

REPUBLIC OF KENYA



Enhancing Accountability



REPORT

OF

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 19 OCT 2023

^{Times}
THE AUDITOR-GENERAL

19th Oct, 2023

LED

Hon Owen Baya, MP
Deputy Leader, majority party
A. Shuburo

ON

**RURAL KENYA FINANCIAL INCLUSION
FACILITY (RK FINFA) (IFAD LOAN
NO. 2000004121 AND LOAN NO. 2000004122)**

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

THE NATIONAL TREASURY





Republic of Kenya

**RURAL KENYA FINANCIAL INCLUSION FACILITY
(RK FINFA)**

**The National Treasury and Economic Planning
Directorate of Budget, Fiscal and Economic Affairs**

IFAD LOAN NO. 2000004121/22

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

Actualizing Rural Finance

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



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Actualizing Rural Finance

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Rural Kenya Financial Inclusion Facility (RK FINFA)

Objective

The objective of the Project is increased rural financial inclusion and green investments by agriculture value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalised rural households, women and youth.

Address

The Project Management Unit, RK FINFA
Directorate of Budget, Fiscal and Economic Affairs
The National Treasury,
P.O Box 30007 00100,
Nairobi- Kenya.

Contacts

Principal Secretary
The National Treasury
Telephone: (254) 20 2252299

1.2 Project Information

Facility Start Date	The Project Financing Agreement came into force on June 02, 2022.
Facility End Date	The Project Completion Date shall be 30 June 2028; and the Closing Date shall be 31 December 2028.
Project Manager	The Project is under the leadership of Mr. John Kabutha, the Project Coordinator.
Development Partner	The Facility is availed under IFAD Loan no. 2000004121/22.

1.3 Project Overview

Line Ministry/State Department of the Facility	The Project is under the supervision of the Directorate for the Budget, Fiscal & Economic Affairs, under the National Treasury.
Facility Number	IFAD Loan No. 2000004121/22
Goal	The Project goal is "Poverty Reduction, Climate Change Resilience and Improved Livelihoods in Rural Areas".
Objectives	The objective of the facility is increased rural financial inclusion and green investments by agriculture value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalised rural households, women and youth.
Other important background information of the Facility	The Facility consists of the following three Components:
A) Technical Support and Innovation Services (TSIS)	<ul style="list-style-type: none">i) PFI Capacity Building for Rural Outreach and Innovation sub-component is designed for the capacity building of participating commercial banks, MFBs and DT-SACCOs (PFI's) to provide rural and agriculture financial services, to implement green investment portfolios, and for effective ESM systems.ii) Business Development Services for Agribusinesses and Smallholders (BDS) sub-component is designed to build MSME and smallholder sustainable investment capacities and financial literacy skills particularly tailored to reach women, youth and marginalized groups.
B) Rural Investment Instruments	<ul style="list-style-type: none">i) Rural Credit Guarantee Scheme (R-CGS) is designed to provide a risk sharing mechanism to promote rural outreach innovations and catalyse funding from mainstream financial institutions into the rural and agriculture sector.ii) Green Financing Facility (GFF) is designed to support the innovative and sustainable transformation of Kenya's rural economy. The GFF will contribute to the sustainable rural transformation, growth, and income generation through alleviating the liquidity constraints of non-bank financial institutions and micro-finance Banks that are the main financial service providers to smallholders and rural micro-enterprises, and by encouraging small-scale farmers and micro-firms to invest in climate smart and environmentally friendly activities.
C) Enabling Rural	

Finance Environment and Project Coordination

Enabling Rural Finance Environment aims to promote policies and institutional arrangements that support the development of a more conducive operational environment of the R-CGS and the GFF, therefore, fostering the capacity to improve rural financial intermediation. The Project Coordination is aimed at ensuring an efficient and cost-effective use of Facility and complementary donor resources to achieve the development objective.

Situation that the Facility was formed to intervene

The Facility is projected to benefit 190,000 rural Kenyan households, including both direct and indirect clients. This includes direct financial and technical services to 68,000 households and MSMEs, covering: (i) an estimated 66,000 economically active smallholder households; and (ii) 2,000 rural MSMEs engaged in smallholder-inclusive value chains. Indirect outreach of the project includes: (i) estimated 32,000 persons through employment in the Facility supported agribusinesses and farms; and (ii) 90,000 smallholder households through participation in the value chain strengthened by the supported agribusinesses. The targeting focus is on low-income, economically active rural households, with specific targets on 50 per cent of women and 30 per cent of youth participation in both capacity building and financing activities. The Facility design provides comprehensive strategies and guidelines for poverty, gender and youth targeting.

Facility duration

The Project Financing Agreement came into force on June 02, 2022 with a completion date of June 30, 2028. The financing closing date shall be 31 December, 2028. The current loan is financed under the IFAD Performance Based Allocation System (PBAS) 11 with an additional allocation of USD 28 million expected from PBAS 12. The first set of the financial report and statement for the Rural Kenya Financial Inclusion Facility is the year ending 30 June 2023.

Actualizing Rural Finance

1.4 Bankers

Euro Accounts:

Central Bank of Kenya
Account No. 1000607254
Account No. 1000607262

Ksh Accounts:

HFC Bank
Account No. 9783828000
Account No. 9783828002

1.5 Auditors

Auditor-General
Anniversary Towers, University Way
P.O. Box 30084 00100
Nairobi – Kenya
Tel: +254 20342330

1.6 Key Staff Members

The PMU team is based in Nairobi and is responsible for the Facility management and coordination functions. The following were the key Staff of the PMU during the reporting period.

Name	Title and Designation	Key Qualification	Responsibilities
KABUTHA John	Project Coordinator	BA (Hons) (Economics) MA (Economics)	Project Coordination
NJERU Michael	Financial Controller	FA, CPA, BCom (Hons), MSC (International Development), Master in Public Policy and Management	Logistical Management of Project Resources and Deputising Coordinator
NEKESA Patrick	Senior Rural Finance Specialist	Bachelor of Science in Agriculture, Master of Philosophy in Agriculture Economics and Management	Head, Rural Finance
MUSYOKA Philip	Senior Monitoring and Evaluation Specialist	BA (Economics), University of Nairobi MA (Economic Policy Management), PhD (Economics).	Head, Monitoring and Evaluation

1.7 Funding Summary

A. Sources of Funds

Funding Summary: The Facility runs from June 02, 2022 to December 31, 2028. The drawn facility of Eur 280,000 represents 2% of the Facility as shown on the table below. These were amounts advanced in respect of the Facility Startup activities. The Government of Kenya contribution is indicative and is based on the Government PDR commitment of USD 24Million at Facility design. The USD 24M is consistently translated using the Bank of England Euro/Dollar closing spot rate for June 30.

Source of funds	Loan/Counterpart Commitment		Amount Drawn to Date		Undrawn closing balance		Percent Absorption
	Eur	Ksh	Eur	Ksh	Eur	Ksh	
Loan 2000004121	6,240,000	834,233,088	280,000	37,433,536	5,960,000	796,799,552	4%
Loan 2000004122	12,660,000	1,692,530,592	-	-	12,660,000	1,692,530,592	0%
Total Loan Facility	18,900,000	2,526,763,680	280,000	37,433,536	18,620,000	2,489,330,144	2%
Government of Kenya	21,998,400	2,940,992,494	2,782,643	372,014,853	19,215,757	2,568,977,641	13%
Total Facility	40,898,400	5,467,756,174	3,062,643	409,448,389	37,835,757	5,058,307,785	7%

B. Application of Funds

Application of funds	Amount received to date		Cumulative amount paid to date		Unutilised balance to date	
					(June 30, 2023)	
	Loan currency (Eur)	Ksh	Loan currency (Eur)	Ksh	Loan currency (Eur)	Ksh
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
IFAD - Loan 1	280,000	37,433,536	264,103	35,308,260	15,897	2,125,276
IFAD - Loan 2	-	-	-	-	-	-
Sub-Total	280,000	37,433,536	264,103	35,308,260	15,897	2,125,276
(ii) Counterpart funds						
Government of Kenya	2,782,643	372,014,853	187,571	25,076,556	2,601,528	346,938,297
Total	3,062,643	409,448,389	451,674	60,384,815	2,617,424	349,063,574

The difference of Ksh 863,042 between closing unutilised balance and Cash and Cash Equivalents of Ksh 349,926,615 at period end is as a result of Cumulative Interest income of Ksh 863,042.

1.8 Overall Facility Performance

Government Preparedness and Partners Confidence: The first year of the Project was geared towards startup activities that included resources mobilization in line with the Project Design commitments. The total facility at design is estimated at USD 134M. The Government commitment is USD 24M or about 17.9% compared to IFAD Loan commitment of USD 22M or 16.4%. The difference of USD 88M is to be leveraged with the Partner Institutions. Mobilization of Resources in the first year was critical in building up partners confidence during the implementation phase starting July 2023. Accordingly, The Government Resources mobilized during the start up period closed at 99% or Ksh 372.9M of the budgeted amounts. In addition to building up the partners confidence, this enhances Government preparedness during the GFF and RCGS effectiveness in the third quarter of year 2023/24.

IFAD Financing: IFAD financing performed at 19% or Ksh 37.4M of the budgeted Ksh 200M. The performance is attributable to logistical challenges at loan effectiveness. The challenges have been addressed as at the end of the financial year 2022/23 allowing for the second loan draw down in the financial year 2023/24. In line with the Financing Agreement, the financing of Ksh 37.4 M was applied for startup activities.

1.9 Summary of Facility Compliance

The Project ensures that all its activities are carried out within the enabling legal framework and that relevant procedures have been followed.

1.10 Governance, Roles and Responsibilities

Governance relates to the way power and authority is exercised and distributed within the Project. RK FINFA's policy of good governance is about making sure that this power and authority is not concentrated in the hands of a single individual or group. Therefore, checks and balances have been put in place within the Facility to separate and balance the power between the Project Management Unit, the Lead Agency (NT) and the Facility Steering Committee, with clear lines of accountability between them. RK FINFA recognizes that sound governance arrangements are necessary to support effective financial management and to ensure proper accountability over the use of Facility funds and effective implementation.

RK FINFA's governance structure is as follows:

1.11 The Facility Steering Committee (PSC)

The Facility steering committee is composed as follows:

	Name	Agency
1.	Dr. Chris Kiptoo, CBS	Principal Secretary, National Treasury (Chair Person)
2.	Mr. Albert Mwenda	DG-BFEA - The National Treasury (Alternate to PS National Treasury)
3.	Mr. Samson M. Nguta	Kenya School of Agriculture; (Alternate to PS)
4.	Ms. Jane Ciaciumia	Central Bank of Kenya (CBK); (Alternate to Governor)
5.	Ms. Robina Kwamboka	State Department for Planning; (Alternate to PS)
6.	Ms. Jackline Makokha	State Department for Gender (SDfG); (Alternate to PS)
7.	Mr. Churchill Amatha	State Department for Cooperatives (SDC); (Alternate to PS)
8.	Dr. David Kahuthu	Sacco Society Regulatory Authority (SASRA)
9.	Mr. Lewis Suke	Ministry of Environment & Forestry; (Alternate to PS)
10.	Ms. Emma Mburu	The National Treasury & Planning (RMD), RMD IFAD Desk Officer
11.	Ms. Nancy Chotero	Association of Microfinance Institutions (AMFI Kenya)
12.	Dr. Samuel Tiriongo	Kenya Bankers Association (KBA)
	Mr. John Kabutha	RK FINFA Coordinator -Secretary

PSC has oversight responsibility for the Facility and its role include the following:

- i. Advise the Project and the other RK FINFA implementing partners on policy issues to ensure that activities undertaken are in line with Facility objectives, national policies and procedures;

- ii. Encourage coordination with other rural financial sector partners and programmes to build synergies and avoid duplication;
- iii. Approve Facility Annual Work Plans and Budget;
- iv. Receive and review Facility progress reports.

During the year, the PSC met as follows;

	Name	Status	Planned Meetings	Attendance
1.	Dr. Chris Kiptoo, CBS	Chairperson	1	1
2.	Mr. Albert Mwenda	Alternate	1	1
3.	Mr. Samson M. Nguta	Chairperson Alternate	1	1
		Member, PS Crops		
4.	Ms. Jane Ciaciumia	Alternate	1	1
		Member, Governor CBK		
5.	Ms. Robina Kwamboka	Alternate	1	1
		Member, PS Planning		
6.	Ms. Jackline Makokha	Alternate	1	1
		Member, PS Gender		
7.	Mr. Churchill Amatha	Alternate	1	1
		Member, PS Cooperatives		
8.	Dr. David Kahuthu	Member, SASRA	1	1
9.	Mr. Lewis Suke	Alternate	1	1
		Member, PS Environment		
	Ms. Emma Mburu	Member, RMD	1	1
10.		IFAD Desk		
11.	Ms. Nancy Chotero	Member AMFI	1	1
12.	Dr. Samuel Tiriongo	Member KBA	1	1
	Mr. John Kabutha	Secretary	1	1

1.12 The Project Management Unit

The Project Management Unit (PMU) is housed at the National Treasury within the Directorate of Budget, Fiscal and Economic Affairs. PMU is responsible for the day to day running of the Facility and is also directly accountable to the Director, Financial and Sectoral Affairs. Its specific roles include:

- a) Secretariat to the Facility Steering Committee;
- b) Day-to-day operational responsibility for RK FINFA implementation;
- c) Inter-linkage between different arms of government, IFAD, Development Partners and private sector organizations involved in rural finance activities;
- d) Compilation of RK FINFA Annual Work plan and Budget;
- e) Prepare and submit comprehensive and informative Facility implementation progress and financial reports to GOK and IFAD
- f) Work with on-going IFAD initiatives in the country to establish relevant linkages and synergies;
- g) Disburse and control the flow of funds, under various contractual and partnership agreements;
- h) Manage Facility finances prudently and consistent with the GOK and IFAD requirements and internationally acceptable practices;
- i) Monitor and evaluate all activities under the Programme;
- j) Ensure that all subsidiary agreements with the participating financial institutions and technical providers are performance-based contracts and that they are regularly monitored.

1.13 Statement of Performance against Predetermined Objectives

The key development objectives of RK FINFA is increased rural financial inclusion and green investments by targeted value chain stakeholders, leading to equitable employment opportunities, innovative and resilient production systems, and increased incomes for smallholders, poor and marginalised rural households, women and youth.

1.14 Progress on attainment of Strategic development objectives

In line with Section 81 (2) (f) of the Public Finance Management Act, 2012, that requires the entity disclosure of performance against predetermined objectives, the key objective for the Project during the startup period was aligning to the Government Mid Term Plan and Expenditure Framework (MTEF). This was achieved through ensuring that the Project is factored in the MTEF as a Bottom-Up Economic Transformation Agenda (BETA) in readiness for roll out in the financial year 2023/24. Below is the Facility achievement of its strategic objectives during the year;

Strategic Key Deliverables During the Year

Project	Objective	Outcome	Indicator	Performance
Facility alignments to the MTEF	(i) Resources are ring fenced for the intended purposes	RKFINFA recognized as BETA Programme	RKFINFA classified as BETA project in MTEF and relevant policy papers.	+100% Achieved. RKFINFA entrenched in the current MTEF as a BETA programme.
	(ii) Resource envelop availed in 2023/24	2023/24 RKFINFA year 1 budget availed in the Development Estimates	RKFINFA budget availed in the Approved 2023/24 printed estimates	100% Achieved. 2023/24 budget availed in the Development Estimates
Draft Subsidiary Agreements and Implementing Partners frameworks Concluded	To onboard the implementing partners in the 3 rd quarter of 2023/24 (year 1 of implementation).	Draft Agreements concluded awaiting the onboarding of Partners.	Draft Agreements sent to IFAD for no objection.	100%. Draft Agreements concluded.
Project Implementation Manual	Develop a project implementation manual to guide the implementation of the project.	Project Implementation Manual (PIM)	receives IFAD no-objection	100%. IFAD no objection received
On-boarding Project Staff	Project Staff are competitively recruited.	Key Staff on-boarded	Staff appointment letters	Interview process ongoing as at June 30, 2023

1.15 Challenges

The table below summarises the key challenges encountered during the Facility implementation and relevant intervention during the year.

Challenges

Intervention

Under Achievement of IFAD Financing

The Project Management Unit in collaboration with IFAD entered into a working matrix in order to ensure that relevant staff are onboarded in the first quarter of the financial year 2023/24. Achievement of this pre-effectiveness condition will ensure that in line with June 30, 2023 IFR, the budgeted loan draw down is availed in the first quarter of financial year 2023/24, Ksh. 176,044,700.

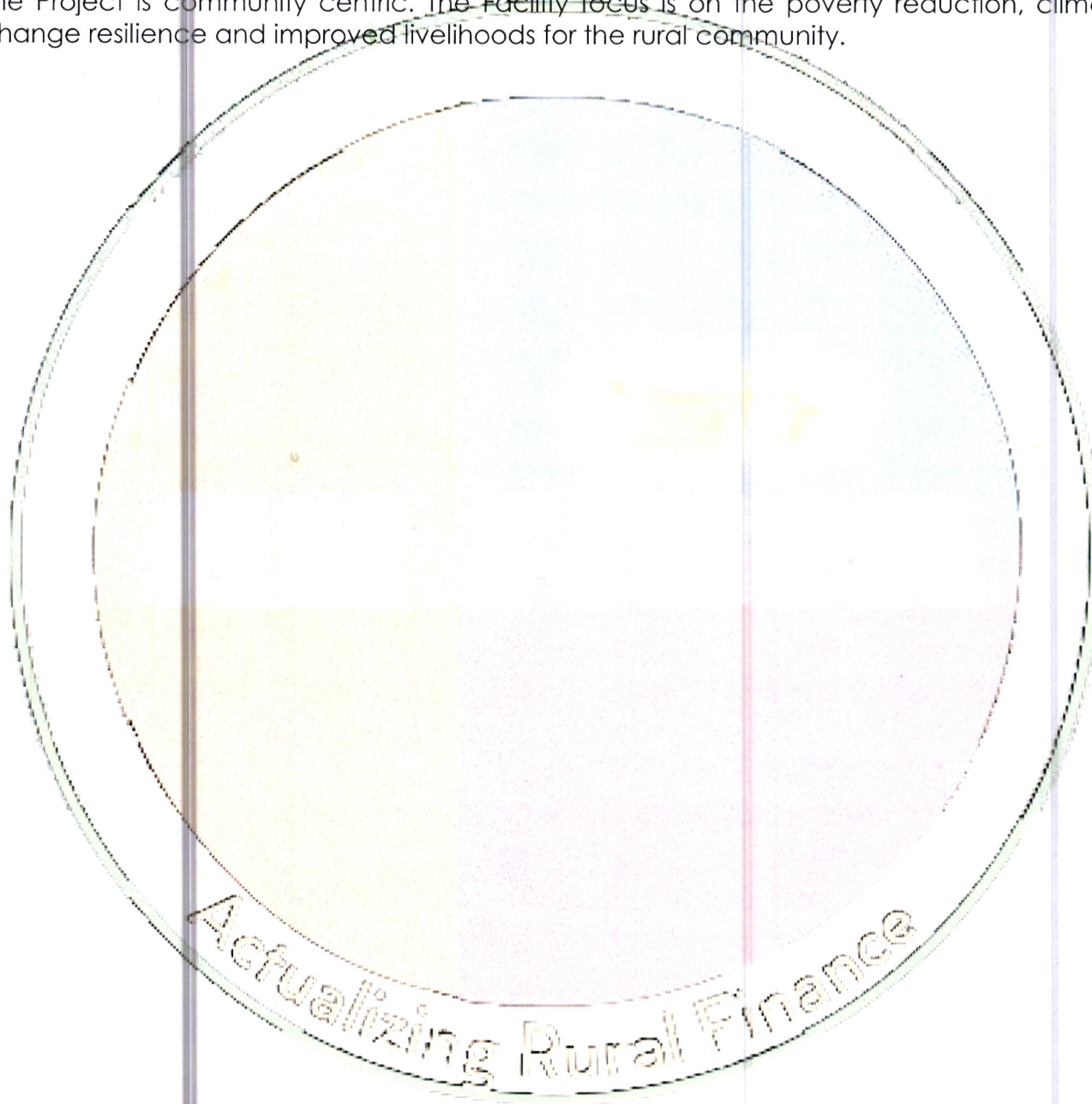
1.16 Social, Environmental and Sustainability Reporting

The Facility continue to pursue social objective in line with the Government Development Plans, and is focused to build on sustainable instruments in mainstreaming rural agriculture finance. The design of the project is deliberate on the Environmental and Sustainability objectives. The GFF facility which is an environmental initiative is intentionally designed to offer a permanent facility for agriculture green rural financing post RKFINFA. Similarly, the framework for the R-CGS implementation ensure that the rural agriculture continue receiving financing post RKFINFA through support for an enabling policy framework and partners capacity building. Furthermore, the National Credit Guarantee Scheme

established as a permanent Government Credit Guarantee Scheme was conceived under the first Rural Finance pilot phase.

1.17 Community Engagements

The Project is community centric. The Facility focus is on the poverty reduction, climate change resilience and improved livelihoods for the rural community.



2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary, the National Treasury and the Project Coordinator for the Rural Kenya Financial Inclusion Facility (RK FINFA) are responsible for the preparation and presentation of the Programme's financial statements, which give a true and fair view of the state of affairs of the Facility for and as at the end of the financial 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 programme; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary, the National Treasury and the Facility Coordinator for RK FINFA 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, the National Treasury and the Facility Coordinator for RK FINFA are of the opinion that the Programme's financial statements give a true and fair view of the state of Programme's transactions during the financial year ended June 30, 2023 and of the Project's financial position as at that date. The Principal Secretary, the National Treasury and the Facility Coordinator for RK FINFA further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Facility financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary, the National Treasury and the Facility Coordinator for RK FINFA confirm that the Facility has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Facility 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 Facility financial statements

The Facility financial statements were approved by the Principal Secretary, the National Treasury and the Facility Coordinator for RK FINFA on August 15, 2023 and signed by them.

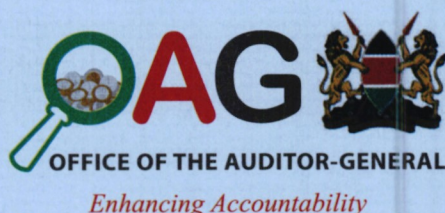
Dr. Chris Kiptoo, CBS
Principal Secretary/ NT

John Kabutha
Project Coordinator

FA CPA NJERU Michael
Financial Controller
ICPAK Member No. 3125

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON RURAL KENYA FINANCIAL INCLUSION FACILITY (RK FINFA) (IFAD LOAN NO. 2000004121 AND LOAN NO. 2000004122) FOR THE YEAR ENDED 30 JUNE, 2023 - THE NATIONAL TREASURY

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such 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, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Rural Kenya Financial Inclusion Facility (RK FINFA) (Loan No.2000004121 and Loan No. 2000004122) set out

Report of the Auditor-General on Rural Kenya Financial Inclusion Facility (RK FINFA) (IFAD Loan No. 2000004121 and Loan No. 2000004122) for the year ended 30 June, 2023 - The National Treasury

on pages 1 to 18, which comprise of the statement of financial assets as at 30 June, 2023, and the statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Programme for the Rural Kenya Financial Inclusion Facility (Loan Nos.2000004121/22 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 Loan Financing Agreement No.2000004121 and Loan No. 2000004122 respectively between the International Fund for Agricultural Development (IFAD) and the Republic of Kenya dated 2 June, 2022 and the Public Finance Management Act, 2012.

In addition, the special account statement presents fairly, transactions for the year, and the closing balance has been reconciled with the books of account.

Basis for Opinion

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Rural Kenya Financial Inclusion Facility (RKFINFAs) 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.

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

Unauthorized Utilization of Reflows Revenue

The statement of receipts and payments reflects receipts from government entities of Kshs.372,014,853 and as disclosed in Note 9.1 to the financial statements. These funds were received as reflow funds attributable to participating financial partners in the Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) which preceded the RK FINFA Project. However, no budgetary provision had been made for these receipts.

Although, Management has explained that the reflows were to flow into the new programme and form part of Government of Kenya counterpart funding, the amounts ought to have been included in the budgetary estimates for the year before utilization. This was therefore contrary to Section 68(a) of the Public Finance Management Act, 2012 which provides that an Accounting Officer for a national government entity, shall be accountable to the National Assembly for ensuring that the resources of the respective entity are used in a way that is lawful and authorised.

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 control, risk management and 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 Financing Agreements No.2000004121 and No.2000004122, 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 Programme, so far as appears from the examination of those records; and,
- iii. The Programme's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Programme'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 Management is aware of the intention to terminate the Programme 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 Programme's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 control 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 Programme'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 Programme 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 Programme to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

13 October, 2023

Rural Kenya Financial Inclusion Facility
Annual Report and Financial Statements
For the Financial Year Ended 30 June 2023

4 STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2023

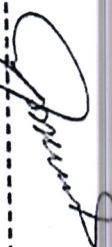
	Note	Receipts and payments controlled by the entity	Payments made by third parties 2022/2023	Total	Receipts and payment controlled by the entity	Payments made by third parties 2021/022	Total	Cumulative to-date (From inception)
		Ksh.	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.
RECEIPTS								
Government Entities Revenue	9.1	372,014,853	-	372,014,853	-	-	-	372,014,853
Grant Revenue	9.2	-	-	-	-	-	-	-
Loan Revenue	9.3	37,433,536	-	37,433,536	-	-	-	37,433,536
Other receipts	9.4	863,042	-	863,042	-	-	-	863,042
TOTAL RECEIPTS PAYMENTS		410,311,431	-	410,311,431	-	-	-	410,311,431
Compensation to employees	9.5	28,993,497	-	28,993,497	-	-	-	28,993,497
Purchase of goods and services	9.6	30,586,298	-	30,586,298	-	-	-	30,586,298
Acquisition of non-financial assets	9.8	805,020	-	805,020	-	-	-	805,020
TOTAL PAYMENTS		60,384,815	-	60,384,815	-	-	-	60,384,815
SURPLUS/(DEFICIT)		349,926,615	-	349,926,615	-	-	-	349,926,615

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

Dr. Chris Kiptoo, CBS
Principal Secretary/ NT



John Kabutha
Project Coordinator



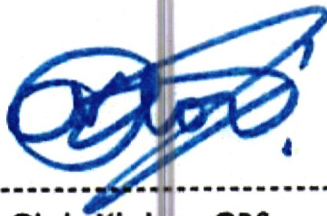
FA EPA NJERU Michael
Financial Controller
ICPAK Member No. 3125



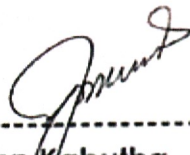
5 STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2023

	Note	2023/24 Ksh	2022/23 Ksh
FINANCIAL ASSETS			
Cash and Cash equivalents			
Bank Balances	9.10A	349,926,615	-
Total Cash and Cash equivalents		349,926,615	
Imprests and Advances		-	-
Total Financial Assets		349,926,615	
Financial Liabilities			
Third Party Deposits and Retention		-	-
NET ASSETS		349,926,615	
REPRESENTED BY			
Fund Balance B/fwd.(Opening Balance)		-	-
Prior Year Adjustments		-	-
Surplus/(Deficit) for the Year		349,926,615	
NET FINANCIAL POSITION		349,926,615	

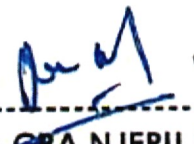
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 31 August 2023 and signed by:



Dr. Chris Kiptoo, CBS
Principal Secretary/ NT



John Kabutha
Project Coordinator



FA CPA NJERU Michael
Financial Controller
ICPAK Member No. 3125

6 STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2022/2023 Ksh	2021/22 Ksh
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from Operating Activities			
Transfer from government entities	9.1	37,433,536	-
Miscellaneous receipts	9.4	372,877,895	-
Total receipts		410,311,431	-
Payments from Operating Activities			
Compensation of employees	9.5	28,993,497	-
Purchase of goods and services	9.6	30,586,298	-
Acquisition of assets	9.8	805,020	-
Total Payments		60,384,815	-
Net cash flow from operating activities		349,926,615	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalent at BEGINNING of the year		-	-
Cash and cash equivalent at END of the year		349,926,615	-

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 August 2023 and signed by:

Dr. Chris Kiptoo, CBS
Principal Secretary/ NT

John Kabutha
Project Coordinator

FA CPA NJERU Michael
Financial Controller
ICPAK Member No. 3125

7 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2023

Receipts/Payments Item	Note	Original Budget	Adjustments	Final Budget	Actual on Comparable-Basis	Budget Utilization Difference	% of Utilization
		a	b	c=a+b	d	e=c-d	f=d/c %
		Ksh	Ksh	Ksh	Ksh	Ksh	
Receipts							
Transfer from Government entities	9.1	-	-	-	-	-	
Proceeds from Borrowings		200,078,160	-	200,078,160	37,433,536	162,644,624	19%
Other receipts	9.4	-	-	-	372,877,895	372,877,895	100%
Total Receipts		200,078,160	0	200,078,160	410,311,431	535,922,519	
Payments							
Compensation to employees	9.5	82,520,000	-	82,520,000	28,993,497	53,526,503	35%
Purchase of goods and services	9.6	52,871,000	-	52,871,000	30,586,298	22,284,701	58%
Acquisition of non-financial assets	9.8	23,500,000	-	23,500,000	805,020	22,694,980	3%
Total Payments		158,891,000	0	158,891,000	60,384,815	98,506,184	

Significant budget performance differences in the last column are explained in Annex 1 to these financial statements.



Dr. Chris Kiptoo, CBS
Principal Secretary/ NT



John Kabutha
Project Coordinator



FA EPA Njeru Michael
Financial Controller
ICPAK Member No. 3125

8 SIGNIFICANT ACCOUNTING POLICIES

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

8.1 Basis of Preparation

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.

8.2 Reporting entity

The financial statements are for the Rural Kenya Financial Inclusion Facility (RK FINFA) under National Treasury.

8.3 Reporting currency

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

8.4 Recognition of Revenue

a) Recognition of receipts

The Facility recognises all receipts from the various sources when the event occurs, and the Facility has actually received the related cash.

i) Transfers from the National Treasury

Transfer from the National Treasury is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is reflected in the Bank Statement.

ii) Other receipts

These include interest earned from operational bank deposits.

b) 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.

c) Undrawn external assistance

An analysis of the Programme's undrawn external assistance is shown in the funding summary.

8.5 Recognition of payments

The Facility recognises all payments when the event occurs, and the Facility has actually paid out the related cash.

i. Compensation of employees

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

ii. Use of goods and services

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

iii. 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 the Project and a summary register given as an annex to the financial statements.

iv. 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.

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

i. Accounts receivable

For the purposes of these financial statements, imprests and advances to authorized officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables.

ii. Contingent Liabilities

A contingent liability is:

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

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities, Letters of comfort/ support, insurance, Public Private Partnerships, The Project does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. The Project did not have any contingent liabilities in the year.

iii. Contingent Assets

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

iv. 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 are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Facility at the end of the year. 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.

8.7 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 where applicable, and for the same period as the financial statements. The Project 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. A high-level assessment of the Programme's actual performance against the comparable Annual Work Plan and budget for the financial year/period under review has been included in an annex to these financial statements.

8.8 Exchange Rate Differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Facility operates i.e. 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.

8.9 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.

8.10 Subsequent Events

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

8.11 Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented. In the period under review no restatement has been made to account for errors or revisions to the financial statement.



Actualizing Rural Finance

9 NOTES TO THE FINANCIAL STATEMENTS

9.1 Transfers from Government Entities

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

Description	KSh		Cumulative to-date
	2022/23	2021/22	
<i>Counterpart funding through National Treasury</i>			
Counterpart funds Quarter 3	37,433,536	-	37,433,536
Total	37,433,536	-	37,433,536
<i>Other transfers from Government Entities</i>			
Programme for Rural Outreach on Financial Innovation and Technologies Reflows	372,014,853	-	372,014,853
Total (Annex 2)	372,014,853	-	372,014,853

9.2 Proceeds from Domestic and Foreign Grants

During the financial year there were no proceeds from either domestic or foreign grants. The table below gives the comparative for the prior year.

Name of Donor	Date received (Operational Account)	Amount received in donor currency	Grants received in cash		Grants received as direct payment		Grants received in kind		Total amount in KShs	
			KSh	KSh	KSh	KSh	2022/23 KSh	2021/22 KSh		
Total		-	-	-	-	-	-	-	-	-

Actualizing Rural Finance

9.3 Loan from External Development Partners

During the financial year, the project received Ksh. 37,433,536 being the first loan withdrawal in respect of Start Up Costs. The table below gives the comparative for the prior year.

Name of Development Partner	Date received (Operational Account)	Amount received in donor currency (EURO)	Loan received in cash	Loan received as direct payment*	Loan received in kind	Total amount in KShs	
						2022/23	2021/22
			KSh	KSh	KSh	KSh	KSh
IFAD	6-Feb-23	280,000	37,433,536	-	-	37,433,536	-
Total		280,000	37,433,536	-	-	37,433,536	-

9.4 Other Receipts

Description	2022/23			2021/2022		Cumulative to date
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total Receipts	Total Receipts		
	KSh	KSh	KSh	KSh	KSh	
Bank Interest	863,042	-	863,042	-	863,042	
Total	863,042	-	863,042	-	863,042	

During the year, the Project received Ksh. 863,042 in respect to Bank deposit interest earnings.

Actualizing Rural Finance

9.5 Compensation of Employees

	2022/2023			2021/2022	
	Payments made by the Entity in Cash	Payments made by third parties	Total payments	Total payments	Cumulative to-date
	Ksh	Ksh	Ksh	Ksh	Ksh
-					
Basic wages of temporary employees	28,959,377	-	28,959,377	-	28,959,377
Compulsory national social security schemes	34,120	-	34,120	-	34,120
Total	28,993,497	-	28,993,497	-	28,993,497

9.6 Purchase of Goods and Services

	2022/2023			2021/2022	
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	Cumulative to-date
	Ksh	Ksh	Ksh	Ksh	Ksh
Utilities, supplies and services	791,411	-	791,411	-	791,411
Domestic travel and subsistence	18,769,610	-	18,769,610	-	18,769,610
Printing, advertising, and information supplies	1,103,360	-	1,103,360	-	1,103,360
Hospitality supplies and services	3,068,100	-	3,068,100	-	3,068,100
Insurance costs	2,493,615	-	2,493,615	-	2,493,615
Other operating payments	4,207,272	-	4,207,272	-	4,207,272
Routine maintenance – vehicles and other transport equipment	152,931	-	152,931	-	152,931
Total	30,586,298	-	30,586,298	-	30,586,298

9.7 Social Security Benefits

	2022/2023		2021/2022		Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Social Security Benefits in Cash and in Kind	-	-	-	-	-
Employer Social benefits in cash and in Kind	-	-	-	-	-
Total	-	-	-	-	-

9.8 Acquisition of Non-Financial Assets

Below is the cumulative non-financial assets to-date.

	2022/23		2021/22		Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KSh	KSh	KSh	KSh	KSh
Purchase of Office Furniture & General Equipments	805,020	-	805,020	-	805,020
Total	805,020	-	805,020	-	805,020

The summary of fixed asset register is given as Annex 5 of this report.

9.9 Transfers to other Government Entities

There were no transfers to other Government Entities during the year.

9.10 Cash and Cash Equivalents

	2022/23	2021/22
	KSh	KSh
Bank accounts (Note 11A)	349,926,615	-
Cash in hand	-	-
Cash Equivalents (Short-Term Deposits)	-	-
Total	349,926,615	-

The project has two foreign accounts that are operated by the National Treasury. At the operational level, the project operates two local currency accounts. The balances for each of the accounts as at June 30, 2023 is given below.

9.10. A Bank Accounts

Project Bank Accounts

	2022/23	2021/22
	KSh	KSh
Foreign Currency Accounts		
Central Bank of Kenya – 1000607254	-	-
Central Bank of Kenya – 1000607262	-	-
<i>Total foreign currency balances</i>	-	-
Local Currency Accounts		
HFC -9783828000-0	2,125,276	-
HFC -9783828002-0	347,801,339	-
<i>Total local currency balances</i>	349,926,615	-
Total bank account balances	349,926,615	-

Actualizing Rural Finance

9.10.B Special Deposit Accounts

The balances in the Programme's Special Deposit Account if any at the end of Facility reporting period are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision. Below is the special deposit account movement schedule which shows the flow of funds voted in the year. These funds have been reported as receipts in the year under the Statement of Receipts and Payments.

Special Deposit Accounts Movement Schedule

	2022/23 KSh	2021/22 KSh
Central Bank of Kenya – 1000607254		
Opening balance	-	-
Total amount deposited in the account	37,433,536	-
Total amount withdrawn (as per Statement of Receipts & Payments)	37,433,536	-
Closing balance	-	-
Central Bank of Kenya – 1000607262		
Opening balance	-	-
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	-	-
Closing balance	-	-

The Special Deposit Account reconciliation statements using IFAD approved format has been attached as Appendix 6 to support the closing balance.

9.11

FUND BALANCE BROUGHT FORWARD

The following is the comparative fund balances for previous year.

	2022/23 KSh	2023/24 KSh
Bank accounts	349,926,615	-
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding Imprests and Advances	-	-
Deposits and Retention	-	-
Total	349,926,615	-

Actualizing Rural Finance

10 OTHER IMPORTANT DISCLOSURES

During the year the Project did not receive or enter into extra External Assistance arrangement. Negotiations between the Government of Finland and the French Embassy are ongoing for additional assistance mainstreaming into the Project Components.

10.1 External Assistance Relating to Loans and Grants

Description	2022/23 Ksh	2021/22 Ksh
Loans	-	-
Grants	-	-
Total	-	-

10.2 Undrawn External Assistance

Description	Purpose for Assistance	2022/23 Ksh	2021/22 Ksh
Loans		-	-
Grants		-	-
Total		-	-

10.3 Government Commitments

In line with the GoK: IFAD Commitment of 52:48 at Design, 42% of the Startup expenditure equivalent of Ksh25,076,556 was applied using Phase 1 reflows. This is as per Authority ref DFN/126/13/4 VOL 4 (b) (112) and the Approved first Facility AWPB. A further Ksh 1,200,874,749 reflows as per the table below will mature in the fiscal year 2023/24 and will be accordingly reinvested in the project.

	Ksh
Absa	270,023
Faulu	274,830,112
SMEP	138,561,072
Rafiki	129,447,378
KWFT	280,551,164
AFC	377,215,000
Total	1,200,874,749

11 PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

This being the first year of the Project operations, there were no follow up Audit issues.

Reference No. on the external audit Report	Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe for Resolving
--	---------------------------	---------------------	--------------------------------------	-------------------------

Dr. Chris Kiptoo, CBS
Principal Secretary/ NT

John Kabutha
Facility Coordinator

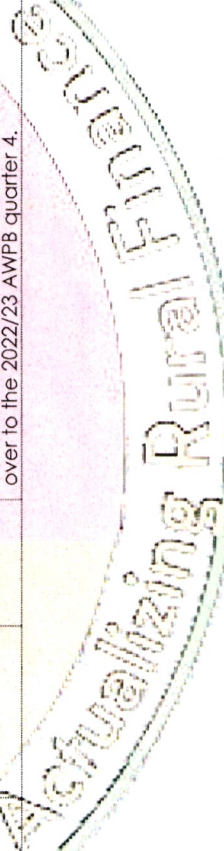
FA CPA NJERU Michael
Financial Controller

Actualizing Rural Finance

12 ANNEXES

ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Final Budget a	Actual on Comparable Basis b	Budget Utilization Difference c=a-b	% of Utilization d=b/a %	Comments on Variance (below 90% and over 100%)
Receipts	Ksh	Ksh	Ksh		
Transfer from Government entities	-	-	-	-	Counterpart budget estimates will be reflected wef 2023/24.
Proceeds from Borrowings	200,078,160	37,433,536	162,644,624	19%	Logistical delays in staff recruitment contributed to late withdrawal of Ksh 163M. Staff recruitment as a condition precedent second withdrawal will be concluded in October 2023.
Other receipts	372,877,895	372,877,895	-	100%	
Payments					
Compensation to employees	82,520,000	28,993,497	53,526,503	35%	The Project in year 1 had six out of full establishment of 14 staff. Staff recruitment is planned to be completed end of October 2023.
Purchase of goods and services	52,871,000	30,586,298	22,284,701	58%	The project had one non-responsive tender in respect of Project IT equipments estimated at Ksh. 3M. The procurement has been rolled over to FY 2023/24. The baseline survey of about Ksh 14M was also postponed as a result of the recruitment condition precedent and is expected to commence in October 2023. Startup Thematic workshops estimated at Ksh 10M were rolled over to 2023/24 since these are conditional project launch in October 2023. The launch is preceded by Recruitment Condition.
Acquisition of non-financial assets	23,500,000	805,020	22,694,980	3%	Owing to exchange rate differences, the budgeted amount of Ksh 7,000,000 was inadequate for the motorvehicle specified including taxes. The budget item is rolled over to 2023/24 with reasonable estimates. The procurement of M&E system is preceded the baseline survey. This is estimated at Ksh 12.8M
Transfers to Implementing Partners	414,065,055	-	414,065,055	0%	The transfers to implementing partners is conditional to signing of subsidiary agreements. The subsidiary agreements are undergoing IFAD review as of June 30, 2023 and the execution is expected immediately the project launch in October 2023. The amounts are accordingly rolled over to the 2022/23 AWPB quarter 4.



ANNEX 2: INTER-ENTITY TRANSFERS

a. Counterpart Funding through National Treasury

Bank Statement Date	Amount (Ksh)	Financial Year
6-Feb-23	37,433,536	2022/23

Sub-total

37,433,536

b. Direct Payments

Bank Statement Date

Sub-total

c. Others

Bank Statement Date

8-Mar-23

159,998,757

2022/23

2-May-23

46,004,334

2022/23

29-Jun-23

166,011,761

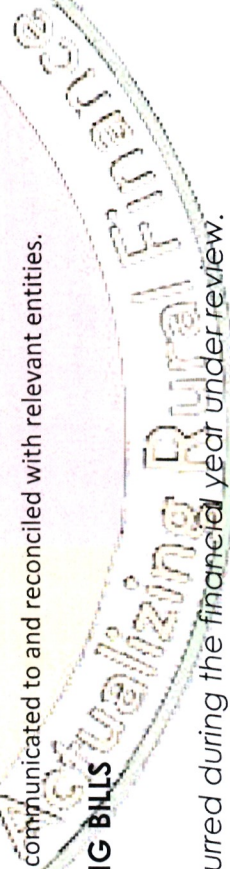
2022/23

Sub-total

372,014,853

Total

409,448,389



The above amounts have been communicated to and reconciled with relevant entities.

ANNEX 3 - ANALYSIS OF PENDING BILLS

There were no pending bills incurred during the financial year under review.

ANNEX 4 – SUMMARY OF FIXED ASSETS REGISTER

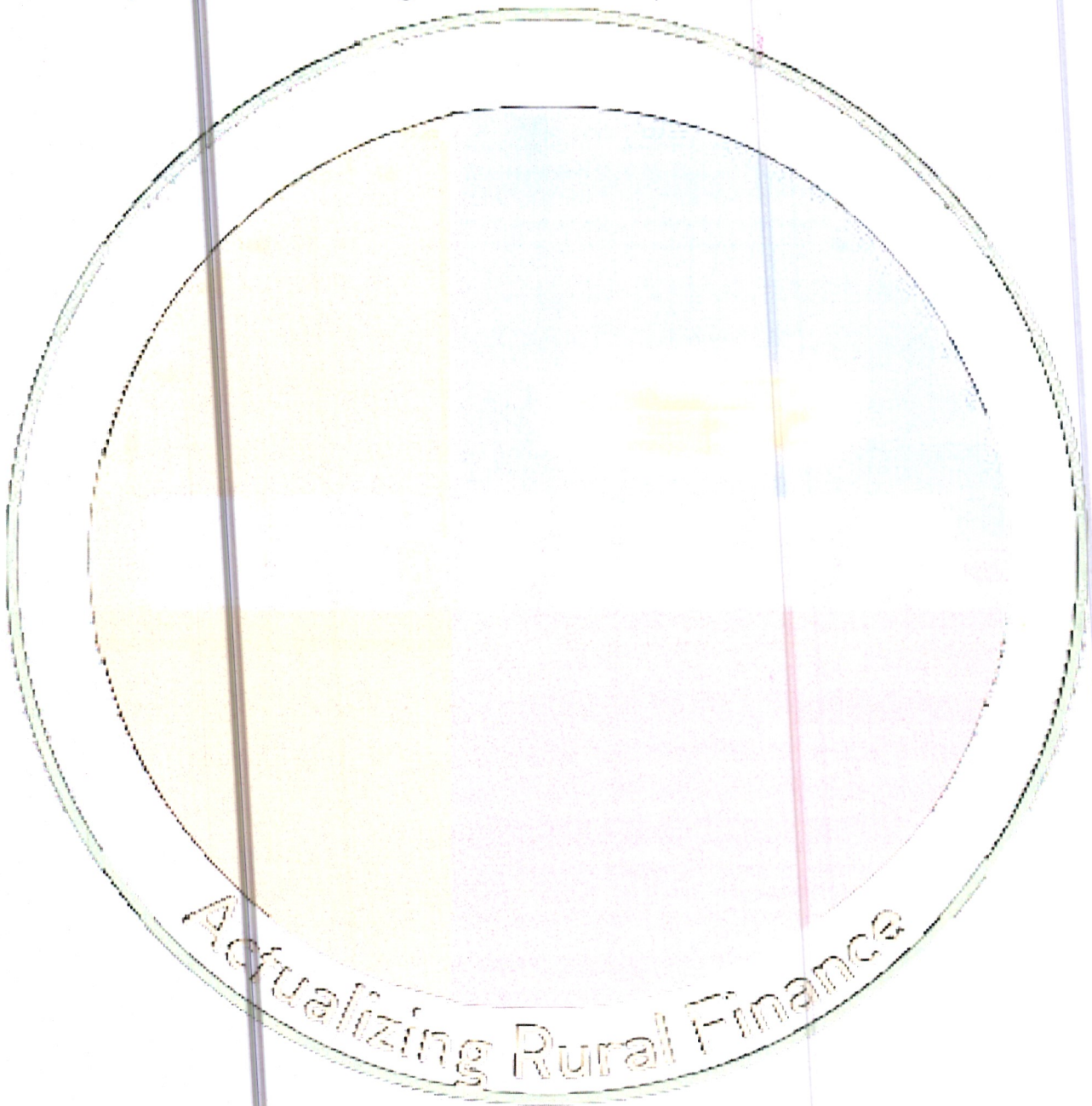
Asset class	Opening Cost (KSh) 2022/23	Donations in form of assets (KSh) 2022/23	*Purchases/ Additions in the Year (KSh) 2022/23	**Disposals in the Year (KSh) 2022/23	Transfers in/(out) Kshs 2022/23	Closing Cost (KSh) 2022/23
	(a)	(b)	(c)	(d)	(d)	(e) = (a) + (b) + (c) - (d) + (-) d
Office equipment, furniture and fittings	-	-	805,020	-	-	805,020
Total	-	-	805,020	-	-	805,020

The assets are stated at original cost. The relevant schedules for the assets are contained in a separate asset register maintained by the Programme.



ANNEX 5 – CONTINGENT LIABILITIES REGISTER

The Facility did not incur contingent liabilities in the period under review



ANNEX 6 – IFAD SPECIAL ACCOUNT RECONCILIATION STATEMENT

Report III: Designated Account Activity Statement		
Name of the Project: Rural Kenya Financial Inclusion Facility IFAD Instrument number: 2000004121 IFAD Instrument number: 2000004122 For the Period: Insert the dates for the quarter Currency: USD		
	IFAD Loan	Remarks
PART I (Cumulative Advances and Expenditure)		
1. Cumulative Advances by IFAD to the end of current Reporting period/quarter	374,335.36	Provide as per IFAD Records -
2. Cumulative Expenditure justified by IFAD since project start till the beginning of Reporting Quarter	253,511.12	Provide as per IFAD Records -
3. Outstanding Advances to be accounted for (Line 1 minus Line 2)	120,824.24	Line 3 = Line 8 = Line 13
PART II (Designated Account - DA - Activity Beginning Balance Reconciliation)		
4. DA balance at beginning of Reporting Quarter	120,824.24	
5. Advances by IFAD during the Quarter	-	
6. Add/Subtract cumulative adjustments, (if any)	-	If not zero, please provide details below
7. Sub total of Advances and Outstanding WAs (Line 5 plus Line 6)	-	
8. Outstanding Advances to be accounted for (Line 4 plus Line 7)	120,824.24	Line 3 = Line 8 = Line 13
PART III (Designated Account - DA - Activity Closing Balance Reconciliation)		
9. DA balance at end of Quarter	21,252.76	
10. Expenditure incurred during the Reporting Quarter	99,571.48	
11. Add/Subtract cumulative adjustments, (if any)	-	If not zero, please provide details below
12. Total expenditure reported (net of adjustments) (Line 10 plus Line 11)	99,571.48	
13. Total Advance accounted for: (Line 9 plus Line 12)	120,824.24	Line 3 = Line 8 = Line 13
14. Difference if any (Line 8 minus Line 13)	-	Provide explanations if not Zero
PART IV (DIBURSEMENTS & SUMMARY OF WITHDRAWAL APPLICATIONS)		
15. Net Forecasted Expenditure to be paid from DA for subsequent 2 Quarters	10,278,646.58	
16. DA Closing Balance at the end of current reporting quarter (as per Line 9 above)	21,252.76	
17. Cash requirements for Subsequent 2 Quarters to be paid from DA-Line 15 minus Line 16 (Cash Forecast minus Cash Available)	10,257,393.82	
18. Amounts to be Justified against the expenditure incurred during current quarter	99,571.48	This amount is to be mentioned in respective cell of WA Form "Amount to be Justified".
19. Advance Recovery, if any	-	If not zero, please provide details below
20. Advance - Cash requirement for the next Reporting Quarter,	1,760,447.03	This amount is to be mentioned in respective cell of WA Form "Amount to be Advanced".
21. Additional advance Requirement for Subsequent 2 Reporting Quarters, if required (Line 17 minus Line 20)	8,496,946.79	This is an Indicative figure only
	CHECK=ZERO 0.00	
	CHECK=ZERO 0.00	
Explanation for Line 6 (if not zero): Add/Subtract cumulative adjustments, (if any)		IFAD Loan
The project has a net cumulative expenditure of USD 253,511.12 awaiting justification in the next WA. The project is yet to be allowed to start loan draw downs. The total justification including this IFR will be USD 353,082/60.		

ANNEX 7 – RKFINF A FMS STATEMENT OF INCOME AND EXPENDITURE

Statement of Income and Expenditure

RKFINF A

For: July 2022 To: June 2023

Income Statement

Page 1 of 1

Account	Actual	Budget	Variance	Var %	PY Actual
Revenue					
IFAD & GOK (2)	409,448,388.65	572,087,854.00	-162,639,465.35	-28.43	0.00
Total Revenue	409,448,388.65	572,087,854.00	-162,639,465.35	-28.43	0.00
Gross Profit	409,448,388.65	572,087,854.00	-162,639,465.35	-28.43	0.00
Other Income					
Bank Interest (2)	863,041.98	868,201.00	-5,159.02	-0.59	0.00
Total Other Income	863,041.98	868,201.00	-5,159.02	-0.59	0.00
Administration Expense					
IFAD Expense (7)	35,308,259.70	200,078,160.00	164,769,900.30	82.35	0.00
Total Administration Expense	35,308,259.70	200,078,160.00	164,769,900.30	82.35	0.00
Other Expense					
GOK Expense (9)	25,076,555.52	372,877,895.00	347,801,339.48	93.27	0.00
Total Other Expense	25,076,555.52	372,877,895.00	347,801,339.48	93.27	0.00
Surplus	349,926,615.41	0.00	349,926,615.41	0.00	0.00

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Actualizing Rural Finance

13 ACRONYMS

A/C	Account
AWPB	Annual Work Plan and Budget
BDS	Business Development Services
BETA	Bottom-Up Economic Transformation Agenda
CGS	Credit Guarantee Scheme
DT-SACCO'S	Deposit Taking SACCO's
ESM	Environmental and Social Management
Eur	Euro
FMS	RKFINFA Financial Management System
GFF	Green Financing Facility
GOK	Government of Kenya
IFAD	International Fund for Agricultural Development
IFR	Interim Financial Report
IPSAS	International Public Sector Accounting Standards
Ksh	Kenya Shilling
MFB	Micro Finance Banks
MSME	Micro, Small and Medium Enterprises
MTEF	Mid Term Plan and Expenditure Framework
NT	National Treasury
PBAS	Performance Based Allocation System
PFI	Participating Financial Institutions
PIM	Project Implementation Manual
PMU	Project Management Unit
PSC	Project Steering Committee
R-CGS	Rural- Credit Guarantee Scheme
RK FINFA	Rural Kenya Financial Inclusion Facility
SACCO	Savings and Credit Cooperative Organizations
USD	United States, Dollar