

REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY PADOOC I AFD	
DATE	23 NOV 2023
DAY	Thurs
TABLED BY:	FIRST CHAIRPERSON OF COMMITTEES (HON. MARTHA WANGARI, MP)
CLERK-AT-TABLE:	Anne shubiko

REPORT

OF

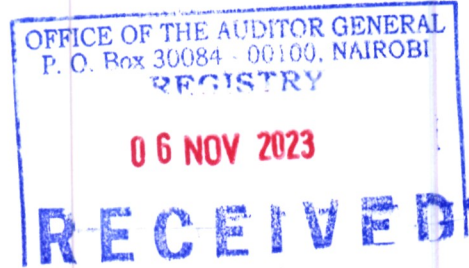
THE AUDITOR-GENERAL

ON

**KENYA COOPERATION AND PARTNERSHIP
FACILITY (KCPF) PROJECT NO.KE/FED
2019/041-712, CREDIT NO.FED/2021/423-175**

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

STATE DEPARTMENT FOR DEVOLUTION



PROJECT NAME: KENYA COOPERATION AND PARTNERSHIP FACILITY (KCPF)

IMPLEMENTING ENTITY: STATE DEPARTMENT FOR DEVOLUTION

PROJECT GRANT/CREDIT NUMBER: FED/2021/423-175

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)

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1. Acronyms and Glossary of Terms

CBK	Central Bank of Kenya
LED	local economic development
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
Comparative FY	Financial year preceding the current financial year
KCPF	Kenya Cooperation and Partnership Facility
SDD	State Department For Devolution
IDEAS	Instrument for Devolution Advice and Support
KSG	Kenya School of Government

2. Project Information and Overall Performance

Background

The Project's official name is **Kenya Cooperation and partnership Facility** programme estimate to provide support to **Instruments for Devolution Advice and Support Programme (IDEAS)** KE/FED/2013/024/230 under the state department of Devolution. The programme estimates began **16th August 2021** and ends on **15th May 2023** supporting the IDEAS Programme which started on **24th September 2014**, with its implementation period ending on **23rd September 2022** and closure period on **24th September 2023**. The objectives of the project are to support National and county capacities in the responsible transfer and use of resources for the achievement of Local Economic Development (LED) at county level through;

- (i) Strengthening of the national institution's capacities for the management of the devolution process and fiscal decentralization
- (ii) Development of county capacities to facilitate inclusive and sustained economic growth, participatory planning and service delivery

The IDEAS Programme is operationalised through grants to the 15 counties amounting to €15 million; State department of Devolution Programme Estimate €0.7 million; Kenya School of Government Service Contract €1 million and €6.9 million for the TAT. Besides these and outside the MoD's IDEAS LED scope, the World Bank received EUR 2,500,000 to provide support to public finance management (PFM) stakeholders through an administrative agreement and a delegation agreement, while the Commission on Revenue Allocation (CRA) received EUR 796,000 for capacity building on fiscal decentralization.

The State department operated through Programme Estimate no 1 and 2 under the IDEAS Financing Agreement which came to an end on 30th October 2020 before the Grant Contracts for the Counties, KSG and PE activities had been completed after the extension of the FA by 2 years. The EU in consultation with the National Treasury agreed to fund the pending activities through the **KENYA CO-OPERATION AND PARTNERSHIP FACILITY FED 2019/041-712** for State department of Devolution Programme Estimate.

This PE is established under a different Financing Agreement held by the National Treasury and therefore, the State department had to close the IDEAS Bank Account **No 1000318287** and remit the unspent balance of **KES 7,424,401.35** to the European Union Commission as per the guidelines. A new bank account was opened to administer the KCPF, Programme Estimate which supports the State department to implement the IDEAS Project.

2.1 Project Name: KENYA CO-OPERATION AND PARTNERSHIP FACILITY (KCPF)

Funded through: KENYA CO-OPERATION AND PARTNERSHIP FACILITY- State department of Devolution Programme Estimate for a total Amount of **KES 46,634,700** with **KES 45,634,700** being the imprest component to the State department for a period starting **16th August 2021** to **15th May 2023**.

Objective

The purpose of the Kenya Cooperation and Partnership Agreement Programme, and therefore of this Programme Estimate (PE), is to Support the National Authorising Officer and the State department of Devolution by providing funds for the implementation of the Instruments for Devolution Advice and Support (IDEAS) Programme by the State department of Devolution in order to support the achievement of the IDEAS objective of supporting Central and County governments capacities, in the responsible transfer and use of resources for the achievement of Local Economic Development at County level.

Address: The project headquarters offices are in the City of Nairobi, Nairobi City County, Kenya.

The address of its registered office is:
Teleposta Towers, Kenyatta Avenue,
P.O. Box: 30004- 00100, Nairobi

The Project has no other offices or branches

Contacts: The following are the project contacts
Telephone: (254) 20 2217475, 50645/628
E-mail: ps@devolution.go.ke
Website: www.devolution.go.ke

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	16 th August, 2021
Project End Date:	
Implementation Period	15 th March 2023
Closure Period	15 th July, 2023
Project Manager:	Ms. Emmy M'mbwanga
Project Sponsor:	European Union Commission (EU) - Grant

2.3 Project Overview

Line State department/State Department of the project	The Project is under the supervision of the State Department for Devolution.
Project number	KE/FED 2019/041-712-FED/2021/423-175
Strategic goals of the project	The strategic goal of the project is to Support the State department of Devolution in the achievement of the IDEAS objective of “supporting central and county governments capacities in the responsible transfer and use of resources for the achievement of Local Economic Development (LED) at County level.”
Summary of Project Strategies for achievement of strategic goals	The Project management aims to achieve the goals through the following means: (i) Satisfactory implementation of the LED part of the IDEAS Programme; (ii) Satisfactory implementation of the 17 County IDEAS LED grant contracts and Projects; (iii) Satisfactory implementation of the IDEAS training

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	<p>programme, contracted to KSG;</p> <p>(iv) Successful IDEAS closure workshop/LED conference;</p> <p>(v) Delivery of the LED Strategy/Framework;</p> <p>(vi) Delivery and publishing of the LED/IDEAS lessons learned handbook,</p> <p>(vii) Successful SDD participation in facilitation of Devolution Conference 2021.</p>
Other important background information of the project	The Programme Estimate is funding the IDEAS activities that were in-complete at the end of the PE 2 expiry period on 30th October 2020.
Areas that the project was formed to intervene	<p>The project was formed to intervene in the following areas:</p> <p>Seamless closure of the IDEAS Programme as per the IDEAS Financing Agreement. This included;</p> <ul style="list-style-type: none"> • completion of construction and operationalisation of county LED facilities, • capacity building for both the national and county level actors and stakeholders and institutionalising of the IDEAS final products. • Disbursement of the grants to the Counties • Overall closure of the IDEAS Programme
Project duration	16 th August 2021 to 15th July 2023 (23 months)

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the current year:

Bank: Central Bank of Kenya
Name: Kenya Cooperation and Partnership Facility
Account No. 1000495316

2.5 Independent Auditor

The project is audited by the Office of the Auditor General and for purposes of expenditure verification by external auditors appointed by EU Delegation.

2.6 Roles and Responsibilities

Names	Title / Designation	Key qualification	Responsibilities
Ms. Teresia Mbaika	Principal Secretary	Degree	Accounting Officer
Mr. Alfonso Munyali	Ag. Secretary Devolution	Degree	PE Imprest Administrator
Kennedy Nyambati	Director CB & TA	Degree	PE Alt Imprest Administrator
Mr. Stanley Mwaura	Head of Accounting Unit	Degree	Head of Accounting Unit
Mr. Moses Macharia	Principal Accountant	Degree	Alt imprest accounting officer and Project Accountant
Ms. Emmy M'mbwanga	Programme Coordinator	Degree	Programme Coordination, administration and Management

2.7 Funding summary

The Programme Estimate supporting the IDEAS programme is for a duration of **23 months** from **16th August 2021** to **15th July 2023** with an approved total budget of **KES 46,634,700** with Imprest component being **KES 45,634,700**.

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 th June 2023)		Undrawn balance to date	
	Donor currency (A)	Kshs (A')	Donor currency Kshs (B)	Kshs (B')	Donor currency Kshs (A)-(B)	Kshs (A')-(B')
(i) Grant						
European Union	-	45,634,700	-	31,534,900	-	14,099,800
Total	-	45,634,700	-	31,534,900	-	14,099,800

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2023)		Cumulative amount paid to date – (30 th June 2023)		Unutilised balance to date (30 th June 2023)	
	Donor currency (A)	Kshs (A')	Donor currency (B)	Kshs (B')	Donor currency (A)-(B)	Kshs (A')- (B')
(i) Grant						
European Union (EU)	-	31,534,900		29,794,423	-	1,740,476
Total	-	31,534,900		29,794,423	-	1,740,476

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,

The program had budgeted payments of **Kshs 21,514,499**, the actual payments for the period was **Kshs 19,774,022.30**, resulting in a surplus of **Kshs 1,740,477**.

2.9 Summary of Project Compliance:

The project has complied with the Government of Kenya laws and regulations an EU Programme Estimate Provisions as per the Financing Agreements

3. Statement of Performance against Project's Predetermined Objectives

Overall objective

The overall development objective(s) to which the Kenya Cooperation and Partnership Agreement Programme and therefore this programme estimate, are intended to contribute is to promote sustainable and inclusive development by strengthening the means of implementation and revitalising the partnership between Kenya and the European Union (EU)

Project purpose

The purpose of the Kenya Cooperation and Partnership Agreement Programme, and therefore of this programme estimate, is to Support the National Authorising Officer and the State department of Devolution by providing funds for the implementation of the Instruments for Devolution Advice and Support (IDEAS) programme by the State department of Devolution in order to support the achievement of the IDEAS objective of supporting Central and County governments capacities, in the responsible transfer and use of resources for the achievement of Local Economic Development at County level.

Results

The results for the PE activities carried out over the period covered by this programme estimate are:

- The 17 County IDEAS LED grant contracts for the 15 counties were implemented and concluded within the contractual provisions including timelines hence the determination of final payments.
- Thirteen (14) out of the 17 projects were completed and started operation. The remaining ones Taita Taveta, Marsabit, and Laikipia were completed at 50-60%
- A total of **KES 1,385,522,777** out of **1,650,000,000** grants had been transferred to the counties.
- The IDEAS training programme, contracted to KSG was completed and contract closed.
- The LED Strategy/Framework was completed and submitted to SDD for implementation
- The LED/IDEAS lessons learned handbook was completed, printed and distributed to the stakeholders.

Project	Objective	Outcome	Indicator	Performance
<p>Kenya Cooperation and Partnership Facility- State department of Programme Estimate</p>	<p>Support Central and County Capacities in the responsible transfer and use of resources for the achievement of Local Economic Development at the County level</p>	<p>Satisfactory implementation of the LED part of the IDEAS FA</p>	<ul style="list-style-type: none"> Transfer of the 2nd and final tranche of funds the grants to the relevant counties and training institute processed The audit verification for the counties coordinated and facilitate Initiate, confirm compliance and process request for addendums and disbursements of the grant contract provisions as per EU and GoK procedures. Preparation of the contract statutory reports to the National Treasury and the European Union 	<p>By the end of the PE closure period in 15th July 2023, a total of KES 1,385,522,777 out of 1,650,000,000 grants had been transferred to the counties.</p> <p>Facilitated expenditure verification (EV) in all the 15b counties that informed payment of the final tranche.</p> <p>Processed and approved 17 addendums for extension of implementation period and change in budget for the 15 counties.</p> <p>Coordinated the preparation of all the final reports which were submitted and approved by the CA.</p>

			<ul style="list-style-type: none"> Provision of regular policy and technical support to the county Governments in all matters of project implementation completed, to ensure that the operations financed with the EDF funds have been properly implemented in compliance with the EU and GoK grant provision and procedures. 	
		<p>Satisfactory implementation of the County IDEAS LED grant contracts and Projects</p> <p>Satisfactory implementation of the IDEAS training Programme, contracted to KSG</p> <p>Successful IDEAS closure workshop/LED conference</p>	<ul style="list-style-type: none"> Most of the 17 County IDEAS LED projects have achieved most of the set LED KSG has achieved most of the set training objectives Workshop/conference held successfully with good attendance 	<p>All the 13 out of 17 LED projects are completed and some started operations in 2022/2023</p> <p>KSG completed all the targeted training by March 2022 and report submitted to the State department</p> <p>The workshop did not take place due to expiry of the implementation period.</p>

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		<p>LED Strategy/Framework</p>	<ul style="list-style-type: none"> • National LED Strategy finalized • , validated and accepted by Parliament. County LED strategies drafted. 	<p>The final LED Strategy was completed and submitted to SDD for implementation</p>
		<p>LED/IDEAS lessons learned handbook</p>	<ul style="list-style-type: none"> • Handbook drafted, presented, validated, printed and shared with stakeholders in Kenya and beyond 	<p>Lessons learned handbook Completed and distributed to stakeholders.</p>

4. Environmental and Sustainability reporting

1. Sustainability strategy and profile

The State department for devolution was able to build the capacity of beneficiary counties to put in place institutional frameworks for the Management and operations of the established LED facilities in all the 17 counties. This included Cooperation Acts, MOU with cooperatives and nationalization of the facilities especially Markets in the Trade Departments.

2. Environmental performance

At the beginning of the county LED projects, Environmental impact assessment were undertaken and adhered to during implementation. The beneficiary counties have also acquired the necessary licences, permits and KEBs for their respective operations and products.

3. Employee welfare

Issue of employee safety and remunerations were adhered to at the county and SDD level.

4. Market place practices-

a) Responsible Supply chain and supplier relations-

There were no major procurement actions during this period. The few ones done were within the law provisions

b) Responsible ethical practices

No reported unethical actions during the Programme implementation period

c) Community Engagements

This was actioned at county level where the projects were being done.

5. Statement of Project Management responsibilities

The Principal Secretary for the State Department for Devolution and the Project Coordinator for KCPF Programme 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 June 30, 2023.

This responsibility includes (i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period, (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project, (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the project, (v) Selecting and applying appropriate accounting policies and (v) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for State Department for Devolution and the Project Coordinator for KCPF Programme accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the State Department for Devolution and the Project Coordinator for KCPF Programme 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 June 30, 2023, and of the Project's financial position as at that date.

The Principal Secretary for Devolution and the Project Coordinator for KCPF Programme 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.

The Principal Secretary State Department for Devolution and the Project Coordinator for KCPF Programme confirm that the Project has complied fully with applicable Government

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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

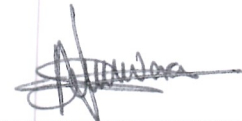
The Project financial statements were approved by the Principal Secretary for the State department of Devolution and the Project Coordinator for Programme on 30th September 2023 and signed by them.



.....
Ms. Teresia Mbaika
Principal Secretary



.....
Emmy M'mbwanga
Project Coordinator



.....
Stanley Mwaura
Head Of Accounting Unit
ICPAK Member No:7121

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA COOPERATION AND PARTNERSHIP FACILITY (KCPF) PROJECT NO.KE/FED 2019/041-712, CREDIT NO.FED/2021/423-175 FOR THE YEAR ENDED 30 JUNE 2023-STATE DEPARTMENT FOR DEVOLUTION

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Cooperation and Partnership Facility set out on pages 1 to 16, which comprise of the statement of financial

Report of the Auditor-General on Kenya Cooperation and Partnership Facility (KCPF) Project No. KE/FED 2019/041-712, Credit No. FED/2021/423-175 for the year ended 30 June, 2023 – State Department for Devolution

assets as at 30 June, 2023, and the statement of receipts and payments, statement of cash flows and summary statement of Comparison of Budget and Actual amounts combined 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 Kenya Cooperation and Partnership Facility Project as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement No. KE/FED 2019/041-712 and FED/2021/423-175 dated 07 July, 2021 between European Development Fund and the Government of the Republic of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Cooperation and Partnership Facility Project's Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and the Report on effectiveness of Internal Controls, risk Management and Governance. However, the Management has not resolved all the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and

Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else 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

Un-balanced Budget

The statement of comparison of budget and actual amounts for the year under review reflects a nil receipts budget and a corresponding expenditure budget and actual amounts of Kshs.46,377,778 and Kshs.19,774,022 respectively. Thus. the budgeted expenditures did not have a corresponding budgeted receipts contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which provides that budget revenue and expenditure appropriations shall be balanced.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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 the Financing Agreement between the European Development Fund and the Government of the Republic of Kenya, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal 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 control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the 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 financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to 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 controls 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 control may not prevent or detect misstatements and instances of non compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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

15 November, 2023

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

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)
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
	F/Y 2022/2023		F/Y 2021/2022										
Receipts													
Proceeds from Domestic and Foreign Grants	-	-	-	-	31,534,900	-	31,534,900	-	-	31,534,900	-	31,534,900	31,534,900
Total receipts					31,534,900		31,534,900			31,534,900		31,534,900	31,534,900
Payments													
Compensation to employees	13,016,502.35	-	13,016,502.35	-	5,425,901	-	5,425,901	-	-	5,425,901	-	5,425,901	18,442,403.35
Purchase of goods and services	6,757,519.95	-	6,757,519.95	-	4,594,500	-	4,594,500	-	-	4,594,500	-	4,594,500	11,352,019.95
Total payments	19,774,022.30	-	19,774,022.30	-	10,020,401	-	10,020,401	10,020,401	-	10,020,401	10,020,401	10,020,401	29,794,423.30
Surplus/ (deficit)	(19,774,022.30)	-	(19,774,022.30)	-	21,514,499	-	21,514,499	21,514,499	-	21,514,499	-	21,514,499	1,740,477

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

.....
 Ms. Teresia Mbaika
 Principal Secretary

.....
 Ms. Emmy M'mbwanga
 Project Coordinator

.....
 Stanley Mwaaura
 Head Of Accounting Unit
 ICPAK Member No:7121

Kenya Cooperation And Partnership Facility (KCPF)
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8. Statement of Financial Assets as at 30th June 2023

Description	Note	FY2022/2023	FY2021/2022
		Kshs	Kshs
Financial Assets			
Cash and Cash equivalents			
Bank Balances	4A	1,740,476	21,514,499
Total Cash and Cash equivalents		1,740,476	21,514,499
Total Financial Assets		1,740,476	21,514,499
Net Assets		1,740,476	21,514,499
Represented By			
Fund Balance B/fwd.	5	21,514,499	-
Surplus/(Deficit) for the Year		(19,774,022)	21,514,499
Net Financial Position		1,740,477	21,514,499


The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 31/10/ 2023 and signed by:



Ms. Teresia Mbaika
Principal Secretary



Emmy M'bwanga
Project Coordinator



Stanley Mwaura
Head Of Accounting Unit
ICPAK Member No:7121

*Kenya Cooperation and Partnership Facility (KCPF)
Annual Report and Financial Statements for the financial year ended June 30, 2023*

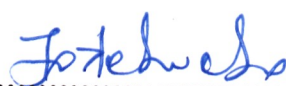
9. Statement of Cash flow for the year ended 30th June 2023

Description	Notes	FY2022/2023	FY 2021/2022
		Kshs	Kshs
Cashflow from operating activities			
Receipts			
Proceeds from Domestic and Foreign Grants	1	-	31,534,900
Total receipts		-	31,534,900
Payments			
Compensation of employees	2	13,016,502.35	5,425,901
Purchase of goods and services	3	6,757,519.95	4,594,500
Total Payments		19,774,022.30	10,020,401
Net receipts/(payments)			
Net cash flow from operating activities	A	(19,774,022.30)	21,514,499
Cashflow from investing activities			
Net cash flows from investing activities	B		
Cash flow from financing activities			
Net cash flow from financing activities	C		
Net increase in cash and cash equivalents	A+B+C	(19,774,022.30)	21,514,499
Cash and cash equivalent at beginning of the year		21,514,499	-
Cash and cash equivalent at end of the year	4A	1,740,477	21,514,499

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 31/12/2023 and signed by:



.....
Ms. Teresia Mbaika
Principal Secretary



.....
Emmy M'mbwanga
Project Coordinator



.....
Stanley Mwaura
Head Of Accounting Unit
ICPAK Member No:7121

10. Statement of Comparison of Budget and Actual amounts for year ended 30th June 2023

Receipts/Payments Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
Receipts						
Proceeds from domestic and foreign grants	-	-	-	-	-	-
Total Receipts	-					-
Payments						
contracted technical services						
Compensation to employees	-	-	-	13,016,502.35	(13,016,502.35)	-
Purchase of goods and services	46,377,778	-	46,377,778	6,757,519.95	39,620,258.05	
Total Payments	46,377,778		46,377,778	19,774,022.30	(26,603,755.30)	
Surplus or Deficit	(46,377,778)	-	(46,377,778)	(19,774,022.30)		

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


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Ms. Teresia Mbaika
Principal Secretary


.....

Emmy M'mbwanga
Project Coordinator


.....

Stanley Mwaure
Head Of Accounting Unit
ICPAK Member No:7121

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 KCPF under the State Department of Devolution. The financial statements are for the reporting entity KCPF as required by Section 81 of the PFM Act, 2012 .

c) Reporting currency

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

d) Recognition of receipts

KCPF recognises all receipts from the various sources when the event occurs, and the related cash has been received.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (continued)

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 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.

• **Significant Accounting Policies (continued)**

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. The project has not had any borrowings since inception.

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. There was no borrowing done by the project.

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. The project has not purchased any asset hence no fixed asset register.

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. There were no in-kind donations

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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

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. There was no restricted cash.

i) Imprests and Advances

For the purposes of these financial statements, imprests and advances to authorized 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 Entity 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. There was no contingent liability in the reporting period.

k) Contingent Assets

KCPF 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 KCPF 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. There was no contingent liability in the reporting period.

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. There were no pending bills in the reporting period.

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 State Department For Devolution but receive budgeted funds as transfers and account for them separately. These transfers are recognized as inter-entity transfers and are eliminated upon

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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*.

n) Third party payments

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

o) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates (Kenya Shillings). Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized 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 June 30, 2023.

r) Prior period adjustments

prior period adjustments relate to errors and other adjustments noted arising from previous year(s). there was no adjustment related to prior year.

12. Notes to the Financial Statements

1. Proceeds From Domestic and Foreign Grants

During the financial period to 30 June 2023, we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	2022/2023				2021/2022	Cumulative to date
			Grants received in cash	Grants received as direct payment*	Grants received in kind	Total amount	Total Amount	
			Kshs	Kshs	Kshs	Kshs	Kshs	
Grants Received from Bilateral Donors (Foreign Governments)	03/09/2021	-	-	-	-	-	31,534,900	31,534,900
European Union								
Total		-	-	-	-	-	31,534,900	31,534,900

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

2. Compensation to Employees

Description	FY 2022/2023			FY2021/2022	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Basic wages of temporary employees	13,016.502.35	-	13,016.502.35	5,425,901	23,753,623
Total	13,016.502.35	-	13,016.502.35	5,425,901	23,753,623

3. Purchase of Goods and Services

Description	FY 2022/2023			FY 2021/2022	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Domestic travel and subsistence	3,707,395	-	3,707,395.70	4,594,500	4,798,900
Printing, advertising, and information supplies	1,959,612	-	1,959,612	-	1,241,900
Hospitality supplies and services	1,090,512.95	-	1,090,512.95	-	-
Total	6,757,519.95	=	6,757,519.95	4,594,500	6,040,800

The purchase of goods and services and compensation of employees were budgeted under one-line item in the budget for the state department item 2211311 contracted technical services. This therefore is therefore a disclosure of the payments done in the program

4. Cash And Cash equivalents

Description	FY2022/2023	FY2021/2022
	Kshs	Kshs
Bank accounts (Note 4A)	1,740,476	21,514,499
Total	1,740,476	21,514,499

4. A Bank Accounts

Project Bank Accounts

Details	FY 2022/2023	FY2021/2022
	Kshs	Kshs
Local Currency Accounts		
Central Bank of Kenya (A/c No. 1000495316)	1,740,476	21,514,499
Total local currency balances	1,740,476	21,514,499
Total bank account balances	1,740,476	21,514,499

5. Fund Balance Brought Forward

Description	FY2022/2023	FY2021/2022
	Kshs	Kshs
Bank accounts	21,514,499	-
Total	21,514,499	-

Kenya Co-operation and partnership Facility (KCPF)
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Notes to the Financial Statements (Continued)

Other Important Disclosures

1. External Assistance

	2022/23	2021/22
Description	Kshs	Kshs
External assistance received as grants	-	31,534,900
Total	-	31,534,900

a). External assistance relating loans and grants

	2022/23	2021/22
Description	Kshs	Kshs
External assistance received as grants	-	31,534,900
Total	-	31,534,900

b) Classes of providers of external assistance

	2022/23	2021/22
Description	Kshs	Kshs
Multilateral donors-European Union	-	31,534,900
Total	-	31,534,900

The external assistance was provided for local economic development in the counties

d. Purpose and use of external assistance

Payments made by third parties	2022/23	2021/22
Description	Kshs	Kshs
Compensation to employees	13,016,502.35	-
Use of goods and services	6,757,519.95	-
Total	19,774,022.30	-

The balance in the account was used for project closure activities

Other Important Disclosures (Continued)

2. Related Party Disclosures

Related party disclosure is encouraged under non-mandatory section of the Cash Basis IPSAS. The comprise of related parties to the Project

- i) Key management personnel including the program director/manager
- ii) The implementing entity/state department/ department
- iii) Other Ministries and Departments.
- iv) The National Treasury

Related party transactions:

	2022-2023	2021-2022
	Kshs	Kshs
Compensation to Key Management		
Compensation to the program manager/ director	10,315,000	-
Key Management Compensation others (specify)	-	-
Total Compensation to Key Management	10,315,000	-
(Insert any other transfers received)	-	-
Total Transfers from related parties	10,315,000	-

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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)
	Inaccuracies in the statement of receipts and payments	The variances were have been reconciled through the revised financial statement submitted in fy 2021/2022	Resolved	
	Budgetary control and performance	The project has so far spent kshs 29,794,423 of the project funds, leaving a balance of kshs 1,740,476. The overfunding was due to roll over of the funds as the funding was for more than one financial year.	Resolved	
	lack of internal audit function and audit committee	The KCPF project could not set up an independent internal audit committee since it's a project under the state department and therefore uses the internal audit committee of the state department. The state department is in the process of instituting the committee after the new reorganisation of government.	Not Resolved	June 2024


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**Ms. Teresia Mbaika
Principal Secretary**


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**Ms. Emmy M'bwanga
Project Coordinator**

Annex 2: Variance explanations - Comparative Budget and Actual amounts for Current FY

	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					
Proceeds from domestic and foreign grants	-	-	-	-	The project expenditure was incurred from the balance carried forward from fy 2021/2022 Since the project was in the closure period , there was no funds disbursed from the donor for the year under review.
Total Receipts	-	-	-	-	
Payments					
Compensation of employees	-	13,016,502.35	(13,016,502.35)	0	The project had no specific budget line for compensation ,all ate items during the closure period were budgeted under use of goods and services
Purchase of goods and services	46,377,778	6,757,519.95	39,620,258.05	15%	The budget item on use of goods and services composed of all the items of expenditure.
Total payments	46,377,778	19,774,022.30			

Annex 9: Other Support Documents

- i. Bank Reconciliations statement as at 30th June 2023
- ii. Board of Survey Report
- iii. GOK IFMIS comparison Trial Balance (*Where applicable*)