

REPUBLIC OF KENYA



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REPORT
DATE: 06 DEC 2023 DAY: WED
TABLED BY: OF Hon Naomi Wago, MP
Deputy majority whip
Miriam Mudi
CLERK AT THE TABLE

THE AUDITOR-GENERAL

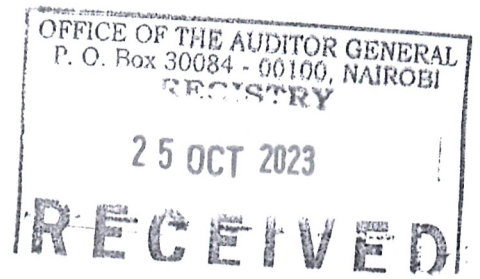
ON

**SUPPORT TO THE STATE DEPARTMENT FOR
TECHNICAL, VOCATIONAL EDUCATION AND
TRAINING FOR RELEVANT SKILLS
DEVELOPMENT PROJECT – TVET PROJECT
PHASE II (ADF LOAN NO.2100150033295**

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

**STATE DEPARTMENT FOR TECHNICAL,
VOCATIONAL EDUCATION AND TRAINING**





**SUPPORT TO THE STATE DEPARTMENT FOR TECHNICAL, VOCATIONAL
EDUCATION AND TRAINING FOR RELEVANT SKILLS DEVELOPMENT PROJECT
(TVET PROJECT - PHASE II)**

**IMPLEMENTING ENTITY: MINISTRY OF EDUCATION
STATE DEPARTMENT FOR TECHNICAL, VOCATIONAL EDUCATION AND
TRAINING**

**PROJECT LOAN NUMBER: ADF LOAN NO: 2100150033295
PROJECT ID NO. P-KE-IAE-002**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

***Support to Technical Vocational Education and Training for Relevant Skills Development
Project (GoK/AfDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023***

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***Support to Technical Vocational Education and Training for Relevant Skills Development
Project (GoK/AfDB TVET Project-Phase II)
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1. Acronyms and Glossary of Terms

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
Comparative FY - Financial year preceding the current financial year.	
AfDB	African Development Bank
GoK	Government of Kenya
CDACC	Curriculum Development, Assessment and Certification Council
TVETA	Technical and Vocational Education and Training Authority
TVET – MIS	Technical Vocational Education and Training Management Information System
TTI	Technical Training Institute
TTIBD	Technical Training Institute for Blind and Deaf
ICT	Information Communication Technology
SN TVET	Special Needs Technical Vocational Education and Training
CBET	Competency Based Education and Training
MSE	Medium and Small Enterprises
OSHA	Occupational Safety and Health Act
FY	Financial Year
ESS	Environmental Social Safeguards
EMCA	Environmental Management and Co-ordination Act
PFM	Public Finance Management
KNQA	Kenya National Qualification Authority

***Support to Technical Vocational Education and Training for Relevant Skills Development
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(Acronyms and Glossary of Terms continued)

PSASB	Public Sector Accounting Standards Board
USD	United States Dollars
MDAs	Ministries, Departments and Agencies
TTID	Technical Training Institute for the Deaf
EUR	Euros

2. Project Information and Overall Performance

2.1 Name and registered office

Name

The project's official name is 'Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project-Phase II)'.

Objective

The key objective of the project is to increase access and equity, improve quality and relevance of TVET Education and Training

Address

The project headquarters offices are Nairobi (city), Nairobi County, Kenya.

The address of its registered office is:

Ministry of Education, State Department for Technical, Vocational Education and
Training, Jogoo House B 8th Floor
P.O. Box 9583-00200
Nairobi, Kenya

Contacts: The following are the project contacts

Telephone: (254) 722492972

E-mail: psvtt@education.go.ke

Website: www.education.go.ke

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Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	The project start date is 16.12.2015
Project End Date:	The project end date is 31.12. 2023
Project Manager:	The project coordinator is Mr. John K. Tuwei
Project Sponsor:	The project sponsor is GoK and African Development Bank Group

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Education, State Department for Technical, Vocational Education and Training (SD-TVET)
Project number	PROJECT ID: P-KE-IAE-002 ADF LOAN NO. 2100150033295
Strategic goals of the project	The strategic goals of the project are as follows: (i) To increase access and equity, improve quality and relevance of TVET education and training (ii) To equip youth, at least 50% of them women, with relevant TVET skills for the immediate and emerging labor market needs
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Provision of infrastructure to 12 TVET including hostels to 4 Special needs TVETs and equipping 35 workshops in 33 TVET institutions.

Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project-Phase II)
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	<ul style="list-style-type: none"> (ii) ‘Upskilling’ of 414 Trainers at Diploma and Degree levels (iii) Capacity Building of TVET trainers and Technicians and training of disengaged youth (iv) Support of TVET Authority and CDACC to operationalize. (v) Support on cross cutting issues such as gender, tracer studies governance and development of TVET-MIS (vi) Development of the 5 Year TVET graduates tracer study (vii) Training of 2,000 TVET managers on PFM and Corporate Governance
Other important background information of the project	The project covers 33 TVET institutions spread across the entire Country
Areas that the project was formed to intervene	<p>The project was formed to intervene in the following problems/gaps:</p> <ul style="list-style-type: none"> (i) Increase transition of youth from basic education into TVET and reduce unemployment (ii) Improve the quality and relevance of TVET for industry
Project duration	5 Years - The project started on 16 December 2015 and was expected to run until 31.12.2020 but got no cost extension upto 31.12.2023

Project Information and Overall Performance (Continued)

2.4 Bankers

The project doesn't have separate bank accounts for its operations. It shares the Development Bank account for the State Department for Vocational, Technical Education and Training at the Central Bank of Kenya.

2.5 Independent Auditor

The project is audited by the

Auditor-General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya.

**Support to Technical Vocational Education and Training for Relevant Skills Development
Project (GoK/AfDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023**

Project information and overall performance (continued)

2.6 Roles and Responsibilities

Names	Positions	Key qualifications	Project Responsibilities	Contact
John K. Tuwei	Deputy Director Technical Education	Masters in Chemistry Graduate Certificate in TVET	Project Coordinator	0722492972 jkiplagatuwei@yahoo.com
Joseph N. Njau	Deputy Director Technical Education	Masters in Project Management	Deputy Project coordinator	0721273442 calfjn@gmail.com
Joseph Kanyi	Deputy Director Technical Education	Masters in entrepreneurship development	Project Officer	0722689096 Jmkanyi2014@gmail.com
Carolyne Nyambok	Principal Accountant	Masters in Business Administration	Project Accountant	0722966504 nyambokc@yahoo.com
Steve Juma	Finance Officer	Bachelor of commerce Finance	Project Finance Officer	0741801348 Jumanature93@gmail.com
Zannah Awiti	Supply Chain Management Officer	Diploma in Supply Chain Management	Project Procurement Officer	0722900945 Zannah.awiti@gmail.com
Samwel Njogu	Supply Chain Management Officer	Diploma in Supply Chain Management	Project Procurement Officer	0721749490
Perpetuah Njeru	Assistant Director VTE	Bachelor of Education Arts	Project Environmental and Gender Officer	0711833572 perpetuahnjeruw@gmail.com
Sharon Otieno	Economist	Bachelors in Economics	Project Monitoring & Evaluation Officer	0716321363 Atienosharon173@gmail.com

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Annual Report and Financial Statements For the financial year ended 30 June, 2023*

Project information and overall performance (continued)

2.7 Funding summary

The Project is for duration of 5 years from 2015 to 31 December 2020 then given no cost extension to end on 31 December 2023 with an approved budget of US\$ 74,589,606.00 equivalent to Kshs 6,359,999,893 as highlighted in the table below:

**Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TYET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023**

Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment		Amount received to date (30 June 2023)		Undrawn balance to date	
	Donor currency USD (A)	Kshs (A')	Donor currency USD (B)	Kshs (B')	Donor currency USD (A)-(B)	Kshs (A')-(B')
(i) Loan						
AfDB Loan	62,976,427	5,369,999,930	59,818,265	5,100,703,444	3,158,162	269,296,486
(ii) Counterpart funds						
Government of Kenya	11,610,179	989,999,963	9,900,708	844,233,355	1,709,471	145,766,608
Total	74,586,606	6,359,999,893	69,718,973	5,944,936,799	4,867,633	415,063,094

The amounts received to date tie/agree to what is captured in the Statement of Receipts and Payments

*Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023*

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date (30 June, 2023)		Cumulative Amount paid to date (30 June, 2023)		Unutilised balance to date (30 June, 2023)	
	Donor currency USD (A)	Kshs (A')	Donor currency (B)	Kshs (B')	Donor currency USD (A)-(B)	Kshs (A')-(B')
(i) Loan						
AfDB Loan	59,818,265	5,100,703,444	59,818,265	5,100,703,444	3,158,162	269,296,486
(ii) Counterpart funds						
Government of Kenya	9,893,882	844,233,355	9,893,882	844,233,355	1,709,471	145,766,608
Total	69,712,147	5,944,936,799	69,712,147	5,944,936,799	4,867,633	415,063,094

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

- i) Budget performance against actual amounts for current year and for cumulative to-date,
- ii) Physical progress based on outputs, outcomes, and impacts since project commencement,

The overall physical completion of the project stands at 98% with construction works in Aldai TTI, Siala TTI, Godoma TTI, Karen TTID, Tseikuru TTI, Butere TTI, Machakos TTIB, Sikri TTIBD and Bureti TTI having been handed over, while at Nyangoma TTID and Mukurwe-ini TTI the works stands at over 97% completion rate. The project has so far trained 1,849 economically disengaged youth in various vocational areas including, plumbing, wiring, cake making, ICT, solar technology, garment making, tile making and so on with another 1,153 expected to complete in December, 2023. The project also completed supply, delivery, installation, and commissioning of equipment in 33 TVET. The other achievements include development of accreditation manuals for TVETA and development of 7 CBET curricula. The other key output is the training of 414 TVET trainers at diploma and degree levels. The other outputs include the development of the TVET-MIS and carrying out of the TVET graduate's tracer studies with a versatile interactive graduate database.

- iii) Indicate the absorption rate for each year since the commencement of the project.
On the average, the project has been absorbing resources at the rate of Kshs. 800 million per annum
- iv) List the implementation challenges and recommended next steps.
Some of the key implementation challenges included delays in processing of tax exemptions at National Treasury, the turnover of key staff including heads of procurement and accounts, frequent budget cuts during the supplementary budgets. The loss in time of implementation because of these challenges included

Project information and overall performance (continued)

‘no cost extensions’ of time for contracts and extension of loan period by the National Treasury and the AfDB.

2.9 Summary of Project Compliance:

- i. The project has not violated any agreements and covenants with the African Development Bank and has so far complied with applicable laws and regulations such as the National Treasury circulars on project investment management, PFM Act 2012 and Kenya vision 2030 flagship projects, and essential external financing agreements/covenants.
- ii. There were no consequences suffered on account of non-compliance since there was none.
- iii. Since the inception of the project there has been no mitigation measures taken or planned to be taken to alleviate the adverse effects of actual or potential consequences of non-compliance since there was none.

3. Statement of Performance against Project's Predetermined Objectives

The overall project objective is to increase access and equity, improve quality and relevance of TVET education and training. The overall progress towards achievement of the development objective is satisfactory with physical implementation of the project activities being at over 99% despite disbursement rate at 85%. Workshops in at least 11 institutions are already in use while hostels 3 of the 4 SN TVET in use by trainees; Learning Assistive Devices in all 4 institutions have been handed over and are in use to promote equity among the SN TVET trainees Equipment in 33 have been handed over for used to improve quality of TVET training; Development of 7 CBET curricula is complete and launch to improve relevance of TVET; Quality assurance tools including quality manuals, accreditation manuals were developed and are currently in use to quality assure TVET programmes, TVET-MIS is in place, 414 Trainers have completed training.

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government project in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government project's performance against predetermined objectives.

The key development objectives of the project's agreement/ plan are to:

Increase access and equity; improve quality and relevance of TVET education and training.

Progress on attainment of Strategic development objectives

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

**Support to Technical Vocational Education and Training for Relevant Skills Development Project
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Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
State Department for Technical, Vocational Education and Training	To increase access and equity, improve quality and relevance of TVET education and training for skills	Increased access to quality TVET skills training	% increase in enrolment to TVET	In 2022/2023 Increased enrolment into TVET by 8% as a result of increase in training spaces
State Department for Technical, Vocational Education and Training	To increase access and equity, improve quality and relevance of TVET education and training for skills.	Increased number of trainers	No. of Trainees 'upskilled'	TVET trainers were upskilled
State Department for Technical, Vocational Education and Training	To increase access and equity, improve quality and relevance of TVET education and training for skills	Increased disengaged youth accessing skills	No of youth accessing skills	youth skilled from inception

4. Environmental and Sustainability reporting

AfDB exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

Education and training are a key priority area for the social pillar of Kenya Vision 2030, which is geared towards promoting Globally Competitive Quality Education, Training and Research for Sustainable Development. This is in line with the United Nations, Sustainable Development Goals (SDGs, 2015-2030), and in particular, Sustainable Development Goal 4.

The manufacturing and service sector are fast adopting the new and emerging technologies in industry. These technologies need a higher knowledge-based system and would require enormous technical skills. This has a profound effect on the employment, education, and training of technical manpower. To this end, Kenya has initiated a number of interventions that include enhancing the investment budget, improving the governance structure by enacting the Technical Vocational Education Training Act 2013, extending the fibre optic cable to ensure reliable internet connectivity to 40 TVET institutions and ensuring installation of electricity to all institutions and rolling out the digital literacy skills in schools and colleges.

TVET programmes in Kenya target post primary and post-secondary learners. TVET institutions include Technical and Vocational Education and Training (TVET) institutions, Medium and Small Enterprise (MSE) training and demonstration centres, Vocational Training Centres (VTCs) and National Youth Service Skills Development Centres. The government considers investment in TVET a strategy to reduce unemployment and achieve sustainable development. However, the subsector faces major challenges which include: inadequate access, low quality of training, mismatch of skills attained in training with the requirements of industry, use of obsolete training equipment, high cost of training and poor public perception. In addition, education for sustainable development is an essential component of every human being. This means that education should be available and accessible to all learners based on equal opportunity and equity. However, people with disabilities are often

marginalized and consequently, they may not access technical training as they should. Thus, it is true that government agencies have focused more on providing equality to the learners in TVET institutions but overlooked the aspect of equity. Therefore, there is necessity for special commitment to enhance infrastructure, necessary technology, access to training and transition to work for learners with disabilities in the four technical institutions. This will in the long-term create a critical mass of technically and entrepreneurially qualified people, who are able to stimulate investment opportunities, create jobs and increase productivity.

2. Environmental performance

The scope of works in the 12 TVET institutions included electrical, structural, mechanical, and civil works in each of the sites where workshops were put up including hostel facilities in four special needs institutions.

The Environmental and Social Management Plan (ESMP) for the project was developed by a consultant and approved by the National Environmental Management Authority (NEMA) at the start of the project.

The ESMP included assessment and development of monitoring of social and environmental impact parameters in line with EMCA 2019 and ESS. The environmental and social impacts of the project were very low and involved minor excavations with minimum impact on the natural environment. In addition, there were no movement of communities in any of the sites since the land belonged to existing TVET institutions.

3. Employee welfare

In the hiring of labour in the 12 TVET institutions where construction works are ongoing the following was taken into consideration:

- a) The employees were hired from within the locality hence limited movement or very short distances from their homes.
- b) The skilled labour force from elsewhere resided in hotels in the closest proximity to the project area.

- c) Labour influx was insignificant due to few employees required in the project and the fact that the contractor intends to hire unskilled labour force from within the locality.
- d) The contractor ensured the hiring process was done with fairness and gender sensitivity.
- e) The contractor complied with provisions of Workplace Injuries and Benefits Act (WIBA), 2007 for all the workers engaged.
- f) Effective contractual obligations for the contractor were done with workers to adhere to the mitigation of risks against labour influx, including sexual exploitation and abuse.
- g) The contractor kept proper and updated records of the laborers on site while avoiding child and forced labour.
- h) Fair treatment, non-discrimination, and equal opportunity of all laborers
- i) The Contractor ensured the laborers, sub-contractors, sub-consultants, and any personnel thereof engaged in construction works individually signed and complied with a Code of Conduct with specific provisions on protection from sexual exploitation and gender-based violence.

The Ministry fully implements the safety and compliance with Occupational Safety and Health Act of 2007, (OSHA) whereby the contractors were directed to provide sanitation facilities as outlined in the Public Health Act and OSHA, 2007. This is crucial especially during this period of Covid -19 pandemic.

4. Market place practices

The project should outline its efforts to:

a) Responsible Supply chain and supplier relations-

The procurement of goods, works and services is in line with the Kenya procurement law and the donor procurement rules and procedures. The organization ensures proper contract management and ensures proper budgeting to ensure the contractors, suppliers and all service providers are paid as per signed contracts.

b) Responsible ethical practices

The state department ensures fair competition by following the constitution of Kenya 2010, the Public Finance Management Act and the procurement laws to ensure equitable participation of all in

*Support to Technical Vocational Education and Training for Relevant Skills Development Project
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businesses. The Ministry further has an anti-corruption reporting box at Jogoo house 'B' 10th floor. All the officers have been sensitized on the good governance.

The advertisement for tenders done is in line with the procurement laws of Kenya and the financiers procurement rules and procures. The advertisement is done through newspapers of larger circulation and through the Ministry and AfDB websites. Individual institutions advertise for their programmes through the print and electronic media. There is also effort to maintain ethical and political environments anti-corruption practices.

c) Regulatory impact assessment

The Ministry has regulatory agencies which include TVET Authority and KNQA which regulates the quality of training across the country to safeguard citizen and stakeholder rights

5. Community Engagements

The projects in the 12 institutions are ongoing and providing water to the neighbouring communities for example in Aldai TTI is providing water to the health centre and the private hostel facilities around the institution. In addition, the project management involves the communities through the boards of management which has representations from the community and county governments. The land where the 12 institutions were developed were initially donated by the communities.

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5. Statement of Project Management responsibilities

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

The Principal Secretary State Department for Technical, Vocational Education and Training, Ministry of Education, and the Project Coordinator for AfDB TVET II project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.



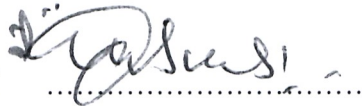
The Principal Secretary State Department for Technical, vocational Education and Training, Ministry of Education and the Project Coordinator for Support for TVET project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended 30 June, 2023, and of the Project's financial position as at that date. The Principal Secretary for Ministry of Education, State Department for Technical, Vocational Education and Training and the Project Coordinator for Support for Technical Industrial, Vocational and Entrepreneurship Training (TVET) project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

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(GoK/AfDB TVET Project-Phase II)
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The Principal Secretary State Department for Technical, Vocational Education and Training, and the Project Coordinator for TVET project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Principal Secretary State Department for Technical, Vocational Education and Training and the Project Manager for Support for TVET Phase II project and signed by them on 25 October, 2023.

Dr. Esther Muoria, PhD
Principal Secretary

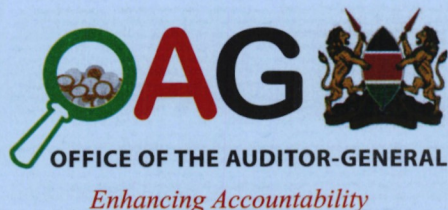
John K. Tuwei
Project Coordinator

Carolyne Nyambok
Project Accountant

ICPAK Member No:5875

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR GENERAL ON SUPPORT TO THE STATE DEPARTMENT FOR TECHNICAL, VOCATIONAL EDUCATION AND TRAINING FOR RELEVANT SKILLS DEVELOPMENT PROJECT – TVET PROJECT PHASE II (ADF LOAN NO.2100150033295) FOR THE YEAR ENDED 30 JUNE, 2023 - STATE DEPARTMENT FOR TECHNICAL, VOCATIONAL EDUCATION AND TRAINING

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards, and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines, and manuals and whether public resources are applied in a prudent, efficient, economic, transparent, and accountable manner to ensure Government achieves value for money and that such Projects are applied for the intended purpose.
- C. Report on the Effectiveness of Internal Controls, Risk Management, and Governance, which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient, and effective operations of the entity.

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

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

Report of the Auditor-General on Support to the State Department for Technical, Vocational Education and Training for Relevant Skills Development Project-TVET Project Phase II (ADF Loan No.2100150033295) for the year ended 30 June, 2023 - State Department for Technical, Vocational Education and Training

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Support to Technical and Vocational Education and Training for Relevant Skills Development Project-TVET Project Phase II (ADF Loan No.2100150033295) set out on pages 1 to 29, which comprise the statement of financial assets as at 30 June, 2023, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Support to Technical and Vocational Education and Training for Relevant Skills Development Project- TVET Project Phase II (ADF Loan No.2100150033295) as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and complies with the Loan Financing Agreement No.2100150033295 between the African Development Fund and the Government of Kenya dated 21 August, 2021 and Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Support to Technical and Vocational Education and Training for Relevant Skills Development Project-TVET Project Phase II (ADF Loan No.2100150033295) Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final budget and actual receipts on a comparable basis of Kshs.759,500,000 and Kshs.657,876,570 respectively, resulting to an underfunding of Kshs.101,623,430 (or 13%) of the budget. Similarly, the Project spent an amount of Kshs.657,876,570 against an approved budget of Kshs.759,500,000, resulting to an under-expenditure of Kshs.101,623,430 (or 13%) of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Failure to Issue Notifications and Raise Receipt Vouchers

The statement of receipts and payments reflects transfers from Government entities amount of Kshs.44,907,155 as disclosed in Note 1 to the financial statements. However, the amount was not supported with notifications from The National Treasury indicating the amount disbursed for the project nor itemized exchequer issuance notifications indicating funds for the project. From the records provided for audit, it was established

that all monies were channeled through the development bank account of the State Department without the details. Further, the project management did not raise receipt vouchers to confirm actual receipt of funds.

In the circumstances, the effectiveness of internal controls on notifications of exchequer issuance and raising of receipt vouchers could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by African Development Fund, I report based on my audit, that: -

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to the sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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


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

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

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

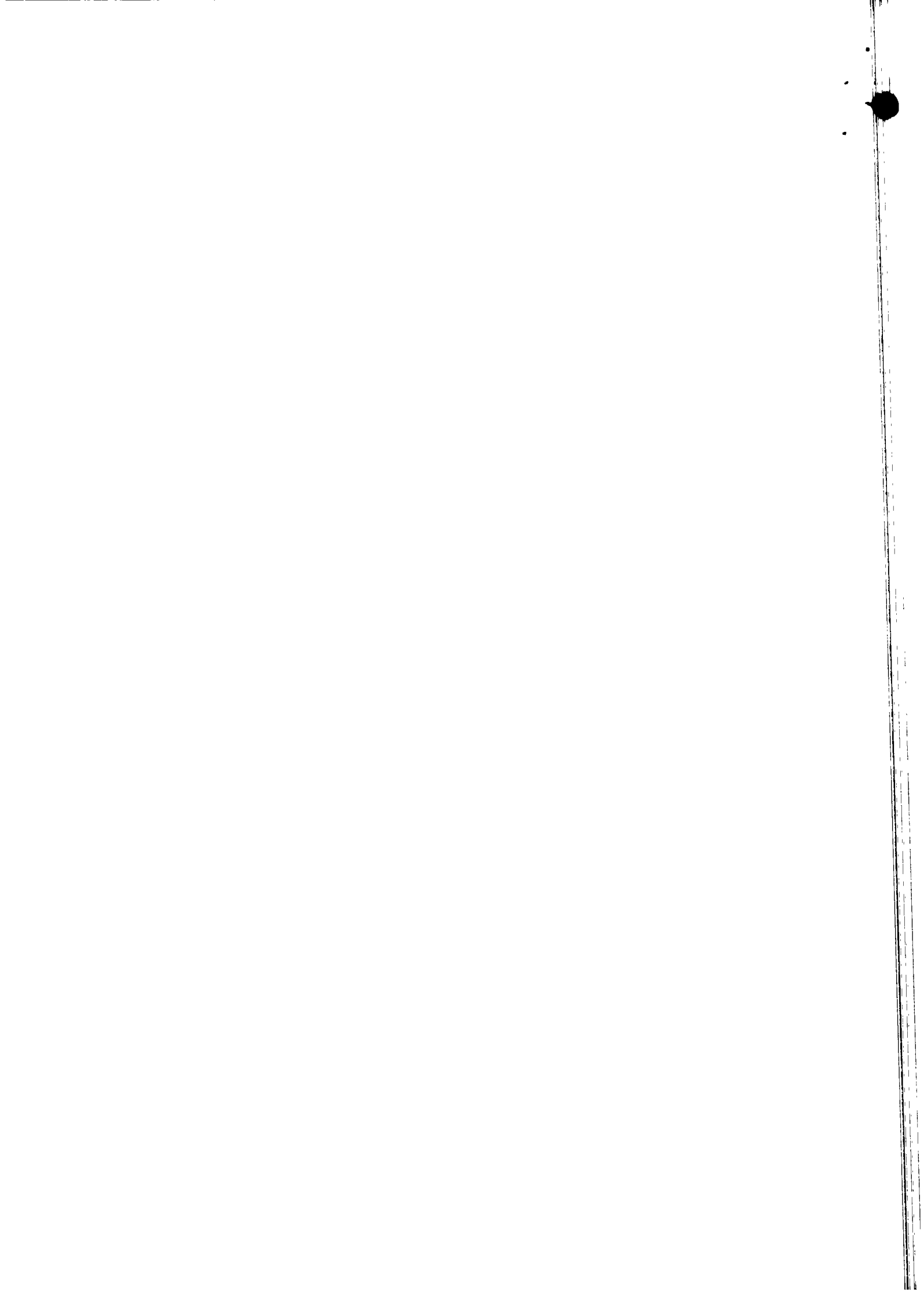
I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships

and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 November, 2023



**Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AFDB TVET Project-
Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023**

7. Statement of Receipts and Payments for the year ended 30 June 2023.

	Note	2022-2023		2021-2022		Cumulative to-date (From inception)	
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity		Payments made by third parties
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Receipts							
Transfer from Government entities	1	44,907,155	-	44,907,155	131,970,816	-	844,016,355
Loan from external development partners	2	-	612,969,415	612,969,415	-	658,832,736	5,100,703,444
Miscellaneous receipts		-	-	-	-	-	-
Total receipts		44,907,155	612,969,415	657,876,569	131,970,816	658,832,736	5,944,719,799
Payments							
Compensation to employees		-	-	-	-	-	-
Purchase of goods and services	3	39,937,155	117,577,184	157,514,339	111,970,816	117,610,108	1,255,569,337
Social security benefits		-	-	-	-	-	-
Acquisition of non-financial assets	4	4,970,000	495,392,230	500,362,230	-	541,222,628	4,500,772,980

Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project- Phase II)
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	Note	Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Total	Cumulative to-date (From inception)
Transfers to other government entities	5	-	-	-	20,000,000	-	20,000,000	188,377,481
Other grants and transfers /payments		-	-	-	-	-	-	-
Total payments		44,907,155	612,969,414	657,876,569	131,970,816	658,832,736	790,803,552	5,944,719,799
Surplus/ (deficit)		-	-	-	-	-	-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements and are set out from page 7 to page 18 of this report. The project financial statements were approved on 25 October, 2023 and signed by:


 Dr. Esther Muoria, PhD
 Principal Secretary


 John Tuwei
 Project Coordinator


 Carolyn Nyambok
 Project Accountant
 ICPAK Member No:5875

Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project- Phase II)

Annual Report and Financial Statements For the financial year ended 30 June, 2023

The conversions have been done as per the attached Project Appraisal Report (PAR). 1UA=131.222 KES, 1UA=1.18938 EUR and 1 UA = USD 1.53481



(IPSAS 1.3.24 requires a project to separately disclose third party payments separately on the statement of receipts and payments. These are payments made by development partners directly on behalf of the project. In recognising these transactions, the receipts must be equal to the payments made and therefore there is no surplus or deficit.)

*Support to Technical Vocational Education and Training for Relevant Skills Development
Project (GoK/AfDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023*

8. Statement of Financial Assets as at 30 June 2023

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances		-	-
Cash Balances		-	-
Cash Equivalents (Short-Term Deposits)		-	-
Total Cash and Cash Equivalents		-	-
Imprests and Advances		-	-
Total Financial Assets		-	-
Financial Liabilities			
Deposits and Retention Monies		-	-
Net Assets		-	-
Represented By			
Fund Balance B/Fwd		-	-
Prior Year Adjustments		-	-
Surplus/(Deficit) For the Year		-	-
Net Financial Position		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 25 October, 2023 and signed by:


Dr. Esther Muoria, PhD

John Tuwei

Carolyne Nyambok

Principal Secretary

Project Coordinator

Project Accountant

ICPAK Member No:5875

*Support to Technical Vocational Education and Training for Relevant Skills Development
Project (GoK/AfDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023*

9. Statement of Cashflow for the year ended 30 June 2023

Description	Notes	2022-2023	2021-2022
		Kshs	Kshs
Cashflow from operating activities			
Receipts			
Transfer from government entities	1	44,907,155	131,970,816
Proceeds from domestic and foreign grants		-	-
Miscellaneous receipts		-	-
Total receipts		44,907,155	131,970,816
Payments			
Compensation of employees		-	-
Purchase of goods and services	3	(39,937,155)	(229,580,924)
Social security benefits		-	-
Transfers to other government entities	5	-	(20,000,000)
Other grants and transfers		-	-
Total Payments		(39,937,155)	- 117,610,108
Net receipts/(payments)		-	-
Adjustments during the year		-	-
Prior year adjustments		-	-
Decrease/(increase) in accounts receivable		-	-
Increase/(decrease) in accounts payable:		-	-
Net cash flow from operating activities		4,970,000	(117,610,108)

*Support to Technical Vocational Education and Training for Relevant Skills Development
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Annual Report and Financial Statements For the financial year ended 30 June, 2023*

Description	Notes	2022-2023	2021-2022
		Kshs	Kshs
Cashflow from investing activities			
Acquisition of non-financial assets	4	4,970,000	(541,222,628)
Net cash flows from investing activities		(4,970,000)	(541,222,628)
Cash flow from financing activities			
Proceeds from foreign borrowings	2	-	658,832,736
Net cash flow from financing activities		-	658,832,736
Net increase in cash and cash equivalents		-	-
Cash and cash equivalent at beginning of the year		-	-
Cash and cash equivalent at end of the year		-	-

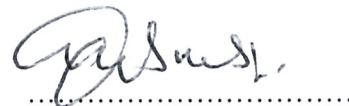
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The project financial statements were approved on 25 October, 2023 and signed by:



Dr. Esther Muoria, PhD
Principal Secretary



John Tuwei
Project Coordinator



Carolyne Nyambok
Project Accountant
ICPAK Member No:5875

11. Significant Accounting Policies

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

a) Statement of compliance and basis of preparation

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

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

b) Reporting entity

The financial statements are for AfDB phase II under the State Department for Technical, Vocational Education and Training. The financial statements are for the reporting entity (Project AfDB phase II) as required by Section 81 of the PFM Act, 2012 .

c) Reporting currency

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

d) Recognition of receipts

The 'Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project-Phase II) recognises all receipts from the various sources when the event occurs, and the related cash has been received.

Significant Accounting Policies (continued)

i) Transfers from the Exchequer

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving project 'Support to Technical Vocational Education and Training for Relevant Skills Development Project' (GoK/AfDB TVET Project-Phase II).

ii) External Assistance

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

iii) Other receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements at the time associated cash is received.

iv) Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

v) Proceeds from borrowing.

Borrowing includes external loans acquired by the Project or any other debt the Project may take and will be treated on cash basis and recognized as a receipt during the year they were received.

vi) Undrawn external assistance

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

Significant Accounting Policies (continued)

satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary.

e) Recognition of payments

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

i) Compensation to employees

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

ii) Use of goods and services

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

iii) Interest on borrowing

Borrowing costs that include interest are recognized as payment in the period in which they incur and paid for.

iv) Repayment of borrowing (principal amount)

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

Significant Accounting Policies (continued)

v) Acquisition of fixed assets

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

f) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Significant Accounting Policies (Continued)

h) Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits.

i) Imprests and Advances

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

j) Contingent Liabilities

A contingent liability is:

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

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships,

The Project does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Significant Accounting Policies (Continued)

k) Contingent Assets

The Project does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the project in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Pending bills

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

m) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

Significant Accounting Policies (Continued)

n) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments. and are disclosed in the payment to third parties' column in the statement of receipts and payments. During the year 2022-2023, Kshs. 612,969,415 being loan disbursements that were received in form of direct payments from third parties

o) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates (Kenya Shillings). Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

p) Comparative figures

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

q) Subsequent events

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

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s).

*Support to Technical Vocational Education and Training for Relevant Skills Development
Project (GoK/AfDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023*

12. Notes to the Financial Statements

1. Transfers from Government entities

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

Description	2022-2023	2021-2022	Cumulative to-date (from inception)
	Kshs	Kshs	Kshs
<i>Counterpart funding through Ministry The National Treasury</i>			
Counterpart funds Quarter 1	11,226,789	32,992,704	211,004,089
Counterpart funds Quarter 2	11,226,788	32,992,704	211,004,089
Counterpart funds Quarter 3	11,226,789	32,992,704	211,004,089
Counterpart funds Quarter 4	11,226,789	32,992,704	211,004,089
Total (See Annex 3)	44,907,155	131,970,816	844,016,355

The counterpart funding which is the government's share of contribution towards the implementation of the project as mandated by the Project Agreement.

*Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023*

Notes to the Financial Statements (Continued)

2. Loan from External Development Partners

During the financial period to 30 June 2023, we received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Description	2022-2023				2021-2022		Cumulative to date
	Date received	Amount in loan currency (USD)	Loans received in actual amount	Loans received as direct payment*	Total amount in Kshs	Total amount in Kshs	
Loans received from Multilateral Donors (International Organizations)							
AfDB	FY 2022-2023	7,188,571	-	612,969,415	612,969,415	658,832,736	59,818,265
Total	-	7,188,571	-	612,969,415	612,969,415	658,832,736	59,818,265
							5,100,703,444

*Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023*

Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

Description	2022-2023			2021-2022		Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments		
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Utilities, supplies and services	-	-	-	-	-	188,100
Domestic travel and subsistence & Foreign travel and subsistence	12,838,860	-	12,838,860	18,499,940	18,499,940	120,067,815
Printing, advertising, and information supplies	-	-	-	-	-	531,000
Training & Consultancy services: – Technical and professional services	12,595,698	117,577,184	130,172,882	183,787,583	183,787,583	915,269,988
Hospitality supplies and services	-	-	-	-	-	11,575,910
Transportation costs	9,778,569	-	9,778,569	9,942,032	9,942,032	19,720,601
Office and general supplies and services/Furniture & Equipment	2,474,100	-	2,474,100	7,351,544	7,351,544	29,546,962
Other operating payments	-	-	-	-	-	123,709,051
Other operating payments - Fuel	2,249,928	-	2,249,928	9,999,825	9,999,825	28,105,396
Office and general supplies and services	-	-	-	-	-	5,738,200
Routine maintenance – vehicles and other transport equipment	-	-	-	-	-	1,116,314
Total	39,937,155	117,577,184	157,514,339	229,580,924	229,580,924	1,255,569,337

*Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AFDB TVET Project-Phase II)
Annual Report and Financial Statements For the financial year ended 30 June, 2023*

Notes to the Financial Statements (Continued)

4. Acquisition of Non-Financial Assets

Description	2022-2023			2021-2022	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs.	Kshs.	Kshs	Kshs	Kshs
Construction of buildings	-	-	-	-	-
Refurbishment of buildings	-	-	-	-	-
Construction of civil works/renovations	4,970,000	105,392,230	110,362,230	426,222,628	2,315,527,055
Purchase of vehicles & other transport equipment	-	-	-	15,000,000	47,901,200
Purchase of office furniture & general equipment	-	-	-	-	-
Purchase of specialised plant, equipment and machinery	-	390,000,000	390,000,000	100,000,000	2,137,344,725
Rehabilitation & renovation of plant, equipment & machinery	-	-	-	-	-
Total	<u>4,970,000</u>	<u>495,392,230</u>	<u>500,362,230</u>	<u>541,222,628</u>	<u>4,500,772,980</u>

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The line 3 under payments made by third parties is for funds directly paid to the contractors by the AfDB bank for building the structures in the TVET institutions. Line 6 under column for payments by third parties also refers to direct payments made to suppliers of equipment to the AfDB II structures in the TVET institutions

Notes to the Financial Statements (Continued)

5. Transfers to other Government Entities

During the financial period to 30 June 2023, we transferred funds to reporting government entities as shown below:

Description	2022-2023			2021-2022		Cumulative to-date
	Payments made in Cash Kshs	Payments made by third parties Kshs	Total payments Kshs	Total payments Kshs	Total payments Kshs	
Transfers to National Government entities						
TTI	-	-	-	20,000,000		188,377,481
	-	-	-	-	-	-
Transfers to County Governments						
Total	-	-	-	<u>20,000,000</u>		<u>188,377,481</u>

We have confirmed that there were no inter-entity transfers in the financial year under review

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Other Important Disclosures (Continued)

1. External Assistance

	2022-2023	2021-2022
Description	Kshs	Kshs
External assistance received as grants	-	-
External assistance received as loans	612,969,415	658,832,736
External assistance received in kind- as payment by third parties	-	-
Total	612,969,415	658,832,736

a). External assistance relating loans and grants

	2022-2023	2021-2022
Description	Kshs	Kshs
External assistance received as loans	612,969,415	658,832,736
External assistance received as grants	-	-
Total	612,969,415	658,832,736

b) Undrawn external assistance

	Purpose for which the undrawn external assistance may be used	2022-2023	2021-2022
Description		Kshs	Kshs
Undrawn external assistance - loans	To increase access and equity, improve quality and	269,296,486	882,265,972

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	relevance of TVET education and training in Kenya		
Undrawn external assistance - grants	-	-	-
Total		269,296,486	882,265,972

(This is a disclosure of the assistance not yet received as per donor agreements)

c Purpose and use of external assistance

Payments made by third parties	2022-2023	2021-2022
Description	Kshs	Kshs
Compensation to employees	-	-
Use of goods and services, training and consultancy	117,577,184	132,610,108
Subsidies	-	-
Transfers to other Government entities	-	-
Other grants and transfers	-	-
Social Security benefits	-	-
Acquisition of non-financial assets and equipment	495,392,230	526,222,628
Finance Costs including loan interest	-	-
Repayment of principal on domestic and foreign borrowing	-	-
Other payments	-	-
Total	612,969,414	658,832,736

(N/B The above sub-classification should be adopted based on the purpose of the external assistance and how it was used).

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Other Important Disclosures (Continued)

d. External Assistance paid by third parties on behalf of Support to Technical Vocational Education and Training for Relevant Skills Development Project (GoK/AfDB TVET Project-Phase II) by Source

This relates to external assistance paid directly by third parties to settle obligations on behalf of the project.(This note should tie to line 3 and 6 of note 4 on external assistance).

	2022-2023	2021-2022
Description	Kshs	Kshs
National government	-	-
Multilateral donors – AfDB Bank	612,969,414	658,832,736
Bilateral donors	-	-
International assistance organization	-	-
NGOs	-	-
National Assistance Organization	-	-
Total	612,969,414	658,832,736

13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
280. Budgetary and Control Performance	The statement of comparison of budget and actual amounts reflects a final budget and actual receipts on a comparable basis of Kshs. 848,500,00 and Kshs. 790,803,552 respectively, resulting to an underfunding of Kshs.57,696,448 (or 7%) of the budget. of Kshs.848,500,000, resulting to an under expenditure of Kshs.57,696,448 (or 7%) of	The Management has been following up exchequer funding from the National Treasury so as to bridge the gap between the budget and the actual expenditures and improve service delivery to the public. The AFDB phase II construction projects that are paid through direct payments by the donor are also being fast tracked so that the consultant submits the	Not resolved	Before PAC

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	the budget. My opinion is not modified in respect of this matter.	certificates on time to improve on budget absorption.		
281. Delay in Completion of Training Institutes	The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs.541,222,628 as disclosed in Note 4 to the financial statements. The expenditure includes an amount of Kshs.426,222,628 in respect of overhaul, refurbishment of construction, and civil works for training institutions for contracts engaged in the year	The Project management has noted the delays in the constructions in the four institutions. The issue has been addressed with the consultant/contractors and a plan on how to complete the project before the no cost extension contract expires on 31 December 2023 is on course.	Not resolved	Before PAC

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>2016/2017 whose performance bonds had expired. Review of these projects revealed that construction works in four (4) Institutions with a combined contract cost of Kshs.798,608,059 and payments of Kshs.629,578,884 had not been completed. The Project is scheduled to come to an end on 30 December, 2022 by which time the projects will be incomplete and not put to the intended use.</p> <p>In the circumstances, value</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	for money has not been realized.			
282. Delay in Supply, Delivery, Installation, Commissioning, Learning and Training Assistive Devices and Equipment	The Project Management entered into a contract for supply, delivery, installation, and commissioning of learning and training in the use of assistive devices and equipment to four (4) Special Technical Training Institutes at a contract sum of Kshs.119,989,397 in August, 2017.However, records to confirm receipt of the devices and equipment by the	The project Management entered into a contract in August 2017 for the supply, delivery, installation, and commissioning of learning and training in the use of assistive devices and equipment to four (4) special Technical Training Institutes for a combined contract sum of Ksh. 119,989,397. The delays in the execution of the project were occasioned by	Not resolved	Before PAC

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	receiving institutions were not provided for audit. In the circumstances, it was not possible to confirm whether value for money was achieved in the procurement	challenges in the manufacture of the assistive devices from abroad since they are specialized.		
283. Failure to Open and Maintain a Separate Project Bank Account	The Project Management did not maintain a specific project bank account as funds received were credited to the Ministry's development bank account instead of a separate project account. It was therefore not possible to trace the receipts to the cash book and in the bank statement. This is contrary to Regulation	The donor funds (loans- Appropriation -In-Aid) are not disbursed to the government of Kenya consolidated funds account at the Central Bank of Kenya. The funding is held by the donor bank account to be disbursed directly to the suppliers and /or contractors as Direct Payments. The State	Not resolved	Before PAC

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project it is opened and each project shall maintain only one bank</p>	<p>departments responsibility as regards direct payments processing is to pass journals to capture expenditure from the department's budget. The payment documents are then forwarded to The National Treasury by The Accounting officer for onward transmission to the AfDB bank for eventual payment to the suppliers.</p> <p>The AfDB (TVET project phase II) project shares development cash book and bank account with the State Department for Technical,</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>account.</p> <p>In the circumstances, the Project Management was in breach of the law.</p>	<p>Vocational Education and Technical Training. The exchequers come in bulk and the same are captured in the IFMIS system Accounts Receivables Module and subsequently recorded in the development cashbook.</p>		


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Dr. Esther Muoria, PhD
Principal Secretary


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John Tuwei
Project Coordinator

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Annex 2: Variance explanations - Comparative Budget and Actual amounts for Current Financial Year 2022-2023

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance (below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	59,500,000	44,907,155	14,592,845	75%	
Proceeds from borrowings	700,000,000	612,969,415	87,030,585	88%	
Miscellaneous receipts	-	-	-	-	
Total Receipts	759,500,000	657,876,570	101,623,430		
Payments					
Purchase of goods and services	254,500,000	157,514,339	96,985,661	62%	
Acquisition of non-financial assets	505,000,000	500,362,230	4,637,770	99%	
Transfers to other government entities	-	-	-	-	
Total payments	759,500,000	657,876,569	101,623,431		

The 75% utilisation under transfers from government entities was as a result of Underfunding of the exchequer by the National Treasury

The 88% utilization under proceeds from borrowings was occasioned by delay in receiving Construction certificates for payments to be processed for onward transmission to the AFDB bank.

The utilization of 62% under payments for purchase of goods and services was partly because of underfunding from the exchequer and delay in receiving certificates for construction from the contractors and invoices from other suppliers.

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Annex 3: Summary of Fixed Assets Register

Asset class	Opening Cost (KShs) 2021/22	Donations in form of assets (KShs) 2022/23	*Purchases/ Additions in the Year (KShs) 2022/23	**Disposals in the Year (KShs) 2022/23	Transfers in/(out) 2022/23	Closing Cost (KShs) 2023
	(a)	(b)	(c)	(d)	(d)	(e)=(a)+ (b)+c)- (d)+(-)d
Transport equipment, CT equipment, software and other ICT Assets & Office equipment, furniture and fittings						
Office equipment, furniture and fittings	72,833,670	-	-	-	-	72,833,670
Other Machinery and Equipment	-	-	-	-	-	-
Total	72,833,670					72,833,670

Notes

* Purchases/Additions in the year reconciled to the amount in Statement of Receipts and Payments

** The disposal amount to be disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold. The balance as at the end of the year is the cumulative cost of all assets bought and inherited by the project. Ensure this section is complete covering all the project assets. Ensure the complete fixed asset register is separately prepared as per circular number 5/2020 and follow up reminder of circular No. 23/2020 of The National Treasury.

