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**PERFORMANCE AUDIT REPORT OF THE
AUDITOR-GENERAL
ON
PUBLIC DEBT SERVICING ACTIVITIES**

THE NATIONAL ASSEMBLY
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September, 2022

VISION

Making a Difference in The Lives and Livelihoods of the Kenyan People

MISSION

Audit Services that Impact on Effective and Sustainable Service Delivery

CORE VALUES

Integrity

Credibility

Relevance

Accountability

Independence

MOTTO

Enhancing Accountability

FOREWORD BY THE AUDITOR-GENERAL

I am pleased to present this Performance Audit Report on Public Debt Servicing Activities by The National Treasury. My Office carried out the audit under the mandate conferred on me by Section 36 of the Public Audit Act, 2015. The Act mandates the Auditor-General to examine the economy, efficiency and effectiveness with which public money has been expended pursuant to Article 229(6) of the Constitution of Kenya, 2010.

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

Our public debt audits are meant to establish if the Country's debt is raised to the required level of funding, done at the lowest possible risk at optimal cost and in a sustainable manner. It also establishes if other set Public Debt Management goals such as developing and maintaining an efficient market for Government securities are met. It further examines if funded activities are managed in a prudent way.

The report is submitted to Parliament in accordance with Article 229(7) of the Constitution of Kenya, 2010 and Section 39(1) of the Public Audit, 2015. I have also submitted copies of the report to the Principal Secretary, The National Treasury, the Secretary, President's Delivery Unit and the Office of the President.



CPA Nancy Gathungu, CBS

AUDITOR-GENERAL

28 September, 2022

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LIST OF ABBREVIATIONS

Abbreviation	Description
AWWDA	Athi Water Works Development Agency
CFS	Consolidated Fund Service
CS-DRMS	Commonwealth Secretariat Debt Recording System
CWWDA	Coast Water Works Development Agency
DMD	Debt Management Department
INTOSAI	International Organization for Supreme Audit Institution
ISSAI	International Standards of Supreme Audit Institution
KenGen	Kenya Electricity Generating Company
KENHA	Kenya National Highway Authority
KETRACO	Kenya Electricity Transmission Company
KMA	Kenya Maritime Authority
KPLC	Kenya Power and Lighting Company
LVBC	Lake Victoria Basin Commission
MoALF&C	Ministry of Agriculture Livestock Fisheries and Cooperatives
MoU	Memorandum of Understanding
NIA	National Irrigation Authority
OAG	Office of the Auditor General
PDMIS	Public Debt Management Information System
PFM	Public Finance Management
YABIC	Youth Agricultural Incubation Centre

DEFINITION OF TERMS

Commitment Fee: a charge that a lender imposes on a borrower as compensation for delay in drawdown of loans, which is majorly attributed to delay in fulfillment of the conditions precedent.

Domestic Debt: any liabilities owed by residents to residents of same economy, with treasury bonds and bills being the key instruments of mobilizing debt.

Public Debt Management: the process of establishing and executing a strategy for managing public debt in order to raise the required amount of funding at the desired risk and cost levels.

Public Debt Service: any financial operations related to repayment of the principal and payment of interest, commission, commitment fees, service charges and other fees, and, possibly, late interest payments. The manual also provides for forms of debt servicing activities to include; payments in cash, rescheduling of principal payments, debt swap, the creation of an arrear, fractional or complete prepayment of principal, debt forgiveness, or a debt swap.

EXECUTIVE SUMMARY

Background of the Audit

1. The INTOSAI GUID 5250- Guidance on Auditing Public Debt defines public debt management as the process of establishing and executing a strategy for managing public debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Public debt management is a critical activity in the public finance management process as it forms a government obligation. Section 63 of the Public Finance Management (PFM) Act, 2012 mandates The National Treasury with the role of managing public debt activities for which debt servicing forms a core part.
2. According to the INTOSAI Development Initiative (IDI) Handbook on Audit of Public Debt Management, public debt service activities refer to any financial operations related to repayment of the principal and payment of interest, commission, commitment fees, service charges and other fees, and, possibly, late interest payments.

Audit Objectives and Scope

3. The main objective of the audit was to assess efficiency in the management of public debt servicing activities at The National Treasury. The audit covered sixteen (16) projects loans with total commitment fees of Kshs.1,607,016,063.

Summary of Findings

4. Review of documents and interviews with The National Treasury revealed the following findings: -
 - I. **Payment of Commitment Fees**
5. Contrary to the provisions of Article 201 (d) of the Constitution of Kenya and Section 50 (1) of the PFM Act, 2012, commitment fees were incurred on undrawn loans or delayed drawings which is not prudent use of public resources.
 - a) **Commitment Fees on Undrawn Loans**
6. The audit established that two (2) financing agreements in favour of Kenya Power and Lighting Company (KPLC) entered into had not been drawn down as at the time of audit. However, commitment fees amounting to Kshs.474,597,733

had been incurred. The agreements were entered into to finance the Nairobi Underground Electric Power Distribution Network Project in two regions of Nairobi.

7. There were delays in signing of the financing agreements leading to the projects being undertaken through alternative sources of funding of which supporting evidence was not provided.

b) Commitment Fees on Delayed Drawings

8. The audit established that 14 (fourteen) loans had exceeded timelines allowed for fulfillment of conditions precedent, therefore, accruing commitment fees amounting to Kshs.1,006,647,425. The delays in the draw down was attributed to, among others:-
 - i. Delays in obtaining legal opinion from the Attorney General's office, which was a condition precedent to disbursements;
 - ii. Delays in signing of Subsidiary Loan Agreements (SLAs) by The National Treasury and Implementing Agencies, which is a condition precedent to loan disbursement;
 - iii. Lengthy processes involved in obtaining 'no objection' approvals from the financiers on the procured project works and consultancy services;
 - iv. Delays in obtaining approvals for Withholding Tax Certificates on the master lists of imported items presented by the contractors in performance of their contracts by the National Treasury;
 - v. Delays due to late finalization of County Participating Agreements (CPAs) in the affected counties;
 - vi. Delays in the provision of Government of Kenya (GoK) counterpart financing;
 - vii. Limited levels of awareness at the Ministries, Departments and Agencies (MDAs) as to the commitment fees being incurred by the project irrespective of the drawdowns; and
9. In addition, other reasons for the accrual of high commitments fees include; executive directive forbidding access to forests in Kenya due to illegal logging delayed activities of some contractors; COVID-19 pandemic disrupted the implementation of projects due to restrictions on movement and global logistics system; lengthy and bureaucratic payment approval process for the contractor's claims spanning the Implementing agency, the parent Ministry, The National

Treasury and the financiers, affecting the liquidity of the contractors; lengthy process of acquisition of land and way leaves by the National Lands Commission (NLC); delays in the finalization of Power Purchasing Agreements (PPAs); failure to comply with the terms of contract by contractors e.g. non-renewal of the security bid or under-performance and abandoned projects for which cancellation of the loan agreements had been delayed.

c) Commitment Fees on Non-Performing or Stalled Projects

10. The audit established that three (3) project loans continued to accrue commitment fees despite the projects having stalled or not having been commenced. For instance, one of the stalled projects was regional involving three East African countries but could not be implemented due to dissatisfaction by one of the partner countries on its designs.

II. Resourcing of the Public Debt Management Office Directorate

11. The PDMO is not adequately resourced with the requisite staff. For instance, the debt recording and settlement section with a staff establishment of twenty (20) officers had only six (6) staff in-post with support of twelve (12) seconded to the function. There was also notable high staff turnover.

III. Foreign Exchange Differences Amount Not Approved

12. Analysis of the actual debt payments versus amount approved by the Controller of Budget (CoB) on external debt service for the Financial Year 2020/2021 revealed that Kshs.4,346,866,263 was incurred on foreign exchange differences. However, the exchange differences amount was not subjected to reapproval by the CoB contrary to the requirement of Section 17 (4) of the PFM Act, 2012.
13. Previously, no records have been maintained on the CoB approvals and actual amounts paid.

IV. Inaccuracies of Loan Data Capture in the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS)

14. The audit noted some inconsistencies between fees captured in the loan agreements in the CS-DRMS system and the physical loan files. Further, the system was not up to date as some principal repayments had not been updated in the system. Some loan fees were captured in the Payment Advices (PAs) in currencies other than the loan currency.

Conclusions

15. The National Treasury is incurring significant expenditure on commitment fees on undrawn loans and delayed drawings. This is mainly attributed to the delay in meeting the conditions precedent to loan disbursement.
16. The National Treasury in collaboration with implementing agencies have not put in place measures for prompt cancellation of loans for non-performing or stalled projects. This has resulted in continued payment of avoidable commitment fees on loans where there is no intention of further drawdowns.
17. The National Treasury is yet to put in place hedging mechanisms for servicing foreign denominated loans hence the significant exposure to exchange rate fluctuations.
18. The payment approval process for contractor claims is lengthy and cumbersome. This has resulted in slow progression of works due to liquidity challenges for the contractors.
19. The implementing agencies are not actively involved in the pre-loaning processes. This delays the fulfillment of the conditions precedent to drawing down.
20. Some of the delays in project implementation that impacted on the drawdowns was acquisition of land and wayleaves.

Recommendations

In view of the above findings and conclusions of this audit, the Auditor-General proposes the following recommendations for implementation by The National Treasury:

- i. The National Treasury should put in place measures within the Public Debt Management Office (PDMO) to hedge on foreign exchange risks associated with external debt servicing.
- ii. The National Treasury should involve key stakeholders during pre-loaning and approval process to sensitize on the condition precedents to drawdowns.
- iii. The National Treasury should ensure projects are reviewed on a regular basis to identify the non-performing projects and initiate requisite actions to avoid incurrance of unnecessary commitment fees.

- iv. The National Treasury and the implementing agency should negotiate and ensure provision for exit clauses and terms that are favorable terms in the financing agreements.
- v. The commitment fees and duration of drawdown should be taken into account in negotiating the loans.
- vi. The National Treasury should have sufficient staff capacity built in the PDMO with each staff member having distinct job description and deliverables.
- vii. The National Treasury in collaboration with the National Lands Commission and the implementing agencies should establish working timelines to expedite the acquisition of land and way-leaves.

1.0 BACKGROUND TO THE AUDIT

Introduction

- 1.1. The INTOSAI GUID 5250- Guidance on Auditing Public Debt defines public debt management as the process of establishing and executing a strategy for managing public debt in order to raise the required amount of funding at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. Public debt management is a critical activity in the public finance management process as it forms a major government obligation. Section 63 of the Public Finance Management (PFM) Act, 2012 mandates The National Treasury with the responsibility of managing public debt activities for which debt servicing forms a core part.
- 1.2. According to INTOSAI Development Initiative (IDI) Handbook on Audit of Public Debt Management, public debt service activities refer to any financial operations related to repayment of the principal and payment of interest, commission, commitment fees, service charges and other fees, and, possibly, late interest payments. The manual also provides for forms of debt servicing activities to include; payments in cash, rescheduling of principal payments, debt swap, creation of an arrears, fractional or complete prepayment of principal and debt forgiveness.
- 1.3. The annual Public Debt Management (PDM) report by The National Treasury as at 30 June 2021 indicates outstanding public and publicly guaranteed debt of Kshs.7,696,635 million. This was indicative of Kshs.1,003,297 million or 15.7% growth in the overall debt from the reported balance of Kshs.6,693,338 million as at 30 June 2020. Further, the public debt service amount increased from Kshs.651,473 million for the year ended 30 June 2020 to Kshs.780,628 million for the year ended 30 June 2021. Of the total debt service amount of Kshs.780,628 million, domestic debt and external debt service amounted to Kshs.546,038 million and Kshs.234,590 million respectively.
- 1.4. Of the total debt service amount of Kshs.780,628 million for the year ended 30 June 2021, Kshs.285,486 million related to principal repayment (domestic kshs.157,208 million and external kshs.128,278 million) and Kshs.495,142 million related to non-principal amounts (domestic Kshs.106,312 million and external Kshs.388,830 million).

Motivation for the Audit

- 1.5. The following factors motivated the debt service audit:
- i. According to the Annual Public Debt Management report for financial year 2020/2021, the stock of public debt and publicly guaranteed debt increased by Kshs.1,003,297 million to stand at Kshs.7,696,635 million as at 30 June,2021. This represented 86% of the subsisting Parliament approved debt ceiling of Kshs.9,000,000 million vide legal notice No.155 of 26 September, 2019.
 - ii. The growth in public debt is attributed to the continued budget deficit being funded from new loans disbursements by bilateral and multilateral lenders and borrowing from the domestic markets in the form of treasury bills and bonds. Over the five-year period between the financial year 2016/2017 and 2020/2021, an amount of Ksh.3,367,617,321,116 has been spent on servicing of public debt. During the same period, expenditure on public debt has increased from an annual amount of Kshs.435,354 million in 2016/2017 to Kshs.884,919 million in the financial year 2020/2021. This represents an increase of Kshs.449,565 million or 103% in the public debt service expenditure over the period.
 - iii. The Hansard Report of Parliament dated 9 June, 2021 expressed concern on the increasing debt service charge on the Consolidated Fund Services (CFS). The Report noted that for the first time, the CFS would surpass the country's recurrent budget. The Report approximated that the CFS would rise to Kshs.1,330 million in the financial year 2021/2022. The increase translated to Kshs.253,000 million representing a 24% rise from the previous of Financial Year 2020/ 2021 levels. This was mainly on account of increased public debt service expenses which in 2020/2021 had constituted approximately 88% of the CFS expenditure.
 - iv. There were also public concerns in the media on debts accruing on projects that were yet to commence. The Business Daily of 29 July, 2021 highlighted that Kenya had begun compensation talks with China National Aero-Technology International Engineering Corporation (CATIC), whose contract to build the second terminal at the Jomo Kenyatta International

Airport (JKIA) was cancelled amid fears of a standoff that could cost taxpayers hundreds of millions of shillings.

- v. The Country had incurred commitment fees totaling Kshs.36,230 million between financial years 2016/2017 and 2020/2021 on undrawn and delayed drawdowns of loans as summarized in **Table 1** and detailed in **Appendix I**.

Table 1: Summary of Commitment Fees on Undrawn and Delayed Drawings

Particulars	Number of Loans	Commitment Fees Paid (Kshs.)
Undrawn Loans	13	1,266,550,785
Late Drawdown	51	34,964,368,158
Total	64	36,230,918,943

Source: OAG Analysis of the loans with commitment fees schedule from the CS-DRMS

2.0 DESIGN OF THE AUDIT

Audit Objective

- 2.1 The main objective of the audit was to assess efficiency in management of public debt servicing activities at The National Treasury. Specifically, the audit sought to:
- i. assess whether public debt obligations are met at the lowest possible cost, consistent with prudent degree of risk;
 - ii. provide reliable financial information for debt service;
 - iii. determine whether the debt service processes, budgets, and schedules are being adhered to as stipulated under the relevant laws, rules and agreements;
 - iv. ascertain whether debt servicing activities effectively mitigates foreign exchange risks; and
 - v. establish whether proceeds of debt were used for intended purposes and were achieving their set objectives.

Audit Scope and Limitations

- 2.2 The audit focused on public debt servicing activities of recording, servicing and reporting by the National Treasury. The audit covered five financial years for the period 2016/2017 to 2020/2021.
- 2.3 The audit sampled sixteen (16) projects/loans whose total commitment fees amounted to Kshs.1,607 million in Ministries, Departments, Agencies and State Corporations which included: Ministry of Health (MoH), State Department for Housing and Urban Development (SDHUD), Kenya Electricity Generating Company (KenGen), Kenya Electricity Transmission Company (KETRACO), Kenya Power and Lighting company (KPLC), Ramogi Institute of Advanced Technology (RIAT), University of Eldoret (UoE), Dairy Training Institute (DTI), Pwani University, Lake Victoria Basin Commission (LVBC), Kenya Maritime Authority (KMA), Kenya National Highway Authority (KENHA), National irrigation Authority

(NIA), Coast Water Works Development Agency (CWWDA) and Athi Water Works Development Agency (AWWDA).

- 2.4 These projects were selected based on the materiality of the commitment fee, uniqueness of the project and the envisioned beneficial impact.
- 2.5 The audit team experienced various challenges including information gaps due to lack of integration of the operations of the three public debt management offices (Front Office, Middle and Back Offices). This was mitigated by corroborating information in the debt management system and physical records maintained by the various offices.

Methods Used to Gather Audit Evidence

- 2.6 The team conducted the audit in accordance with Performance Auditing Guidelines issued by the International Organization of Supreme Audit Institutions (INTOSAI). The methods used to conduct the audit included interviews, document reviews and physical verification/observation.
- 2.7 Interviews were carried out with senior management in charge of debt recording and settlement at the National Treasury and Central Bank of Kenya (CBK). Interviews were also conducted with the respective project teams in the implementing Ministries, Departments, State Corporations and Agencies. The objective of the interviews was to gain understanding of the implementing agency role in public debt servicing. Detailed listing of persons interviewed is outlined in **Appendix II**.

Documents Reviewed

- 2.8 The audit team reviewed the following documents:
 - i. The Constitution of Kenya 2010, the Public Finance Management Act, 2012 and Public Finance Management (National Government) Regulations, 2015
 - ii. The National Treasury Five-Year Strategic Plan for the period 2018/19 to 2022/23;
 - iii. The debt management quality systems procedures;
 - iv. The individual loan files, financing agreements; and
 - v. The National Treasury budget statement amongst others.

The detailed list of the documents reviewed are outlined in **Appendix III**.

Project Verification

2.9 To establish the implementation status of the funded project from the loan proceeds, the audit sampled the fourteen (14) projects for verification as detailed in **Appendix V**.

Audit Criteria

2.10 The audit assessed the public debt servicing activities against the following criteria:

- i. The Constitution of Kenya, 2010 in Article 201 (d) provides that public money shall be used in a prudent and responsible way;
- ii. The PFM Act, 2012 Section 50 (1) requires the National Government, in guaranteeing and borrowing money, ensure that its financing needs and payment obligations are met at the lowest possible cost in the market which is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable;
- iii. Regulation 185 of the PFM Regulations (National Government) 2015, require that the public debt management strategy entail minimizing borrowing costs with a prudent degree of risk;
- iv. The Public Debt and Borrowing Policy, 2020, paragraph 48 requires undrawn loan balances for non-performing and/or completed projects to be reviewed on a regular basis to allow for modification of project implementation or loan cancellation, if necessary, and to revise the level of new borrowings to be approved in subsequent periods;
- v. The National Treasury and Planning Strategic Plan 2018/19- 2020/23 sets out the staff structure and establishment for the Public Debt Management Office;
- vi. The audit was also assessed based on best practices from Debt Management Performance Assessment (DeMPA) methodology. The methodology highlights how developing countries can manage government debt in an effective and sustainable manner in the medium to long term. It also facilitates the monitoring of progress overtime in achieving government

debt management objectives in a manner that is consistent with international best practice.

2.11 Details of the audit criteria are provided in the findings chapter and are also listed in **Appendix IV**.

3.0 DESCRIPTION OF THE AUDIT AREA

3.1 The National Treasury's mandate outlined under Article 225 (1) of the Constitution of Kenya, 2010, provides that an Act of Parliament shall provide for its establishment, functions and responsibilities.

Establishment and Functions of the National Treasury with Regards to Debt Management

3.2 Section 12 of the PFM Act, 2012 stipulates the specific responsibilities of the National Treasury regarding to Public Debt Management (PDM) as: -

- a) Manage the level and composition of national public debt, national guarantees and other financial obligations of National Government; and
- b) Mobilize domestic and external resources for financing National and County Government budgetary requirements.

3.3 Section 11 of the PFM Act, 2012 establishes the National Treasury while Section 12 provides for its responsibilities that include;

- a) Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- b) Manage the level and composition of national public debt, national guarantees and other financial obligations of national government within the framework of this Act and develop a framework for sustainable debt control;
- c) Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- d) Mobilize domestic and external resources for financing national and county government budgetary requirements;
- e) Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting as contemplated by Article 226 of the Constitution: Provided that the National Treasury shall prescribe regulations that ensure that operations of a system under this paragraph respect and promote the distinctiveness of the national and county levels of government;

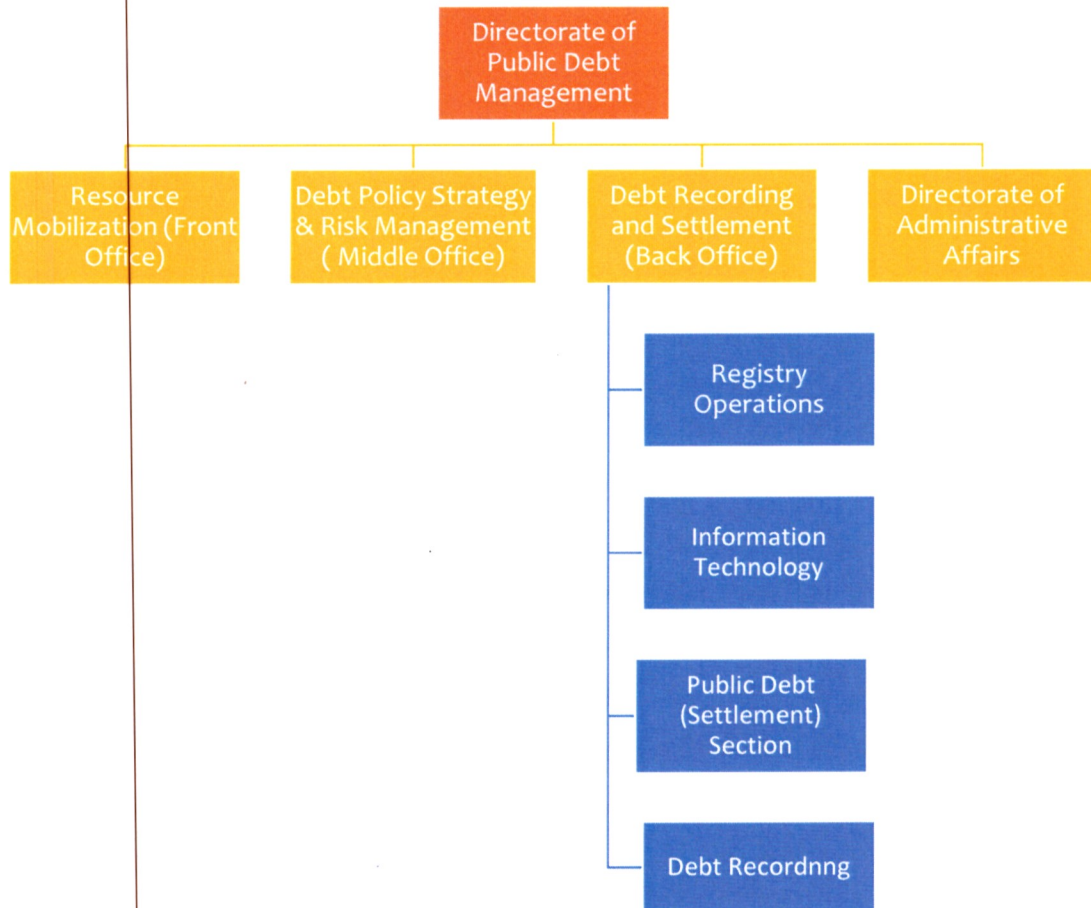
- f) In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- g) Develop policy for the establishment, management, operation and winding up of public funds;
- h) Within the framework of this Act and taking into consideration the recommendations of the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council, prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- i) Strengthen financial and fiscal relations between the national government and county governments and encourage support for county governments in terms of Article 190(1) of the Constitution in performing their functions; and
- j) Assist county governments to develop their capacity for efficient, effective and transparent financial management in consultation with the Cabinet Secretary responsible for matters relating to intergovernmental relations.

3.4 The Executive Order No.1 of 2018 also provides for the functions of National Treasury to include management of public finance, formulation of national budget and public debt management.

Organizational Structure of Public Debt Management Office

3.5 The National Treasury comprises of six (6) Directorates, with Public Debt Management Office Directorate being one of them.

Figure 1: Excerpt of Organogram for The National Treasury



Sources: *The National Treasury Debt Management Quality Systems Procedures and Strategic Plan 2018/19-2022/23*

Establishment and Functions of the Public Debt Management Office

3.1 The Directorate of Public Debt Management (PDM)/ Public Debt Management Office (PDMO) is established under Section 62 of the PFM Act, 2012 whose objectives are; to minimize the cost of public debt management and borrowing over the long-term, taking account of risk, promoting the development of the market institutions for Government debt securities and ensuring the sharing of the benefits and costs of public debt between the current and future generations.

- 3.2 The functions of the PDMO are enlisted under Section 63 of the PFM Act, 2012 and Regulation 194 of the PFM (National Government) Regulations, [Rev.2020] and include;
- i. Carrying out the Government's debt management policy of minimizing its financing cost over the long-term taking account of risk;
 - ii. Maintaining a reliable debt data base for all loans taken by the National Government, County Governments and their entities including other loans guaranteed by the National Government;
 - iii. Preparing and updating the annual medium-term debt management strategy including debt sustainability analysis;
 - iv. Preparing and implementing the National Government borrowing plan including servicing of outstanding debts;
 - v. Acting as the principal in the issuance of Government debt securities on behalf of the National Treasury;
 - vi. Monitoring and evaluating all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy;
 - vii. Processing the issuance of loan guarantees including assessment and management of risks in National Government guarantees; and
 - viii. Transacting in derivative financial instruments in accordance with best international practices bench-marked to the debt management offices of other governments that are internationally respected for their practices.
- 3.3 The PDM Directorate is divided into three (3) Sections namely resource mobilization-Front Office, debt policy strategy and risk management - Middle Office and debt recording and settlement - Back Office.

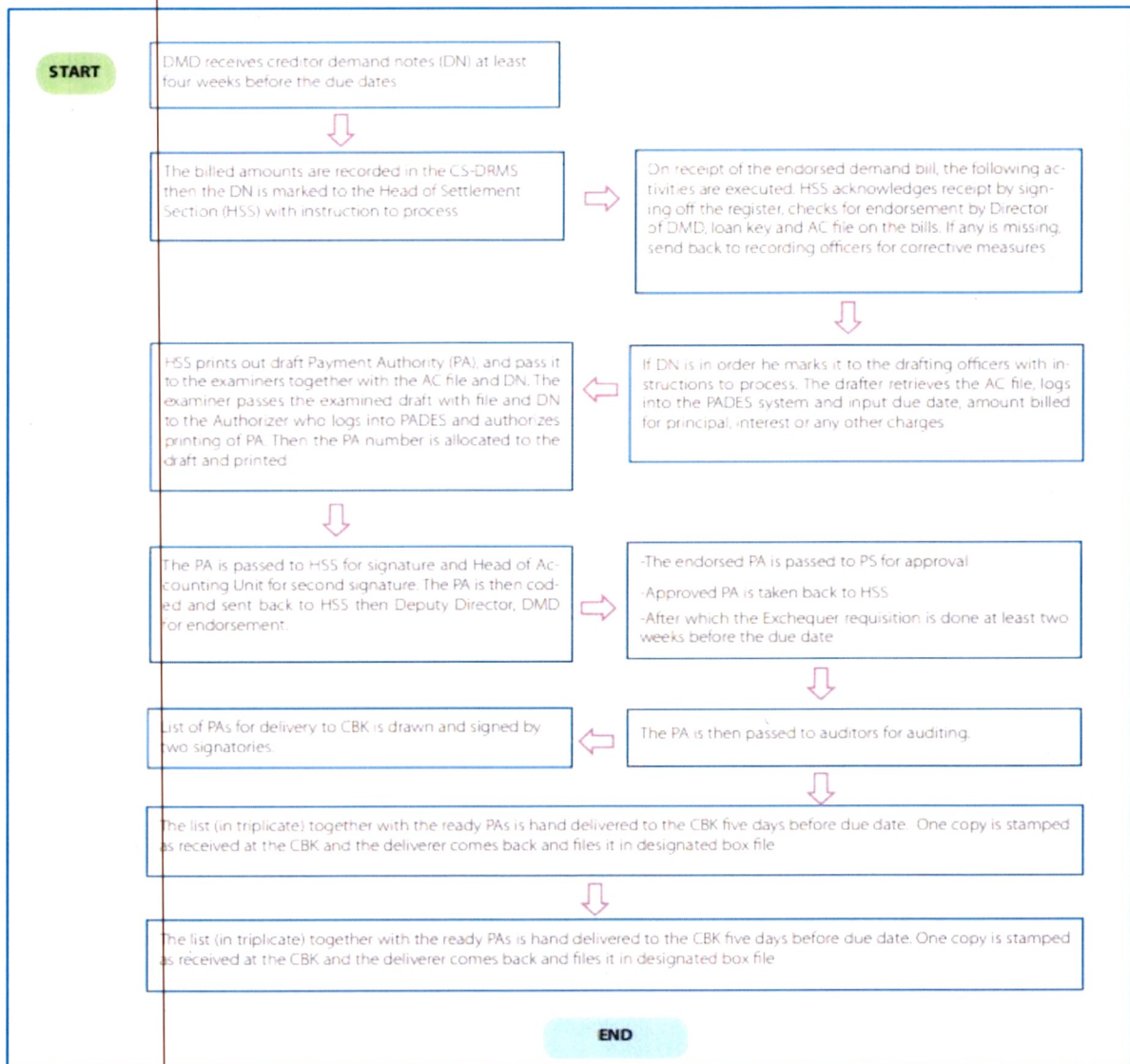
Process Description for Debt Servicing

- 3.4 Debt servicing is a function of the back office and comprises of three sections; the debt recording, settlement and registry sections. Each section is headed by a Head. The respective functions are external payments, domestic payments and the registry operations.

External Debt Section

- 3.5 The section deals with debt obligations denominated in foreign currency which is subjected to international capital market legislation, and arising from sources including; bilateral, multilateral and commercial lenders.

Figure 2: External Debt Process

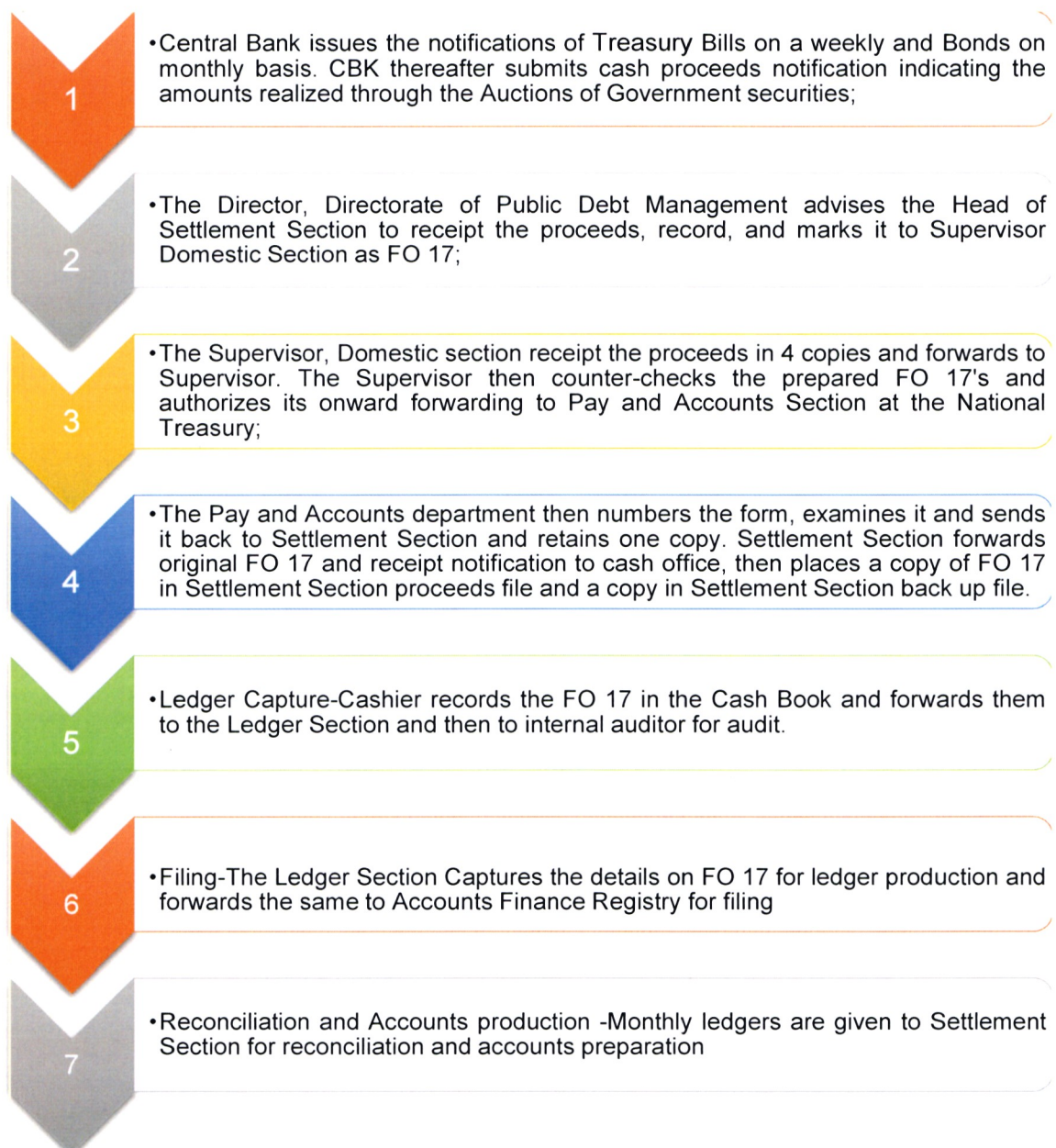


Source: OAG Analysis

Domestic Debt Section

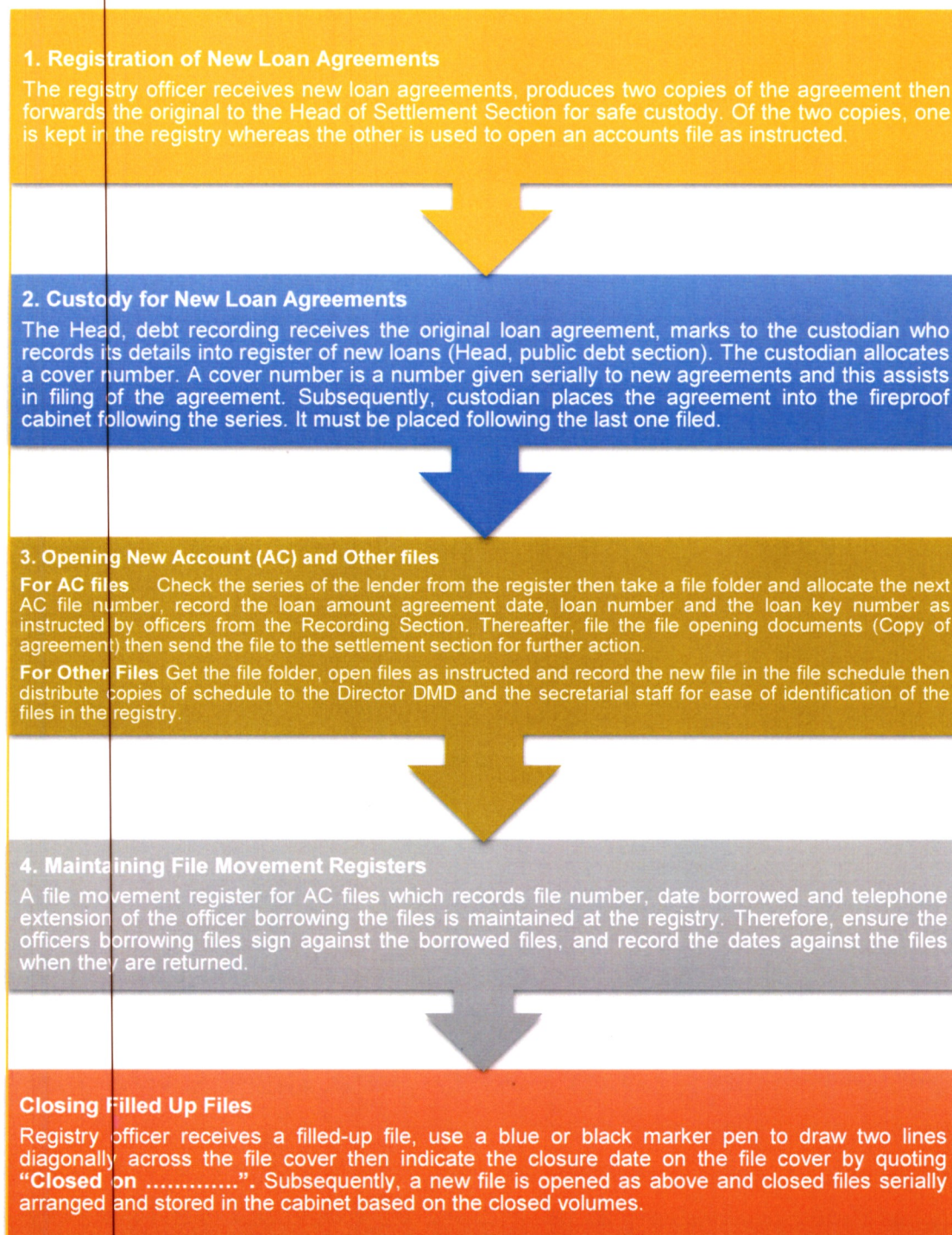
3.6 Domestic debt refers to liabilities owed by residents to residents of same economy, with treasury bonds and bills being the key instruments of mobilizing debt. The section, therefore, is mandated to mobilize domestic debt by conducting two key functions; notification and processing of receipts and notification and processing of amounts falling due (cash call-ups).

Figure 3: Domestic Debt Servicing Process



Registry Function

- 3.7 The registry section performs the following roles for both external and domestic debt sections:



Sources of Funds for Debt Service

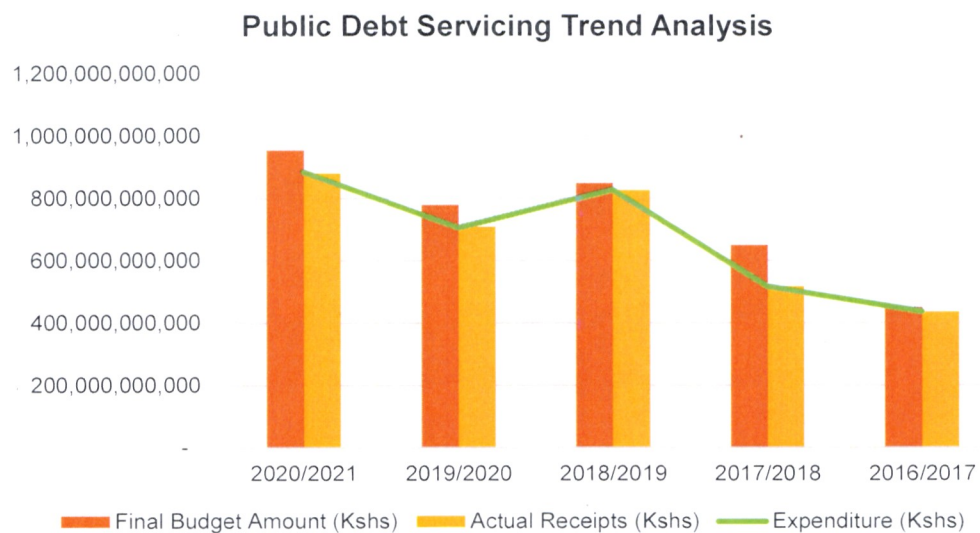
3.8 The debt service payments are funded from the Consolidated Fund Services (CFS) account. During the period under review of 2016/2017 to 2020/2021, an amount of Ksh.3,367,617 million had been utilized in servicing of public debt in comparison to the actual receipts of kshs.3,368,590.7 million resulting in account balance of Kshs.973.3 million. The expenditure on public debt increased to Kshs.884,919.3 million reported in 2020/2021 from Kshs.435,354.3 million in 2016/2017 as summarized in **Table 2** below. This is indicative of an increase of Kshs.449,565 million or 103% in the public debt service expenditure over the last five years.

Table 2: Analysis of Budget Amounts, Exchequer Releases and Actual Expenditure

Financial Year	Final Budget Amount (Kshs)	Actual Receipts (Kshs)	Expenditure (Kshs)
2020/2021	954,866,219,489	880,472,918,036	884,919,345,869
2019/2020	778,847,892,158	709,036,053,493	704,789,802,098
2018/2019	848,303,865,142	826,202,867,839	826,202,867,839
2017/2018	649,396,727,245	517,161,876,534	516,351,021,786
2016/2017	449,437,680,047	435,716,953,824	435,354,283,524
Total	3,680,852,384,081	3,368,590,669,726	3,367,617,321,116

Source: OAG Analysis of CFS statements for Financial Year 2016/2017 to 2020/2021.

Figure 4: Public Debt Servicing Budget Analysis



Source: OAG Analysis of CFS statements for Financial Year 2016/2017 to 2020/2021.

4.0 AUDIT FINDINGS

4.1 The audit sampled sixteen (16) loans with commitment fees totaling Kshs.1,607 million for the period under review. The detailed list of the loans is detailed in **Appendix V**. The following observations were made;

I. Payment of Commitment Fees on Loans

4.2 Article 201 (d) of the Constitution of Kenya, 2010 provides that public money shall be used in a prudent and responsible way. Section 50 (1) of the Public Finance Management Act, 2012 provides that the National Government shall, in guaranteeing and borrowing money, ensure that its financing needs and payment obligations are met at the lowest possible cost in the market which is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable. The following debt servicing activities were, however, found to be in contravention of the provisions of the law above.

a) Payments of Commitment Fees on Undrawn Loans

4.3 The Kenya Power and Lighting Company (KPLC) planned to undertake two (2) projects under the Nairobi Underground Electric Power Distribution Network covering two (2) regions in Nairobi; Region 1 covering Kilimani, Hurlingham, Ngong Road, Statehouse and Lavington was contracted to China Shanghai Corporation for Foreign Economic and Technological Cooperation (SFECO) Group. Region 2 covering Kileleshwa, Westlands, Parklands, Ngara and Riverside was contracted to NARI Group. The two projects were to be financed by the Exim Bank of China to the tune of 1,200 million Chinese Yuan (CY) (Region 1) and 685 million CY (Region 2) equivalent to Kshs.17,952.4 million and Kshs.10,247.8 million respectively at the then prevailing exchange rate.

4.4 The two projects were conceptualized in 2012 but the financing agreements were only signed in 2017. During the intervening period, several network reinforcement projects and upgrades in the targeted areas were undertaken and completed using alternative sources of funding of, which supporting evidence was not provided.

4.5 In an effort to transfer the project funding, KPLC made request for a change of scope in line with new viable priority projects. However, KPLC was advised to

first sign the on-lending agreements, as it was provisioned for in all the project agreements, and seek amendment at a later stage after engaging with the contractor.

- 4.6 The audit also established that the loans had not been drawn down due to KPLC's constrained absorption capacity occasioned by the decline in its financial performance. This was attributed to slow growth in electricity uptake, increase in system losses and insufficient revenue forecast due to the regulations tariffs. This inhibited the Company's ability to absorb the loan without breaching on its financial covenants with the existing lenders.
- 4.7 Based on KPLC's cash position, it would have deteriorated further and with profitability subsequently declining, it would have affected investors' confidence and hence the share price. KPLC subsequently made request to the National Treasury through the parent Ministry of Energy (MoE) for conversion of the financing model from on-lent to on-grant, but was not approved.
- 4.8 On 31 October, 2017, KPLC wrote to the contractors requesting for sign off of an undertaking and agreeing to change the scope of the projects in line with their priorities which was not honored. The audit team was informed that a proposal for cancellation of the loans had been subsequently drawn by KPLC to the National Treasury through the Parent Ministry but has never been acted on. However, there was no documentary evidence provided in support of the request made for cancellation.
- 4.9 From the interviews, there were indications that KPLC team had not been involved in the pre-contracting processes including negotiation for the project financing. The project and the loan amount of the two undrawn loans are as indicated in **Table 3** below. The two undrawn loans had incurred commitment fees of kshs.474.6 million as at the time of audit.

Table 3: Summary of Commitment Fees on Undrawn Loans

Creditor Name	Project Name	Financing Agreement Date	Financed Amount (Foreign)	Loan Currency	Commitment Fee Paid (Ksh.)
1. Exim Bank of China	Kenya Nairobi Underground Electric Power Distribution Network in Kilimani, Hurlingham, Ngong Road, State House and Lavington	15/05/2017	1,200,000,000	CNY	318,901,261.91
2. Exim Bank of China	Kenya Nairobi Underground Electric Power Distribution Network in Kileleshwa, Westlands, Parklands, Ngara and Riverside Area Project	15/05/2017	685,000,000	CNY	155,696,470.93
Total					474,597,732.83

Source: OAG Analysis

b) Commitment Fees on Delayed Loan Drawings

4.10 The audit established that fourteen (14) loans had accrued commitment fees amounting to Kshs.1,006 million and were attributed to the following reasons;

- i. Delays in obtaining legal opinions from the Attorney General's office, which was condition precedent to their disbursement or drawdowns;
- ii. Lengthy processes involved in obtaining 'no objection' approval from the financiers while procuring project works and consultancy services;
- iii. Delays in obtaining approvals for Withholding Tax Certificates for the master lists presented by the contractors;
- iv. Lengthy process for acquisition of land and way leaves by the National Land Commission;
- v. Delays in signing of the Subsidiary Loan Agreements between the National Treasury and implementing agencies which is a condition precedent for loan disbursement;
- vi. Challenges in finalizing County Participating Agreements with the affected Counties as was the case for projects being implemented by the State Department of Housing and Urban Development, and Ministry of Water and Sanitation Projects;
- vii. The audit also noted that implementing agencies were not actively involved in pre-contracting process including negotiations of the terms of the loans.

Consequently, some of the timelines included in the contracts were not feasible for implementation. This was the case for Malindi Bagamoyo project where the terms and conditions of the loan were agreed upon between the creditor and National Treasury with limited involvement of Parent Ministry and the implementing agency;

- viii. It was also observed that the borrowing agencies used outdated feasibility studies to seek funding for projects. This has the effect of delaying the implementation of the projects and as such feasibility studies would require to be updated before inception of the projects.

4.11 In addition, project specific and other reasons for accrual of commitment fees include;

- i. Budget cuts and delayed Exchequer releases that affected the GoK financing component leading to overall delay of project execution;
- ii. Lengthy and bureaucratic payment approval process for contractor claims cross-cutting the implementing agency, the parent ministry, The National Treasury and the financiers. This impacted on the project liquidity which in turn slowed down on progression of works;
- iii. The COVID-19 pandemic disrupted implementation of projects due to restrictions on movement and global logistics system;
- iv. Level of awareness at Ministries, Departments and Agencies (MDAs) of the commitment fees being incurred by the projects was low. They have not been effectively sensitized on the subject;
- v. Executive directive on illegal logging prohibited access to forests in Kenya which delayed activities for some contractor's access as was the case with Rwabura Irrigation Project;
- vi. Challenges in the finalization of the Power Purchase Agreements as was the case for Kenya Electricity Generating Company;
- vii. The audit established that East African Project of the Multinational Lake Victoria Maritime Communications and Transport Project had been abandoned as it was in contravention of the National Treasury fund disbursement procedures. The implementing agency, KMA had sought cancellation of the loan agreement which was pending at the time of audit.

The loan however continues to accrue commitment fees on the undisbursed loan balance;

- viii. The audit further noted that the failure by the contractor in the Malindi-Bagamoyo Project implemented by the Kenya National Highways Authority (KeNHA) to renew the bid security impacted on loan drawdowns and the non-performance of some contractors under the Kenya Towns Sustainable Water Supply and Sanitation Program also occasioned delays in project implementation;

Table 4 below is a summary of reasons for the delays in the loan drawdown for the fourteen (14) projects. Detailed analysis for the cause of the delay in drawdown for the individual loan is in **Appendix VI**.

In addition, other reasons for the accrual of high commitment fees include budget cuts and delayed Exchequer releases that affect the GoK financing component leading to overall delay of project execution; the COVID-19 pandemic disrupted implementation of projects due to restrictions on movement and global logistics system; and Executive directive on illegal logging prohibited access to forests in Kenya which delayed activities for some contractor's access as was the case with Rwabura Irrigation Project.

Table 4: Summary of Reasons for Delayed Drawdowns

Reason for Delay	No. of Loans Affected
Legal Opinion	5
Procurement Process	5
Withholding Tax	5
Land Acquisition	5
Subsidiary Loan Agreement	6
County Participating Agreement	2
Counterpart Funding	4
Payment Process to Contractor	2
COVID-19 Pandemic	3
Modification/ Review of Designs	3
Other	10

Source: OAG Analysis of reasons for delayed draw downs

II. Failure to Cancel Loans for Non-Performing and Stalled Projects

- 4.12 Paragraph 48 of the National Treasury Debt and Borrowing Policy, 2020 states that undrawn loan balances for non-performing and/or completed projects should be reviewed on a regular basis to allow modification of project implementation or loan cancellation if necessary, and to revise the level of new borrowings to be approved in subsequent periods. This responsibility is vested on the implementing agencies.
- 4.13 The audit however, established that three (3) loans continued to accrue commitment fees despite the projects having stalled or not commenced, as summarized below in Table 5.

Table 5: Commitment Fees on Non-Performing or Stalled Projects

Creditor	Project Name	Date of Agreement	Implementing Agency	Loan Currency	Loan amount	Commitment fee (Kshs.)
African Development Fund	Multinational Lake Victoria Maritime Communications and Transport Project	9/01/2017	KMA	USD	3,770,000	8,162,281.39
Exim Bank of China	Kenya Nairobi Underground Electric Power Distribution Network in Kilimani, Hurlingham, Ngong Road, State House and Lavington	15/05/2017	KPLC	CNY	1,200,000,000	318,901,261.91
Exim Bank of China	Kenya Nairobi Underground Electric Power Distribution Network in Kileleshwa, Westlands, Parklands, Ngara and Riverside Area Project	15/05/2017	KPLC	CNY	685,000,000	155,696,470.93

Source: OAG Analysis

- 4.14 The Multinational Lake Victoria Maritime Communications and Transport Project was officially launched in May 2018 with an initial advance payment of Units of Accounts (UA) 14,276.77 (Kshs.2,092,732) being received from the African Development Fund. The advance payment was utilized in the project sensitization in the riparian counties of Migori, Homa Bay, Kisumu, Siaya and Busia and capacity building of the project implementation team. However, Kenya pulled out of the implementation of the project within the regional pool for dissatisfaction with the initial design of the Project. The scope entailed the

construction of facilities in other sovereign states. The KMA has since sought cancellation of the loan agreement vide a letter dated 17 February, 2020 to the State Department of Shipping and Maritime.

III. Inadequate Resourcing of the Public Debt Management Office

- 4.15 Debt Management Performance Assessment (DeMPA) 2021 provides for the international best practices on management of public debt. The Debt Performance Indicators (DPI) 2.3 of DeMPA 2021 provides guidelines for the assessment of staff and human resources issues. These include; number of staffs, recruitment, turnover and training. The DPI provides for assessment of views on the adequacy of staffing while considering the complexity of the portfolio, operations, and the prevailing Information Technology (IT) structure.
- 4.16 The National Treasury Strategic Plan 2018/19- 2020/23, Section 4.2 on 'Staff Establishment' places staff under debt recording and settlement section at 20 officers. It was however noted that only six (6) officers were officially in post, resulting to a deficit of 14 officers. To bridge on the gap, 12 officers had been seconded into the Section from other departments in the National Treasury with prescribed duties and responsibilities. It was further noted that staff turnover at the office was exceptionally high due to the nature of work and responsibilities involved, among others.
- 4.17 Understaffing of the unit coupled with the high staff turnover could impact on the operational risk exposures in the section. This would in turn affect on the designed controls such as segregation of duties. The audit team was however, unable to establish the magnitude of operational risks including transactional errors within the section.

IV. Significant Foreign Exchange Differences Being Incurred on Payment of External Debt

- 4.18 Foreign exchange difference occurs when the actual amounts paid towards debt settlement differs from the amount approved by the Controller of Budget for the debt settlement. This is as a result of the fluctuations on the exchange rates between Kenyan Shilling and lender's currency. Exchange amounts for years prior to FY 2020/21 could however not be established as The National Treasury did not maintain records on the approved amounts and actual payments.

4.19 Comparative analysis of the actual payment versus amount approved by the Controller of Budget for external debt service in respect to the financial year 2020/2021 revealed that the Government incurred foreign exchange differences amounting to Kshs.4,346 million. The monthly exchange difference amount is outlined in **Table 6**;

Table 6: Comparative Analysis of Amounts Paid Versus CoB Approved Amounts

Months	Actual Amount Paid (Kshs) (a)	Amount Approved by CoB (Kshs) (b)	Unapproved Amount (Kshs)(c)	Percentage D=(c/a) %
Jul-20	34,493,646,319	33,660,534,834	833,111,486	2.42%
Aug-20	30,142,598,059	29,442,862,095	699,735,964	2.32%
Sep-20	16,337,192,423	15,972,872,108	364,320,315	2.23%
Oct-20	17,060,849,471	16,803,545,111	257,304,359	1.51%
Nov-20	24,541,683,127	24,056,910,182	484,772,946	1.98%
Dec-20	16,270,274,020	15,888,790,571	381,483,449	2.34%
Jan-21	4,324,696,248	4,280,272,404	44,423,844	1.03%
Feb-21	22,708,173,702	22,440,520,818	267,652,884	1.18%
Mar-21	17,330,368,470	17,072,068,283	258,300,187	1.49%
Apr-21	19,655,912,242	19,448,019,849	207,892,393	1.06%
May-21	15,087,802,985	14,749,861,110	337,941,875	2.24%
Jun-21	15,923,731,941	15,713,805,379	209,926,562	1.32%
Total	233,876,929,007	229,530,062,744	4,346,866,263	

Source: OAG Analysis

4.20 This resulted in an increase of the overall cost of borrowing and reduction of finances available to fund other budgeted activities. There was however no supplementary approval sought from the Controller of Budget for the foreign exchange difference amount.

V. Weak Controls Over Data Capture in the Commonwealth Secretariat Debt Recording and Management System

4.21 The audit established that The National Treasury has a CS-DRMS system which is an integrated tool for recording, analyzing and reporting public debt. The system is designed to manage both conventional and complex financial agreements (loans and securities) offered by a wide range of creditors and capital markets.

- 4.22 It was however noted that some loan agreements had fees erroneously captured in the system. For instance, loan key 2016038 had interest amount of USD 18,985,914.50 recorded in the physical file vide Payment Advice (PA) number 112127 dated 19 May 2017 while the system indicated an amount of USD 18,595,914.50 on 22 May 2017. This resulted in an overstatement of the loan balances by USD 390,000.
- 4.23 The audit also observed that some loan fees as captured in the payment advices were in currencies other than those captured in the System. For instance, loan key 2019007, which had payments made in multiple currencies had the loan fee captured in the system in United State Dollar while the Payment Advice captured it in Sterling Pound. Another transaction was captured in US Dollar while the physical Payment Advice recorded it in Euros.
- 4.24 The audit further observed that the CS-DRMS Systems was not regularly updated. For instance, principal payment amounting to USD.75 million as captured in Payment Advice numbers 119879 and 120159 dated 15 April, 2021 and 22 November, 2021 respectively, under loan key 2016038 were yet to be updated in the system as at the time of the audit.

5.0 CONCLUSION

- 5.1 The National Treasury is incurring significant expenditure on commitment fees on undrawn loans and delayed drawings. This is mainly attributed to the delay in meeting the conditions precedent to loan disbursement.
- 5.2 The National Treasury in collaboration with implementing agencies have not put in place measures for prompt cancellation of loans for non-performing or stalled projects. This has resulted in continued payment of avoidable commitment fees on loans where there is no intention of further drawdowns.
- 5.3 The National Treasury is yet to put in place hedging mechanisms for servicing foreign denominated loans hence the significant exposure to exchange rate fluctuations.
- 5.4 The payment approval process for contractor claims is lengthy and cumbersome. This has resulted in slow progression of works due to liquidity challenges for the contractors.
- 5.5 The implementing agencies are not actively involved in the pre-loaning processes. This delays the fulfillment of the conditions precedent to drawing down.
- 5.6 Some of the delays in project implementation that impacted on the drawdowns was acquisition of land and wayleaves

6.0 RECOMMENDATIONS

In view of the findings and conclusions of the audit, the following recommendations are proposed:

- i. The National Treasury should put in place measures within the Public Debt Management Office (PDMO) to hedge on foreign exchange risks associated with external debt servicing.
- ii. The National Treasury should involve key stakeholders during pre-loaning and approval process to sensitize on the condition precedents to drawdowns.
- iii. The National Treasury should ensure projects are reviewed on a regular basis to identify the non-performing projects and initiate requisite actions to avoid incurrence of unnecessary commitment fees.
- iv. The National Treasury and the implementing agency should negotiate and ensure provision for exit clauses and terms that are favorable terms in the financing agreements.
- v. The commitment fees and duration of drawdown should be taken into account in negotiating the loans.
- vi. The National Treasury should have sufficient staff capacity built in the PDMO, with each staff member having distinct job description and deliverables.
- vii. The National Treasury in collaboration with the National Lands Commission and the implementing agencies should establish working timelines to expedite the acquisition of land and way-leaves.

7.0 APPENDICES

Appendix I: Late and Undrawn Loans

Creditor Name	Creditor Category Description	Sector Description	Currency	Principal Amount in Foreign Currency	Instalment in Foreign Currency	Commitment Fees in Foreign Currency	Commitment Fees in Kshs
Govt of Fed. Republic of Germany - GTZ	Bilateral	Roads and Bridges	EUR	90,000,000	90,000,000	1,278,750	158,669,434.25
Govt of Fed. Republic of Germany - GTZ	Bilateral	Roads and Bridges	EUR	50,000,000	50,000,000	719,947	89,496,776.70
Deutsche Bank	Buyers Credit	Water Supply	EUR	27,633,375	27,633,375	447,537.86	53,448,679.74
Exim Bank of China	Bilateral	Mining and Quarrying	CNY	438,000,000	438,000,000	7,458,166.59	116,739,339.63
Exim Bank of China	Bilateral	Energy (Electricity)	CNY	1,200,000,000	1,200,000,000	20,299,999.88	318,901,261.91
Exim Bank of China	Bilateral	Energy (Electricity)	CNY	685,000,000	685,000,000	9,856,388.75	155,696,470.93
European Investment Bank	Multilateral	Roads and Bridges	EUR	50,000,000	50,000,000	444,096.19	54,372,237.80
African Development Bank	Multilateral	Other	USD	160,000,000		831,110.77	86,206,312.23
Agence Francaise De Development	Bilateral	Water Supply	EUR	120,000,000	120,000,000	1,118,333.34	134,867,399.77
Agence Francaise De Development	Bilateral	Water Supply	EUR	100,000,000	100,000,000	44,444.44	5,753,230.54
African Development Bank	Multilateral	Roads and Bridges	EUR	108,000,000	108,000,000	163,500	21,185,916.60
KBC BANK	Bilateral	Water Supply	EUR	8,300,579.15	8,300,579.15	20,866.74	2,710,680.55
Exim Bank of China			CNY	660,000,000	660,000,000	68,503,044.73	68,503,044.73

Creditor Name	Creditor Category Description	Sector Description	Currency	Principal Amount in Foreign Currency	Instalment in Foreign Currency	Commitment Fees in Foreign Currency	Commitment Fees in Kshs
African Development Bank	Multilateral	Water Supply	USD	381,191,000	381,191,000	2,999,377.80	309,580,449.87
African Development Fund	Multilateral	Water Supply	USD	5,134,564	5,134,564	89,056.15	9,288,435.94
African Development Fund	Multilateral	Telecommunications	USD	3,770,000	1,570,000	67,690.99	8,162,281.39
Exim Bank of China	Bilateral	Energy (Electricity)	CNY	496,979,882.74	496,979,882.74	5,164,406.02	82,877,427.58
Exim Bank of China	Bilateral	Roads and Bridges	USD	181,887,499.62	181,887,499.62	606,813.17	64,372,097.18
Exim Bank of China	Bilateral	Education & Training	USD	134,967,400	134,967,400	1,180,281.43	126,979,851.18
Exim Bank of China	Bilateral	Water Supply	USD	200,530,600	200,530,600	2,808,572.25	298,103,056.87
Exim Bank of China	Bilateral	Energy (Electricity)	CNY	575,507,992.10	575,507,992.10	2,287,942.30	39,025,383.40
Agence Francaise De Development	Bilateral	Other	EUR	90,000,000	90,000,000	1,597,672.04	194,754,868.49
Intesa SanPaolo	Buyers Credit	Water Supply	EUR	258,688,881.72	71,878,751.38	1,474,886.11	183,223,031.90
Intesa SanPaolo	Buyers Credit	Water Supply	EUR	319,620,697.07	91,852,266.73	1,602,419.73	200,342,060.41

Creditor Name	Creditor Category Description	Sector Description	Currency	Principal Amount in Foreign Currency	Instalment in Foreign Currency	Commitment Fees in Foreign Currency	Commitment Fees in Kshs
African Development Bank	Multilateral	Roads and Bridges	USD	82,000,000	82,000,000	666,133.62	70,045,699.32
African Development Fund	Multilateral	Roads and Bridges	USD	35,113,000	35,113,000	562,923.57	66,726,953.29
Societe Generale International Development Association	Commercial Bank	Energy (Electricity)	EUR	21,611,147.19	21,611,147.19	1,377,342.41	170,818,884.22
Deutsche Bank	Buyers Credit	Water Supply	EUR	248,100,000	248,100,000	2,095,048.88	253,128,646.74
Unicredit SPA	Bilateral	Telecommunications	EUR	441,404,102.51	436,884,751.43	7,687,717.98	939,833,080.68
Instituto De Credito: Kingdom Of Spain.	Bilateral	Irrigation & Related Act	EUR	6,825,738.12	6,825,738.12	15,355.60	1,814,780.17
KBC BANK	Bilateral	Water Supply	EUR	8,174,911.52	8,174,911.52	105,372.71	12,810,825.83
European Investment Bank	Multilateral	Energy (Electricity)	EUR	72,000,000	72,000,000	589,662.63	71,359,913.25
International Development Association	Multilateral	Public Sector Reform	EUR	131,600,000	131,600,000	79,582.70	9,276,438.40
KBC BANK	Bilateral	Water Supply	EUR	9,189,450.51	9,189,450.51	87,576.83	10,704,645.66

Creditor Name	Creditor Category Description	Sector Description	Currency	Principal Amount in Foreign Currency	Instalment in Foreign Currency	Commitment Fees in Foreign Currency	Commitment Fees in Kshs
Unicredit Austria Bank	Buyers Credit	Health & Social Welfare	EUR	6,400,000	6,400,000	70,235.33	8,277,849.54
ING Bank Germany	Buyers Credit	Defence	EUR	45,917,680	52,675,544.80	398,480.91	47,200,183.83
Erste Group of Banks	Commercial Bank	Health & Social Welfare	EUR	5,000,000	5,000,000	25,739.20	3,851,495.61
Unicredit SPA	Bilateral	Defence	EUR	51,854,860.69	51,854,860.69	464,479.65	54,760,225.69
China Development Bank	Commercial Bank	Health & Social Welfare	USD	67,300,000	67,300,000	102,816.32	10,569,517.70
Unicredit SPA	Bilateral	Defence	USD	198,448,275.86	198,448,275.86	908,794.61	97,221,402.94
African Development Fund	Multilateral	Agriculture	USD	21,277,000	21,277,000	291,734.19	32,896,987.67
Exim Bank of China	Bilateral	Roads and Bridges	CNY	1,190,253,600	1,190,253,600	4,040,377.06	67,115,125.98
Agence Francaise De Development	Bilateral	Other	EUR	30,000,000	60,000,000	280,971.67	34,371,535.88
Agence Francaise De Development	Bilateral	Energy (Electricity)	EUR	94,000,000	94,000,000	541,805.55	65,275,194.21
Exim Bank of China	Bilateral	Computer Technology	CNY	1,225,000,000	1,225,000,000	5,134,734.03	83,159,185.39

Creditor Name	Creditor Category Description	Sector Description	Currency	Principal Amount in Foreign Currency	Instalment in Foreign Currency	Commitment Fees in Foreign Currency	Commitment Fees in Kshs
African Development Bank	Multilateral	Agriculture	EUR	5,204,000	5,204,000	213,931.18	23,164,401.25
African Development Fund	Multilateral	Sewerage	USD	2,910,000	2,910,000	34,280.32	3,733,954.21
African Development Bank	Multilateral	Sewerage	EUR	59,407,000	59,407,000	124,588.68	15,050,181.97
African Development Bank	Multilateral	Energy (Electricity)	EUR	26,510,000	26,510,000	55,597.36	6,716,106.12
African Development Bank	Multilateral	Water Supply	EUR	43,192,813	43,192,813	171,039.53	21,406,780.24
African Development Bank	Multilateral	Water Supply	EUR	192,569,766	192,569,766	391,483.48	47,125,818.42
Intl Bank for Reconstruction & Development	Multilateral	Finance, Insurance, Etc.	EUR	219,000,000	219,000,000	720,640.10	96,595,233.85
Banco Bilbao Vicaya Argentina, S.A	Financial Institution	Roads and Bridges	EUR	11,805,819.38	11,805,819.38	142,611.38	18,721,811.44
Banco Bilbao Vicaya Argentina, S.A	Financial Institution	Roads and Bridges	EUR	2,083,379.90	2,083,379.90	4,398.25	564,630
African Development Bank	Multilateral	Housing & Urban Develop.	EUR	90,000,000	90,000,000	107,562.50	13,955,954.71
International Development Association	Multilateral	Fishing	EUR	89,100,000	89,100,000	119,083.79	16,066,784.95

Creditor Name	Creditor Category Description	Sector Description	Currency	Principal Amount in Foreign Currency	Instalment in Foreign Currency	Commitment Fees in Foreign Currency	Commitment Fees in Kshs
African Development Bank	Multilateral	Roads and Bridges	EUR	31,150,000	31,150,000	21,199.31	2,720,108.91
African Development Bank	Multilateral	Roads and Bridges	EUR	178,020,000	178,020,000	121,152.50	15,545,077.28
African Development Fund	Multilateral	Roads and Bridges	USD	46,360,000	46,360,000	143,308.77	15,337,406.15
International Development Association	Multilateral	Housing & Urban Develop.	EUR	134,800,000	134,800,000	252,750	33,242,387.67
Agence Francaise De Development	Bilateral	Roads and Bridges	EUR	60,000,000	60,000,000	50,833.33	6,607,163.70
European Investment Bank	Multilateral	Water Supply	EUR	35,000,000	35,000,000	43,020.83	5,641,936.60
International Monetary Fund	Multilateral	Other	XDR	339,250,000	339,250,000	198,120,000	30,535,046,880
Total							36,230,918,943.1

Appendix II: List of Officers Interviewed

S/No	Position of the interviewee	Department / Agency	Purpose of the interview
1	Acting Director recording and settlement sector National Treasury	National Treasury	To get general understanding on how CS DRMS software which is an integrated tool for recording, analysing, and recording public sector tool works.
2	Principal Accountant recording and settlement sector National Treasury	National Treasury	To understand the general operations of debt recording and settlement office
3	Assistant Director Debt Management Department Central Bank Kenya	Central Bank of Kenya	To understand the process of foreign payment
4	Manager at the Debt Management Department in Central Bank	Central Bank of Kenya	To understand the process of foreign payment
5	General Manager, finance and others, KenGen	KenGen	To understand the status of the project and reasons for delayed drawdown
6	SDHUD National coordinator and project implementation team	State Department for Housing and Urban Development	To establish the reasons for delayed drawdowns and the implementation status KIISIP 2
7	Head of Tax, Ministry of Health	Ministry of Health	To understand the status of the project and reasons for delayed drawdowns
8	General ledger accountant and project implementation team (KETRACO)	KETRACO	To get general understanding of the project implementation status and reasons for delayed drawdowns
9	KPLC Acting general manager and project implementation team	KPLC	To establish reasons for delayed drawdowns and the implementation status of the project
11	Project Accountant, Focal persons (YABIC Managers) RIAT, UOE, DTI, Pwani University and others	Technical Institutions and Universities	To understand the status of the project and reasons for delayed drawdowns
12	Lake Victoria Basin Commission Project implementation team and the KMA project accountant	Lake Victoria Commission; Kenya Maritime Authority	To understand the status of the project and reasons for delayed drawdowns
13	Director, Corporate Services at KENHA and project implementation team	KENHA	To establish reasons for delayed drawdowns and the implementation status of the project
14	Management accountant at Kenya Maritime Authority	Kenya Maritime Authority	To get general understanding of the project implementation status and reasons for delayed drawdowns

S/No	Position of the interviewee	Department / Agency	Purpose of the interview
15	Deputy Gen. Manager/Project Manager and project implementation team at the National Irrigation Authority	National Irrigation Authority	To understand the status of the project and reasons for delayed drawdowns
16	Ag. Chief executive Office Coast water works Development Agency (CWWDA) and project team	Coast water works Development Agency	To establish reasons for delayed drawdowns and the implementation status of the project
17	Chief Manager, Finance & Supply, Chief Manger Water & Sanitation and the project team at Athi water works Development Agency (AWWDA)	Athi water works Development Agency	To establish reasons for delayed drawdowns and the implementation status of the project

Appendix III: List of Documents Reviewed

Document	Information needed from the document
The National Treasury and Planning Strategic plan-2018/19-2022/23	To obtain information on the National Treasury's strategic objectives, organizational structure, goals and functions.
PFM ACT 2012	To obtain information on how to manage the level and composition of national public debt
Treasury Circulars	To obtain information on the implementation of the medium-term budget
Controller of budget act	To obtain information on the use of utilization of public funds
Constitution of Kenya 2010	To assess whether the ministry is delivering services as required by the constitution.
Annual Debt Management Report	To obtain broad analysis of the development in public debt
Budget Statement	To obtain assessment of the current state of the economy and to get financial outlook with respect to government revenues, expenditure and borrowing for the next financial year and over the
Financial statement	To obtain information about the financial position of the government
Central Bank Agency Agreement	To obtain information of the government borrowing programme as well as issuance management and redemption of the government securities
Memorandum of Understanding	To obtain Information of agreement between the parties outlined in the formal document
Status Reports	To obtain information of the progress of a project within a specific period
Project Appraisal Reports	To obtain information of the viability of the project or proposal
Feasibility Study Reports	TO obtain information on the assessment of the proposed project plan or method.
Engineers Completion Certificates	To assess whether the contractor has successfully completed the job/works assigned to him.
Final Inspection and Acceptance Reports	To assess and review the goods, works and services in order to ensure compliance with the terms and specification of the contract
Contract Agreement for the Projects	To assess and outline the terms and condition of the project by parties involved.
Due Diligence Reports	To assess the financial viability of the entity of its assets and liabilities at a comprehensive level
Account files	To obtain relevant information pertaining debt repayment

Appendix IV: List of Audit Criteria

Criteria	Source
Public money shall be used in a prudent and responsible way.	Constitution of Kenya, 2010
The National Government shall, in guaranteeing and borrowing money, ensure that its financing needs and payment obligations are met at the lowest possible cost in the market which is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.	PFM Act, 2012, Section 50 (1)
Establishment, objectives and functions of the Public Debt Management Office within the National Treasury.	PFM Act, 2012 Section 62-63
The public debt management strategy shall entail minimizing borrowing costs with a prudent degree of risk.	Regulation 185 of the PFM (National Government Regulations) 2015
Un-drawn loan balances for non-performing and or completed projects ought to be reviewed on a regular basis to allow modification of project implementation or loan cancellation if necessary, and to revise the level of new borrowings to be approved in subsequent periods.	Debt and Borrowing Policy, 2020, Paragraph 48
The Back-Office is required to record and settle all external and domestic debts.	The National Treasury Debt Management Quality Systems Procedures

Appendix V: Projects Verified

Project Name	Implementing Agency	Creditor	Loan Currency	Loan amount	Commitment fee (Kshs.)	Reasons for delayed or no drawdowns of loans
Bagamoyo-Horohoro-Lunga Lunga-Malindi Road Project - Phase 2	KENHA	African Development Bank	USD	108,000,000	21,185,916.60	Lengthy and tedious procurement processes, delays in obtaining clearances from the Attorney General's Office and approvals by the National Treasury, inadequate budgetary allocation and the non-renewal of the bid security by the contractor.
Rabai Kilifi Transmission Line-SACE Portion	KETRA CO	Societe Generale	EUR	21,611,147	170,818,884.22	Delay in signing of the on-grant subsidiary agreement, Delays in approval of the master list for tax exemption of the contractors, numerous modifications of the design of the project occasioning late commencement of the project, delays in acquisition of land, vandalism of property.
Reinforcement of Electricity Transmission Network	KETRA CO	Agence Francaise De Development	EUR	94,000,000	65,275,194.21	The delayed drawdowns were attributed to the delay in finalization of the participation agreements with the participating counties as a result of communication and mobility challenges conceived by Covid-19 Pandemic and protracted process involved in obtaining concurrence of the National Treasury and Attorney General. The audit noted that the operational challenges engendered by the covid-19 pandemic while in process of meeting the conditions precedent resulted into transfer of Participation Agreement from conditions precedent to conditions of effectiveness
Second Informal Settlement Improvement Project	SDHUD	International Development Association	EUR	134,800,000	33,242,387.67	Delay in finalizing on-lent agreement between the National Treasury and MoALF&C and delays in adhering to presidential directive requiring all loans be reviewed by the Attorney General
Enable Youth Kenya Program	MoALF C	African Development Fund	USD	21,277,000	32,896,987.67	

Project Name	Implementing Agency	Creditor	Loan Currency	Loan amount	Commitment fee (Kshs.)	Reasons for delayed or no drawdowns of loans
Olkaria I Geothermal (unit 6) and Olkaria I and IV						
Geothermal Extension Project Same as 2017062	KenGen	European Investment Bank	EUR	72,000,000	71,359,913.25	Delays in getting the Attorney General's approval for EPC Contract, delays in obtaining master list for tax exemption
Ithanga Water Supply Project - Phase II	Athi Water Works Development Agency					Delays in acquisition of land for water intake and treatment plants, challenges in acquisition of wayleave for trunk sewers and lengthy payment processes which affects the contractor's cash flow and ultimately the progress of works.
	AWWD A, CWWD A, TAWW DA, WASRE B and WRA	KBC BANK	EUR	9,189,451	10,704,645.66	
Kenya Towns Sustainable Water Supply and Sanitation Program		African Development Bank	USD	381,191,000	309,580,449.87	Delays in acquisition of land for water intake and treatment plants, challenges in acquisition of wayleave for Trunk sewers, delays in approval for Specific Exemptions and lengthy payment processes which affects the contractor's cash flow.
		African Development Fund	USD	5,134,564	9,288,435.94	Delays in signing subsidiary and county participating agreements, Budget deficits in the GoK's component, the process of withholding tax payment resulting to delayed direct payments. The construction of the North Mainland Transmission Pipeline from Mwache Dam to Nguu Tatu and the West Mainland Transmission Pipeline from Mwache
Water and Sanitation Development Project-IDA Scale UP	CWWD A	International Development Association	EUR	248,100,000	253,128,646.74	

Project Name	Implementing Agency	Creditor	Loan Currency	Loan amount	Commitment fee (Kshs.)	Reasons for delayed or no drawdowns of loans
						Dam to Changamwe could not commence without studies which were being implemented by a consultant financed through another French (AFD) project.
Kenya Nairobi Underground Electric Power Distribution Network in Kilimani, Hurlingham, Ngong Road, State House and Lavington	KPLC	Exim Bank of China	CNY	1,200,000,000	318,901,261.91	Inability to absorb the loan as a result of decline in financial position and failure by the contractor to approve the proposed amendments in the scope already implemented through alternative finance sources.
Kenya Nairobi Underground Electric Power Distribution Network in Kileleshwa, Westlands, Parklands, Ngara and Riverside Area Project	KPLC	Exim Bank of China	CNY	685,000,000	155,696,470.93	Inability to absorb the loan as a result of decline in financial position and failure by the contractor to approve the proposed amendments in the scope already implemented through alternative finance sources.
Multinational Lake Victoria Maritime Communications and Transport Project	Kenya Maritime Authority	African Development Fund	USD	3,770,000	8,162,281.39	An initial advance payment of UA 14,276.77 (USD 20,753) was received from the African Development Fund. The advance payment was utilized in the project sensitization in the riparian counties of Migori, Homa Bay, Kisumu, Siaya and Busia and capacity building of the Project Implementation

Project Name	Implementing Agency	Creditor	Loan Currency	Loan amount	Commitment fee (Kshs.)	Reasons for delayed or no drawdowns of loans
						Team. However, Kenya abandoned pursuing implementation of the project within the regional pool because it was in contravention of the National Treasury Fund disbursement procedures.
Upgrade the Maternal & New born Care Unit in Kapenguria District Hospital, Chepkorio Health Centre & Makindu Sub County Hospital	Ministry of Health	Erste Group of Banks	EUR	5,000,000	3,851,495.61	The audit noted that the officer in charge was not aware of any commitment fees incurred by the project because he wasn't available at the initial stage of the project. It established that the officers who were there retired and he came at the time when equipment were imported to the various facilities. It was noted that there was no communication from the National Treasury informing the MoH that credit facility had incurred commitment fees.
Rwabura Irrigation Development Project-Phase 1	National Irrigation Authority	Instituto Credito: Kingdom of Spain	EUR	6,825,738.12	1,814,780.17	The delayed drawdowns were occasioned by delay in obtaining the legal opinion from the Attorney General, delay attributed to moratorium on access to the forest, the lengthy procurement process, delay in processing of withholding tax clearance as per the Master Lists, Covid-19 pandemic hampered the project implementation process and diverging engineering standards between Kenya and Spain.
Total					1,481,245,158	

Appendix VI: Commitment Fees on Delayed Drawdowns

Project Name	Commitment Fees	REASONS FOR LATE DRAWDOWNS												
		Legal Opinion	Procurement Process	Withholding Tax	Land Acquisition	Subsidiary Loan Agreement	County Participating Agreement	Counterpart Funding	Payment Process to Contractor	COVID-19 Pandemic	Modification/ Review of Designs	Others		
Bagamoyo-Horohoro-Lunga Lunga-Malindi Road Project	21,185,916.60	✓	✓		✓			✓				✓		✓
Bagamoyo-Horohoro-Lunga Lunga-Malindi Road Project	15,337,406.15	✓	✓		✓			✓				✓		✓
Rabai Kilifi Transmission Line-SACE Portion	170,818,884.22			✓	✓				✓					✓
Reinforcement of Electricity Transmission Network	65,275,194.21								✓			✓		
Second Informal Settlement Improvement Project	33,242,387.67									✓				
Enable Youth Kenya Program	32,896,987.67	✓	✓	✓							✓			✓

REASONS FOR LATE DRAWDOWNS												
Project Name	Commitment Fees	Legal Opinion	Procurement Process	Withholding Tax	Land Acquisition	Subsidiary Loan Agreement	County Participating Agreement	Counterpart Funding	Payment Process to Contractor	COVID-19 Pandemic	Modification/ Review of Designs	Others
Olkaria I Geothermal (unit 6) and Olkaria I and IV Geothermal Extension Project Same as 2017062	71,359,913.25	√				√				√		√
Ithanga Water Supply Project - Phase II	10,704,645.66				√				√			
Kenya Towns Sustainable Water Supply and Sanitation Program	309,580,449.87		√	√	√	√			√			√
Water and Sanitation Development Project-IDA Scale UP	253,128,646.74			√		√	√	√				√
Multinational Lake Victoria Maritime Communications and Transport Project	8,162,281.39											√

REASONS FOR LATE DRAWDOWNS												
Project Name	Commitment Fees	Legal Opinion	Procurement Process	Withholding Tax	Land Acquisition	Subsidiary Loan Agreement	County Participating Agreement	Counterpart Funding	Payment Process to Contractor	COVID-19 Pandemic	Modification/ Review of Designs	Others
Upgrade the Maternal & New born Care Unit in Kapenguria District Hospital, Chepkorio Health Centre & Makindu Sub County Hospital	3,851,495.61											√
Rwabura Irrigation Development Project-Phase 1	1,814,780.17	√	√	√						√		√

Appendix VII: Management Comments on Audit

No.	MDA	Project name	Currency	Loan Amount	Commitment Fee (Kshs.)
1	Athi Water Works Development Agency	ADB-Kenya Towns Sustainable Water Supply and Sanitation Program	USD	381,191,000	309,580,449.87
2	Athi Water Works Development Agency	ADB-Kenya Towns Sustainable Water Supply and Sanitation Program	USD	5,134,564	9,288,435.95
3	Athi Water Works Development Agency	Water and Sanitation Development Project-IDA Scale UP- Mombasa	EUR	248,100,000	253,128,646.74
4	KENHA	Bagamoyo-Horohoro-Lunga Lunga-Malindi Road Project -Phase I	EUR	108,000,000	21,185,916.60
5	KENHA	Phase II	USD	46,360,000	15,337,406.15
6	KENGEN	Olkaria I Geothermal (unit 6) and Olkaria I and IV Geothermal Extension Project Same as 2017062	EUR	72,000,000	71,359,913.25
7	KETRACO	Reinforcement of Electricity Transmission Network	EUR	94,000,000	65,275,194.21

No.	MDA	Project name	Currency	Loan Amount	Commitment Fee (Kshs.)
8	KETRACO	Rabai Kilifi Transmission Line-SACE Portion	EUR	21,611,147.19	170,818,884.22
9	National Irrigation Authority	Rwabura Irrigation Development Project	EUR	6,825,738.12	1,814,780.17
10	State Department of Housing and Urban Development	Second Informal Settlement Improvement Project	EUR	134,800,000	33,242,387.67
11	Kenya Maritime Authority (Kenya)	Multinational Lake Victoria Maritime Communications and Transport Project	USD	3,770,000	8,162,281.39
12	Ministry of Health	Upgrade the Maternal & New born Care Unit in Kapenguria District Hospital, Chepkorio Health Centre & Makindu Sub County Hospital	EUR	5,000,000	3,851,495.61
13	Ministry of Agriculture	Enable Youth Kenya Program	USD	21,277,000	32,896,987.67
14	Athi Water Service Board	Ithanga Water Supply Project Phase 2	EUR	9,189,450.51	10,704,645.66
	TOTAL				1,006,647,425.16

Appendix VIII: Management Comments on Audit Findings and Recommendations

Note: The Annexes referred to under The National Treasury (NT) Response and Auditor's Comments columns are documents that were provided in support to the responses to the Draft Audit Report. These documents are not attached to this report as they are bulky, but available in the Office in case of need for reference.

Audit Finding	The National Treasury Response	Auditors' Comments
<p>Paragraph 5.1-5.2 Payment of Commitment Fees on Loans: During the audit, 16 projects (loans) with commitment fee of Kshs.1,607,016,063.3 were sampled. These projects were selected based on the amount of commitment fee paid for each, uniqueness of the project and the beneficial impact expected from the same. The list of loans sampled are detailed in Appendix V. It is appreciated that the PDMO is making much efforts towards ensuring that public debt is managed in an effective way.</p>	<p>The management agreed with the finding</p>	<p>Our finding remains as reported.</p>
<p>Paragraph 5.3-5.9 Payments of Commitment Fees on Undrawn Loans: It was however noted that although the two projects were conceptualized in 2012, the financing agreements were only signed off in 2017. During the intervening period, several network reinforcement projects and upgrades in the coverage areas were undertaken and completed using other sources of funding. In an effort to manage the duplicate funding for the project, a request was made to the Government for a change of scope in line with new viable priority projects. However, KPLC was advised to first sign the On-Lending Agreements, as it was provided for in all the project agreements, and seek amendment at a later stage after engaging with the contractor. An amount of Kshs.474,597,732.83 was incurred as commitment fee on undrawn cash.</p>	<p>The management agreed with the finding</p>	<p>Our finding remains as reported.</p>
<p>Paragraphs 5.10-5.13 Failure to Cancel Loans for Non-Performing or Stalled Projects:</p>	<p>The management agreed with the finding</p>	<p>The auditing finding remains the same.</p>

Audit Finding	The National Treasury Response	Auditors' Comments
<p>The audit however, established that three loans continued to accrue commitment fees despite the projects having stalled or not commenced, as summarized below in Table 5.</p>		
<p>Paragraphs 5.14-5.16 Inadequate Resourcing of the Debt Recording and Settlement Section</p> <p>Understaffing of the unit coupled with the high staff turnover could increase operational risks exposure in the Debt Recording and Settlement Division as the setting of proper mechanism for segregation of duties cannot be established. The audit team was however, unable to establish the magnitude of operational risks including transactional errors, internal control issues, or any other deficiencies within the functional unit.</p>	<p>The management agreed with the finding</p>	<p>The finding remains as reported.</p>
<p>Paragraph 5.17-5.19 Foreign Exchange Difference Amounting to Kshs 4,346,866,263 Incurred on Payment of External Debt</p> <p>A comparative analysis of the actual payment versus the amount approved by the Controller of Budget (CoB) for external debt service in respect to 2020/2021 Financial Year revealed that the Government incurred a foreign exchange difference amounting Kshs.4,346,866,263 during the conversion of the Kenyan Shilling into lenders currency.</p>	<p>One of the PDMO's mandate is to settle debt obligations accurately and timely. To achieve this, debt settlement's documents are prepared in advance to avoid late payments and this process takes roughly two weeks to be complete. In this regard, the approvals for debt settlements are sought from the CoB using a provisional exchange rate prevailing at the date of Exchequer requisitions. The actual exchange rate is actually known on the due date when the payment is executed.</p> <p>The Exchequer requisitions approved by the CoB are raised in foreign currency and then converted into Kshs</p>	<p>This is noted and it is factual. However, it an extra payment incurred while servicing the respective loan. This is the reason we have renamed it foreign exchange difference on payment of foreign loan, as how it was previously named foreign exchange loss.</p> <p>The finding remains as reported.</p>

Audit Finding	The National Treasury Response	Auditors' Comments
<p>Paragraph 5.20-5.23 Weak Controls Over Data Capture in the CS-DRMS System</p> <p>It was however noted that some loan agreements had fees erroneously captured in the system. For instance, loan key 2016038 had interest amount of USD 18,985,914.50 recorded in the physical file (Payment Advice number 112127 dated 19 May 2017) while in the system the amount captured on 22 May 2017 was USD 18,595,914.50, resulting in an unexplained difference of USD 390,000.</p> <p>The audit also observed that some loan fees as captured in the Payment Advices (PAs) were in different currencies, unlike in the loan currencies captured in the System. For instance, loan key 2019007, which had payments made in multiple currencies had a loan fee captured in the system in USD while the Payment Advice (PA) captured it in GBP currency. Other transaction was captured in USD while the physical PA recorded it in EUR.</p> <p>The audit further observed that the CS-DRMS Systems was not regularly updated. For instance, principal payment amounting to USD 75 million as captured in PAs 119879 and 120159 dated 15 April, 2021 and 22 November, 2021 respectively, under loan key 2016038 were not updated in the system as at the time of the audit.</p>	<p>using the provisional exchange. This amount is not the actual cost of the debt being serviced since the exchange rate varies at the date of settlement.</p> <p>The isolated case has since been resolved and the principal payment has been updated in CS-DRMS</p> <p>There was an error made in the system when the figure was being captured back in 2017. The interest of loan key 2016038 was understated. This has since been corrected.</p> <p>For loan key 2019007, the creditor advised that the payment be made in GBP currency. The loan is captured in the system in USD. The Kshs equivalent for the payment is accurate therefore no overpayment was made.</p>	<p>The two observations made are explaining the same issue, with one at the Executive Summary portion while the other one at the Main Report part.</p> <p>The effort to update the date is quite appreciated and since the issue was an observation for the previous state as it was, it can only be retained for now.</p>

Audit Finding	The National Treasury Response	Auditors' Comments
<p>Paragraph 5.24 Lack of Active Participation by The Implementing Agencies in Loan Negotiation:</p> <p>The audit noted that the implementing agencies were not actively involved in negotiations of the terms of the loans and thus some of the timelines included in the contracts were not practical as far as implementation of the projects. The Malindi Bagamoyo project by KENHA the audit team was informed that the terms and conditions of the loan were agreed upon by between the creditor and National Treasury with the involvement of Ministry of Transport. KENHAS involvement in the negotiation was to offer technical assistance.</p> <p>Paragraph 5.25 Use of Outdated Feasibility Studies in Seeking Loan Funds:</p> <p>It was observed that the borrowing agencies used outdated feasibility studies to seek funding for projects. This had the effect of delaying the implementation of the projects as the feasibility studies had to be updated before inception of the projects.</p>	<p>is was not an issue of the entire system but a single file which had inadvertently omitted while updating the system. The matter has since been resolved and the principal payment has been updated in CS-DRMS</p> <p>The management agreed with the finding</p> <p>The management agreed with the finding</p>	<p>The finding remains as reported.</p> <p>The finding remains as reported.</p>



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