fund verifies and settles its outstanding payables within three months upon the adoption of this report, in compliance with the Public Finance Management Act, 2012, and Public Procurement and Asset Disposal Act, 2015.**

### **(13) Revaluation of Inventories**

480. Note 19 to the financial statements reflects a balance of Kshs172, 330,000 in respect of inventories as at 30 June, 2020. The balance relates to automatic hatching machines that were procured in the financial year 2012/2013. The inventory continues to be carried in the books of accounts at cost, which is non-compliant with IPSAS 12, requiring the reported figure to be lower than cost and net receivable value.

481. The realizable value of the hatching machine has been provided below cost at Kshs60, 000 per unit instead of Kshs190, 000 is the current carrying value. Under the circumstances, the accuracy of the inventory balance of Kshs172, 330,000 as reflected in the financial statements, could not be confirmed.

### **Submissions by the Accounting Officer**

482. The Accounting Officer submitted that the matter was discussed under query no. 15 in FY 2018/19

### **Observations and Findings of the Committee**

483. The Committee observed that:

- i. The automatic hatching machines procured in the financial year 2012/2013 continued to be carried at cost in the books of accounts in violation of IPSAS 12, which requires that the valuation be the lower of cost and net receivable value;
- ii. The Fund did not make provision for impairment against the balance of Kshs172, 330,000 in the financial statements;
- iii. The incubators have since been moved to a rent-free space at the National Youth Service, Ruaraka at no storage cost; and
- iv. The matter is unresolved.

### **Recommendations of the Committee**

484. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

### **Other Matters**

#### **(14) Unresolved Prior Year Issues**

485. In the previous year's audit report, several issues were raised under the report on financial statements. However, although the management indicated that the issues had been responded to, the matters remain unresolved as the Public Accounts Committee Report was not submitted for audit review.

### **Submissions by the Accounting Officer**

486. The Accounting Officer submitted that they were not invited to appear before the committee to discuss and resolve issues.

### **Observations and Findings of the Committee**

487. The Committee observed that prior-year audit issues remained unresolved as at 30 June 2020 against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012.

### **Recommendations of the Committee**

488. **The Committee recommends that the Accounting Officer resolves all audit issues that remain outstanding as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015 within three months upon the adoption of this report and submit a status report to the Auditor-General for verification and reporting in the next audit cycle.**

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

### **(15) Non-Compliance with the Public Procurement and Asset Disposal Act, 2015**

#### **a. Procurement of Legal Services**

489. During the year under review, the Fund paid an amount of Kshs6, 737,000 for legal services being fifty percent (50%) of the contract sum in respect of filing suit to recover Kshs180,000,000 paid to a consultant. However, the fund used the request for quotations even though the contract sum was above the threshold of Kshs1,000,000 for using the method, in line with Section 105(1) of the Public Procurement and Assets Disposal Act, 2015.

490. In addition, the award was not supported by a professional opinion from the Head of Procurement and was approved by the Accounting Officer as required under section 84 of the Public Procurement and Asset Disposal Act, 2015.

### **Submissions by the Accounting Officer**

491. The Accounting Officer responded as follows:

- i. During the year under review, the Fund prequalified legal services and out of the list, invited bidders to quote for the said services;
- ii. According to the ruling in civil suit NO. 499 OF 2010, Thiong'o Njiri and 81 others vs The Municipal council of Kiambu and county council of Kiambu, legal services need not to undergo procurement process; and
- iii. The Professional opinion was attached for review.

### **Observations and Findings of the Committee**

492. The Committee observed that:

- i. The Fund invited bidders from a list of pre-qualified legal service providers.

- ii. According to civil suit no. 499 of 2010 Thiong'o and 81 others vs Municipal Council of Kiambu legal services needed not to undergo procurement process;
- iii. Approved prequalified list of service providers showing selection was done from the list was not provided for audit verification; and
- iv. The matter was resolved.

#### **Recommendations of the Committee**

493. The Committee recommends that:

- i. **The Accounting Officer provides the approved list of pre-qualified service providers to the Auditor-General for verification and reporting to National Assembly within three months upon the adoption of this report; and**
- ii. **The Accounting Officer ensures that all applicable accounting and financial policies, controls, laws, and procedures are followed in the procurement of goods and services in compliance with the provisions of the Public Procurement and Asset Disposal Act, 2015 and its Regulations.**

#### **b. General Expenses**

494. As disclosed under Note 15 to the financial statements, the statement of financial performance reflects a balance of Kshs84,758,294 under general expenses, constituting an amount of Kshs7,374,500 relating to legal fees, which includes two payments to legal service providers totalling Kshs5,179,200. Examination of these payments revealed the following anomalies:

- i. The quotation forms for the provision of the services were opened by an Ad hoc Committee of three (3) members on a date not indicated in the opening minutes. The legality of the constitution of the Tender Opening Committee could not be verified as no appointment letters from the Chief Executive Officer were availed for audit verification to support compliance with Section 78(1) of the Public Procurement and Asset Disposal Act, 2015;
- ii. The quotation forms were opened by a three (3) member committee on a date not indicated in the opening minutes and whose membership could not be verified as there was no appointment letter;
- iii. The approval of the professional opinion was granted on 28 June, 2018, the same day the contract was signed. The service provider issued an invoice, and the Management certified the invoices for payment on the same date the contract was signed. The payment was made before the services were rendered; and
- iv. No documentation was available for audit verification supporting the Adhoc Tender Evaluation Committee that the Chief Executive Officer purportedly appointed to conduct the evaluation. No explanation had been provided for non-compliance with the law on procurement.

#### **Submissions by the Accounting Officer**

495. The matter was discussed under query no. 16 in FY 2018/19 and in FY 2021/22.

### **Observations and Findings of the Committee**

496. The Committee observed that:

- i. The Accounting Officer flouted public procurement procedures in procuring for legal service providers- the quotation forms were opened on a date not indicated in the opening minutes; appointment letters of the Opening Committee could not be verified;
- ii. Quotation forms were opened on a date that was not indicated in the opening minutes and whose membership could not be verified as there were no appointment letters;
- iii. The payment was made before the services were rendered.
- iv. The matter remained unresolved.

### **Recommendations of the Committee**

497. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial policies, controls, laws, and procedures are followed in the procurement of goods and services in compliance with the provisions of the Public Procurement and Asset Disposal Act, 2015 and its Regulations.**

#### **c. Intangible Assets**

498. The statement of financial position reflects a figure of Kshs21, 063,085 relating to intangible assets. The figure includes a netbook balance figure of Kshs10,992,000 in relation to an enterprise resource planning software procured at a contract sum of Kshs85, 619,600 in the financial year 2016/2017. A down payment of Kshs54, 960,000 had been made. However, the following anomalies were observed in relation to the contract:

- i. The Enterprise Resource Planning (ERP) software was procured through restricted tendering method without justification as required under Section 102(1) of the Public Procurement and Assets Disposal Act, 2015;
- ii. The contract provided for an implementation period of twelve (12) months, however, as at the time of the audit, only one (1) out of the thirty-three (33) modules has been implemented;
- iii. Despite the project delaying for over three (3) years, no evidence was provided for audit verification to show that an extension was granted or Management prepared a multi-year procurement plan as required under Section 56(4) of the Public Finance Management (National Government) Regulations, 2015;
- iv. The contract was signed without professional opinion from the Head of Procurement Unit to the Accounting Officer as required under Section 84(1) of the Public Procurement and Assets Disposal Act, 2015; and
- v. No evidence has been provided for audit verification to confirm that the Accounting Officer notified in writing the unsuccessful bidders as required under Section 87(3) of the Public Procurement and Assets Disposal Act, 2015. In the circumstances, Management is in breach of the law.

### **Submission by the Accounting Officer**

499. The Accounting submitted that:

- i. The Fund procured the system through the restricted tendering methods since it is one of the methods of procurement as prescribed in the public procurement and disposal act as all the bidders were accredited by Microsoft Africa as the project was complex in nature. The procurement method was approved for use by the Board (See attached board minutes). Procurement process was dully followed, as it was a restricted tender from the requisition stage, tender advert, and tender evaluation, tender notification, tender award, contract signing. The participating bidders were provided by Microsoft, who provided all the product accredited dealers in Kenya at the time; and
- ii. The contract period was three years with a provision for post implementation support and maintenance. Further, the service provider has since completed the development of the ERP system modules that are currently in live usage.

### **Observations and Findings of the Committee**

500. The Committee observed that:

- i. The Fund procured the ERP system through restricted tendering methods as all the bidders were accredited by Microsoft Africa as the project was complex in nature. The procurement method was approved for use by the Board;
- ii. The contract period was three years with a provision for post-implementation support and maintenance. The service provider has since completed the development of the ERP system modules and is currently in usage;
- iii. No evidence was provided for audit verification to show that an extension was granted;
- iv. The Fund did not provide for audit verification a professional opinion from the Head of Procurement unit and notification letters to the unsuccessful bidders.
- v. The matter remains unresolved.

### **Recommendations of the Committee**

**501. The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the procurement of goods and services in compliance with Public Procurement and Asset Disposal Act, 2015 and its Regulations.**

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

### **(16) Grounded Motor Vehicles and Motorcycles**

502. A review of the Fund's asset management process shows that eight (8) out of eighteen (18) motor vehicles and one hundred and five (105) out of two hundred and ten (210) motorcycles were grounded due to various mechanical reasons. Although the Management made efforts and wrote to the Head of Public Service requesting approval for disposal through letter Ref;

YEDFICEO/838/2018 dated 6<sup>th</sup> March 2018, no response had been received at the time of the audit. As a result, the assets continued to deteriorate, and any salvage value that could have been realized may be lost.

#### **Submissions by the Accounting Officer**

503. The Accounting Officer submitted as follows:

- i. The management continued to engage with the Head of the Public Service office seeking authorization to dispose of assets in vain.
- ii. Management attached correspondences with the Head of Public Service.
- iii. The Fund serviced 35 motorbikes and they were intending to service 15 more motorbikes in the next financial year to cover all the counties.

#### **Observations and Findings of the Committee**

504. The committee observed that:

- i. The Fund had eight (8) motor vehicles and one hundred and five (105) motorcycles were grounded due to various mechanical defects;
- ii. The assets continue to deteriorate and any salvage value that may be realized from sale may be lost; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

505. The Committee recommends that:

- i. **The Accounting Officer should seek the approval of the Cabinet as per the circular REF OP/CAB.39/ 1A to dispose the grounded vehicles within three months upon the adoption of this report.**
- ii. **The Accounting Officer should ensure compliance with the provisions of the Public Procurement and Asset Disposal Act, 2015 and its Regulations in the disposal of the grounded vehicles.**

### **9.1.3 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR THE YOUTH ENTERPRISE DEVELOPMENT FUND FOR THE FINANCIAL YEAR 2020/2021**

#### **Basis for Qualified Opinion**

##### **1. Unexplained Revolving Fund Variance**

506. The statement of financial position reflects a revolving fund balance Ksh 4, 167,798.856, and as disclosed in Note 25 to the financial statements, the balance represents loan receivables from clients and cash and bank balances held in the entity's loan accounts. However, Note 16 reflects trade debtors (loan outstanding) totaling Ksh3,142, 195,610 and bank balance of Ksh31, 039,009, included in the bank balance of Ksh33, 338.866 as reflected in Note 15 all totaling to Ksh3,173,097.291 resulting to a variance of Ksh 994,701.566 Management explained that the variance was due to development funds totaling to Ksh 1,083,926.194 that

were used to purchase assets, hatcheries, deposit at chase bank and program support expenses that were wrongly posted to revolving fund accounts as follows:

Item	Amount (Ksh)
Purchase of Hatcheries	199,500,000
Purchase of capital Assets	547,523,824
Amount Receivable from Chase Bank	180,184,856
Programs support Expenses	156,717,514
<b>Total</b>	<b>1,083,926,194</b>

507. Further the variance of Ksh89, 224,628 between Ksh994, 701,566 and Ksh1, 083,926.194 was not explained and reconciled. In the circumstances, the accuracy and completeness of the revolving fund balance of Kshs4, 167,798,856 as at 30 June, 2021 could not be confirmed.

#### **Submissions by the Accounting Officer**

508. The Executive Officer responded that the budgets were prepared and submitted to the Board and National Treasury for approval. He also stated that the development budget contains two components: loan disbursement and capital expenditure funded by grants from the Government. The amount in question was spent based on approved budget as follows:

*Purchase of hatching machines*

*(Being carried as inventories for on-lending)* 199,500,000

*Purchase of Capital Assets* 568,404,576

*Programme Support Expenses* 226, 796,990

509. The adjusting figures for the entries were made in FY 2021-22

#### **Observations and Findings of the Committee**

510. The Committee observed that:

- i. The Accounting Officer did not provide supporting documents on journal entries, approval of the journals, and revised ledgers for audit verification to explain the variance of Ksh89, 224,628; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

511. The Committee recommends that:

- i. **The Accounting Officer provides supporting documents on journal entries, approval of the journals, and revised ledgers to the Auditor General for audit verification within three months upon the adoption of this report; and**
- ii. **The Accounting Officer takes appropriate measures to resolve the outstanding audit issue as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015.**

**2. Unconfirmed Receivables from Exchange Transactions**

512. As disclosed in Note 16 to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs2,899,796,858. The balance includes an amount of Kshs2,503,233 in respect of other exchange debtors, some dating back to the year 2011, which includes imprests of Kshs1,994,848 and Kshs202,000 both totalling to Kshs2,196,848 issued irregularly to the former Chief Executive Officer and the Board Chairman respectively. However, the recovery of these imprests is doubtful and no provision for impairment has been made in the financial statements.

513. Further, included in the receivables from exchange transactions balance of Kshs2,899,796,858 is an amount of Kshs92,281,098 described as loans repaid unidentified. However, supporting documents indicating the date, transaction number and amount received were not provided for audit review. In addition, the receivables balance of Kshs2,899,796,858 includes an amount of Kshs180,184,865 owed by Chase Bank Limited that was not supported by any documentary evidence. The amount originated from payments made by the bank and for which the bank did not produce documents to support the withdrawals.

514. Additionally, no ageing analysis to determine the period the receivables have been outstanding was provided. In the circumstances, the valuation and completeness of the receivables from exchange transactions balance of Kshs2,899,555,324 as at 30 June, 2021 could not be confirmed.

**Submission by the Accounting Officer**

515. The Accounting Officer responded that:

- i. The Fund continued to pursue recovery of these amounts;
- ii. The imprest to the late Catherine Namuye was recovered from her terminal dues in the FY 2020/2021. However, the Court ruling could not allow the deduction and the amount initially deducted was paid to the administrator of her estate;
- iii. He requested the Committee to recommend a write off the two imprests;
- iv. The make-up of the Kes 92,281,098 has since been prepared and submitted to the auditors for review;
- v. The Kshs180, 184,165 represents a fraudulent withdrawal/payment of the fixed deposit amount which was being held at Chase Bank Ltd. A civil matter is currently before the court in a bid to recover the same;

- vi. The criminal aspect of the court case was determined in favor of the Fund with the accused proven guilty; and
- vii. The aged debtors' listing has since been prepared and submitted to the auditors for review.

### **Observations and Findings of the Committee**

516. The committee observed that:

- i. The balance of receivables from exchange transactions includes Kshs2,196,848 relating to imprest issued to the late Catherine Namuye and the late Bruce Odhiambo who are both deceased;
- ii. The Kshs180, 184,165 represents a fraudulent withdrawal/payment of the fixed deposit amount which was held at Chase Bank Ltd;
- iii. A civil matter is currently before the court in a bid to recover the same;
- iv. Criminal aspect of the court case was determined in favor of the fund with the accused proven guilty;
- v. The Fund did not provide for audit review a comprehensive loan listing and aging analysis supporting the outstanding loans; and
- vi. The matter remains unresolved.

### **Recommendations of the Committee**

517. The Committee recommends that:

- i. **The Accounting Officer writes-off the losses of Kshs2,196,848 (relating to imprest issued to the late Catherine Namuye and the late Bruce Odhiambo) in accordance with Section 69 of the PFM Act, 2012 and Regulation 148 of the Public Finance Management (National Government) Regulations, 2015 within three months upon the adoption of this report; and**
- ii. **The accounting officer should ensure that the Fund keeps the required financial and accounting records in compliance with the provisions of the Public Finance Management Act, 2012 section 68(2)(b) and (c) and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015.**
- iii. **The Accounting Officer takes appropriate measures to resolve the outstanding audit issues as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015.**

### **3. Doubtful Recovery of Receivables from Non-Exchange Transactions**

518. The statement of financial position and Note 17 to the financial statements reflects a balance of Kshs 1,620,594 in respect of receivables from non-exchange transactions, out of which an amount of Ksh 951, 593 relates to rental deposits of a premise that the Fund vacated in 2017, but the recovery is yet to be made. Management did not provide an explanation for not recovering the deposit.

519. Further, no provision for bad and doubtful debts was made in the financial statements. In the circumstances, the accuracy and recoverability of the rental deposits balance of Kshs951, 593 as at 30 June, 2021 could not be confirmed.

**Submissions by the Accounting Officer**

520. The Accounting Officer submitted as tabulated below:

**a) Running Contracts whose deposits cannot be liquidated**

	Deposit Holder	Location	Deposit	Remarks
	Prof. Mutuku Mutinga	Machakos	190,000	The Contract was renewed, and the deposit is still required.
	Total		190,000	

**b) Lapsed leases whose amounts the Fund is pursuing recovery**

	Deposit Holder	Location	Deposit	Remarks
1	Holden Investments Limited	Kakamega	126,382	Amounts partially recovered and the issue will be closed FY 2022/2023
2	Nairobi Homes Mombasa	Mombasa	189,680	Amounts partially recovered and the issue will be closed FY 2022/2023
3	Pioneer Holdings	Kisumu	60,000	Recovery still being pursued, and the issue will be closed FY 2022/2023
4	Centrif ltd	Nakuru	239,300	The Fund continues to pursue the refund and it is expected to be cleared in this financial year.
5	Kirem properties	Eldoret	139,200	The Fund continues to pursue the refund and it is expected to be cleared this financial year.
6	Nyeri	Nyeri	7,031.60	The Fund continues to pursue the refund and it is expected to be cleared this financial year.

521. The Accounting Officer further stated that from the above analysis, total deposit as at the end of the financial year was Kshs951,593 out of which Kshs190,000 was a running contract and

the fund is pursuing the balance of Kshs761,593.60 He added that the documents indicating the efforts being made to recover the outstanding deposits were provided for verification.

#### **Observations and Findings of the Committee**

522.The Committee observed that:

- i. The balance of receivables from non-exchange transactions includes Kshs761,593.60 relating to rental deposits whose leases lapsed but have not been recovered; and
- ii. The matter remains unresolved.

#### **Recommendations of the Committee**

523.The Committee recommends that:

- i. **The Accounting Officer should ensure full recovery of the outstanding deposits of Kshs761,593.60 within three months upon the adoption of this report**
- ii. **The Accounting Officer ensures that, all contracts entered into by the Fund are lawful and are complied with in accordance with Section 68(2)(d) of the Public Finance Management Act 2012.**

#### **4. Unsupported interest from Direct Loan Funding**

524.The statement of financial performance reflects interest and fees of Ksh65, 625,928 as disclosed in Note 7 to the financial statements. The amount includes Kshs38, 270,063 in respect of interest from direct funding. However, the schedule provided for the audit did not reflect the interest rates used and how the balance covering two accounting periods were prorated to ascertain amount reflected in the financial statements.

525.This is contrary to explanatory Note 4(ii) to the financial statements on summary of significant accounting policies regarding revenue recognition which provides that interest and management fee on loans is recognized when it falls due using simple interest rates determined at the time the loan is disbursed and prorated when it relates to more than one accounting period. In the circumstances, the completeness and accuracy of interest from direct funding loans of Kshs38, 270,063 for the year ended 30<sup>th</sup> June 2021 could not be confirmed.

#### **Submissions by the Accounting Officer**

526.The Accounting Officer responded that the computation of interest and fees was provided to the auditors for verification.

#### **Observations and Findings of the Committee**

527.The committee observed that:

- i. The Fund has since availed a computation of the interest and fees based on applicable rates for audit verification; and
- ii. The matter was resolved.

### **Recommendations of the Committee**

528. **The Committee recommends that the accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

### **5. Going Concern of the Fund.**

529. During the year under review, the Fund continued to register dismal performance where the statement of financial performance reflects a deficit of Ksh11, 625,570 (2020 - deficit of Ksh42, 663,882) a situation that has prevailed over the past Six years. This eroded the capital invested in the revolving Fund and impaired the ability of the Fund to discharge its mandate and casts significant doubt on the ability to sustain its services in the foreseeable future.

### **Submissions by the Accounting Officer**

530. The Accounting Officer stated that the deficit was currently on the decline with the fund posting a deficit of Kes 11,625,570 financial year 2020/21 (2019/20 deficit 42, 663,881). He noted that if the trend is sustained, the Fund would return a surplus in the intervening years. Consequently, the ability of the Fund to discharge its mandate in the foreseeable future was assured.

### **Observations and Findings of the Committee**

531. The committee observed that:

- i. The Fund recorded dismal performance with the statement of financial performance reflecting a deficit of Ksh11, 625,570 which eroded the capital invested in the revolving Fund;
- ii. The matter remains unresolved.

### **Recommendations of the Committee**

532. The Committee recommends that:

- i. **The Accounting Officer puts in place appropriate recovery strategies, institutional policies and procedures, and good business practices to ensure improved financial performance within three months after the adoption of the report.**
- ii. **Within three months after the adoption of the report, the Accounting Officer submits to the and the National Assembly a report on the actions taken to ensure improved financial performance; and**
- iii. **The Cabinet Secretary, National Treasury assesses whether there is need for intervention in the Fund in accordance with the provisions of Article 225 of the**

**Constitution and Section 93 of the PFM Act within three months after the adoption of the report.**

**6. Unbalanced budget**

531. The statement of comparison of budget and actual amount reflects Ksh366,660,833 and Ksh365,460,833 in respect to budgeted revenue and expenditure respectively resulting to unbalanced budget by Ksh1,200,000, contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that budget shall be balanced. In the circumstances, the Fund was in breach of the law.

**Submissions by the Accounting Officer**

532. The Accounting officer submitted that the Budget for FY 2020/2021 indicated that the total revenue was equal to the total expenditure as tabulated:

Development revenue	580,000,000
Recurrent revenue	<u>366,660,833</u>
Total revenue	946,660,833
Development Expenditure	581,200,000
Recurrent Expenditure	<u>365,460,833</u>
Total Expenditure	946,660,833

533. The Ksh 1,200,000 which appears as a surplus refers to recurrent revenues proposed to fund the capital expenditures since the capital grants are now used for lending only.

**Observations and Findings of the Committee**

534. The Committee observed that the total budgeted revenue was equal to the total expenditure and therefore the matter is resolved.

**(6) Long Outstanding Payables**

535. The statement of financial position reflects a balance of Kshs79,251,763 in respect to trade and other payables and as disclosed in Note 22 to the financial statements. Included in the balance is an amount of Ksh10,161,795 out of which Ksh5,511,045 and Kshs4,650,750 has been outstanding since 30 June, 2014 and 30 June, 2015 respectively. No satisfactory explanation was given for the failure to settle the long outstanding accounts payables.

**Submissions by the Accounting Officer**

536. He responded that a reconciliation had not been carried out. Subsequently, suppliers whose amounts were verified were paid in FY 2021/22.

**Observations and Findings of the Committee**

537. The Committee observed that:

- i. The Fund has long outstanding payables of Ksh5,511, 045 and Kshs4, 650.750 since 30 June, 2014 and 30 June, 2015 respectively; and
- ii. The matter is unresolved.

#### **Recommendations of the Committee**

**538. The Committee recommends that the Accounting Officer ensures that the Fund settles its payables within a reasonable time in compliance with the Public Finance Management Act, 2012, and Public Procurement and Asset Disposal Act, 2015.**

#### **(7) Incomplete Fixed Assets Register**

539. The statement of financial position and Note 19 to the financial statements reflects a balance of Ksh30, 035,823 in respect to property plant and equipment. Review of the fixed assets register provided revealed that critical information such as location of the assets, asset number and serial numbers was not indicated in the register.

540. Further, physical verification of the assets revealed that the assets were not tagged for ease of identification and movement. Contrary to Regulation 139(1) (2) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that an Accounting Officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage, and misuse. In the circumstances, the Fund is in breach of the law.

#### **Submissions by the Accounting Officer**

541. The Accounting Officer stated that:

- i. The Fund revaluated its assets in FY 2021/2022 and a fixed asset register was regularly updated.
- ii. A copy of the fixed assets register was provided to the auditors for review.

#### **Observations and Findings of the Committee**

542. The Committee observed that:

- i. The Fund did not maintain a complete asset register as per the requirements of Regulation 143 of the Public Finance Management (National Government) Regulations;
- ii. The fixed assets register provided did not give details on location, asset number, serial numbers (if any), and other relevant information; and
- iii. The matter remains unresolved.

#### **Recommendations of the Committee**

**543. The Committee recommends that the Accounting Officer ensures that the Fund maintains a complete asset register as per the requirements of Regulation 143 of the Public Finance Management (National Government) Regulations within three months of the adoption of this report.**

### **(8) Grounded Motor Vehicles and Motorcycles**

544. Review of the assets register revealed that eighteen (18) motor vehicles and two hundred and ten (210) motorcycles were grounded due to various mechanical defects. Although the Management wrote to the Head of Public Service requesting approval for disposal on 6<sup>th</sup> March 2018 and a reminder on 9<sup>th</sup> March, 2021, no response had been received as at the time of the audit. As a result, the assets continue to deteriorate and any salvage value that could have been realized from sale may be lost.

### **Submissions by the Accounting Officer**

545. The Accounting Officer stated that the management continued to engage with the office of the Head of Public services seeking authorization to dispose of the assets. He added that correspondences with the office of the Head of Public service were provided for verification.

### **Observations and Findings of the Committee**

546. The Committee observed that:

- i. The Fund had eighteen (18) motor vehicles and two hundred and ten (210) motorcycles were grounded due to various mechanical defects;
- ii. The assets continue to deteriorate and any salvage value that may be realized from sale may be lost;
- iii. The matter remains unresolved.

### **Recommendations of the Committee**

547. The Committee recommends that:

- i. **The Accounting Officer seeks the approval of the Cabinet as per the circular REF OP/CAB.39/ 1A to dispose the grounded vehicles and motorcycles within three months upon the adoption of this report.**
- ii. **The Accounting Officer to ensure compliance with the provisions of the Public Procurement and Asset Disposal Act, 2015 and its regulations in the disposal of the grounded vehicles.**

=====**End**=====

## **10. CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR UWEZO FUND**

548. Mr. Peter Lengapiani, the Chief Executive Officer, Uwezo Fund, appeared before the Committee on 7<sup>th</sup> March, 2023 to adduce evidence on audited financial statements for the Uwezo Fund for the financial year 2018/2019, 2019/2020, and 2020/2021. The minutes of the Committee sittings and submissions tabled by the Accounting Officer are annexed to this report. He was accompanied by;

1. Ms. Annie Haji - Head of Operations
2. Mr. John M Makai - Head of Finance
3. Mr. Samuel Okeyo - Accountant
4. Ms. Jenifer Mureithi - Accountant
5. Mr. Gad Etyang - Accountant

### **10.0 Brief Background and Introduction of Uwezo Fund**

549. The Fund was established vide a legal notice no. 21 of the Public Finance Management Act, 2012 in September 2013. The main mandate of the Fund is to provide affordable loans to women, youth and persons living with disability. The Fund also provides mentorship opportunities to enable the beneficiaries to take advantage of the 30% government procurement preference through its Capacity Building Programme.

550. The fund is an avenue for incubating enterprises, catalyzing innovation, promoting industry, creating employment, and growing the economy. The Uwezo Fund Oversight Board manages the Fund. Constituency Uwezo Fund Management Committees to manage the Fund at the Constituency level.

### **10.1.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR UWEZO FUND FOR THE FINANCIAL YEAR 2018/2019**

#### **Basis for Disclaimer of Opinion**

##### **(1) Presentation and inaccuracy of the Financial Statements**

551. The statement of comparison of budget and actual amounts did not reflect the budget and actual amounts for revenue as required by the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) and The National Treasury. In addition, the statement reflected total expenses amounting to Kshs 243,584,574, while the statement of financial performance reflected total expenditure of Kshs 240,605,113. The variance of Kshs 2,979,461 was not explained or reconciled.

552. Under the circumstances, it was not possible to confirm the completeness and accuracy of the financial statements for the year ended 30 June 2019.

### **Submissions by the Accounting Officer**

553. The Accounting Officer submitted that;

- i. The Fund presented a statement of comparison of budget and actual amounts for the period under review using the format prescribed by the public sector accounting standards board (PSASB) and the National Treasury. However, the Fund inadvertently prepared the financial statements for the financial year 2018/2019 using the previous year's template.
- ii. The Fund had since adopted the format prescribed by the public sector accounting standards board (PSASB)
- iii. The variance of Kshs 4,542,461 between the statement of comparison of budget & actual amounts and the statement of financial performance was due to the provision of depreciation, purchase of assets, the current grants and transfers; and
- iv. The variance was reconciled, and the reconciliation provided with auditors for confirmation.

### **Observations and findings of the Committee**

554. The Committee observed that:

- i. The Accounting Officer did not prepare the financial statements using the prescribed format by the public sector accounting standards board (PSASB) as provided in Section 101(4) of the Public Finance Management (National Government) Regulations, 2015;
- ii. There was an unexplained variance of Kshs 4,542,461 between the statements of comparison of budget and actual amounts and financial performance contrary with the provisions of International Public Sector Accounting Standards (IPSAS 1(27));
- iii. The Fund has since adopted the prescribed format prescribed by the public sector accounting standards board (PSASB);
- iv. The variance between the statement of comparison of budget and actual amounts and the statement of financial performance has since been reconciled and provided to the Office of the Auditor General for verification; and
- v. The matter was resolved.

### **Recommendations of the Committee**

555. **The Committee recommended that the accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(2.) Unsupported Constituencies Administration Costs**

556. The statement of financial performance and Note 16 to the financial statements reflected an amount of Kshs 115,568,891 as the constituencies' administration costs, but the same was not

supported by relevant expenditure returns. Under the circumstances, the accuracy of the constituencies administration costs of Kshs 115,568,891 could not be confirmed.

#### **Submission by the Accounting Officer**

557. The Accounting Officer submitted that:

- i. The delay in submitting expenditure returns from the constituency levels was due to the manual operation system used by the Fund;
- ii. The Fund relied on seconded staff from other departments to implement its programs at the constituency level;
- iii. The Fund collated expenditure returns from 135 constituencies in support of account for administration costs of Kshs 65,262,645, representing 56% of the administration costs from the constituencies and submitted the same to the Auditor for confirmation.

#### **Observations and findings of the Committee**

558. The Committee observed that:

- i. The Accounting Officer failed to provide supporting documents for administrative expenditure of Ksh 115,568,891 in contravention of Section 68 (2) (b) of the PFM Act, 2012.
- ii. Management did not submit expenditure returns of Kshs 50,306,246 for administration to the auditors for verification.
- iii. Management has since submitted expenditure returns of Ksh 65,262,645 for administration to the auditors for verification.
- iv. Submission of expenditure returns from constituency levels is slow because the Fund operates manually. In addition, the Fund relies on staff from other departments for implementation of its programs at the constituency level;
- v. The matter remained unresolved.

#### **Recommendations of the committee**

559. The committee recommends that:

- i. **The Accounting Officer should ensure that accounting documentation are submitted on time in compliance with the provisions section 68(2)(b) and (c) Public Finance Management Act, of 2012 and regulation 100 of the Public Finance Management (National Government) Regulations, 2015.**
- ii. **Within three (3) months upon the adoption of this report, the Accounting Officer should submit expenditure returns for the remaining balance of Ksh 50,306,246 to the Auditor general for audit verification for reporting in the next audit cycle.**

### **(3.) Cash and Cash Equivalents**

560. The statement of financial position and Note 17 to the financial statements indicate an amount of Kshs 2,881,305,135 in respect of cash and cash equivalents. As reported in the previous year, the Fund maintained three (3) bank accounts for each of the 290 constituencies in Kenya distributed over nine (9) commercial banks which had a total bank balance of Kshs 2,333,718,282 as at 30 June, 2019. However, the following issues were noted in respect of the balance.

561. Management has availed the documents in support of the reported balances in form of bank reconciliation statements, bank balance confirmation certificates, board of survey reports and copies of cash books, for each of the three (3) bank accounts for only seventy-one (71) constituencies representing Kshs 573,877,689 or about 25%. However, for ninety-two (92) constituencies there was partial submission of supporting documentation and for one hundred and twenty-seven (127) constituencies, there were no documents submitted in support of the reported balances.

#### **Submissions by the Accounting Officer**

562. The Accounting Officer submitted that:

- i. The Fund compiled documents in support of the reported balances. Currently, 234 constituencies have fully complied, 43 have partially complied, and only 13 still need to submit the documents.
- ii. The non-submission of bank reconciliations from the 13 constituencies was because the Fund relies on staff from other MDAs who cannot run the Funds programs. In addition, he noted that the Funds operations are manual, and most constituencies take time to prepare and submit the financial documents on time.
- iii. The Fund has since received bank reconciliation statements of Ksh 2,204,044,972.94, representing 95% of Kshs 2,333,718,182, in support of bank balances reported in the financial statement.

#### **Observations and findings of the Committee**

563. The Committee observed that:

- i. The management did not submit bank reconciliation statements to support the remaining bank balance of Kshs 129,673,210 in contravention of regulation 90(1) and (3) of the PFM (National Government) Regulations, 2015;
- ii. The Fund relied on staff from other MDAs to carry out its mandate which caused the non-submission of bank reconciliation statements from the 13 constituencies; and
- iii. The matter is not resolved.

### **Recommendations of the Committee**

564. The Committee recommends that:

- i. Within three (3) months upon the adoption of this report, the Accounting Officer submits the bank reconciliation statements for the 13 constituencies and for the reported bank balance of Kshs 129,673,210 to the Auditor- General for audit verification and reporting in the next audit cycle;
- ii. The accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015; and
- iii. The Principal Secretary, State Department for Youth Affairs considers deploying a Youth Officer in each constituency for efficient administration of the Fund.

### **(4) unreconciled bank balances**

565. The constituencies' reported bank balances were not based on the Fund's accounting records since they comprised the unreconciled bank balances as reflected in the respective bank balance confirmation certificates, instead of the reconciled cashbook balances. Further, the bank balances confirmation certificates and/or the bank statements for one hundred and twenty-seven (127) constituencies as noted above were not availed for audit purposes.

### **Submissions by the Accounting Officer**

566. The Accounting Officer submitted that:

- i. The bank balances of Ksh 2,333,718,282 were indeed reported based on bank balance certificates.
- ii. The cash book is maintained at the Constituencies by the respective Sub- County Accountants, who have the responsibility to prepare the cash books and bank reconciliations and send them to the Fund head office for compilation;
- iii. The submissions were not made at the time of the audit due to a lack of sufficient personnel in the constituencies to prepare the financial documents within the stipulated time; and
- iv. The Fund has since received and compiled the statement of bank balances and their cashbook balances from 94 constituencies out of the 127 that had earlier yet to submit.

### **Observations and findings of the Committee**

567. The Committee observed that:

- i. The reported bank balance of Ksh 2,333,718,282 was based on bank balance confirmation certificates instead of reconciled cash book balances;

- ii. Bank balance confirmation certificates and statements for one hundred and twenty-seven (127) constituencies were not availed for audit verification;
- iii. Management received and compiled statements for bank balances and their cashbook balances from 94 constituencies;
- iv. The matter is not resolved.

**Recommendations of the Committee**

568. The Committee recommended that:

- i. **Within three (3) months upon the adoption of this report, the Accounting Officer submits the bank reconciliation statements for the 127 constituencies and for the reported bank balance of Ksh 2,333,718,282 to the Auditor General for audit verification and reporting in the next audit cycle; and**
- ii. **The Accounting Officer complies with sections 90(1), (3) and (4) of the PFM (National Government) Regulations, 2015, when preparing bank reconciliation statements.**

**(5) unrepresented cheques for Ksh 1,801,139**

569. The bank reconciliation statements for the bank accounts for nine (9) constituencies as shown below had stale unrepresented cheques of Kshs 1,801,139 as at 30 June, 2019. The Management has not initiated the process of reversing the cheques and no explanation has been provided for the non-reversal.

No.	Constituency	Main Account (Ksh)	Administration Account (Ksh)	Loan Repayment Account (Ksh)	Total (Ksh)
1	Manyatta	100,000			100,000
2	Mwingi West	50,000	22,000		72,000
3	Kaiti	100,000			100,000
4	Makueni	100,000			100,000
5	Kikuyu	200,000		177,143	277,143
6	Tetu	410,000			410,000
7	Mwea			439,496	439,496
8	Rongai			150,000	150,000
9	Njoro	52,500			52,500
	<b>Total</b>	<b>1,012,500</b>	<b>22,000</b>	<b>766,639</b>	<b>1,801,139</b>

**Submissions by the Accounting Officer**

570. The Accounting Officer submitted that:

- i) The issue of stale cheques arose because some beneficiary groups did not deposit the cheques within the allowable period of six months;

- ii) The said groups had not surrendered the stale cheques so that they can be reversed in the cash book at the constituency level;
- iii) Other beneficiary groups did not collect their cheques after applying and qualifying for funding;
- iv) The stale cheques have since been reversed, and copies of bank reconciliation statements provided for audit verification; and

### **Observations and findings of the Committee**

571. The Committee observed that:

- i. Bank reconciliation statements pertaining to bank accounts for nine (9) constituencies included stale cheques totaling to Kshs. 1,801,139 which were not reversed in the cashbooks contrary with section 90(3) of the PFM (National Government) Regulations, 2015
- ii. The stale cheques were reversed, and copies of bank reconciliation statements provided for audit verification.
- iii. The matter was resolved.

### **Recommendations of the Committee**

572. The Committee recommend that:

- i. **The Accounting Officer develops mechanisms of contacting successful applicants to collect cheques by way of using contact numbers and e-mail addresses indicated on the application forms; and**
- ii. **The Accounting Officer complies with the provisions of regulation 90(3) of the PFM (National Government) Regulations, 2015 when preparing bank reconciliation statements.**

### **(5) Ksh 7,548,545 for Marakwet West Constituency loan**

573. The reported bank balance of Kshs 7,548,545 for Marakwet West Constituency loan account included an amount of Kshs 1,522,395 appearing in the bank reconciliation statement as receipts in bank statement but not recorded in the cashbook that has been appearing in the reconciliation statements for this account since the year 2015. Management did not explain the sources of the receipts and why they have not been cleared for over five (5) years. In the absence of such determination, the accuracy of the reported bank balance of Kshs 7,548,545 for Marakwet West Constituency loan account could not be confirmed.

### **Submissions by the Accounting Officer**

574. The Accounting Officer submitted that:

- i. The balance of Kshs 1,522,395 Pertains to deposits made by groups in their individual members' names rather than the name of the beneficiary group.

- ii. Beneficiaries of loans had not submitted deposit slips and hence, receipting and reconciliation of records could not take place to clear the outstanding balance of Kshs 1,522,395.
- iii. Management had since deployed interns in the Constituencies to help track and reconcile the outstanding payments;
- iv. The Fund has a shortage of staff as most officers are deployed from other State Departments;
- v. Management was reviewing the Regulations to allow for the deployment of its own staff, who will be directly accountable to the Fund; and
- vi. Management intended to install a digital platform to allow digital transactions to facilitate accurate reporting.

#### **Observations and findings of the Committee**

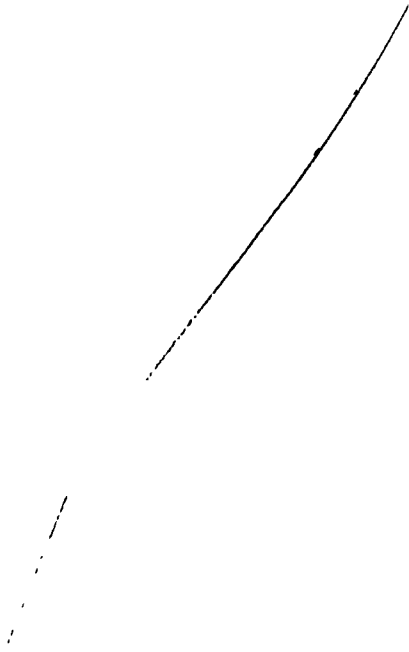
575. The Committee observed that:

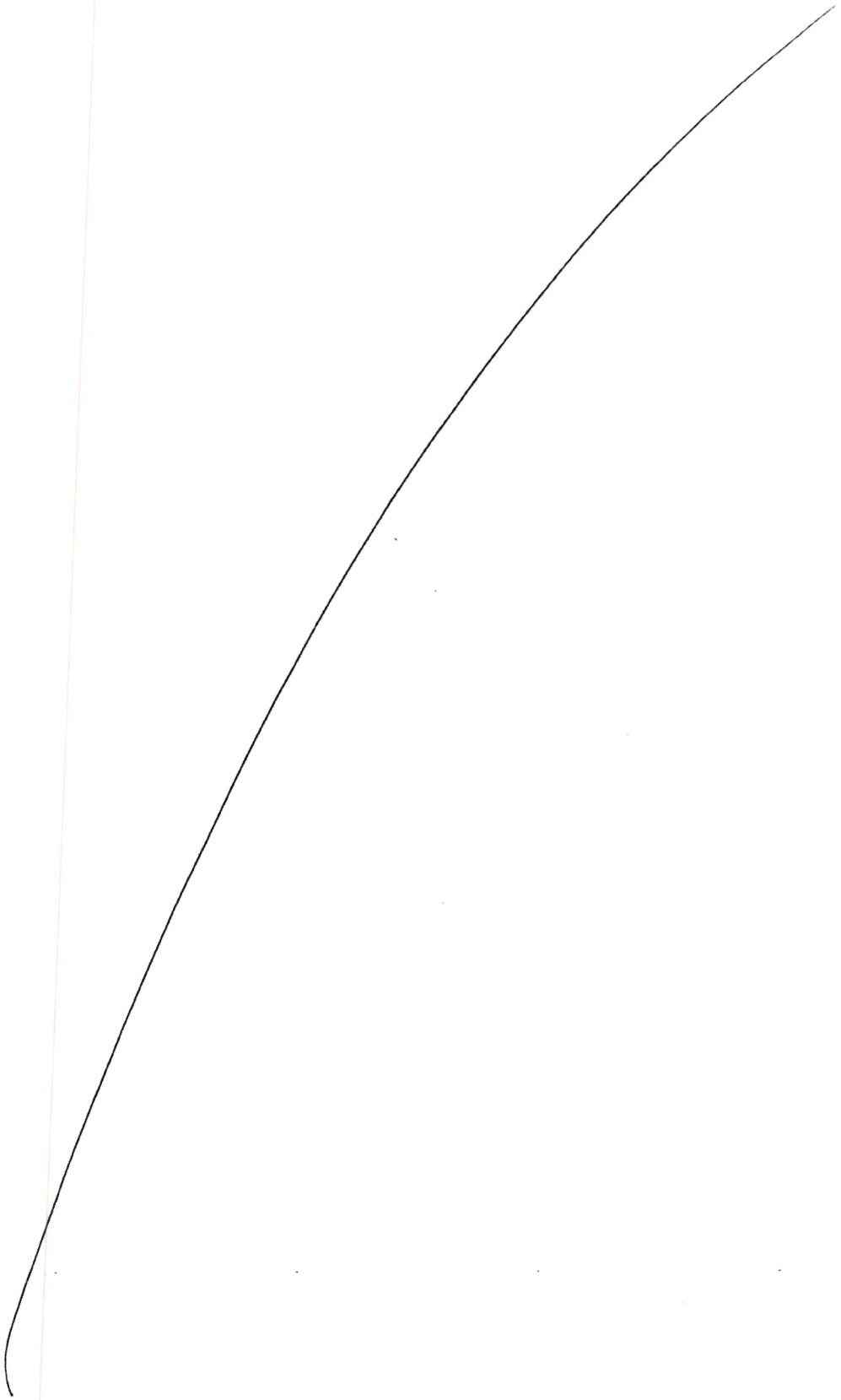
- (i) Management identified the source of the outstanding balance of Kshs 1,522,395 and provided a reason indicating why the balance has continued to appear in the bank reconciliation statements.
- (ii) The Fund's failure to provide accounting documents on time is attributed to the reliance on staff from other MDAs to provide reconciliations or expenditure returns. Further, operations of the Fund are manual, and many constituencies have inadequate personnel to prepare and submit the financial documents on time.
- (iii) The Fund management was reviewing the Regulations to allow for the deployment of its own staff, who will be directly accountable to the Fund;
- (iv) Beneficiaries of loans had not submitted deposit slips and hence, receipting and reconciliation of records could not take place to clear the outstanding balance of Kshs 1,522,395.
- (v) Management had since deployed staff in the Constituencies to help track and reconcile the outstanding payments.
- (vi) The matter remained unresolved.

#### **Recommendations of the Committee**

576. The Committee recommended that:

- (i) **The Accounting Officer should ensure that accounting documentation is submitted on time in compliance with the provisions of Public Finance Management Act, 2012 Regulation 68(2)(b) and (c) and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015;**
- (ii) **The Accounting Officer complies with the provisions of Regulation 90(3) of the PFM (National Government) Regulations, 2015 when preparing bank reconciliation statements; and**





- (iii) **Within three (3) months upon the adoption of this report, the Accounting Officer should reconcile and clear the outstanding balance of Ksh 1,522,395 and submit the bank reconciliation statement and the supporting documents to the Auditor - General for audit verification and reporting in the next audit cycle.**

**(6) Loans to the Groups**

577. The statement of financial position as at 30 June, 2019 (Note 19) reflected an amount of Kshs 3,992,873,484 as outstanding loans from 598 groups. The reported balance has been derived by taking the initial National Government capital grants amount of Kshs 5,854,400,004 and adding Kshs 445,000,000 transferred to the loan fund account and from the resultant total of Kshs 6,299,400,004 deducting the amount of monies held in; CBK Bank Account - Kshs 29,133,230, the loan repayment accounts - Kshs 1,318,113,323 and the main account - Kshs 959,279,966, all of which were not supported.

578. Further, there were no debtors' ledgers detailing the loans issued by the Fund since inception and the repayments made over the years on account of any loan recovery, nor were there comprehensive loan listings and aging analysis supporting the outstanding loans. In addition, no records of the loans advanced to groups, including the evaluation and authority to issue loans, were availed for audit review. Consequently, the existence, accuracy, completeness, validity and recoverability of the loans to groups balance of Kshs 3,992,873,484 as at 30 June, 2019 could not be confirmed.

**Submission by the Accounting Officer**

579. The Accounting Officer submitted that:

- i. The amount of Ksh **3,992,873,484** was for outstanding loans disbursed to various groups;
- ii. The management compiled and reconciled the debtors' ledger from the Constituencies to support the amount of **Ksh 3,992,873,484** as indicated in the financial statements;
- iii. To enhance recovery, the Fund involved National Government Administrative Officers, trained the CUFMCs and conducted an intensive loan recovery campaign. Consequently, the repayment rate stood at 35.78% as of June 2019; and
- iv. The list of Constituencies and the amounts issued, repaid, and the balances to support the amounts of **Ksh 3,992,873,484** was provided for review.

**Observations and findings of the Committee**

580. The Committee observed that:

- i. The management did not provide:
  - i. A debtors' ledgers detailing the loans issued by the Fund since inception and the repayments made over the years for audit review;

- ii. A comprehensive loan listing to support outstanding loans and aging analysis for audit review.
  - iii. Supporting documents for monies held at Central Bank of Kenya- Ksh 29,133,230, loan repayment accounts - Ksh 1,318,113,323 and the main account - Ksh 959,279,966 were not submitted for audit verification.
- ii. The Matter remained unresolved.

#### **Recommendations of the Committee**

581. The Committee recommended that:

- i. **The Accounting Officer ensures that necessary financial and accounting records are kept in compliance with the provisions of section 68(2)(b) of the Public Finance Management Act, 2012 and section 100 of the PFM (National Government) Regulation, 2015.**
- ii. **The Accounting Officer takes appropriate measures to resolve any audit issues that remain outstanding as required by Regulation 68(2)(l) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015;**
- iii. **Within three (3) months upon the adoption of this report, the Accounting Officer should submit the supporting documents for monies held at Central Bank of Kenya- Ksh 29,133,230, loan repayment accounts - Ksh 1,318,113,323 and the main account - Ksh 959,279,966 to the Auditor general for audit verification and reporting in the next audit vehicle.**

#### **(7) Work-in-Progress**

582. As reported in the previous year, the statement of financial position reflected a balance of Kshs 19,522,765 under work-in-progress, representing 40%-part payment in respect of an Enterprise Resource Planning (ERP) software procured and contracted for in the financial year 2015/2016. The application's supply, installation, and commissioning were pending even though the 40%-part payment was made over four (4) years ago and recognized in the statements.

583. The previous year's audit indicated that the implementation of the ERP, which was contracted at a sum of Kshs 48,806,912, had been called off even though there is a valid contract between the Fund and the supplier. Further, the recoverability and utilization of the part payment of Kshs 19,522,765 are doubtful, given that the Fund appeared to have stopped the implementation of the software. The value for money received by the Fund in respect of the software could not be ascertained. In the circumstances, the validity and accuracy of work the -in-progress balance of Kshs 19,522,765 could not be confirmed.

### **Submissions by the Accounting Officer**

584. The Accounting Officer submitted that;

- i. The payment for the 1st installment of Kshs 19,522,765 (40% of the contract sum) was executed to honor the contractual obligations of the fund as provided in paragraph 1.6.1 of the contract agreement for Tender No. UWZ/RFP/040/2014/2015;
- ii. The contract was not terminated since the contract period was for 24 months, and at the end of the financial year, the supplier had done a functional requirement design and was yet to deliver the software for testing.
- iii. Consultations with relevant offices delayed the progress.
- iv. The Head of Public Service, vide letter reference number OC.CAP/14/21A, of December 2017, directed that, all affirmative funds would be merged and there was no need to appoint a new board. Consequently, implementation of the project stalled as the board was not fully established to give guidance to the management;
- v. In a meeting held on 10th January 2020, the Board resolved to embark on revisiting the project and the system vendor had since developed four modules (Credit Management, Finance Management, Procurement and Registry management) which were awaiting validation and commissioning; and
- vi. Management was discussing a revised plan with the vendor, which entailed the implementation of the latest technology in the system software.
- vii. The system would be populated and will be in use within three months

### **Observations and findings of the Committee**

585. The Committee observed that:

- (i) The matter was raised in the financial year 2016/2017 and the Special Funds Accounts Committee recommended the matter be investigated by the Ethics and Anti-Corruption Commission (EACC);
- (ii) The Fund procured for implementation and commissioning of ERP software in 2015/2016 at a contract sum of Kshs 48,806,912 and paid Kshs 19,522,765 (40% of contract sum) part payment, yet the implementation of the software matter was still outstanding as 30<sup>th</sup> June 2019;
- (iii) The delay in implementation arose due to the Head of Public Service through the letter OC.CAP/14/21 on the impending merger of all affirmative funds which delayed the appointment of a new board;
- (iv) The Board in January 2020 affirmed the implementation of the project and the system vendor had since developed four modules (Credit Management, Finance Management, Procurement and Registry management) which were awaiting validation and commissioning;
- (v) Project implementation has taken too long and there is a risk of implementing old technology, which may become obsolete at the time of commissioning; and
- (vi) The matter remained unresolved.

### **Recommendations of the Committee**

586. The Committee recommends that:

- i. **The Accounting Officer should ensure that the latest technology of the ERP system is implemented without further delay;**
- ii. **The Accounting Officer should ensure that, all contracts entered into by the entity are lawful and are complied with in compliance with Regulation 68(2)(d) of the PFM Act, 2012.**
- iii. **Within three (3) months upon the adoption of this report, the Accounting Officer submits a status report and supporting documents on the implementation of the ERP to the Auditor- General for audit verification; and**
- iv. **The Accounting Officer takes appropriate measures to resolve any audit issues that remain outstanding as stipulated in section 53 of the Public Audit Act, 2015 and Section 53(1) of the Public Audit Act, 2015.**

### **(8) Unsupported balances**

587. The following balances reported in the statement of financial position, statement of cash flows and respective notes to the financial statements were not supported and no documents were provided for audit verification; Under the circumstances it was not possible to confirm the completeness and accuracy of the stated balances as reflected in the financial statements.

- i. **Trade and other Payables, note 21-Kshs 4,171,786**

### **Submissions by the Accounting Officer**

588. The Accounting Officer submitted that;

- i. The balance of Kshs **4,171,786** under trade and other payables in the statement of financial position represented cash deposits with individual names in the loan repayment accounts whose group names cannot be identified in various Constituencies.
- ii. To Constituencies Officers have been guided to make it mandatory for groups to submit deposit slips and be issued with miscellaneous receipts (MR). Consequently, the Fund managed to get bank reconciliation statements from the Constituencies to reconcile the current liabilities of **Kshs 4,171,786**.

### **Observations and findings of the Committee**

589. The Committee observed that:

- i. The balance of Ksh 4,171,786 reported in the financial statements was not supported with documentary evidence contrary with the provisions of the International public sector accounting standard 1(27);
- ii. The balance of Ksh 4,171,786 under trade and other payables represent cash deposits with individual names in the loan repayment accounts whose group names cannot be identified in various Constituencies;
- iii. The Fund has made it mandatory for groups to submit deposit slips for reconciliations; and
- iv. The matter remained unresolved.

### **Recommendations of the committee**

590. The Committee recommends that:

- i. **The Accounting Officer submits the supporting documents on the balance of Ksh 4,171,786 to the Auditor General for audit verification and report in the subsequent audit cycle within three months of the adoption of this report.**
- ii. **The Accounting Officer institutes a payment mechanism that requires inputting the group name for easy identification and reconciliation of trade and other payables.**
- iii. **The Accounting Officer takes appropriate measures to resolve any audit issues that remain outstanding as required by Section 68(2)(l) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015.**

#### **b. Non-Current Receivables- Kshs 72,648,086**

##### **Submission by the Accounting Officer**

591. The Accounting Officer submitted that the non-current receivables in the financial statements of **Kshs 72,648,086** was a disclosure of the movement of cash between the closing balance of **Kshs 3,992,873,484** and the opening balance of **Ksh 3,920,225,399** for loans in year under review.

### **Observations and findings of the Committee**

592. The Committee observed that:

- (i) The Accounting Officer did not provide the supporting documentation for the non-current receivables of Kshs 72,648,086.
- (ii) The supporting documents were provided for audit verification.
- (iii) The matter was resolved.

### **Recommendations of the Committee**

593. **The Committee recommends that the accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **c. Adjustment on cash and cash Equivalent-Trade and other receivables – Kshs 3,018,274**

##### **Submissions by the Accounting Officer**

594. The Accounting officer submitted that:

- i. The adjustments on cash and cash equivalent of Kshs 3,018,274 were for outstanding imprest during the period under review;
- ii. The outstanding imprest was surrendered fully, and a schedule supporting the figure was availed for audit confirmation.

### **Observations and findings of the Committee**

595. The Committee observed that:

- i. The adjustments on cash and cash equivalent of Kshs 3,018,274 were for outstanding imprest during the period;
- ii. The imprest was surrendered, and the supporting schedule was provided for audit verification; and
- iii. The matter was resolved.

### **Recommendations of the Committee**

596. The Committee recommends that,

- i. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015;**
- ii. **The Accounting Officer should ensure that imprest is surrendered within the time specified in Regulation 93(5) of the Public Finance Management (National Government) Regulations.**

### **(8) Financial misconduct**

597. Records held by the Fund Management shows that, on diverse various dates between 30 July 2017 and 30 January 2018, cash amounting to Kshs3,160,000, was fraudulently withdrawn from Bumula Constituency loan repayment account No. 01141536532902 in Bungoma County. This was contrary to the head of the secretariat's instructions on the management of Uwezo Fund bank accounts, vide letter reference number UWZ/2015/CIR/Vol.1(1) of 26 March, 2015 to Sub-County Youth Officer.

598. It also contravened the requirements of the Principles of Public Service (Article 232), the National Values (Article 10), the Penal Code, the Public Finance Management Act, 2012 and the Public Officer Ethics Act.

599. Uwezo Fund Management had also not availed evidence either to show that the amount fraudulently withdrawn has been recovered or that legal or administrative action has been taken against the involved officers entrusted. The loss had not been disclosed in the footnotes to the financial statements as required under Regulation 137 (2) (d) of Public Finance Management Regulations, 2015.

### **Submissions by the Accounting Officer**

600. The Accounting officer submitted that:

- i. The Principal Secretary, State Department of Gender wrote to the Chief Executive Officer Ethics and Anti-Corruption Commission to investigate the alleged misappropriation of Kshs 3,160,000 in Bumula. Subsequently, the officers agreed to return the money.
- ii. The concerned officers returned the money by depositing the same into the account of the Ethics and Anti-Corruption Commission (EACC).
- iii. Management was following up with EACC to have the money deposited in the Bumula Constituency fund loan repayment account.

### **Observations and findings of the Committee**

601. The Committee observed that:

- i. An amount of Kshs 3,160,000 was fraudulently withdrawn from the Loan Repayment Account Number 01141536532902 for Bumula Constituency at Cooperative Bank.
- ii. The Ethics and Anti-Corruption Commission recovered the money after it carried out the investigations.
- iii. The Ethics and Anti-Corruption Commission has not returned the recovered money into the bank accounts of Bumula Constituency.

### **Recommendations of the Committee**

602. The Committee Recommends that:

- i. **Within three months of the adoption of this report, EACC should deposit the recovered money to Bumula Constituency Uwezo Fund bank account; and**
- ii. **The DCI, DPP, EACC takes appropriate action against the concerned individuals for financial misconduct.**

### **(9) Unresolved prior-year issues**

603. As disclosed under the progress on follow-up of the Auditor's recommendations section of the financial statements, various prior year audit issues remained unresolved as at 30 June, 2019. Management had not provided reasons for the delay in resolving the prior year's audit issues.

### **Submission by the Accounting Officer**

604. The Accounting Officer submitted that auditors were invited to the Fund and verified the issues that required confirmation.

### **Observations and findings of the Committee**

605. The Committee observed that:

- i. Prior-year audit issues remained unresolved as at 30 June 2019 against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012;
- ii. The Fund did not disclose the progress on follow-up of the auditor's recommendations in the financial statements as required by the Public Sector Accounting Standards Board; and

- iii. The matter remained unresolved.

#### **Recommendations of the Committee**

606. The Committee recommended that:

- i. The Committee recommends that the accounting officer should take appropriate measures to resolve the outstanding prior audit issues as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015 within three (3) months upon the adoption of this report and submit the status report to the Auditor-General for audit verification.

#### **10.1.2 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR UWEZO FUND FOR THE FINANCIAL YEAR 2019/2020**

##### **1. Accuracy of Financial Statements**

607. The statement of comparison of budget and actual amounts omitted the budget and actual revenue from exchange transactions, government grants subsidies, and transfers from other governments. The statement reflects the total actual expenses of Kshs 389,657,343, which differ from the statement of financial performance amount of Kshs 190,922,566, thus resulting in a variance of Kshs 198,734,777 that has yet to be explained or reconciled.

608. The statement of cash flows reflected balances of Kshs 1,114,669 and Kshs 118,282,727 under trade and other payables and non-current receivables, respectively. However, no supporting documents by way of detailed ledgers were availed for audit verification. Under the circumstances, the accuracy of the financial statements for the year ended 30<sup>th</sup> June, 2020 could not be ascertained.

#### **Submissions by the Accounting Officer**

609. The Accounting submitted that:

- i. The statement of comparison of the budget of Kshs. 389,657,343 included Kshs. 200,250,000 transferred to constituencies for group loans that were regarded as part of the capital fund and Ksh120,960,000 as facilitation to Constituency Uwezo Fund Management committees;
- ii. The capital fund to Constituencies was not included under the financial performance and facilitation statement to CUFMCs but was captured as an expenditure;
- iii. The statement of the financial performance reflected the figure of Kshs 190,922,566 for total actual expenses which included depreciation of fixed assets of Ksh 2,548,250 and transfer from other government agencies gifts and services in kind of Ksh 25,959,080 that were not captured under the statement of comparison of budget and actual amounts;
- iv. An adjustment in the next financial statements corrected error;
- v. The statement of cash flows reflected balances of Kshs 1,114,669 and Kshs 118,282,727 under trade and other payables and non-current receivables, respectively;

- vi. Subsequent financial statements were amended and verified by staff of the Office of the Auditor General

### **Observations and findings of the Committee**

610. The Committee observed that:

- i. There was an unexplained or unreconciled variance of Kshs 198,734,777 between the statements of comparison of budget and actual amounts and financial performance
- ii. The subsequent financial statements were amended and verified by the staff of the Office of the Auditor General,
- iii. The reported figures of Ksh 1,114,669 and Kshs 118,282,727 in the statement of cash flows for trade and other payables and non-current receivables respectively were not supported by way of detailed ledgers
- iv. The matter was unresolved.

### **Recommendations of the Committee**

611. The Committee recommends that:

- i. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015; and**
- ii. **The Accounting Officer should within three months of the adoption of this report submit to the Auditor General the detailed ledgers relating to the reported figures of Ksh 1,114,669 and Kshs 118,282,727 in the statement of cash flows for trade and other payables and non-current receivables for audit verification and reporting in the subsequent audit cycle.**

### **(2) Irregular Extraneous Allowance and Gifts and Services in Kind**

612. As disclosed in Note 8 to the financial statements, the statement of financial performance reflects transfers from other governments-gifts and services in kind amounting to Kshs 25,959,080. Included in the amount is Kshs 2,791,246 paid to an officer as salary during the year under review. Further, the statement of financial performance reflects employee costs of Kshs 6,164,160 which, as disclosed in Note 9 to the financial statements, includes extraneous allowances of Kshs 4,095,883. The latter balance includes an amount of Kshs 141,071 paid to the officer as extraneous allowance.

613. Available Information indicate that, the officer was transferred to the State Department for Early Learning and Basic Education effective from 1<sup>st</sup> March, 2018. However, there is no evidence of continued service of the officer to the Fund and the requisite approvals to draw the allowance were made available for audit review.

614. Under the circumstances, the propriety of the transfer from other governments – gifts and services in kind of Kshs 2,791,246 and extraneous allowances totaling to Kshs 141,071 could not be confirmed.

#### **Submissions by the Accounting Officer**

615. The Accounting Officer submitted that:

- i. The payment of Kshs 2,791,246 was recognized in the financial statements as transfers from other governments-gifts and services in kind;
- ii. The officer in question rendered services to the Fund during the period under review and was not an employee of the Fund; and
- iii. The officer was paid Kshs 141,071 as extraneous allowance and the payment was regular as advised by the Salaries and Remuneration Commission vide letter Ref. SRC/TS/CBT/3/3 Vol. VI (42) dated 17<sup>th</sup> July 2019.

#### **Observations and findings of the Committee**

616. The Committee observed that:

- i. The extraneous allowances were paid based on the advice by the Salaries and Remuneration Commission and therefore regular.
- ii. The gifts and services in Kind were recognized in the financial statements as transfers from other governments-gifts and services in kind.
- iii. The matter was resolved.

#### **Recommendations of the Committee**

617. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(3) Unreconciled Remuneration of Directors**

618. The statement of financial performance reflected Kshs 4,166,679 as remuneration of directors. However, the reported balance excluded Kshs 240,000 paid to board members while attending a corporate governance training held between 21 and 23 November, 2019. The payment vouchers supporting expenditure amounting to Kshs 4,589,519 comprising of Board allowances and other expenses of Kshs 3,908,229, and Chairman's honoraria of Kshs 681,290. This differed from the reported expenditure in the financial statements of Kshs 4,166,679 resulting in an understatement of Kshs 422,840. Consequently, the accuracy and completeness of the reported remuneration of directors of Ksh 4,166,679 could not be confirmed.

#### **Submissions by the Accounting Officer**

619. The Accounting Officer submitted that:

- i. The management did include in the training expenses ledger an amount of Kshs 240,000 paid for the training of Board members between the 21<sup>st</sup> and 23<sup>rd</sup> of November 2019 at Lake Naivasha Resort. The payment was made to ICPSK.
- ii. The payment vouchers comprising Board allowances, other expenses and Chairman's honoraria agreed with the reported expenditure in the financial statements of Kshs 4,166,679.

#### **Observations and findings of the Committee**

620. The Committee observed that:

- i. There was a variance the reported figure for the remuneration of directors in the statement of financial performance and the total of payment vouchers supporting the expenditure.
- ii. Management has since captured the payment correctly in the relevant ledger account under board expenses and the figures were adjusted in the financial statements for the subsequent year.
- iii. The matter was resolved.

#### **Recommendations of the Committee**

621. **The Committee recommends that the accounting officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(4) Unsupported Constituencies' Administration Costs**

622. The statement of financial performance reflects constituencies' administration costs of Ksh 94,064,891, which was unsupported by way of comprehensive expenditure returns from the Constituencies. Instead, the amount had been derived from movements in the unutilized Fund balances (opening and closing) and adjusted by the transfers to the Constituencies during the year. Consequently, the accuracy and completeness of the reported constituencies' administration costs of Ksh 94,064,891 could not be confirmed.

#### **Submissions by the Accounting Officer**

623. The Accounting Officer submitted that:

- i. The Statement of Financial Performance for the year ended 30<sup>th</sup> June 2020 reflected an amount of Ksh 94,064,891 as administration costs. The amount had been arrived at by taking the balances brought forward of the unutilized funds amounting to Ksh 58,753,806 and adding the transfers to the Constituencies during the year totaling to Ksh 120,960,000;

- ii. Management deducted the unutilized bank balances in the administration bank accounts of Kshs 85,648,915 from a total amount of Ksh 179,713,806 to arrive at the reported amount of Ksh 94,064,891.
- iii. All expenditure returns from 290 constituencies had not been received by the time the financial statements were prepared; and
- iv. The Fund had since received and collated expenditure returns from 201 constituencies totaling to Kshs 68,278,588.03 and the same was available for audit verification. The amount supporting the expenditure translates to 73% when compared with Ksh 94,064,891.

#### **Observations and findings of the Committee**

624. The Committee observed that:

- i) Administration costs of Kshs 94,064,891 were not supported by comprehensive expenditure returns from the Constituencies.
- ii) All the expenditure returns from 290 constituencies had not been received by the time the financial statements were prepared;
- iii) The Fund had since received and collated expenditure returns from 201 constituencies totaling Kshs 68,278,588.03. which translates to 73% support for the expenditure;
- iv) Failure by management to provide accounting documents on time is attributed to the reliance of staff from other MDAs to provide reconciliations or expenditure returns.
- v) The Fund uses a manual system for its operations and most constituencies lack sufficient personnel to prepare and submit the financial documents on time.
- vi) The matter remained unresolved.

#### **Recommendations of the Committee**

625. The Committee recommends that:

- (i) **The Accounting Officer should ensure that relevant accounting documentation is submitted within reasonable time in compliance with the provisions of section 68(2)(b) of Public Finance Management Act, 2012 and IPSAS 1(27).**
- (ii) **Within three (3) months upon the adoption of this report, the Accounting Officer should address all the unresolved prior year matters in the audit report as provided in section 53 of the Public Audit Act, 2015 and submit the status report to the Auditor general for audit verification.**

#### **(5) Unsupported and Unreconciled Cash and Cash Equivalents**

626. As disclosed in Note 17 to the financial statements, the statement of financial position reflects a balance of Kshs 2,959,082,841 under cash and cash equivalents. Included in the balance is Kshs 2,427,782,222 held at nine commercial banks with each of the 290 Constituencies maintaining three (3) types of bank accounts namely, main, administration and loan accounts.

627. However, supporting documents for 343 bank account balances by way of bank reconciliation statements, certificate of bank balance confirmation, board of survey reports and copies of cash book extracts for the bank accounts were not availed for audit review. The reported bank balance was derived from the bank statement balances as at the end of the year as opposed to the cash book balances. This is a departure from the general accepted accounting principles and practices.

628. Further, included in the balance are amounts totalling to Kshs 13,372,033 indicated as direct credits in bank accounts for eleven constituencies as detailed below;

	<b>Constituency</b>	<b>Main Account (Kshs)</b>	<b>Admin Account (Kshs)</b>	<b>Loan Account (Kshs)</b>	<b>Total (Kshs)</b>
1.	Ikolomani			79,600	79,600
2.	Gichugu	1,942,668	500	795,487	2,738,655
3.	Kieni	659,508	370	4,212,707	4,872,585
4.	Mathira	16,000		2,852,975	2,868,975
5.	Thika Town	10,000	-	700,426	710,426
6.	Kuresoi North	383,535			383,535
7.	Kisumu Central			5,400	5,400
8.	Kisumu East			8,400	8,400
9.	Dagoretti South	571,341			571,341
10.	Langata	36,800		351,536	388,336
11.	Butere	738,780		6,000	744,780
	<b>Total</b>	<b>4,358,632</b>	<b>870</b>	<b>9,012,531</b>	<b>13,372,033</b>

629. The Fund Management did not explain the source of direct credits nor were the supporting documents provided for audit review. The accounting treatment accorded the direct credits in the financial statements was inappropriate as they were recognized without effecting the corresponding account liability or revenue account.

630. In addition, the records maintained by the Fund in respect of loan and main bank accounts balances submitted in support of individual constituencies balances amounted to Kshs 1,265,871,833 and Kshs 1,076,261,463 respectively. This varied with the reported balances in the financial statements of Kshs 1,267,738,578 and Kshs 1,076,007,578 resulting to an unexplained and unreconciled variance of Kshs 1,866,745 and Kshs 253,890 respectively.

#### **Submissions by the Accounting Officer**

631. The Accounting Officer submitted that:

- i. The bank balance of Kshs 2,427,782,222 held at nine commercial banks is for the 290 constituencies.
- ii. Bank reconciliation statements, bank balance confirmation certificates, board of survey reports and cash books are now available and can be verified by auditors.
- iii. The bank balances for loan and the main accounts and the balances reflected in the financial statements have been reconciled and can be verified by auditors.
- iv. The Fund has managed to get bank reconciliation statements, certificate of bank balance confirmation, board of survey reports and copies of cash book extracts from Constituencies to support the cash and cash equivalent balance for 813 bank accounts.

#### **Observations and findings of the Committee**

632. The Committee observed that:

- i. There were unexplained variances between the reported figures in the financial statements and the supporting scheduled pertaining to loan and main bank of Kshs Kshs 1,866,745 and Kshs 253,890 respectively;
- ii. Bank reconciliation statements, bank balance confirmation certificates, board of survey reports and cash books for 343 bank accounts were not submitted for audit verification
- iii. The management did not explain the source of Kshs 13,372,033 appearing in the bank accounts of constituencies indicated as direct credits;
- iv. The fund has since received bank reconciliation statements, certificate of bank balance confirmation, board of survey reports and copies of cash book extracts from Constituencies to support the cash and cash equivalent balance for 813 bank accounts; and
- v. The matter remained unresolved.

#### **Recommendations of the committee**

633. The Committee recommends that:

- i. **The Accounting Officer should within three (3) months upon the adoption of this report submit supporting documents for 343 bank account balances to the Auditor General for audit verification and reporting in the subsequent audit cycle.**
- ii. **The Accounting Officer should ensure that all accounting documentation is submitted within reasonable time in compliance with the provisions of Public Finance Management Act, 2012 section 68(2)(b).**

- iii. **The Principal Secretary State Department for Youth Affairs considers deploying a Youth Officer each constituency for efficient reporting and accountability of expenditures and improved the administration of the Fund.**

**(6) Unsupported and Unaccounted for Loan Groups**

634. The statement of financial position reflects a balance of Kshs 4,111,156,213 being outstanding loans to groups of as at 30 June, 2020. The balance has been derived by adjusting the National Government capital fund grants of Kshs 6,499,650,004 for amount of monies presumably held at CBK Bank, loan repayment and main accounts of Kshs 44,747,632, Kshs 1,267,738,578 and Kshs 1,076,007,578 respectively.
635. However, the presumed bank balances are un-supported. Further, there were no debtors' ledgers detailing loans issued by the Fund since inception and repayments made over the years on account of loan recoveries. There were no comprehensive loan listings or aging analysis in support of the outstanding loans. Consequently, the accuracy and completeness of the reported loans to groups balances of Kshs 4,111,156,213 as at 30 June, 2020 could not be confirmed.

**Submissions by the Accounting Officer**

636. The Accounting Officer submitted that:
- i. The financial statements reflected outstanding loans to constituencies of Kshs 4,111,156,213.00.
  - ii. The figure for outstanding loans was supported by disbursements of Kshs 200,250,000.00 sent to constituencies through the main account, less balances in the CBK account of Kshs 44,747,632.00, balances in the main account of Kshs 1,076,007,578.00 and loan repayment bank balance of Kshs 1,267,738,578.00.
  - iii. Certificates of bank balances supporting the balances were available for audit review.

**Observations and findings of the Committee**

637. The Committee observed that:
- i. The Fund did not provide supporting documentation for the outstanding loan balance of Kshs 4,111,156,213;
  - ii. The Fund did not provide debtors' ledgers detailing the loans issued by the Fund since inception and the repayments made over the years for audit review;
  - iii. The Fund did not provide for audit review a comprehensive loan listing and aging analysis supporting the outstanding loans; and
  - iv. the matter remained unresolved.

### **Recommendations of the Committee**

638. The Committee recommends that:

- i. **The Accounting Officer should ensure that all financial and accounting records are kept in compliance with the provisions of Public Finance Management Act, 2012 section 68(2)(b) and (c) and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015;**
- ii. **The Accounting Officer takes appropriate measures to resolve any audit issues that remain outstanding as required by Section 68(2)(l) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015; and**
- iii. **Within three (3) months upon the adoption of this report, the Accounting Officer submits the supporting documents for monies held at Central Bank Kenya- Kshs 44,747,632, loan repayment accounts - Ksh 1,267,738,578 and the main account - Kshs 1,076,007,578 to the Auditor - General for audit verification and reporting in the subsequent audit cycle.**

### **(7) Work-in-progress (WIP) – Stalled Project**

639. As reported previously, the statement of financial position reflects work-in-progress balance of Kshs 19,522,765. The balance represents 40%-part payment in respect of an Enterprise Resource Planning (ERP) software procured and contracted in the year 2015/2016. The supply, installation and commissioning of the application is yet to be made even though the part payment was made over four (4) years back and recognized in the financial statements. Information available indicates that the implementation of the ERP which was contracted at a sum of Kshs 48,806,912 has been called off even though there is a valid contract in force between the Fund and the supplier. In the circumstances, the recoverability and likely utilization of the part payment of Kshs 19,522,765 is doubtful.

640. Further, the Fund entered into a consultancy contract on 2<sup>nd</sup> November, 2015 for the ERP project implementation management at a sum of Kshs 6,602,821 and paid an amount of Kshs 1,320,564 representing 20% of the contract sum. The payment has, however, not been recognized in the financial statements as a prepayment or part of capital works progress even though there has been no work done on the project. The value for money received by the Fund in respect of the software could therefore not be ascertained.

641. Consequently, the accuracy and fair statement of the reported work-in-progress balances of Kshs 19,522,765 could not be confirmed.

### **Submissions by the Accounting Officer**

642. The Accounting Officer submitted that:

- i. The Payment for the 1st installment of Kshs 19,522,765 (40% of the contract sum) was executed to honor the contractual obligations of the fund as provided in paragraph 1.6.1 of the contract agreement for Tender No. UWZ/RFP/040/2014/2015;

- ii. The contract was not terminated since the contract period was for 24 months, and at the end of the financial year, the supplier had done a functional requirement design and was yet to deliver the software for testing.
- iii. Consultations with relevant offices delayed the progress.
- iv. The Head of Public Service, vide letter reference number OC.CAP/14,/21A, of December 2017, directed that all affirmative funds would be merged and there was no need to appoint a new board. Consequently, implementation of the project stalled as the board was not fully established to give guidance to the management;
- v. In a meeting held on 10th January 2020, the Board resolved to embark on revisiting the project and the system vendor had since developed four modules (Credit Management, Finance Management, Procurement and Registry management) which were awaiting validation and commissioning;
- vi. Management was discussing a revised plan with the vendor, which entailed the implementation of the latest technology in the system software; and
- vii. The system would be populated and will be in use within three months.

#### **Observations and findings of the Committee**

643. The Committee observed that:

- i. The matter was raised in the financial year 2016/2017 and the Special Funds Accounts Committee recommended the matter be investigated by Ethics and Anti- Corruption Commission;
- ii. The Fund procured for implementation and commissioning of ERP software in 2015/2016 at a contract sum of Kshs 48,806,912 and paid Kshs 19,522,765 (40% of contract sum) part payment, yet the implementation of the software matter was still outstanding as 30<sup>th</sup> June 2019;
- iii. The delay in implementation partly arose due to a directive from the Head of Public Service through the letter OC.CAP/14/21 on the impending merger of all affirmative funds which delayed the appointment of a new board;
- iv. The Board in January 2020 affirmed the implementation of the project and the system vendor had since developed four modules (Credit Management, Finance Management, Procurement and Registry management) which were awaiting validation and commissioning;
- v. The delayed project implementation exposed the Fund to a risk of implementing old and obsolete technology; and
- vi. The matter remained unresolved.

#### **Recommendations of the Committee**

644. The Committee recommends that:

- i. **The Accounting Officer ensures that the latest technology of the ERP system is implemented without further delay;**

- ii. **The Accounting Officer ensures that all contracts entered into by the entity are lawful and are complied with in compliance with section 68(2)(d) of the PFM Act,2012; and**
- iii. **Within three (3) months upon the adoption of this report, the Accounting Officer should submit the status report and the relevant supporting documents on the implementation of the ERP to the Auditor - General for audit verification and reporting in the subsequent audit cycle.**

#### **(8) Property, Plant and Equipment (PPE)**

645. As disclosed in Note 20(a) to the financial statements, the statement of financial position reflects a balance of Kshs 8,504,009 under property, plant, and equipment. Included in this balance is Kshs 145,333 for computers and related equipment which is net of reversal adjustments made during the year of Kshs 1,437,000 and Kshs 479,000 in cost and depreciation respectively in relation to computer items removed from the PPE schedule.
646. The Fund procured the items in the financial year 2018/2019 but the payment was declined on recommendations of both the pending bills committee and the Internal Audit function. However, the reversals and their accounting treatment have not been supported.
647. Further, although the Fund has possession and has used the unpaid for items, the liability of the amount payable to the supplier has not been recognized in the financial statements. Consequently, the accuracy and fair statement of the reported property, plant and equipment balance of Kshs 8,504,009 as at 30 June, 2020 could not be confirmed.

#### **Submissions by the Accounting Officer**

648. The Accounting submitted that:

- i. The fixed asset schedule showed a reversal of Kshs 1,437,000 in the financial statements under audit. This payment was for M/S LAN Solutions for the supply of Router and UPS to facilitate the connection to the Government Common Core Network (GCCN).
- ii. The payment was indicated in the cash book as paid on 30th June 2019 vide payment voucher 1085 and cheque number 4973, However, the same was reversed six months later on 31st January 2020 as the payment did not go through in the Fund's bank accounts.
- iii. The claim for Kshs 1,437,000 was subjected to the Fund pending bill committee and the internal audit for verification and both the committee for pending bills and internal audit recommended that this was a contingent asset.
- iv. Despite the assets being in the funds procession, the reversal was necessary to comply with the International Public Sector Accounting Standards (IPSAS), FY. 2019/2020 that was issued by National Treasury;
- v. The IPSAS requires the entity not to recognize the contingent asset in the financial statements but disclose details of the asset in the notes to the financial statements.

For fair presentation of the financial statements and for them to be consistent with the books of accounts the entry of Kshs 1,437,000 was expunged from the schedule of fixed assets and disclosure of the reversal is indicated as a footnote in the financial statements.

#### **Observations and findings of the Committee**

649. The Committee observed that:

- i. The non-inclusion of the assets and the reversal was necessary to comply with the International Public Sector Accounting Standards (IPSAS) - the IPSAS require the entity not to recognize the contingent asset in the financial statements but disclose details of the asset in the notes to the financial statements and therefore, the audit issue is resolved;
- ii. The reversals of the cost of and depreciation of computers items was not disclosed in the financial statements;
- iii. Details of supporting documents for reversals of Kshs 1,437,000 for M/S LAN Solutions were provided: and
- iv. The matter was resolved.

#### **Recommendations of the committee**

650. **The accounting officer should ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board and in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

#### **(9) Non-Compliance with the Law**

651. Contrary to the provisions of Section 18(1) of the Public Finance Management (National Government) Regulations, 2015, the Fund did not have a Public Finance Management Standing Committee. It was therefore not possible to establish how the mandate of the Committee was carried out during the year under review.

#### **Submissions by the Accounting Officer**

652. The Accounting officer submitted that;

- i. The Fund has established a fully-fledged Public Finance Management Standing Committee and appointment letters of members and minutes of the committee were provided for audit verification; and
- ii. The Finance management committee is responsible for ensuring that, there is a prioritization of resources allocated to the entity for the smooth implementation of the entity's mission, strategy, goals, risk policy plans and objectives.

#### **Observations and findings of the Committee**

653. The Committee observed that:

- i. the Fund did not have a Public Finance Management Standing Committee Contrary to the provisions of Regulation 18(1) of the Public Finance Management (National Government) Regulations, 2015;
- ii. Functions of the Public Finance Management Standing Committee were not carried out during the year under review;
- iii. The Fund has since established a fully-fledged Public Finance Management Standing Committee in compliance with Regulation 18(1) of the Public Finance Management (National Government) Regulations, 2015; and
- iv. The matter was resolved.

#### **Recommendations of the Committee**

654. **The Accounting Officer should ensure that the Public Finance Management Standing Committee is always fully constituted and functional as provided in Regulation 18(1) of the PFM (National Government) Regulations, 2015.**

#### **(10) Irregular Procurements**

##### **(10.1) Consumables - Office and General Supplies**

655. Contrary to the provisions of Section 69(2) of the Public Procurement and Asset Disposal Act, 2015 which provides that no procurement approval shall be made to operate retrospectively to any date earlier than the date on which it is made, the following instances of breach of the provisions were noted:

##### **(10.2) Supply and Delivery of Toners**

656. The Fund floated quotations referenced UWZ/RFG/003/2019-2020 to three prequalified firms for the supply and delivery of assorted tonners on 13 November, 2019. This was against a requisition of the ICT Unit of 24 October, 2019. The three firms responded and were evaluated with the committee recommending award to all the firms based on their lowest quoted prices on assorted tonners of Kshs 582,000 on 16 December, 2019. However, purchase orders numbers 2944635, 2944636 and 2944637 were issued on 16 December, 2019 ahead of the professional opinion approval on 23 December, 2019.

#### **Submissions by the Accounting Officer**

657. The Accounting Officer submitted that:

- v. Requisitions for the above items were received from the ICT Department vide internal memo dated 24<sup>th</sup> October, 2019 after approval by the Head of Secretariat. Quotations for the same were floated on 20<sup>th</sup> November 2019 and quotations were opened on 13<sup>th</sup> December, 2019 for the prequalified firms which responded.
- vi. The Ad Hoc evaluation committee deliberated on the quotations and prepared their report on 16<sup>th</sup> December, 2019.

- vii. The professional opinion was prepared on 16th December 2019 by the Head Supply Chain Management and forwarded for approval to the Head of Secretariat and approved on 23rd December, 2019; and
- viii. The Local Purchase Orders were raised on 16th December 2019 and were approved by the Head of Secretariat on 13/01/2020. In view of the above, no procurement approval was made retrospectively to any date earlier than the date on which it is made.

#### **Observations and findings of the Committee**

658. The Committee observed that;

- i) Purchase order numbers 2944635, 2944636 and 2944637 were issued on 16 December, 2019 while the head of the procurement gave a professional opinion on 23 December, 2019;
- ii) Procurement documents were not approved retrospectively; and
- iii) The matter was resolved.

#### **Recommendations of the committee,**

659. **The Committee recommends that the Accounting Officer always ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the procurement of goods and services in compliance with Public Procurement and Asset Disposal Act, 2015 and its Regulations.**

#### **(10.3) Supply and Delivery of Publicity Materials**

660. The Fund also floated quotations referenced UWZ/RFQ/013/2019-2020 for the supply and delivery of publicity materials on 20 November, 2019. However, the requisition by the user department of 4 December, 2019 was later than the request for quotation date. Three firms responded and the evaluation committee evaluated and recommended for award to the lowest bidder at a cost of Kshs 329,200 on 16 December, 2019. However, purchase order number 294462 was issued on 16 December, 2019 ahead of the professional opinion approval of 23 December, 2019.

#### **Submissions by the Accounting Officer**

661. The Accounting Officer submitted that;

- i. Three firms responded and the evaluation committee evaluated and recommended for award to the lowest bidder at a cost of Kshs 329,200 on 16 December, 2019 and the Local purchase order number 294462 was also issued on 16 December, 2019 before the professional opinion was given on 23 December, 2019.
- ii. The Local Purchase Order no. 294462 stated above is not in our record. However, order no. 2944627 was raised on 16th December 2019 and was approved by the Head of Secretariat on 13/01/2020.

iii. Management did not approve any procurement document retrogressively.

#### **Observations and findings of the Committee**

662. The Committee observed that:

- i) User requisitions from departments were submitted after quotation had already been floated;
- ii) LPO number 294462 was issued on 16 December, 2019 before the professional opinion was given on 23 December, 2019;
- iii) The Accounting officer was in breach of the law;
- iv) The audit matter is not resolved.

#### **Recommendations of the committee**

663. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the procurement of goods and services in compliance with Public Procurement and Asset Disposal Act, 2015 and its Regulations.**

#### **(10.4) Repairs and Maintenance**

664. Included in the repairs and maintenance expenditure of Kshs 5,792,173 are expenses for which irregularities were notable: -

#### **(10.5) Motor Vehicle Repairs**

665. The Fund's motor vehicle was involved in a road accident on 26 December, 2019. On 31 December, 2019, the State Department of Infrastructure issued an accident inspection report indicating the economical estimated cost of undertaking the repairs at Kshs 1,700,000. The Fund then adopted the request for quotation method of procurement to source for a service provider to undertake the repairs. The order and invoice were then raised on 14 April, 2020 and 20 May, 2020 respectively, followed by a payment of Kshs 1,680,000.

666. However, although the three bids were signed and stamped on 27 February, 2020, the acknowledgement of receipt of the quotations by the Fund was dated 21 February, 2020, which was earlier than the date of bidders submission. The inconsistency has not been explained. Also included in the repairs and maintenance expenditure cost is Kshs 1,156,305 paid to service providers for repairs and servicing of motor vehicles whose supporting procurement documents were not made available for review to confirm if the due procurement process was adhered to.

#### **Submissions by the Accounting Officer**

667. The Accounting Officer submitted that;

- i. Three quotations were issued to three firms who eventually responded. The request for quotations was issued on 21st February, 2020 but the receiving stamp was inadvertently used for stamping instead of the forwarding one.
- ii. The issue date for quotation was 21st February, 2020 and the final submission date was not later than 28th February, 2020. This can be confirmed from our Quotation Register that is hereby attached for audit review.

### **Observations and findings of the Committee**

668. The Committee observed that:

- i. The expenditure of Kshs 1,156,305 for repairs and servicing of motor vehicles was not supported by procurement documents to confirm whether the procurement process was properly followed.
- ii. Quotations for repairs and servicing of the vehicle involved in a road accident were received and acknowledged on 21 February, 2020 while the same quotations were signed, issued and stamped on 27 February, 2020, by the Fund; and
- iii. The matter remained unresolved.

### **Recommendations of the Committee**

669. The Committee recommends that:

- i. **Within three (3) months upon the adoption of this report, the Accounting Officer submits supporting documents for Kshs 1,156,305 pertaining to repairs and maintenance to the Auditor - General for audit verification and reporting in the subsequent audit cycle.**
- ii. **The Accounting Officer should always ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the procurement of goods and services in compliance with Public Procurement and Asset Disposal Act, 2015 and its Regulations.**

### **(10.6) Repair of Printers and ICT Equipment**

670. The Fund paid Kshs 210,000 on 19 May 2020 for maintenance and configuration of Local Area Network (LAN) points, trunking installation, repair and reconfiguring of the shielded twisted pair UPT CAT6 cable wireless points. The payment was done against purchase order number 1453121 of 9 March 2020 and invoice No.1064 of 25 March 2020. Further, the Fund paid out Kshs 164,000 for the repair of printers and UPS on 30 June 2020 against order No.1453127 of 14 April, 2020 and invoice No.284/2020 of 15 April 2020. However, in both circumstances, the winning bidders' Tax Compliance Certificates had expired, and they were ineligible to bid for the works.

### **Submissions by the Accounting Officer**

671. The Accounting Officer submitted that:

- i. The Fund paid Ksh 210,000 to Dechtech Solutions for maintenance and configuration of its Local Area Network (LAN)
- ii. The tax compliance certificate for Dechtech Solutions had not expired when it submitted its quotation.
- iii. Management made another payment of Kshs 164,000 against order No.1453127 to M/S Softcopy Enterprises to repair UPS and printers on 30th June, 2020
- iv. The evaluation committee ascertained the validity of the tax Compliance Certificates, which were valid up to 20.01.2020.

### **Observations and findings of the Committee**

672. The Committee observed that-

- (i) The Fund did not violate Public Procurement and Asset Disposal Act, 2015 because the tax Compliance Certificates of the bidders had not expired when the quotations were submitted;
- (ii) The evaluation committee confirmed the validity of the tax Compliance Certificates, which were valid up to 20.01.2020;
- (iii) The matter was resolved.

### **Recommendations of the Committee**

673. **The Committee recommends that the Accounting Officer should always ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the procurement of goods and services in compliance with Public Procurement and Asset Disposal Act, 2015 and its Regulations.**

### **(10.7) Procurement of Motor Vehicle Tyres.**

674. The Fund paid Kshs 1,052,990 for supply of tyres on 16 March, 2020 vide order No.2944624 of 13 January, 2020, delivery note No. 0140 and invoice No.0140 both of 21 February, 2020, Counter Receipt Voucher No.8663971 and acceptance report of 26 February, 2020. However, the prices of the tyres paid for were significantly above the recommended Market Price Index Survey Results of Public Procurement Review Authority (PPRA) for the month of February, 2020 as detailed below:

<b>Tyre size</b>	<b>Fund Buying Price (Ksh)</b>	<b>PPRA Price February 2020 (Ksh)</b>	<b>Price Overcharge (Ksh)</b>
265/65R17	47,250	14,482	32,768
265/65R18	50,800	15,756	35,044

245/70R16	38,500	13,739	24,761
195/65R15	45,000	6,611	38,389

675.No explanation was rendered for the procurement at prices higher than the prevailing market index. The Fund did not realize value for money from the expenditure of Kshs 1,052,990 on the supply of tyres.

#### **Submissions by the Accounting Officer**

676.The Accounting Officer Submitted that:

- i. The tyres were procured using prevailing prices as quoted by the suppliers.
- ii. The tyres acquired were from BF Goodrich and Bridgestone brands that withstand the terrain of the Constituencies.
- iii. The Fund required tyres of high quality, durable and of wider mileage coverage. Consequently, the Fund resorted to undertake its own market survey in compliance with Section 43(4) of the Public Procurement and Asset Disposal Act, 2015 as indicated in the table below;

	<b>Size</b>	<b>Market Survey</b>	<b>Quoted Price</b>	<b>Brand</b>
1	265/65/R18	48,720	50,800	BF Goodrich
2	265/65/R17	43,340	47,250	BF Goodrich
3	265/70/R16	41,400	45,000	BF Goodrich
4	195/R15C	35,400	38,500	Bridgestone

#### **Observations and findings of the Committee**

677.The Committee observed that:

- i. The motor vehicle tyres were procured using the prevailing market prices at that time;
- ii. Management undertook its own market survey before purchasing the motor vehicle tyres in compliance with Section 43(4) of the Public Procurement and Asset Disposal Act, 2015 and;
- iii. The matter was resolved.

#### **Recommendations of the Committee**

678.The Committee recommended that the accounting officer should always ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the procurement of goods and services in compliance with Public Procurement and Asset Disposal Act, 2015 and its Regulations.

### **(10.8) Transportation Service and Supplies**

679. The statement of financial performance reflects an expenditure of Kshs 52,077,333 under use of goods and services which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs 21,063,313 in respect of transportation service and supplies. Included in the amount are payments totalling to Kshs 1,882,060 by way of daily subsistence allowances to various officers to carry out activities that form part of their daily routine tasks, duties and responsibilities including preparation of annual financial statements and quarterly reports. No justification was rendered for the decision to undertake routine tasks outside the office.

680. In the circumstances, it was not possible to confirm if value for money was realized from the expenditure of Kshs 1,882,060 on daily subsistence allowances on routine tasks.

#### **Submissions by the Accounting Officer**

681. The Accounting officer submitted that:

- i. The statement of financial performance reflected an expenditure of Kshs 21,063,313 in for transportation service and supplies. The expenditure included payments totaling to Kshs 1,882,060 for daily subsistence allowances to various officers who were involved in preparing the strategic plan for the Fund,
- ii. The Fund depends on staff deployed from other MDAs to execute specific tasks for the Fund.

#### **Observations and findings of the Committee**

682. The committee observed that:

- i. The payments were made to officers who were involved in preparation of the strategic plan for the Fund. The task required the input of external experts for technical support when developing a standard policy document;
- ii. The strategic plan is a very important document of the organization and is prepared by staff with high levels of knowledge and skills;
- iii. The Accounting officer provided a reason for the payment of Kshs 1,882,060 as allowances to staff who prepared the strategic plan; and
- iv. The matter was resolved.

#### **Recommendations of the committee**

683. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

### **10.1.3 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR UWEZO FUND FOR THE FINANCIAL YEAR 2020/2021**

#### **(1.)Unsupported and Unreconciled Cash and Cash Equivalents**

684. The statement of financial position reflected a balance of Kshs2,308,751,932 under cash and cash equivalents. However, the schedule presented in support of the balance reflected an amount of Kshs2,308,718,934 resulting in an unexplained variance of Kshs32,998.
685. Further, as disclosed in Note 15 to the financial statements, included in the balance is Kshs1,997,846,287 held in eight commercial banks with each of the 290 Constituencies maintaining three (3) types of bank accounts namely; main, administration and loan accounts. However, supporting documents including bank reconciliation statements, certificate of bank balance confirmation, board of survey reports and copies of cash book extracts for 291 bank accounts were not provided for audit review.
686. Further, the reported bank balance was derived from the bank statement balances as at 30 June 2021 instead of the cash book balances. This is a departure from the generally accepted accounting principles and practices. In addition, the loan accounts schedules submitted in support of individual constituencies balances amounted to Kshs 1,128,137,461 which varied with the reported balance in the financial statements of Kshs 1,132,555,536, resulting to an unexplained and unreconciled variance of Kshs 4,418,074. Consequently, the accuracy and completeness of the reported cash and cash equivalents balance of Kshs 2,308,751,932 could not be confirmed.

#### **Submissions by the Accounting Officer**

687. The Accounting Officer submitted that:
- i. The statement of financial position submitted for audit reflected a balance of cash and cash equivalent as of 30<sup>th</sup> June 2021 of Ksh 2,308,751,932, comprising current and fixed deposit account balances of Ksh 2,307,226,753 and outstanding staff imprests of Kshs 1,525,180.
  - ii. The current and fixed deposit balance of cash and cash equivalent was inadvertently been overstated by Ksh 32,998, while the staff imprests had been understated by the same amount.
  - iii. The overcast and undercast were regrettable. However, the management will adjust the balance of cash and cash equivalent in the financial statements in the succeeding year.
  - iv. Late Submission of reconciled cash books was occasioned by lack of adequate staff and an automated system.

### **Observations and findings of the Committee**

688. The Committee observed that:

- i. Bank reconciliation statements, certificate of bank balance confirmation, board of survey reports and copies of cash book extracts for supporting documents for 291 bank accounts were not availed for audit review;
- ii. The Fund's failure to provide accounting documents on time is attributed to the reliance on staff from other MDAs to provide reconciliations or expenditure returns. In addition, the Funds operations are manual, and most constituencies lack sufficient personnel to prepare and submit the financial documents on time;
- (ii) The Fund did not provide reconciliations and an explanation of the variance of Kshs 4,418,074 on the loan account schedules; and
- (iii) The matter remained unresolved.

### **Recommendations of the Committee**

689. The Committee recommends that:

- (i) **The Accounting Officer should ensure that all accounting documentation is received within reasonable time in compliance with the provisions of Public Finance Management Act, 2012 section 68(2)(b) and (c) and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015.**
- (ii) **The Principal Secretary, State Department for Youth Affairs considers to deploying a Youth Officer in each constituency for efficient reporting and accountability of expenditures and improved administration of the Fund;**
- (iii) **The Accounting Officer ensures that the Fund automates its functions for efficient reporting and accountability of expenditures;**
- (iv) **Within three (3) months upon the adoption of this report, the Accounting Officer submits bank reconciliation statements, confirmation certificate of bank balance, board of survey reports and copies of cash book extracts for the 291 bank accounts to the Auditor General for audit verification and reporting in the subsequent audit cycle.**

### **(2.) Unsupported Long-Term Receivables**

690. The statement of financial position reflects a balance of Kshs 4,640,480,509 in respect of long-term receivables - outstanding loans to groups as 30 June, 2021. The balance has been derived by adjusting loan capital fund grants of Kshs 6,654,087,019 for amount of monies presumably held at the Central Bank of Kenya, loan repayments and main accounts of Kshs 48,702,119, Kshs 1,132,555,536 and Kshs 832,348,855, respectively. However, the presumed bank balances were not supported.

691. Further, as previously reported, there were no debtors' ledgers detailing loans issued by the Fund since inception and repayments made over the years on account of loan recoveries. There were no comprehensive loan listings or aging analysis in support of the loans. In the circumstances, the accuracy and completeness of the reported receivables outstanding balance of Kshs4,640,480,509 could not be confirmed.

#### **Submissions by the Accounting Officer**

692. The Accounting officer submitted that:

- i. The statement of financial position reflected a balance of Kshs4,640,480,509 in respect of long-term receivables - outstanding loans to groups as 30 June, 2021. The balance had been arrived at by adjusting loan capital fund grants of Kshs6,654,087,019 for amount of monies held at Central Bank of Kenya, loan repayments and main accounts of Kshs48,702,119, Kshs1,132,555,536 and Kshs832,348,855 respectively.
- ii. Bank balances for the Loan Repayment and Main Accounts held in all the banks, for constituencies and the bank balance certificate for the Central Bank Account were available for audit confirmation.
- iii. The Fund operations are constituency-based, so the primary loan records are maintained in the constituencies. However, the constituencies submitted summaries of loan records as obtained from the primary loan records to the Fund.
- iv. The slow submission of loan records was occasioned by the manual operation of the Fund and reliance on staff from other departments for the implementation of its programs at the constituency level.
- v. The loan listings for 232 constituencies, representing 80% of the constituencies, were attached for Audit confirmation.
- vi. The group records were maintained from the Constituency level. He suggested that the Auditor General considers auditing the documents at the Constituency level.
- vii. The Fund trained 100 officers annually in book and record keeping.

#### **Observations and findings of the Committee**

693. The Committee observed that:

- (i) The Fund did not provide supporting documentation for the outstanding loan balance of Kshs4,640,480,509.
- (ii) The Fund did not provide debtors' ledgers detailing the loans issued by the Fund since inception and the repayments made over the years for audit review;

- (iii) The Fund did not provide for audit review a comprehensive loan listing and aging analysis supporting the outstanding loans.
- (iv) the Matter remained unresolved.

#### **Recommendations of the Committee**

694. The Committee recommends that:

- i. **The Accounting Officer should ensure that necessary financial and accounting records are kept in compliance with the provisions of the Public Finance Management Act, 2012 section 68(2)(b) and (c) and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015;**
- ii. **The Principal Secretary, State Department for Youth Affairs considers deploying a Youth Officer in each constituency for efficient reporting and accountability of expenditures and improved administration of the Fund;**
- iii. **The Accounting Officer ensures that all outstanding audit issues are resolved as required by Section 68(2)(l) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015;**
- iv. **Within three (3) months upon the adoption of this report, the Accounting Officer should submit the following documents to the Auditor General for audit verification and reporting in the subsequent audit cycle -**
  - a) **Bank reconciliation statements, confirmation certificate of bank balance, board of survey reports and copies of cash book extracts for the 291 bank accounts**
  - b) **Comprehensive loan listing and aging analysis supporting the outstanding loans.**
  - c) **Debtors' ledgers detailing the loans issued by the Fund since inception and the repayments made over the years for audit review.**

#### **(3.) Unsupported Constituencies' Administration Costs**

695. The statement of financial performance reflected constituencies' administration costs of Kshs173,113,419. However, out of 290 constituencies, only 213 constituencies submitted their respective expenditure returns totaling to Kshs130,468,263, leaving a balance of Kshs42,645,156 in respect of 77 constituencies which was not supported by comprehensive expenditure returns. Further, examination of the submitted returns from Turkana Central Constituency revealed unsupported expenditure of Kshs293,000 during the year. Cash sale receipts were also not supported with electronic tax receipts as required. In the circumstances, the accuracy and completeness of the constituencies' administration costs of Kshs173,113,419 could not be confirmed.

#### **Submissions by the Accounting Officer**

696. The Accounting Officer submitted that:

- i. The statement of financial performance for the year ended 30<sup>th</sup> June 2021 reflected an amount of Ksh 173,113,419 as administration costs that was spend by constituencies during the year under review;
- ii. The challenges were attributed to the Fund's structure and manual operations.
- iii. The Fund had since received and collated the expenditure returns for 244 constituencies totalling Kshs 141,280,728.92;
- iv. This amount, compared to the expenditure of Ksh 173,113,419, translated to 82% support for the expenditure;
- v. Turkana Central Constituency had submitted scanned copies of payment vouchers and other documents to support the expenditure of Kshs 293,000.
- vi. The scanned payment vouchers were provided for audit confirmation.

#### **Observations and findings of the Committee**

697. The Committee observed that:

- i. Administration costs of Kshs 42,645,156 in respect of 77 constituencies were not supported by comprehensive expenditure returns from the Constituencies;
- ii. The Fund's failure to provide accounting documents on time was attributed to the reliance on staff from other MDAs to provide reconciliations or expenditure returns.
- iii. The Funds operations are manual, and most constituencies lack of sufficient personnel to prepare and submit the financial documents on time.
- iv. The Turkana expenditure returns of Kshs 293,000 has since been provided for audit verification and therefore the issue is dropped.
- v. The matter remained unresolved.

#### **Recommendations of the Committee**

698. The Committee recommends that:

- (i) **Within three months after the adoption of this report, the Accounting Officer should provide the expenditure returns of the administration costs of Kshs 42,645,156 in respect of 77 constituencies to the Auditor -General for audit verification and reporting in the next audit cycle;**
- (ii) **the Accounting Officer should ensure that necessary accounting documentation is submitted within reasonable time in compliance with the provisions of Public Finance Management Act, 2012 section 68(2)(b) and (c) and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015; and**
- (iii) **The Principal Secretary State Department for Youth Affairs considers deploying a Youth Officer for efficient reporting and accountability of expenditures and improved the administration of the Fund.**

## **Other Matters**

### **(4.) Unresolved Prior Year Audit Matters.**

699. Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues.

### **Submissions by the Accounting Officer**

700. The Accounting Officer committed to resolving the matters within three (3) months.

### **Observations and findings of the Committee**

701. The Committee observed that:

- (i) Some prior-year audit issues remained unresolved as at 30 June 2021 against the requirement of Section 68(2)(I) of the Public Finance Management Act, 2012; and
- (ii) The issue is unresolved.

### **Recommendations of the committee**

702. **The Committee recommends that within three months of adoption of this report, the accounting officer should resolve all the outstanding audit issues as required under Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015.**

### **(5.) Internal Control Weaknesses in Fund Administration at the Constituency**

703. The audit noted Structural and control weaknesses in various constituencies as follows:

- i. Failure to institute measures for effective follow up on beneficiaries of loans leading to high loan defaulters.
- ii. Failure to carry out reconciliations of loan records. As a result, repayments in bank statements were not reconciled to the loan registers leading to uncleared suspense ledger balances in Kasipul-Kabondo and Khwisero Constituencies.
- iii. Several Constituencies did not update loan registers, bank reconciliation statements and loan repayments.
- iv. The records further revealed deficiencies in documentation, authorization, and approvals of loans to prevent irregular loans. Individual loan accounts and details of loans beneficiaries were not maintained in Muhoroni and Khwisero Constituencies. Further, some groups were given loans yet there was no evidence of approval and completed application forms.
- v. The Uwezo Fund operations in Bureti Constituency appear to have been dormant since 2016 and as a result, outstanding loans may not be recovered.

### **Submissions by the Accounting Officer**

704. The Accounting Officer submitted that

- i. The secretariat disbursed funds through the constituency bank accounts maintained for every constituency as provided in Section 19 (c) of the PFM (Uwezo Fund) Regulations 2014, where constituencies loaned the same funds to beneficiary groups;
- ii. Documentation, authorization approvals, bank reconciliation and follow-up of loan repayments were done at the constituency level;
- iii. The CUFMCs continued to mount efforts towards reconciliation of loan records despite the challenge of non-submission of the repayment deposit slips by the Fund's beneficiaries.
- iv. The Constituencies officers sought assistance from the local administration to follow up loan recovery from loan defaulters and at the same time sensitize loan beneficiaries on the importance of loan repayment.
- v. The management took measures to have loan beneficiaries repay the loans advanced to them;
- vi. The management had also improved its guidelines to ensure that loan reports, bank reconciliation statements and loan repayment reports were submitted on time with complete and proper documentation;
- vii. The management continued to ensure that all records were appropriately kept and submitted on time and Khwisero Constituency had since submitted complete loan returns indicating loans to beneficiaries.

#### **Observations and findings of the Committee**

705. The Committee observed that:

- i. There are weaknesses in the internal control systems in the constituencies level resulting in: inadequate documentation, accounting, and reconciliation of accounting records as well as filing of expenditure returns; deficiency in documentation, authorization, approval, and recovery of loans;
- ii. The Fund's deficiencies in the constituency internal control system and the failure to provide accounting documents on time is attributed to the reliance on staff from other MDAs to provide reconciliations or expenditure returns. In addition, the Funds operations are manual, and most constituencies lack sufficient personnel to prepare and submit the financial documents on time.
- iii. The matter remained unresolved.

#### **Recommendations of the committee**

706. The Committee recommends that:

- (i) **Within three months of the adoption of this report, the Accounting Officer should ensure that all accounting documentation is submitted within reasonable time in compliance with the provisions of Public Finance Management Act, 2012 section 68(2)(b) and (c) and Regulation 100 of the Public Finance Management (National Government) Regulations, 2015;**

- (ii) **The Accounting Officer should ensure that all applicable accounting and financial controls, systems, standards, laws and procedures are followed in procuring or in preparation and filing of accounting documentation in compliance to the Provisions of the Public Finance Management Act, 2012 and its Regulation as well as the Public Procurement and Asset Disposal Act, 2015;**
- (iii) **The Principal Secretary State Department for Youth Affairs considers deploying a Youth Officer in each constituency for efficient reporting and accountability of expenditures and improved the administration of the Fund.**

=====**End**=====

## **11.0 CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE CIVIL SERVANTS HOUSING SCHEME FUND**

707. Mr. Charles Hinga, the Principal Secretary State Department for Housing and Urban Development appeared before the Committee on 14<sup>th</sup> April, 2023 to adduce evidence on the audited financial statement for the Civil Servants Housing Scheme Fund for the year ended 30<sup>th</sup> June, 2020/2021 and 2021/2022. He was accompanied by the following officers:

- |                          |                              |
|--------------------------|------------------------------|
| 1. Mr. Charles Liyayi    | - Head of Accounting Unit    |
| 2. Mr. John Miya         | - Director of Administration |
| 3. Ms. Everlyne Nyakware | - Chief Finance Officer      |
| 4. Mr. John Kaplich      | - Accountant                 |
| 5. Mr. Bob Obebo         | - Accountant                 |
| 6. Mr. Said Athman       | - Accountant                 |

### **11.1 Background of the Civil Servants Housing Scheme Fund**

708. The Civil Servants Housing Scheme Fund is established under Regulation 3 of the Civil Servants (Housing Scheme Fund) Regulations, 2004 as amended by Legal Notice. 231 of 2015. The Fund was established in line with the National Housing Policy for Kenya 2004 (Sessional Paper No. 3) and is intended to cater for special housing needs of civil servants. The objective and purpose of the Fund is to:

- a. Provide housing loan facilities to civil servants for the purposes of either purchasing or constructing a residential house
- b. Develop housing units for sale and for rental by civil servants.
- c. Raise funds for the implementation of the objectives stated under paragraphs (a) and (b) of the regulation.

#### **11.1.1 THE AUDITED FINANCIAL STATEMENTS FOR THE CIVIL SERVANTS HOUSING SCHEME FUND FOR THE FINANCIAL YEAR 2020/2021**

##### **Basis for Qualified Opinion**

##### **(1.) Inaccuracies in the Statement of Changes in Net Assets**

709. The statement of changes in net assets reflects accounts capital/development grants/funds balance of Kshs9,080,969,134 as at 30<sup>th</sup> June, 2021. A casting of the balances gives a total amount of Kshs9,080,933,130 resulting in a variance of Kshs36,004. Similarly, the statement reflects payable 10% deposits reserves balance of Kshs602,785,168 while the supporting schedule reflects a balance of Kshs602,749,167 resulting to a variance of Kshs36,001. Further, the statement reflects capital reserves debit balance of Kshs2,070,562 and deposit for houses debit balance of Kshs7,577,065 whose supporting analysis were not provided for audit review. Under the circumstances, the accuracy and validity of the statement of changes in net assets could not be confirmed.

##### **Submissions by the Accounting Officer**

710. The Accounting Officer submitted that:

- i. The re-casting of balances in the statement of changes in net assets did not reveal any error as indicated in the table below.

Description	Amount (Ksh)
As at July 1, 2020	9,004,202,642.46
Capital/Development grants received during the year	200,000,000.00
Property Validation and rental collections reserves	152,224,868.00
Accounts payable 10% deposits reserves	(602,749,167.28)
Reserves on Sale of Houses	336,938,417.54
Capital Reserves	(2,070,562.00)
Deposit for houses	(7,577,064.72)
As at June 30, 2021	9,080,969,134.00

The 10% deposit reserves balance was reconciled and now reflects the correct balance. An analysis for Capital reserves of Kshs 2,070,562 and Deposits for houses of Kshs 7,577,065 were provided for audit review.

#### **Observations and Findings of the Committee**

711. The Committee observed that:

- i. The inaccuracies in the statement of changes in net assets were occasioned by the unexplained variances in the balances and non-provision of supporting analysis of capital reserves debit balance;
- ii. The variations have since been reconciled, and supporting analysis of the capital reserves was provided for audit verification and
- iii. The matter was resolved.

#### **Recommendations of the Committee**

712. The Committee recommends that:

- i. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**
- ii. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per the provision section 31(4), and 53 of the Public Audit Act, 2015.**

## (2.) Use of Goods and Services

713. As disclosed in Note 12 to the financial statements, the statement of financial performance reflects an expenditure of Kshs107,340,348 under the use of goods and services. A review of the records provided revealed the following inadequacies.

### a. **Unsupported Advertisement, Awareness and Publicity**

714. Included in the expenditure on the use of goods and services is an amount of Kshs69,653,017 incurred on advertisement, awareness, and publicity. However, payment documents in support of expenditure totalling Kshs19,816,552 were not provided for audit review. Further, the amount of Kshs69,653,017 includes an expenditure of Kshs29,294,888, whose breakdown was not provided for audit verification. In addition, the total expenditure includes payments totaling Kshs31,300,188 relating to general expenses, travel and domestic expenses that were misclassified under advertisement, awareness, and publicity.

### **Submissions by the Accounting Officer**

715. The Accounting Officer submitted that under advertising, awareness, and publicity, the entries of Kshs19,816,552 and Kshs29,294,888 are correctional journal entries made during the year were as follows:

- i. The Kshs19,816,552 includes correction journal entries as shown in the table below:

S/NO	Journal entry no.	Amount
1	JV-3000	6,014,966.30
2	JV-3100	7,810,300.00
3	JV-3300	121,930.00
4	JV-3400	1,629,630.00
5	JV-3500	526,804.00
6	JV-3600	3,692,921.82
8	JV-3700	20,000.00
	Total	<b>19,816,552</b>

716. The Kshs29,294,888 is a correction journal entry; the voucher was provided for review.

717. He further submitted that the Kshs31,300,188 payments relating to office stationery, toners, domestic travel, and accommodation purchases were correctly classified since the expenses were incurred in support of publicity and awareness activities.

### **Observations and Findings of the Committee**

718. The Committee observed that:

- i. The Ksh19,816,552 and Ksh29,294,888 relate to correctional journal entries.
- ii. The Accounting officer did not prepare the financial reports to reflect corrections.

iii. The Matter remains unresolved.

#### **Recommendations of the Committee**

719. The Committee recommends that:

- i. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements and in accordance with the standards prescribed by the Public Sector Accounting Standards Board in compliance with Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015;**
- ii. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per sections 31(4), and 53 of the Public Audit Act, 2015; and**
- iii. **The Accounting Officer submits the correctional journal entries for Ksh19,816,552 and Ksh29,294,888 to the Office of the Auditor - General for verification within three months of the adoption of this report.**

#### **b. Unreconciled Training Expenses**

720. The expenditure on the use of goods and services includes training expenses of Ksh5,000,000. However, the amount excludes payments totalling Ksh2,511,880, which, although traced in the cash book, were not included in the ledger, and supporting schedules.

#### **Submission by the Accounting Officer**

721. The Accounting Officer submitted that the expenditure on training totalling Ksh 5,000,000 included all the payments made under the vote. He further submitted that upon analysis of the cash book, the fund's management could not identify the payments totalling Ksh2,511,880 as the Auditor did not provide any breakdown. He submitted that all the payment vouchers were provided for audit verification.

#### **Observations and Findings of the Committee**

722. The Committee observed that—

- i. The Accounting Officer claimed to have been unable to identify training expenditure totalling Kshs 2,511,880 as reported by the Auditor General; and
- ii. The matter remained unresolved.

#### **Recommendations of the Committee**

723. **The Committee recommends that the Accounting Officer liaises with the Office of the Auditor- General to identify the Ksh2,511,880 training expenses, which was traced in the cash book but were not included in the ledger and provide the supporting schedules**

to Auditor – General within three months of the adoption of this report for audit verification and reporting in the next audit cycle .

**c. Unreconciled Electricity Expenses**

724. Included under the use of goods and services expenditure is an amount of Kshs646,048 concerning electricity expenses. However, the amount did not include payments amounting to Kshs1,195,551, which were instead charged to the refurbishment of residential buildings. Under the circumstances, the accuracy of the expenditure of Kshs107,340,348 could not be ascertained.

**Submissions by the Accounting Officer**

725. The Accounting Officer submitted that the amount of Kshs1,195,551 is related to repairs and maintenance for residential houses and therefore was correctly charged and classified under refurbishment and maintenance of residential buildings.

**Observations and Findings of the Committee**

726. The Committee observed that-

- i. The amount of Kshs1,195,551 was correctly charged under the refurbishment of residential buildings:
- ii. The matter was resolved.

**(3.) Receivables from Exchange Transactions**

727. As disclosed at Note 17 to the financial statements, receivables from exchange transactions balance of Kshs6,097,035,324 comprised of current receivables of Kshs392,643,328 and long-term receivables of Kshs5,704,391,996 as at 30 June, 2021. Included in the current receivables of Kshs392,643,328 is an amount of Kshs109,647,558 owed by the Principal Secretary-Lands has remained outstanding for several years.

728. In addition, the current receivables reflect rent and service charge arrears balances of Kshs237,105,191 and Kshs45,890,579, respectively. The analysis provided revealed that although the balances were grouped as current receivables, most of the balances had been outstanding for several years, and some were running balances.

729. Further, Management did not provide details of the composition of long-term receivables of Kshs5,704,391,996 since the ledger extracts provided for audit review did not indicate the names of persons or institutions owing the funds. In addition, no provision for bad and doubtful debts has been provided despite some outstanding balances for a considerably long period. In the circumstances, the accuracy and recoverability of receivables from exchange transactions balance of Kshs6,097,035,324 as at 30 June, 2021 could not be confirmed.

**Submissions by the Accounting Officer**

730. The Accounting Officer submitted that the query under receivables from exchange transactions raised three issues as follows:

**a. PS Lands- Kshs 109,647,558**

731. The Accounting Officer submitted that Management was formulating modalities for recovering the amounts that were paid to Principal Secretary State Department for Lands.

**b. Rent and Service Charge Arrears**

732. The Accounting Officer submitted that the current receivables reflected rent and service charge arrears balances of Kshs237,105,191 and Kshs45,890,579, respectively which remain outstanding due to delay of submission of payroll by-products from various MDAs and county governments despite receipt of the remittances. Further, some civil servants remit money by bank standing orders.

733. However, the management did not disclose the specific purpose of the remittance. Therefore, if the details of the civil servants in whose respect the MDAs and County Governments pay the remittances are not provided, the Fund cannot clear the balances in each client account.

**c. Long term Receivables of Kshs 5,704,391,996 Schedules**

734. The Accounting Officer submitted that the long-term receivables include: -

- i. Mortgage recoverable scheme- Kshs 1,419,177,345.95
- ii. Mortgage recoverable KCB S&L- Kshs 2,982,517,555.80
- iii. Mortgage recoverable HFCK- 1,247,479,940.02
- iv. Group Insurance Recoverable- 55,217,154.46
- v. The Fund provided schedules to support the long-term receivables for verification.

**Observations and findings of the Committee**

735. The Committee observed that-

- i. Current receivables of Kshs109,647,558 owed by the Principal Secretary-Lands remained outstanding for several years;
- ii. The Fund did not provide for audit review the details of the composition of long-term receivables of Kshs5,704,391,996;
- iii. The Fund made no provision for bad and doubtful debts despite some balances remaining outstanding for a considerably long period;
- iv. There is a need to digitize the system to ensure the by-product is generated through the EPR system and is integrated into the IPDD system to provide monthly statements to facilitate clearance of balances in each client account; and
- v. The matter was not resolved.

**Recommendations of the Committee**

736. The Committee recommends that:

- i. **The Accounting Officer submits a status report on the recovery of the Ksh. 109,647,558 paid to PS Lands to the Auditor – General within three months of the adoption of this report.**
- ii. **The Accounting Officer submits details of the composition of long-term receivables of Ksh. 5,704,391,996 to the Auditor General for verification within three months of adoption of this report by the National Assembly.**
- iii. **Within three months of adoption of this report, the Accounting Officer submit a progress report, on the digitization of the system, to ensure the by-product is generated through the EPR system and is integrated into the IPDD system to provide monthly statements to facilitate clearance of balances in each client account to the Auditor - General for verification and reporting in the next audit cycle .**

#### **(4.) Cash and Cash Equivalents**

737. As previously reported and as disclosed in Note 16 to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs2,234,665,183 as at 30 June, 2021. However, the bank reconciliation statement for the deposit account reflects unbanked receipts totaling Kshs17,840,670 out of which amounts totaling Kshs14,360,196 was in respect to the 2018/2019 and 2019/2020 financial years.

738. Further, the reconciliation statement reflects unrepresented cheques totaling Kshs21,274,256, out of which clearance status for payments totaling Kshs1,709,090 was not provided. In addition, the clearance status of receipts in the bank statement not in the cash book amounting to Kshs182,667,400 was not provided. In the circumstances, it was not possible to confirm whether the cash and cash equivalents balance of Kshs2,234,665,183 as at 30 June, 2021 was fairly stated.

#### **Submissions by the Accounting Officer**

739. The Accounting Officer submitted that the query under cash and cash equivalents raised issues relating to bank reconciliation statements on receipts in the cash book not in the bank, payments in the cash book not in the bank and receipts in the bank not in the cashbook. He submitted that the differences might occur due to a lack of full documentation and, in some cases, errors of omission.

740. He also stated that management was in the process of reconciling all the outstanding balances with a view of updating the clearance in subsequent bank reconciliations and providing for adjustments in the cashbook and submitted the following progress.

##### **a. Receipts in cash book not in bank**

741. The receipts in the cash book, not in the bank of Kshs 17,840,670 included some receipts that could be traced in that bank statement. However, the Management has since traced a total of Kshs 14,722,495.00. The verification was ongoing to reconcile the outstanding balance of Ksh 3,118,175.00.

**b. Payments cash book not in bank**

742. The payments in the cash book, not in the bank totaling Kshs 1,709,090 included a reversal entry of Kshs 700,000. Further verification was ongoing to clear the outstanding balance of Kshs 1,009,090. The Fund provided an extract of the cashbook for the Ksh 700,000 reversal entry for verification.

**c. Receipts in bank not in cashbook**

743. Receipts in the bank amounting to Kshs 182,667,400 and not in the cashbook were because of remittances from various MDAs and county governments that lacked supporting documentation detailing the purpose of remittances.

**Observations and Findings of the Committee**

744. The Committee observed that-

- i. The Fund did not conclude the verification to clear an outstanding balance of Kshs 1,009,090 is a payment in the cash book, not in the bank.
- ii. The management established the source of bank receipts amounting to Kshs 182,667,400.
- iii. The management did not reconcile the outstanding balance of Ksh 3,118,175.00.
- iv. The matter was unresolved.

**Recommendations of the Committee**

745. The Committee recommends that:

- i. **The Accounting Officer verifies and clears the outstanding balance of Ksh 1,009,090, which is a payment in cash book not in the bank within three months of the adoption of this report by the National Assembly and submit documentation to Auditor-General for audit review and reporting in the subsequent audit cycle.**
- ii. **The Accounting Officer undertakes monthly bank reconciliations as per Regulation 90(1) of the PFM (National Government) Regulations 2015.**
- iii. **The Accounting Officer should, within three months of the adoption of this report give a report to the National Assembly, on the follow-up with MDAs and County Governments to provide documentation for remittances.**
- iv. **The Accounting Officer reconciles the outstanding balance of Ksh 3,118,175.00 within three months of the adoption of this report and present the reconciliations to the Auditor-General for audit verification and reporting in the subsequent audit cycle.**

## **Other Matters**

### **(5.) Budgetary Control and Performance**

746. The statement of comparison of budget and actual amounts reflects the final revenue budget and expenditure budget of Ksh372,275,206 and Ksh240,518,763, respectively, resulting in a variance of Ksh131,756,443. No explanation was provided for the unbalanced budget. In addition, the Fund expended Ksh155,864,653 against an approved budget of Ksh240,518,763 resulting in an under-expenditure of Ksh84,654,110 or 35% of the budget.

747. In addition, it was not possible to confirm whether the Fund was authorized to incur the total expenses of Ksh155,864,672 reflected in the statement of financial performance for the year ended 30 June, 2021, which is contrary to Regulations 51(2) of the Public Finance Management (National Government) Regulations, 2015 that requires expenditure commitments for the supply of goods and services to be controlled against spending and procurement plans approved by the responsible Accounting Officer based on allocations from the approved budget

### **Submissions by the Accounting Officer**

#### **a. Budgeted Revenue**

748. The Accounting Officer submitted that the Fund's revenue includes mortgage interest, investment interest, bank interest, rental income, sale of forms and exchequer receipts from the National Treasury. The uncertainties around the exchequer amount to be received from Treasury, the mortgage uptakes and prevailing investment interest rates bring a challenge to predict the revenues for the year hence the Fund reports the actual revenues in the statement of comparison of budget and actual amounts.

#### **b. Under expenditure**

749. The Fund's operations were affected by Government-Covid 19 restrictions, and therefore, most of the Fund operations could not be undertaken, resulting in under-expenditure.

#### **c. Approved Budget**

750. The Fund provided the approved budget for the financial year 2020/2021 and the Scheme Management Committee minutes for audit verification.

### **Observations and Findings by the Committee**

751. The Committee observed that—

- i. The Accounting Officer did not provide the supporting documents relating to the budget at the time of the audit
- ii. The accounting could not accurately forecast on revenue streams due to the uncertainty in mortgage uptakes and prevailing investment interest rates.
- iii. The matter remains unresolved.

### **Recommendations of the Committee**

752. The Committee recommends that—

- i. **The Accounting Officer engages the services of an actuarial scientist to predict the uncertain revenues in subsequent financial years.**
- ii. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per sections 31(4), and 53 of the Public Audit Act, 2015.**

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES** **Basis for Conclusion**

#### **(6) Machakos Housing Project**

753. As reported in the previous year, the contract for the Machakos Housing Project was awarded on 25<sup>th</sup> August 2017 at a sum of Kshs 706,500,000 which was later revised to Kshs 744,475,735 for a duration of ninety-six (96) weeks ending on 21<sup>st</sup> June, 2019. An extension of time was subsequently granted to 20<sup>th</sup> November 2020. Information provided by the Management indicates that the project was completed, and a practical completion certificate was issued on 12<sup>th</sup> August, 2020. However, as similarly reported in 2019/2020, payments amounting to Kshs 10,639,982 were made out from the contract without adequate supporting documents, contrary to Regulations 99(3) of the Public Finance Management (National Government) Regulations, 2015.

#### **Submissions by the Accounting Officer**

754. The Accounting Officer submitted that the payments amounting to Kshs 10,639,982 that was made out from the contract were made following a valuation of work done and a payment certificate issued by the Project Manager, who was the Works Secretary, State Department of Public Works. Upon realizing the insufficient support documentation, the Management recovered the total amount of Kshs 10,639,982 from subsequent payments under Payment Certificate number 33.

#### **Field visit by the Committee**

755. On Friday, 5<sup>th</sup> May 2023, the Committee conducted an inspection visit to the Machakos Housing project. The purpose of the visit was to ascertain, verify and inspect the physical implementation of the project. The committee established the following:

##### **a) Project Description**

756. The project entails construction of 200 housing units of 100 No. three bedrooms units and 100 two bedrooms units in 6 blocks with associated works consisting of electrical and mechanical installations and civil works.

##### **b. Project Details**

Commencement of the project	-	25th August 2017
Completion date	-	12 <sup>th</sup> August 2020
End of defects liability period	-	10 <sup>th</sup> June 2021
Initial contract sum	-	Kshs 706,500,000.00
Revised contract sum	-	Kshs 744,475,735.28

**c. Contractors Details:**

Main Contractor:	Vee Vee Enterprises Ltd
Plumbing and Drainage Contractor:	Volcanic Plumbing Works
Electrical Works Contractor:	Power Eagle Enterprises Ltd
Civil Works Contractor:	Sun-Jua Builders Ltd

**d. Contract Progress Report**

757. The project is complete and handed over to the client. The units were handed over to the beneficiaries who are in occupation as from 1<sup>st</sup> January, 2022. The status is as indicated in the table below:

Accommodation	No of Units	Plinth Area (M <sup>2</sup> )	Sale price (Ksh,)
Two bedrooms	100	66	3,300,000.00
Three bed room with master en-suite.	100	86	4,300,000.00
Total Units	200		

**e. Sale**

758. The Units have been offered for sale to Civil Servants, public servants and members of the public. The units to be sold to Civil Servants under either outright purchase or tenant purchase terms while those sold to other Public Servants and members of the public will be sold under outright purchase terms. Sale of the remaining units is ongoing. The sale status is as indicated in the table below:

S/No.	Location	House Typology	Total No. of Units	Sold to date	Unsold to date
		2 bedrooms	100	35	65



Project Manager deducted liquidated damages in all the subsequent valuations and payment certificates for these sub-contractors after 31<sup>st</sup> July 2020.

764. He submitted that the damages had been deducted from the last valuation, and certificates were provided for verification. The Accounting Officer provided the total liquidated damages deducted per sub-contractor as follows:

S/No		Delay (weeks)	Rate per week (Kshs)	Total deductions
1.	Electricals sub-contractor	66	5,000	330,000.00
2.	Civil Works sub-Contractor	70.57	100,000	7,057,000.00
	<b>Total</b>			<b>7,387,000.00</b>

#### **Field visit by the Committee**

765. On Friday, 5<sup>th</sup> May 2023, the Committee conducted an inspection visit to the Embu Housing project. The purpose of the visit was to ascertain, verify and inspect the physical implementation of the project. The committee established the following:

##### **a. Project Description**

766. The project entails construction of 220 housing units of 140 No. three bedrooms units in 7 blocks and 80 No. two bedrooms units in 4 blocks with associated works consisting of electrical & mechanical installations and civil works.

##### **b. Project Details**

Commencement Date	-	24 <sup>th</sup> August, 2017
Initial contract period	-	96 Weeks (24 Months)
Initial completion Date	-	20 <sup>th</sup> June, 2019
Revised Completion Date	-	8th December, 2021
Contract Sum	-	Kshs 843,932,665.00
Revised contract sum	-	Kshs 866,737,918.78

##### **c. Contractors Details:**

Main Contractor:	Vaghjiyani Enterprises Ltd.
Plumbing & Drainage Contractor:	Ever Fortunes Co. Ltd.
Electrical Works Contractor:	Central Electricals International Ltd
Civil Works Contractor:	Dachi Ltd.

**d. Contract Progress Report.**

767. The project complete and a certificate of practical completion was issued to the Main Contractor on 8<sup>th</sup> December, 2021. The units were handed over to the beneficiaries who are in occupation as from 1<sup>st</sup> August, 2022.

**Project summary table**

Accommodation	No of Units	Plinth Area (M <sup>2</sup> )	Sale price (Kshs)
Two bedrooms	80	70	3,500,000.00
Three bed room with master en-suite.	140	90	4,800,000.00
Total Units	220		

**e. Sale**

768. The Units have been offered for sale to Civil Servants, public servants and members of the public. The units to be sold to Civil Servants under either outright purchase or tenant purchase terms while those sold to other Public Servants and members of the public will be sold under outright purchase terms. Sale of the remaining units is ongoing.

**Status of sale**

S/No.	Location	House Typology	Total No. of Units	Sold to date	Unsold to date
		2 bedrooms	80	23	57
		3 bedrooms	140	25	115
				<b>48</b>	<b>172</b>

**f. Titling**

769. Part Development Plans (PDP) and survey plans have been prepared for the purposes of titling of the land. Sectional properties survey for the units has also been done through Survey of Kenya.

**Observations and Findings of the Committee**

770. The Committee observed that;

- i. The Accounting Officer recovered liquidated damages of Ksh 7,387,000.00 in the subsequent valuations and payment certificates for these sub-contractors done after 31<sup>st</sup> July, 2020.
- ii. The matter was resolved.

## **11.1.2 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR THE CIVIL SERVANTS HOUSING SCHEME FUND FOR THE FINANCIAL YEAR 2021/2022**

### **The basis for Adverse Opinion**

#### **(1.) Inaccuracies in the Financial Statements**

771. A review of the financial statements prepared and submitted for audit revealed the following inaccuracies;

- i. The work in Progress balance of Kshs 2,569,169,152 (Note 18 of the Financial Statements) was reported under current assets instead of non-current assets.
- ii. The Statement of Comparison of Budget and actual amounts reflected the final expenditure budget of Kshs 271,984,361 against the total approved budget of Kshs 3,250,600,000 comprising of recurrent expenditure Kshs 310,600,000 and development expenditure of Kshs 2,840,000,000 respectively. The resulting variance of Kshs 2,978,615,639 was not explained or reconciled.
- iii. Statement of Comparison of Budget and actual amounts reflected final revenue budget of Kshs 473,556,292 against approved receipts budget of Kshs 3,400,000,000 resulting to an unexplained and unreconciled variance of Kshs 2,926,443,708.

772. In the circumstances, the accuracy and completeness of the financial statements for the financial year ending 30<sup>th</sup> June 2022 could not be confirmed.

#### **Submission by the Accounting Officer**

773. The Accounting Officer agreed with the observation of the Auditor General on the need to reclassify the work in progress from current assets to Non-Current Assets in the financial statements of the current period ending 30<sup>th</sup> June 2023. He further submitted that the scheme reported recurrent budgeted expenditure and attached a Statement of Comparison of Budget and actual amounts.

774. He informed the Committee that the Scheme was working with the International Public Sector Accounting Standards Board (IPSAS) to come up with a template that is unique to the operations of the Scheme to align the budgeted revenue to the budgeted expenditure and to cater for development budget and expenditure.

775. The Accounting Officer indicated that the Scheme reported actual revenues under the final budget column in the Statement of Comparison of Budget and actual amounts instead of the final revenue budget figures. This is because of the fluctuating nature of the revenue streams

of the Scheme. However, in the subsequent years, the Scheme shall be keen to report the final budgeted revenues as a comparison figure in the financial statements per Auditor's recommendation.

### **Observations and Findings of the Committee**

776. The Committee observed that;

- i. The Accounting Officer admitted that the work in progress balance of Kshs 2,569,169,152 (Note 18 of the Financial Statements) was reported under current assets instead of non-current assets
- ii. The Accounting Officer did not explain or reconcile variances of Kshs 2,978,615,639 and Kshs 2,926,443,708 noted in the budget figures.
- iii. Failure to adhere to IPSAS exposes the fund to fraud.
- iv. The matter was unresolved.

### **Recommendations of the Committee**

777. The Committee recommends that—

- i. **Within three months of the adoption of this report, the Accounting Officer submits an explanation or reconciliation on the variances of Ksh 2,978,615,639 and Ksh 2,926,443,708 noted in the budget to the Auditor-General for audit verification.**
- ii. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

### **(2.) Unsupported Revenue Balances**

#### **(2.1) Mortgage Interest**

778. The statement of financial performance reflects mortgage interest of Kshs 203,188,793 as disclosed in Note 6 to the Financial Statements. However, Management did not provide for audit review the detailed monthly analysis/workings indicating amounts accrued from each loan.

#### **Submissions by the Accounting Officer**

779. The Accounting Officer submitted that the mortgage interest of Kshs 203,188,793 disclosed in the financial statements included: Mortgage Interest Scheme of Kshs 91,249,752 Mortgage Interest KCB S&L of Kshs 66,675,909 and Mortgage Interest HFCK pf Kshs 45,263,132.

780. He also submitted that Mortgage Interest Scheme is generated monthly in the ERP system for all civil servants who purchased physical houses from the Scheme. The interest is calculated on the reducing balance for each client account. A detailed analysis explaining the different figures of the different streams of Mortgage interest was provided for audit review.

### **Observations and Findings of the Committee**

781. The Committee observed that-

- i. The Accounting Officer did not provide for audit review the detailed monthly analysis/workings indicating amounts accrued from each loan.
- ii. The matter remained unresolved.

### **Recommendations of the Committee**

782. The Committee recommends that—

- i. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per sections 31(4), and 53 of the Public Audit Act, 2015; and**
- ii. **The Accounting Officer provides to Auditor-General for audit verification and reporting in the subsequent audit cycle the detailed monthly analysis/workings indicating amounts accrued from each loan within three months of adoption of this report.**

### **(2.2) Finance Income – Investment Interest**

783. The statement of financial performance reflects finance income- investment interest of Kshs152,308,983 as disclosed in Note 7 to the Financial Statements. However, Management did not provide for audit review the detailed analysis supporting the balance. In the circumstances, the accuracy and completeness of the Finance-Investment interest of Kshs 152,308,983 for the year ended 30<sup>th</sup> June, 2022 could not be confirmed.

### **Submissions by the Accounting Officer**

784. The Accounting Officer submitted that The Finance Income-Investment interest of Kshs 152,308,983 disclosed in the financial statements comprises interest earned from fixed deposits at CBK Kshs 70,017,900 KCB Kshs 40,988,164.35 and HFC Kshs 41,302,918.60. A detailed analysis of the above interest amounts earned was provided for audit review.

### **Observations and Findings of the Committee**

785. The Committee observed that-

- i. The Accounting Officer has since provided a detailed analysis to support the Finance Income-Investment interest of Kshs152,308,983;
- ii. The matter was resolved.

### **Recommendations of the Committee**

786. The Committee recommends that

**The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per sections 31(4), and 53 of the Public Audit Act, 2015.**

### **(2.3) Rental Income**

787. The statement of financial performance reflects rental income of Kshs95,722,648 as disclosed in Note 9 to the Financial Statements. However, Management did not provide for audit review the detailed analysis supporting the balance. In the circumstances, the accuracy and completeness of rental income of Kshs 95,722,648 for the year ended 30<sup>th</sup> June, 2022 could not be confirmed.

#### **Submission by the Accounting Officer**

788. Rental income refers to the money the scheme receives as rent from Investment properties owned by the scheme. The annual rental income for the scheme is Kshs 49,713,792, in the period under review, the scheme raised additional rental income from unbilled rent arrears from prior years, totalling to Kshs46,008,856. Hence the rental income for the year was Kshs 95,722,648 as disclosed in the Financial Statements (Note 9). Fund attached a schedule for all rental properties and occupants for audit review.

#### **Observations and Findings of the Committee**

789. The Committee observed that:

- i. The Accounting Officer failed to provide documents supporting the annual rental income of Kshs 49,713,792 during the audit.
- ii. The Accounting Officer did not provide a detailed analysis supporting the additional rental income of Kshs46,00,8,856 for verification by the Auditor – General.
- iii. The matter was unresolved.

#### **Recommendations of the Committee**

790. The Committee recommends that:

- i. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per sections 31(4), and 53 of the Public Audit Act, 2015; and**
- ii. **The Accounting Officer provides a detailed analysis supporting the additional rental income of Ksh46,00,8,856 for verification and reporting in the subsequent audit cycle by the Auditor–General within three months of the tabling of this report.**

### **(3.) Unsupported Refurbishment of Residential Buildings**

791. Included in the repairs and maintenance balance of Kshs 16,836,662 is the refurbishment of residential buildings of Kshs 10,797,713 as disclosed in Note 14 to the financial statements. However, Management did not provide for audit review supporting schedules with details of the refurbished houses. In the circumstances, the validity, accuracy and completeness of refurbishment of residential buildings expenditure of Kshs10,797,713 for the year ended 30<sup>th</sup> June, 2022 could not be confirmed.

### **Submissions by the Accounting Officer**

792. The Accounting Officer submitted that the housing scheme Fund reported an expenditure of Kshs 10,797,713 as refurbishment of residential buildings. During the year under review, the scheme refurbished houses in Shauri Moyo and Ngara. The Fund provided a schedule showing vendor, the payments made, and the houses refurbished for review.

### **Observations and Findings by the Committee**

793. The Committee observed that-

- i. The Accounting Officer did not submit the schedule for refurbishing buildings during the audit as provided by law.
- ii. The matter was not resolved.

### **Recommendations by the Committee**

794. The Committee recommends that –

- i. **Within three months upon adoption of this report, the Accounting Officer submits the supporting schedules with details of the refurbished houses to account for the expenditure of Ksh10,797,713 to the Auditor General for audit verification and reporting in the subsequent audit cycle;**
- ii. **The Accounting Officer submits all relevant documents during the audit for subsequent financial years to the Auditor – General as provided under Section 31(4) of the Public Audit Act, 2015.**

### **(4.) Unsupported Cash and Equivalent Cash Balances**

795. The statement of financial position reflects a cash and cash equivalents balance of Kshs2,221,363,832 as disclosed in Note 16 to the financial statements. However, the audit review revealed the following anomalies.

- i. Included in cash and cash equivalents balance is Kshs51,423,249 regarding the deposit bank account. The June 2022 bank reconciliation statement supporting the balance reflects payments in the bank statement, not in the cash book totalling Kshs1,259,840, whose clearance status was not disclosed during the audit. Additionally, it includes two (2) un-presented cheques amounting to Kshs Kshs2,750,500 paid on 30<sup>th</sup> June, 2022 vide payment vouchers No.10115 and 10116 to the Fund Administrator, whose details were not provided for audit purposes.
- ii. The balance includes Kshs1,137,283 regarding the operation bank account, for which the bank balance confirmation certificate was not provided for audit review.
- iii. Included in the balance is Kshs2,168,803,300 in respect of four (4) fixed deposit bank accounts for which Management did not provide bank confirmation certificates and approvals from the National Treasury for fixing the funds for audit verification.

### **Submissions by the Accounting Officer**

796. The Accounting submitted that—

- i. The Kshs 1,259,840 relates to an expenditure relating to operations (recurrent) which was paid from the deposit account. The borrowed money was refunded to the deposit account in the subsequent month.
- ii. The reconciling items (Unpresented cheques) were cleared, as evidenced by the bank reconciliations of the subsequent month. (November 2022).
- iii. The bank balance confirmation certificate was available for audit for the auditor to review.
- iv. The auditor can review the bank balance confirmation certificate for the fixed deposit amounts.

### **Observations and Findings of the Committee**

797. The Committee observed that-

- i. The Accounting Officer did not provide payment details of Ksh 2,750,500 during the audit.
- ii. The matter was not resolved.

### **Recommendations of the Committee**

798. The Committee recommends that—

- i. **The Accounting Officer provides the details of the two (2) un-presented cheques amounting to Ksh. 2,750,500 paid on 30<sup>th</sup> June, 2022 to the Auditor General within three months of the adoption of this report, for verification and reporting in the subsequent audit cycle.**
- ii. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per sections 31(4) of the Public Audit Act, 2015.**

### **(5.) Unsupported and Long Outstanding Current Receivables from Exchange Transactions.**

799. The statement of financial position reflects the current portion of receivables from exchange transactions balance of Ksh. 676,392,613 as disclosed in Note 17 (a) (i) to the financial statements. The balance includes mortgage principal arrears-HFCK Ksh. 142,662,920 and a mortgage interest-HFCK balance of Ksh. 26,401,375, investment interest arrears balance of Ksh. 8,176,666 and credit interest on bank balance of Ksh. 2,813,475, whose supporting schedule/analysis were not provided for audit review.

800. In addition, the balance includes rent and service charge arrears balance of Kshs 377,317,476, whose supporting schedule did not disclose persons or institutions from which the rent and service charge arrears were due. Further, the balance includes an amount of Kshs 109,647,557 due from the Principal Secretary Ministry of Lands, which had been outstanding for several

years. In the circumstances, the recoverability, accuracy and completeness of the current receivables from exchange transactions balance of Kshs676,392,613 as at 30 June 2022 could not be confirmed.

### Submissions by the Accounting Officer

801. The Accounting Officer submitted that the amount reported as Current receivables referred to: Interest earned but not received as at 30<sup>th</sup> June, 2022 i.e., principal amount arrears by HFCK of Kshs 142,662,920.42, HFCK Mortgage Interest of Kshs 26,401,375.28, Investment interest arrears by HFC of Kshs 8,176,655.85 and credit interest earned but not paid as at 30<sup>th</sup> June, 2022 of Kshs 2,813,475. These amounts were subsequently paid into the scheme's account as detailed below.

Date Earned	Description	Financial statements	Date Received	Bank Statement
30/06/2022	Mortgage principal arrears	142,662,920	12/09/2022	83,897,359.80
30/06/2022	Mortgage interest arrears	26,401,375	12/09/2022	85,166,935.90
<b>Sub Total</b>		<b>169,064,295</b>		<b>169,064,295.</b>
30/06/2022	Bank Interest arrears	2,813,474.60	01/07/2022	2,813,474.60
30/06/2022	Investment interest arrears	8,176,665.85	22/08/2022	8,176,665.85

### Rent and Service charge arrears

802. The Accounting Officer submitted the amount reported as rent arrears and service charge arrears of Kshs 377,317,476 refers to historical remittances made as block figures to the Scheme account without the by-products from MDA's. The amount cannot be attributed to a specific tenant in that case. If the details of the civil servants in whose respect the remittances are paid by the MDA's and County Governments are not provided, the scheme cannot clear the balances in each client account. Management is procuring an ERP system that will enhance integration with the banks to ensure timely receipting and accounting of all remittances from MDAs and counties, as well as making it easier to flag delayed remittances.

803. He submitted a list of all MDA's and counties not remitting Mortgage and Rent Deductions as contained in the table below;

S/NO	MDAs	MONTHS	AMOUNT	REMARKS
1	State Department for Public Service	49	9,579,236.00	
2	State Department of Roads	52	14,882,872.50	
3	State Department for Foreign Affairs	88	11,024,055.00	

4	State Department for Citizen Services	21	7,298,189.20	
5	Ministry of Environment & Forestry	150	6,374,616.00	
6	State Department for Livestock Development	108	920,000.00	
7	National Aids Control Council	64	860,823.00	
8	Public Service Commission	31	5,417,480.00	
9	Office of the Deputy President	7	534,674.00	
10	Cabinet Office	4	567,706.00	
11	State Department for the ASALs and Regional Development	25	845,090.00	
12	State Department for Labour & Skills Development	11	3,291,249.00	
13	State Department for Trade	16	2,964,946.00	
14	Prison Department	8	1,370,949.00	
15	Kenya Revenue Authority	14	308,000.00	
16	State Department for Economic Planning	65	4,939,019.25	
17	State Department for Social Security & Protection	2	392,167.00	
18	Teachers Service Commission	66	668,184.00	
	<b>COUNTIES</b>			
1	Muranga County	56	1,381,688.00	<b>NO BYPRODUCTS</b>
2	Turkana County	113	2,430,969.00	
3	Baringo County	113	1,158,250.00	
4	Kirinyaga County	45	417,604.00	
5	Nakuru County	82	1,886,000.00	
6	Nyeri County	25	1,256,675.00	
7	Embu County	19	522,291.00	
8	Kajiado County	61	1,629,615.00	
9	Uasin Gishu County	54	2,120,526.00	
10	Kisumu County	71	1,537,363.00	
11	Makueni County	22	1,265,078.00	
12	Marsabit County	5	289,890.00	
13	Kakamega County	69	3,670,560.00	
			<b>91,805,764.95</b>	

**Principal Secretary Ministry of Lands- Kshs 109,647,557.72**

804. The Accounting Officer indicated that the amount of Kshs 109,647,557.72 reported as debt due from the Principal Secretary Ministry of Lands - refers to amounts that were remitted to the State Department of Lands when the Scheme was administratively under the State Department of Lands before it was moved to the State Department of Housing and Urban Development. Management was in the process of recovering the amounts that were paid to PS Lands.

### **Observations and Findings by the Committee**

805. The Committee observed that:

- i. Current receivables of Kshs109,647,558 owed by the Principal Secretary-Lands remained outstanding for several years;
- ii. The Fund did not provide for audit review the details of the mortgage balances Kshs142,662,920 and Kshs 26,401,375 during the audit;
- iii. There is a need to digitize the system to ensure the by-product is generated through the EPR system and is integrated into the IPDD system to provide monthly statements to facilitate the clearance of balances in each client account; and
- iv. The matter was not resolved.

### **Recommendations of the Committee**

806. The Committee recommends that:

- i. **The Accounting Officer submits a status report on the recovery of the Ksh109,647,558 paid to Principal Secretary State Department for Lands to the Auditor - General within three months of the adoption of this report for audit verification and reporting in the subsequent audit cycle.**
- ii. **The Accounting Officer submits a progress report on the digitization of the system to ensure the by-product is generated through the EPR system and is integrated into the IPDD system, to provide monthly statements to facilitate the clearance of balances in each client account, within three months of the adoption of this report, to the Auditor-General for verification and reporting in the next audit cycle;**
- iii. **The Accounting Officer submits all relevant documents during the audit for subsequent financial years to the Auditor- General as provided under Section 31(4) of the Public Audit Act, 2015.**

### **(6.) Unsupported Long-term Receivables from Exchange Transactions**

807. The statement of financial position reflects long-term receivables from exchange transactions balance of Kshs6,558,557,448 as disclosed in Note 17 (b) of the financial statements. However, the supporting schedules provided for audit review in respect of each category of reported balances were incomplete as they did not include key beneficiary's information such as their names, job groups, dates of loan, amounts of loan issued, repayment periods, opening loan balances, repayments during the year, closing loan balances and locations of the houses. In addition, management did not provide for bad and doubtful debts during the year. In the circumstances, the recoverability, accuracy and completeness of long-term receivables from exchange transactions balance of Kshs6,558,557,448 as at 30th June, 2022 could not be confirmed.

### **Submissions by the Accounting Officer**

808. The Accounting Officer submitted that the schedules relating to mortgage recoverable from the Scheme of Ksh 2,476,198,088.74, mortgage recoverable from KCB (S&L) of Kshs 2,897,697,602, Mortgage recoverable from HFCK of Kshs 1,120,442,984.47 and Group Insurance Recoverable of Kshs 64,218,773 were availed in the format as presented by the bank. The details, as required by the Auditor, are included in the schedules attached.

### **Observations and Findings of the Committee**

809. The Committee observed that-

- i. The Accounting Officer failed to provide key beneficiary information such as the names, job groups, dates of loan, amounts of loan issued, repayment periods, opening loan balances, and repayments for audit review of the long-term receivables of Kshs 6,558,557,448.
- ii. There is a need to digitize the system to ensure the by-product is generated through the EPR system and is integrated into the IPDD system to provide monthly statements to facilitate the clearance of balances in each client account.
- iii. The matter was not resolved.

### **Recommendations of the Committee**

810. The Committee recommends that:

- i. **The Accounting Officer submits a progress report on the digitization of the system to ensure the by-product is generated through the EPR system and is integrated into the IPDD system to provide monthly statements to facilitate the clearance of balances in each client account to the Auditor- General within three months of the adoption of this report; and**
- ii. **The Accounting officer to provide to the auditor general key beneficiary information relating to the long-term receivables of Ksh. 6,558,557,448 within three months of the adoption of this report.**

### **(7.) Inaccuracies in Work in Progress**

811. The statement of financial position reflects the work-in-progress balance of Ksh 2,569,169,152 as disclosed in Note 18 to the Financial Statements. However, Management did not provide an analysis of the balances per project for audit review. In addition, the audit review revealed the following anomalies:

- i. Included in the balance are the purchase of houses for the sale of Ksh 1,046,000,000 and which ought to have been disclosed as land and Buildings.
- ii. The balance includes statutory fees and other charges of Kshs 4,783,624 is at variance with the ledger, reflecting a negative balance of Kshs 4,783,624.
- iii. Included in the balance is construction of Kshs 1,377,777,649 which is at variance with the ledger which reflects balance of Kshs 1,405,876,084 resulting to an un-explained and unreconciled variance of Kshs 28,098,435.

812. In the circumstances, the accuracy and completeness of the work in progress balance of Kshs 2,597,267,857 as at 30<sup>th</sup> June, 2022 could not be confirmed.

**Submissions by the Accounting Officer**

813. The accounting officer submitted that the detailed analysis per project was attached for review. He indicated that the purchase of houses for sale of Kshs 1,046,000,000 relates to the purchase of Mavoko Sustainable Neighbourhood Project and the Nakuru affordable housing project, which the Scheme is yet to finalize the acquisition. In the circumstances, the purchase of the houses is still considered under work in progress.

814. He further submitted that the statutory fees and other charges of Kshs 4,783,624, in a credit balance, was a misstatement in the initial financial statements and was corrected in the final financial statements. The ledger on construction under Work in Progress and the variance of Ksh were corrected. 28,098,435 reconciled in the final revised financial statement.

**Observations and Findings of the Committee**

815. The Committee observed that-

- i. The Accounting Officer failed to provide an analysis of the balances per project to support the work-in-progress balance of Kshs 2,597,267,857; and
- ii. The matter remains unresolved.

**Recommendations of the Committee**

816. The Committee recommends that—

- i. **The Accounting Officer provides an analysis of the balances per project to support the work-in-progress balance of Ksh 2,597,267,857 to the Auditor General for audit verification and reporting in the subsequent audit cycle, within three months of adoption of this report;**
- ii. **The Accounting Officer ensures timely provision of accounting documentation required for audit verification as per sections 31(4) of the Public Audit Act, 2015.**

**(8.) Variance between Property, Plant and Equipment and Fixed Asset Register balances**

817. The Statement of Financial position reflects Property, Plant and Equipment net book value balance of Ksh 877,238,301 as disclosed in Note 19 (a) to the financial statements. However, audit review revealed the following anomalies:

- i. Unexplained and unreconciled variances between the financial statements and fixed asset register balances as tabulated below:

Description	Financial Statements (Kshs)	Fixed Assets Register (Kshs)	Variance (Ksh)
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Land and Buildings	864,743,611	888,534,142	(23,790,531)
Motor Vehicle	30,190	40,252	(10,062)
Furniture & Fittings	4,699,411	2,953,706	1,745,705
Computers	6,903,614	1,688,741	5,214,873
Plant and Equipment	861,475	3,888,131	(3,026,656)
<b>Total</b>	<b>877,238,301</b>	<b>897,104,972</b>	<b>(19,866,671)</b>

- ii. The depreciation amount of Kshs 20,884,361 in the property, Plant and Equipment movement schedule could not be traced to the fixed assets register.
- iii. Desktop computers and Apple iPad totalling Kshs 3,925,310 were wrongly classified under Land and Buildings in the Asset Register.
- iv. The Assets register reflects Plant and Equipment additions of Kshs 700,000 while the Property, Plant and Equipment movement schedule reflects additions of Kshs 451,000, resulting in an unexplained and unreconciled variance of Kshs 249,000

#### **Submissions by the Accounting Officer**

818. The Accounting Officer submitted that the ERP system developed an error of misclassification of the fixed assets hence the variances noted, however, the total acquisition cost of property, plant and equipment in the asset register is consistent with the acquisition cost reported in the financial statements. He submitted that management was working with the developer of the ERP system to address the error of misclassification.

#### **Observations and Findings of the Committee**

819. The Committee observed that-

- i. The Accounting Officer admitted the error of misclassification of the assets leading to a variance of Ksh 19,866,671.
- ii. The Accounting Officer attributed the error of misclassification of the fixed assets to the ERP system.
- iii. The matter remained unresolved.

#### **Recommendations of the Committee**

820. The Committee recommends that-

- i. **The Accounting Officer corrects the misclassification within three months of the adoption of this report and submit the documentation to the Auditor-General for audit verification and reporting in the subsequent audit cycle;**
- ii. **The Accounting Officer complies with the reporting format on assets by investing in accounting personnel and training them on the ERP system; and**
- iii. **The Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with Public Finance Management Act,**

**2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015**

**(9.) Untitled Investment Properties**

821. The statement of Financial Position reflects an investment property balance of Kshs 864,743,611 as disclosed in Note 20 to the financial statements. However, ownership titles for parcels of Land on which some housing units are located were not provided for audit review. The properties include Kileleshwa Gichugu 1, Kileleshwa Gichugu 2, Kilimani Dennis Pritt, Park Road-Nairobi, Jogoo Road-Nairobi, Kibera Highrise, Mukenia South B, Kileleshwa Flats, Shauri Moyo-Kisumu, Kiambu, Bondeni-Nakuru, Machakos and Embu. In the circumstances, the ownership of the investment properties of Kshs 864,743,611 as at 30<sup>th</sup> June, 2022 could not be confirmed.

**Submissions by the Accounting Officer**

822. The Accounting Officer submitted that the State Department was working closely with the State Department for Lands and the National Land Commission in initiating the titling process for all properties sold under the Fund. This included the preparation of Part Development Plans, Allotment letters, Survey Plans, leases for the parcels of Land, sectional survey plans and sectional titles.

823. A total of 298 titles have been received from Lands, of which 41 were unencumbered, and 257 had encumbrances in favour of the Fund and have been availed for audit review. Titling for the remaining properties is ongoing at different stages. A steering committee comprising officers from the State Departments for Lands and Housing and Urban Development has been established to fast track the process.

**Observations and Findings of the Committee**

824. The Committee observed that-

- i. Titling for various projects under the scheme remained incomplete and the ownership of the investment properties of Kshs 864,743,611 as at 30<sup>th</sup> June, 2022 could not be confirmed; and
- ii. The matter is unresolved.

**Recommendations of the Committee**

825. **The Committee recommends that the Accounting Officer provides a progress report to the auditor general on the engagement with the State Department of Lands and other relevant stakeholders to fast-track the titling processing within three months of the adoption of this report for audit verification and reporting in the subsequent audit cycle.**

## **Other Matters**

### **(10) Budgetary Control and Performance**

826. The statement of comparison of budget and actual amounts reflects an actual expenditure amount of Kshs192,737,179 against an approved budget of Kshs271,984,361 resulting in an under-expenditure of Kshs79,247,182 or 29% of the budget. The underperformance affected the planned activities and may have negatively impacted service delivery to the public.

#### **Submissions by the Accounting Officer**

827. In the year under review, the Scheme had budgeted for purchase of ERP software and motor vehicles whose procurement process delayed and by 30<sup>th</sup> June 2022 the procurement had not been done, resulting to the budget underperformance.

#### **Observations and findings of the Committee**

828. The Committee observed that:

- i. The Accounting Officer attributed the under-expenditure of Kshs79,247,182 to delay in the procurement of ERP software and motor vehicles: and
- ii. The matter was unresolved.

#### **Recommendations by the Committee**

829. **The Committee recommends that the Accounting Officer takes appropriate measures to ensure efficient budget utilization and implementation of the FY planned activities.**

### **(11) Unresolved Prior Year Matters**

830. In the audit report of previous year, several issues were raised under the report on Financial Statements, Report on lawfulness and effectiveness in the use of public resources, and report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given explanations for failure.

#### **Submissions by the Accounting Officer**

831. Prior year matters were responded to in the management responses of FY 2020/2021. Implementation of Auditor's recommendation is in process in the current financial year.

#### **Observations and findings of the Committee**

832. The Committee observed that the matter was unresolved.

**Recommendations of the Committee**

833. The Committee recommends that the Accounting Officer takes appropriate measures to resolve the outstanding prior audit issues as required by Section 68(2)(I) of the Public Finance Management Act, 2012 and Section 53(1) of the Public Audit Act, 2015 within three (3) months upon the adoption of this report and submit the status report to the Auditor-General for audit verification.

SIGNATURE ..... *Fatuma* .....

**HON. FATUMA ZAINAB MOHAMMED, M.P.**  
**CHAIRPERSON, SPECIAL FUNDS ACCOUNTS COMMITTEE**

=====**End**=====

DATE: 15 JUN 2023 THURSDAY	
TABLED BY:	(Chairperson, Special funds Accounts Committee) Hon. Fatuma Mohamed
Clerk of THE TABLE:	Finlay