

REPUBLIC OF KENYA



Enhancing Accountability



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THE AUDITOR-GENERAL

ON

**STATE DEPARTMENT FOR
CO-OPERATIVES**

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



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

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**MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM
ENTERPRISES (MSMEs) DEVELOPMENT**

STATE DEPARTMENT FOR COOPERATIVES

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

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1. Acronyms and Glossary of Terms

| | |
|-------|--|
| AIE | Authority to Incur Expenditure |
| CFO | Chief Finance Officer |
| HAU | Head of Accounting Unit |
| IPSAS | International Public Sector Accounting Standards |
| OCOB | Office of the Controller of Budget |
| OAG | Office of the Auditor General |
| PFM | Public Finance Management |
| SDC | State Department for Cooperatives |
| MOU | Memorandum of Understanding |

2. Key State Department for Cooperatives Information and Management

(a) Background information

The State Department for Co-operatives (SDC) was established under the Ministry of Co-operatives and Micro, Small and Medium Enterprises (MSMEs) Development through an Executive Order No. 1 of January, 2023. It was previously under the Ministry of Agriculture, Livestock, Fisheries and Co-operatives through an Executive Order No. 1/2020 (revised) of May, 2020 but initially domiciled under the Ministry of Industry, Trade and Co-operatives. At Cabinet Level, SDC is represented by the Cabinet Secretary for the Ministry of Co-operatives and Micro, Small and Medium Enterprises (MSMEs) Development who is responsible for the general policy and strategic direction of the department.

In-addition, the State Department for Co-operatives has one programme and five (5) sub-programmes as follows: -

Programme: Co-operative Development and Management

Sub-Programme 1: Co-operative Governance and Accountability.

This entails:

- i. Mainstreaming ethics and governance in the co-operatives to safeguard members' savings and investments
- ii. Regulation and supervision of co-operative audits to enhance accountability through reporting to members, declaration of dividends and taxation.

Sub-Programme 2: Co-operative Advisory Services.

This aims at:

- i. Registration, supervision and oversight (inspection and inquiries) of Co-operatives
- ii. Formulation of Policy and legal framework for Co-operatives sub-sector.
- iii. Development of Co-operative Management Information System (CMIS) - Digitization of Co-operative Services to enhance service delivery.

Sub-Programme 3: Co-operative Marketing, Value Addition and Research

This aims at:

- i. Promotion of value addition in commodity Co-operatives to enhance returns to members.
- ii. Facilitate saving mobilization through SACCOs to promote availability of funds for affordable

credit to members.

- iii. Support housing co-operatives to effectively participate in delivery of affordable housing.

Sub-Programme 4: Co-operative management and investment

The major thrust of this sub-program is to facilitate Co-operatives institutions to deliver on their mandate.

Sub-Programme 5: General Administration, Planning and Support Services (Headquarters);

The intent of this sub-program is:

- i. To ensure compliance with government policies and Budget utilization.
- ii. To conduct Monitoring and Evaluation of on-going programmes to and projects

VISION

A Sustainable & Vibrant Co-operative sector

MISSION

To promote the co-operative sector through provision of appropriate policy, legal, regulatory framework and capacity building.

Core functions

- i Co-operatives Policy, Standards, and Implementation
- ii Promotion of Co-operatives Ventures
- iii Co-operatives Production, Marketing
- iv Supervision and oversight over Co-operatives Societies
- v Co-operatives Savings, Credit, and other Financial Services Policy
- vi Co-operatives Legislation and Support Services
- vii Co-operatives Education and Training
- viii Co-operatives Audit Services
- ix Co-operatives Financing Policy.

Core Values

- i. Integrity
- ii. Professionalism
- iii. Inclusivity
- iv. Teamwork
- v. Customer focus
- vi. Innovation.

(b) Key Management

The State Department for Co-operatives day-to-day management is under the following key organs:

- i) General administration
- ii) Office of the Commissioner for Co-operatives Development
- iii) Office of Co-operatives Audit.
- iv) Ethic Commission for Co-operative Societies.

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

| No. | Name | Designation |
|-----|--------------------|--|
| 1. | Patrick K. Kilemi | Principal Secretary/ Accounting officer. |
| 2. | David K. Obonyo | Commissioner for Co-operatives Development. |
| 3. | El- Samma Ndegwa | Director Administration |
| 4. | Ruth Bosire | Director Human Resource Management and Development |
| 5. | Margaret Nyaywera | Deputy Accountant General |
| 6. | John D. Musale | Director of Planning |
| 7. | Francis Wekesa | Head Finance and Marketing |
| 8. | Richard M. Mahungu | Head ECCOS |
| 9. | Javel Murira | Director Co-operatives Audit |
| 10. | Jane Musundi | Chief Finance Officer |
| 11. | George Marete | Assistant Supply Chain Management Officer |

(d) Fiduciary Oversight Arrangements

The fiduciary oversight arrangements committee are:

i. Audit and Finance Committee activities

The main purpose of this committee is to provide oversight of the financial reporting process, the audit process, the department's internal controls and compliance with laws and regulations.

ii. Human Resource Management Advisory Committee Activities;

The purpose of this committee is management oversight

(e) State Department for Cooperatives Headquarters

P.O. Box 30547-00100

NSSF Building Bishop Road

NAIROBI, KENYA

State Department for Cooperatives Contacts

Telephone: (254) 020-273531-9

E-mail: ps.ushirika@gmail.com Website: www.go.ke

(f) State Department for Cooperatives Bankers (all banks)

1. Central Bank of Kenya

Haile Selassie Avenue

P.O. Box 60000

City Square 00200

NAIROBI, KENYA

(g) Independent Auditors

Auditor - General

Office of The Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

NAIROBI, KENYA

h) Principal Legal Adviser

The Attorney General

State Law Office & Department for Justice.

Harambee Avenue

P.O. Box 40112



City Square 0020

Nairobi, Kenya




3. Statement of Governance

The Cabinet Secretary for Cooperative and Micro Small and Medium Enterprises Development Mr. Simon K Chelugui, EGH is the Authorised Officer for the State Department for Cooperatives and is responsible for the general departmental policy and leadership. The Principal Secretary Mr. Patrick K. Kilemi is the Accounting Officer for the State Department for Cooperatives and responsible for the general administration of the State Department.

The Commissioner for Cooperative Development Mr. David K. Obonyo, is the technical head of the State Department responsible for cooperative development and oversees five technical departments. The photos shown below are for the accounting officer and technical heads of various divisions.

| | |
|---|---|
|  | <p>Principal Secretary Patrick K. Kilemi</p> <p>Patrick Kiburi Kilemi is the Principal Secretary (PS) in the Ministry of Co-operatives and Micro, Small & Medium Enterprises (MSMEs) Development, State Department for Co-operatives. His career spans over 20 years in sales, marketing, commercial planning and pricing experience in the petroleum industry in Kenya and the East and Central African region mainly with International Oil majors Total Kenya Limited (11 years), Chevron (Caltex) Kenya Limited (4 years) and Mobil Oil Kenya Limited (3 years). He holds a Masters Degree in Economics and Bachelors of Arts Degree in Economics from The University of Nairobi. He is a CPA (K) finalist.</p> |
|  | <p>Secretary Administration: Mr. El Samma Ndegwa</p> <p>BA Economics & Public Administration Punjab University (India), MPA UoN, Post Graduate Diploma in Urban Transport – Lund University, Sweden, Diploma in Management of Public Transport - Galilee College, Israel.</p> <p>36 years of Service, both in field administration and central government. During my paramilitary training, I was the Parade Commander of the Pass Out Parade 1988 at the Administration Police Training College in Embakasi. Headed the Refugee Coordination Unit, under the Vice President’s Office and Ministry of Home Affairs. I was later honoured to be the first Administrative Officer in the Prisons Department. At the Ministry of Transport from field administration I was posted to Road Transport Department to deputise the Registrar of Motor of Vehicle, later on became the Registrar Transport Licensing Appeals Tribunal. While in the Ministry of Industrialization I was posted as the Administrator Kenya Industrial Training Institute (KITI). In the Ministry of Environment, I was posted as the head Public Complaints Committee on Environment.</p> |

| | |
|---|--|
|  | <p>Mr. David K. K. Obonyo Mr. David K. Obonyo is the Commissioner for Co-operatives Development. Holds a Masters of Arts in Rural Economics and Co-operation (Bundelkhand University, India); Bachelor of Arts, Economics, Sociology and Political Science and Diploma Industrial Relations. Has 24 years' service in the Co-operatives Administration serving as Ag. Secretary Ethics Commission for Co-operatives Societies (ECCOS), Head of Department, Co-operatives Finance and Banking, Co-operatives County Commissioner, Provincial Co-operatives Officer and District Co-operatives Officer. A member of Kenya Society for Professional Co-operators. (KSPC).</p> |
|  | <p>Mr. John D. Musale. Mr. Musale is the Director of Planning. He holds a M.A degree in Economic Policy Management from Makerere University and a B.A degree in Economics from the University of Nairobi. He has served for 30 years in various positions as an Economist/Statistician in the public service. He has undertaken various short courses in macroeconomics, Development Studies, Leadership and Management. He is a member of the Economic Association of Kenya.</p> |
|  | <p>Richard M. Mahungu Mr. Mahungu is the Deputy Commissioner for Co-operatives Development and has over 28 years of experience in the Kenyan Co-operatives sector. He currently heads the Ethics Commission for Co-operatives Societies (ECCOS) Division within the State Department of Co-operatives. He has been involved in regulatory and supervisory activities, and preparation of prudential standards for enhancing performance management in Co-operatives Societies. He is a Major in Co-operative Management, Agri-business and Strategic Management, and a member of the Kenya Society of Professional Co-operators (KSPC).</p> |
|  | <p>Dr. Ruth Kanini Bosire Dr. Ruth K. Bosire is the Director HRM&D, Holds a PhD (Human Resource Management Option) & a Doctor of Business Administration (DBA) MSC in Organisational Development and Design MA in Leadership Management, Bachelor of Arts Degree, Sociology. Served as HRM for over 29 years, as Director HRM and Admin for LAPSSET & Northern Corridor, Served at Public Service Commission as D/Director Establishment & consultancy Management Services, Served as the National Administrative Coordinator. USA-Kenya Centre for Disease Control (CDC), Presidents Emergency Plan for Aids Relief Project (PEPFAR). A member of Institution Human Resource Management (IHRM), Kenya African Association for Public Administration and Management</p> |

| | |
|---|--|
| | <p>(KAPAM) and, African Society for Blood Transfusion (ASFBT) Kenya Chapter.</p> |
|  | <p>Margaret Nyaywera CPA Margaret Nyaywera is the Deputy Accountant General for the state Department. She is a holder of MBA specially Finance from Moi University and CPA (K). Her main role include management, monitoring and reporting use of resources, clear up audit queries, establish effective internal controls, improve expenditure management and transfers, banking arrangements and complete financial statements on time.</p> |
|  | <p>Javel Muthee Murira Mr. Javel Muthee Murira is the Director, Co-operatives Audit. He holds a MBA in Finance, B.A in economics and sociology. KACE and KCE. He is a professional Accountant. He is currently Director of Co-operatives Audit State Department for Co-operatives. He has worked in various government units from the year 1994 to date. He is a member of ICPAK and Institute of Internal Auditors (IIA).</p> |
|  | <p>Mrs. Jane Musundi. Mrs. Jane Musundi is the Chief Finance Officer (CFO) for the State Department. She holds an MBA in Finance from Kenya Methodist University. A bachelor degree in Accounting from the University of Nairobi. She has worked in over 10 ministries as a Finance Officer with extensive training on mobilization of external resources for Government projects. She worked at the National Treasury Resource Mobilization Department for 14years. She has also worked has a CFO for three years including working in the ministry of ICT and currently at SDC.</p> |

The following are management committee established and their roles:

i) Human Resource Management Advisory Committee Activities;

| No. | Name | Designation |
|-----|-------------------|--|
| 1. | Patrick K. Kilemi | Principal Secretary/ Accounting officer. |
| 2. | David Obonyo | Commissioner for Co-operatives Development. |
| 4. | Ruth Bosire | Director Human Resource Management and Development |
| 5. | Margaret Nyaywera | Deputy Accountant General |
| 6. | John D. Musale | Director of Planning |
| 7. | Francis Wekesa | Head Finance and Marketing |
| 9. | Javel Murira | Director Co-operatives Audit |

This committee is composed of the following members:

Their duties include: -

1. Review of promotions of officers in Job Group A-P;
2. Review of confirmations in appointment;
3. Review of disciplinary matters;
4. Review of re-designation of officers from one cadre to another;
5. Confirmation of surcharge of officers found to have misused government resources;
6. Overall coordination of the training functions in the State Department;

ii) Performance management committee activities

In compliance to the provision of public service commission, the committee is composed of the following:

| No | Name | Designation |
|----|-------------------|-------------------------|
| 1 | John Musale | Chairperson |
| 2 | David Obonyo | CCD |
| 3 | El- Samma Ndegwa | Director Administration |
| 4 | Ruth Bosire | Director HRM&D |
| 5 | Margaret Nyaywera | DAG |

*State Department for Cooperatives
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| | | |
|---|----------------|-------------------------|
| 6 | Jane Musundi | CFO |
| 7 | Francis Wekesa | Senior CCD |
| 8 | Joyce Nkirote | Principal State Counsel |
| 9 | Javel Murira | Head Audit |

Their activities are:

- i) Undertake quarterly review on implementation of PC and Strategic plans
- ii) Ensure linkages between institutional performance and staff appraisal system
- iii) Ensure the performance of all officers are evaluated
- iv) Hold quarterly review meeting
- v) Review performance reports from various departments
- iii) **Budget implementation committee members are (BIC)**

In reference to the treasury circular BIC committee is composed of:

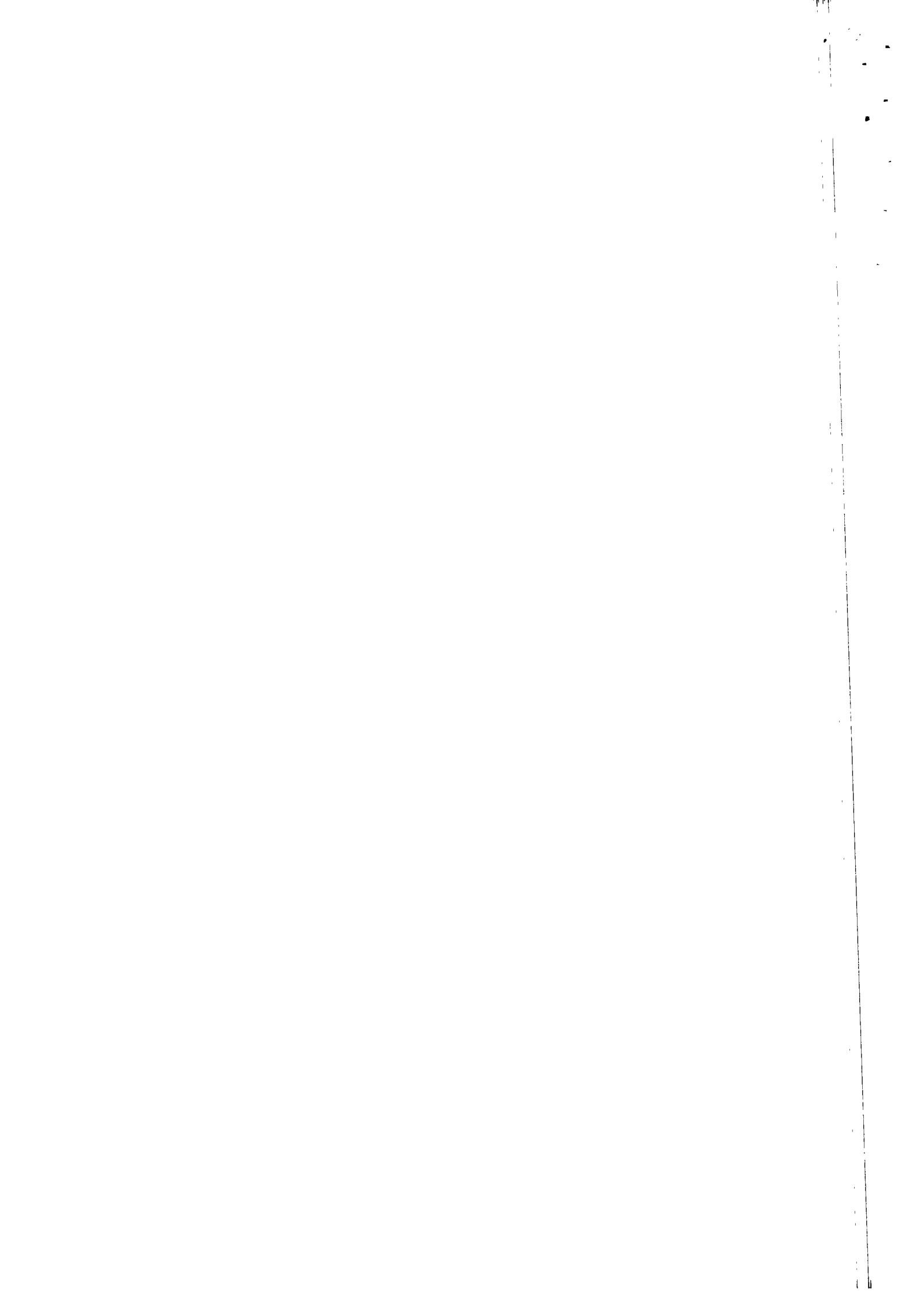
| S/NO | Names | Designation |
|------|-------------------|--------------------------|
| 1 | David Obonyo | CCD |
| 2 | El- Samma Ndegwa | Secretary Administration |
| 3 | Margaret Nyaywera | DAG |
| 4 | John Musale | DOP |
| 5 | Jane Musundi | CFO |
| 7 | Dr. Ruth Bosire | HRM&D |
| 8 | Javel Murira | Audit |

Their activities are:

- i) To review and consider cash flow plans
- ii) To review the utilization of cash limits and consider any change as may be required
- iii) To review the utilization of donor funds voted for the MDA.

Compliance with laws and regulations among others.

The State Department was guided in its operations by the Executive Order No .1 of 2023 and the Sessional Paper No. 4 of 2020 on National Cooperative Policy. The State Department's main responsibility was to enforce the Cooperative Societies (Amendment Act) 2004. In its operations State Department for Cooperatives was guided and complied with the provisions of the Public Finance Management Act (2012), Public Procurement and Assets Disposal Act (2015) and Public Investment Management (PIM) Regulations, 2022 which systematically



guide the conduct of public projects from identification stage all the way to completion and handover to the user.

Other oversight activities

Cabinet Secretary

Responsible for Ministry of Co-operatives, Micro, Small and Medium and Enterprises (MSMEs) Development to guide on policy direction in ensuring the State Department delivers its mandate to support the government agenda.

Auditor General

Has the overall responsibility of ensuring an independent assessment of the department's operations dealings, issuing opinion to confirm the validity and compliance with laid down procedures and laws.

vi) Tender Evaluation Committee

To carry out evaluation of a tender as per specifications and requirement as contained in the tender document in line with public procurement and Asset Disposal Act 2015.

4. Statement by the Cabinet Secretary/Chairman Statement



The Government of Kenya is committed to accelerated development and more efficient delivery of public services to its citizenry through prudent management in the utilization of resources.

The broad mandate of the State Department for Cooperatives is to promote growth and development of cooperatives through provision of an enabling policy and regulatory framework.

Cooperatives plays a critical role in our country's development journey through accelerating equitable and sustainable economic growth. Despite small holder farmers playing a critical role in the economy, they have remained and continue to sink in poverty over the years. To reverse this trend, my Ministry will promote an entrepreneurial culture in the priority value chains and incentivize players in the sector to increase production and value addition. In this regard, my Ministry has aligned its estimates for financial year 2023/2024 to the Bottom-Up Economic Transformation Agenda (BETA) priority value chains. These includes, among others: Leather and Leather Products; Garments, Textile and Apparel; Dairy Products; Edible Oils; Construction and Building Materials; Artisanal Mining; and Artisanal Fishing. Others include, agricultural value chains in rice, tea, coffee, potatoes, etc. The key activities that my Ministry will undertake to realize the success of the value chains will include and not limited to: policy formulation; mobilization and aggregation of MSMEs and cooperatives around specific value chains opportunities. According to the Economic survey at the moment we have 28,000 cooperative operating in the country with 14 million members accounting for 30% percent of Kenya's annual savings.



.....
Simon Chelugui EGH

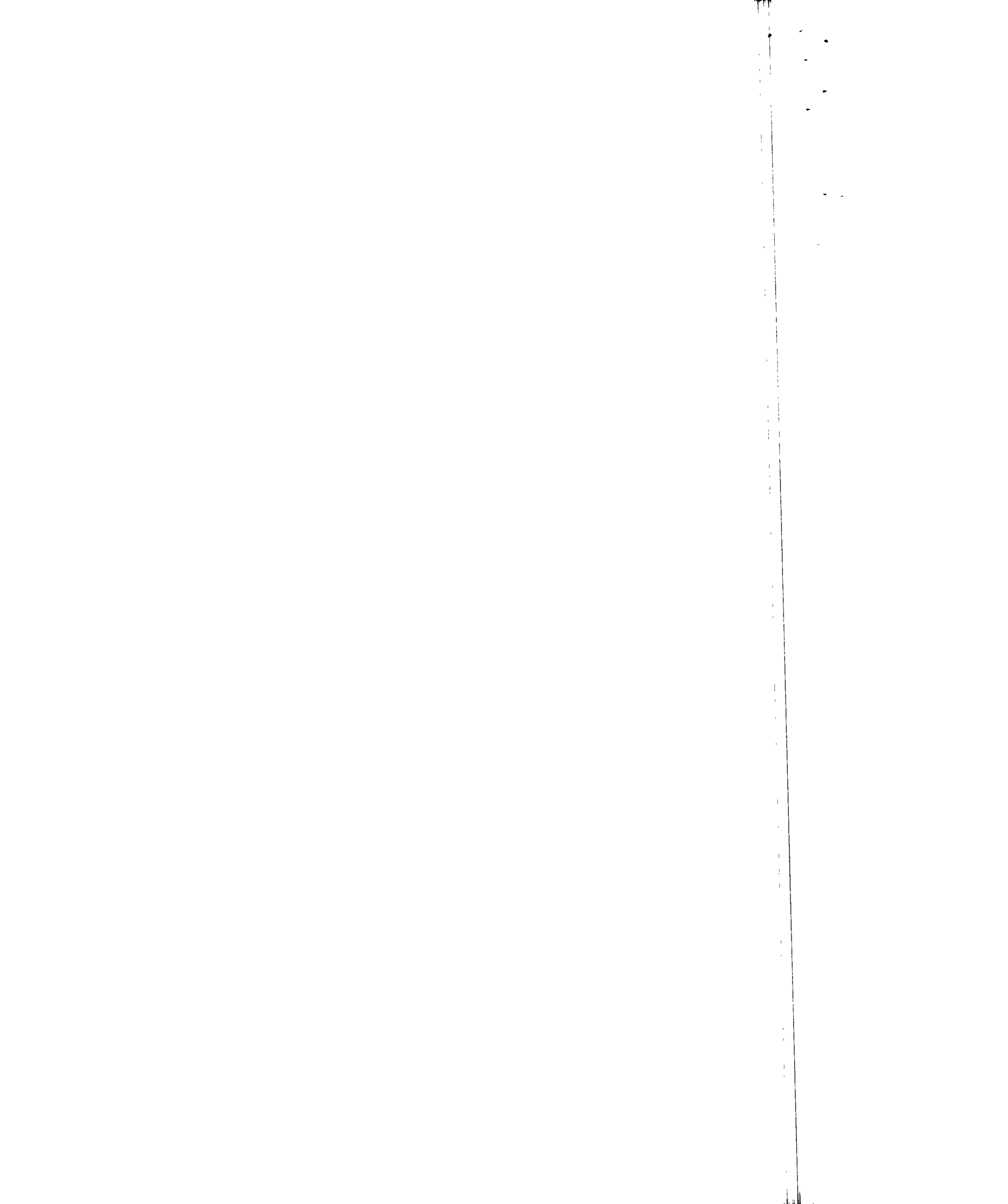
**Cabinet Secretary
Ministry of Cooperatives, and Micro, Small and Medium Enterprise (MSMEs)
Development**

5. Statement by the Principal Secretary / Accounting Officer

The State Department for Co-operatives plays a key role in the growth of the Kenyan economy through provision of an enabling environment of policy, legal and institutional reforms. The various activities carried out to foster growth in the cooperative subsector are: development of Co-operative Policy, Co-operative Policy and Standards, promotion of New Kenyan Co-operative Ventures, Co-operative Production and Marketing, Supervision and Registration and Oversight over Co-operative Societies, Co-operative Savings, Credit and Co-operative Education and Training.

During the financial year 2022/23, the State Department had a total allocation of Kshs. 22,960,394,787 of which Kshs. 14,674,467,460 was Recurrent and Kshs. 20,822,500,000 was Development budget. The A.I.A target was Kshs. 1,373,792,595 of which actual collected A.I.A during the period was Kshs. 1,188,734,506. The total actual expenditure during the FY 2022/2023 was Kshs. 14,674,467,460 which translates 64% absorption rate. The actual expenditure for Recurrent and Development budget was Kshs. 1,918,524,706 (90%) and Kshs. 12,755,942,755 (61%) respectively. Analysis of both recurrent and development as per economic classification is shown below:

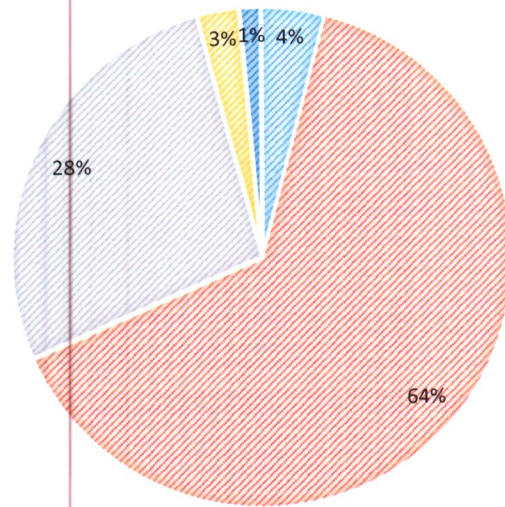
| Description | Approved Budget | Actual Payments | Variance |
|--|-----------------------|-----------------------|----------------------|
| Cooperative Development and | 22,960,394,787 | 14,674,467,460 | 8,285,927,328 |
| Wages and Salary Contributions | 256,635,386 | 251,193,266 | 5,442,120 |
| Goods and Services | 279,387,480 | 226,513,321 | 52,874,159 |
| Routine Maintenance | 6,967,595 | 7,045,407 | -77,812 |
| Grants & Transfer To Other Govt. Units | 22,207,770,757 | 14,025,636,242 | 8,182,134,515 |
| Social Security Benefits | 7,499,106 | 7,426,403 | 72,703 |
| Acquisition of Fixed Capital Assets | 202,134,463 | 156,652,821 | 45,481,642 |
| Grand Total | 22,960,394,787 | 14,674,467,460 | 8,285,927,328 |



Percentage distributed of recurrent expenditure by economic classification for FY 2022/23

ECONOMIC CLASSIFICATION

Acquisition Assets Transfer to Government units compensation of employees
use of goods and services routine maintenance



Achievements of the State Department

1. Co-operative Ethics and Governance.

To enforce ethics and governance in Co-operatives, the State Department managed to:

- i. Conduct two investigations on non-compliance in governance by co-operative societies
- ii. Implement SDC/ EACC MoU's Joint Action Plan through capacity building of SDC and County Co-operative society's officials on ethics, integrity and good governance virtually. Further, 14 members of SDC Corruption Prevention committee were sensitized on corruption prevention by EACC.
- iii. Procurement & Disposal of Assets guidelines for co-operative societies was developed.

2. Co-operative Audit Services.

In order to enhance accountability in the Co-operatives sub-sector, the Department achieved the following:

- i. Registered 5101 audited accounts for Co-operatives societies.
- ii. Registered and listed 215 audit firms to audit co-operative societies.

- iii. SDC carried out compliance audit of societies through desk-review which produced county reports to be completed through field visits later. It also carried out capacity building for Co-operative auditors from Narok County.
- iv. A total of in 6 inquiries/ inspections were carried out in FY 2022/23. These included; Eastleigh Route SACCO Society Limited, Mobamba FCS Ltd, Bahima SACCO Society Ltd, KERUSSU Ltd and Kinatwa SACCO Society Ltd among others.
- v. Technical updates on international financial reporting standards and IAS developed.

3. Co-operative Registration Services.

The Registration Division in the State Department achieved the following during the period under review:

- i. All Co-operatives which applied for registration and met the standards required were registered.
- ii. 12 inquiries and 6 inspections were carried out and completed.
- iii. All applications for amendment of by-laws that met the set requirements were registered.
- iv. A total of 116 official searches were also carried out during the period under review.

4. Co-operative Finance and Marketing.

The State Department, through the Co-operatives Finance and Marketing Division achieved the following:

- i. Facilitated increase in savings through Co-operatives to 946 B in both deposit and non-deposit taking SACCOS.
- ii. Facilitated the recovery of non-remittances of monies due to SACCO from employers amounting to Kshs.425M.
- iii. Modernization of 100 coffee factories due to fast tracked implementation of coffee revitalization action plan.
- iv. Digitalization of 100 coffee factories.
- v. Feasibility studies were carried out in cotton co-operative ginneries.
- vi. Modernization of Luanda Cotton co-operative ginnery.
- vii. The Coffee Cherry Advance Revolving Fund (CCARF) was operationalized and has to date disbursed an amount of Kshs43.7M out of which a recovery of Kshs19.1 has been made.

5. Review of Co-operative Development Policy

MOU was entered with council of governors' committee on the implementation of the policy which is currently sessional paper 2020.

6. **Review of the Co-operative Societies Act, 1987.**
The National Co-operative Policy Operationalization Task Force was instituted and operationalized. The Task Force prepared a gap analysis report, NCP implementation framework and initialized formulation of the Co-operative Bill. The Task Force was granted 6 months' extension of its tenure.

7. **Implement phase five of Co-operative Management Information System (CMIS).**
Officers in the Registration, Co-operatives Audit, Finance and Marketing, Policy and Capacity Building, ECCOS, Accounts, ICT Legal registry and Main registry were trained on how to use the system.

8. **New KCC to process powder milk facilitated.**
The total processing capacity increased to 800,000 liters per day as follows:
Liquid milk processing capacity increased from 220,000 lit per day to 550,000 lit per day.
Dry milk powder, processing capacity increased from 100,000 to 250,000 lit per day.

BUDGET IMPLEMENTATION CHALLENGES

The sub-sector is faced with numerous challenges and emerging issues which need to be addressed to enable the Sub sector realize its targets. These specific challenges are highlighted below:

(i) **Inadequate funding for program implementation.** The sub sector funding has been inadequate to enable it effectively deliver its mandate. Vision 2030 flagship projects and programmes. Frequent budget cuts during the financial year has also impacted negatively on the sub sector's mandate.

Policy, legislative and regulatory framework: The sub sector is faced with the challenge of aligning operational laws in the counties with national framework and harmonized for effective discharge and enforcement of the sub sector's mandate. The State has embarked on reviewing the National Co-operatives Development Policy which is being presented to Cabinet for approval. Other laws and regulations will be reviewed in order to align them with the Constitution and devolved system of government.

Research and Development: Research and Development is vital to support the development of the sector, however, it has suffered inadequate funding. This has significantly impacted on the Department's capacity to effectively discharge its mandate.

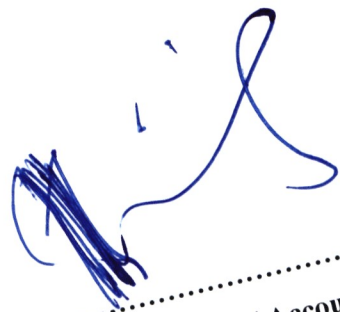
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- (iv) Technology Adoption:** The low levels of ICT adoption in the Department and high cost of ICT infrastructure have hindered access and usage of ICT leading to increased costs of operation and inadequate service delivery.
- (v) Low human resource capacity:** There are huge gaps in the Department's Human Resource Establishment which has been a major hindrance in the effectiveness of the Department.
- (vi) Climate change:** This has reduced agricultural productivity which is a cornerstone of Cooperatives Development.
- (vii)** Insufficient office accommodation and equipment.
- (viii)** Emergence of COVID-19
- (ix)** Inadequate transport activities.

Recommendations

In order to enhance the sub sector's contribution and productivity to the economy and to ensure successful implementation of the programs and projects planned for implementation in the 2022/23 MTEF period, it is recommended that:

- i) The National Treasury should enhance funding to the Sub Sector to support its key priority programmes;
- ii) Enhancing capacity of the State Department human resource development
- iii) There is need to develop further collaboration frameworks with major stakeholder to enhance project implementation both at the National and County levels.



.....
Principal Secretary / Accounting Officer
State Department for Cooperatives

6. Statement of Performance against Predetermined Objectives for the FY2022/23

- The key strategic objectives as per the strategic plan for FY 2018-2022 were:
- To create an enabling policy, legal and institutional framework for rapid and sustainable growth of the co-operatives in Kenya
 - To promote value addition, manufacturing and market access by co-operatives
 - To enhance financial deepening and investments through co-operatives
 - To entrench good governance and accountability within the co-operative sector
 - To develop the capacity of Co-operatives through training, education, research, and ICT adoption.
 - To build the human resource capacity and infrastructure in State Department
 - To mainstream issues related to climate change, special interest groups, financial interest groups and human rights in co-operatives.

Progress on the attainment of Strategic Objectives through Performance Contracting

The table below shows indicators that were used for tracking progress and performance measurement.

| Department | Strategic Objective | Strategic Indicator | Performance Indicator | Comments |
|-----------------------------------|---|---|--|--|
| Development of Policy Instruments | To create an enabling policy for rapid and sustainable growth of the co-operatives in Kenya | Improved enabling policy and for rapid and sustainable growth of the co-operatives in Kenya | No. of enabling policies entered with council of governance in co-operative implementation of the policy | In FY 22/23, 1 policy was entered with council of governance in co-operative implementation of the policy. Need for fast tracking MGU was entered with council of governors committee on the |

| | | | | | |
|---|--|--|---|---|---|
| National value chain support for dairy production | To increase food security | Increased milk processing capacity of New KCC Ltd through modernization of 7 No. factories to replace obsolete equipment in Eldoret, Sotik, Dandora, Nyahururu, Kiganjo, Kitale & Miritini factories, and construct a new milk plant in Nyambene | % of completion | In the FY22/23 the Total processing capacity increased to 800,000 litres per day as follows: Liquid milk processing capacity increased from 200,000 litres per day to 550,000 litres per day. Dry milk powder, processing capacity increased from 100,000 litres to 250,000 litres per day. Farmer pay-out increased from Ksh 2.5 billion to Ksh 4.5 billion per year. | Improved livelihoods of over 4 million households and 200,000 directly & indirectly employed in the dairy value chain. Milk prices to farmers stabilized by enhanced & guaranteed mopping up of surplus milk during high seasons and converting into dry milk powder under the strategic milk reserve program. |
| | To promote value addition, manufacturing, and market access by co-operatives | No. of litres of milk processed per day | No. of litres of milk processed per day | 800,000 litres of milk was processed per day during the FY 2021/22. | |
| Revitalization of coffee co-operatives | To promote value addition, manufacturing, and market access by co-operatives | Increase coffee production and value | No. of coffee co-operative factories digitized and modernized | 100 coffee co-operative factories were digitized and modernized in the FY 2021/22. | The project will continue in the FY 2022/23 |

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To promote value addition and improve the livelihoods of farmers in rural areas, the Government has implemented various initiatives. These include providing access to agricultural inputs, technical support, and market linkages. The Ministry has also supported the formation of farmer cooperatives and SACCOs to enhance their financial and market access. In addition, the Government has invested in rural infrastructure, such as roads and irrigation systems, to improve the productivity of rural areas. These efforts have contributed to the growth of the agricultural sector and the improvement of the livelihoods of rural households.

| Area | 2022/23 | 2021/22 | 2020/21 |
|--|---------|---------|---------|
| Deepening Financial Inclusion | 100% | 95% | 90% |
| To enhance financial inclusion | 100% | 95% | 90% |
| Increased savings | 100% | 95% | 90% |
| Co-operatives | 100% | 95% | 90% |
| More Kenyans were able to access affordable credit through regulated SACCOs. | 100% | 95% | 90% |

ii. Facilitate saving mobilization through SACCOs to p

*State Department for Cooperatives
Annual Report and Financial Statements for the year ended 30th June 2023*

| | | | | | |
|----------------------------|-----------------------------------|--|--|--|----------------------------------|
| Promotion of Kenyan Coffee | To revitalization Coffee Industry | Increased production of coffee. Provision of affordable credit to coffee farmers through Coffee Chery Advance Revolving Fund (CCARF) to the tune of ks.2.8 billion. Increased milling and marketing of coffee in New KPCU plants. Register 82,000 farmers for the coffee farmer subsidy program. | Metric Tonnes of coffee produced Amount of Ksh disbursed Metric tonnes milled and marketed | In FY 2022/23 Production increased to 51,843 MT (i.e., Estates 15,553 and Co-operatives 36,290) from 34,512 (MT in 2020/21) representing a 50.24 %. Kshs 300 million advanced to coffee farmers from the coffee cherry advance revolving; cumulatively, Ksh 762,148,307.47 has been disbursed from this fund, benefiting 81,390 farmers across 18 counties. 3,025 MT coffee milled; 1,595,329 tons clean coffee sold worth USD 7,148,215.63 marketed. Cherry prices risen from Ksh35/kg to | Higher return to coffee farmers. |
|----------------------------|-----------------------------------|--|--|--|----------------------------------|

| | | | | | |
|---------------------------|--|---|---|---|--|
| | | | | Ksh 80.00 per kg. 30,057 farmers have so far been registered for the farmer subsidy program. | 20,087 farmers |
| BETA priority | Aggregation of value chains cooperatives | To Promote and development of livelihoods | Cooperatives registered in mining and artisanal | Improved 2022/23 1,802 mining and 64 in artisanal | Economic cooperatives through various value chains. |
| (CMIS) Information system | | | Audit Services, Name Search and SASRA are fully online. | | currently being piloted for roll out to all 47 counties. |

7. MANAGEMENT DISCUSSION AND ANALYSIS

This Section highlights the State Department for Co-operatives' financial and operational performance and key projects information for the financial years 2020/21 to 2022/23.

Analysis of Expenditure Trends for the FY 2020/21-2022/23

The State Department for Co-operatives approved recurrent budget for FY 2020/21, FY 2021/22 and FY 2022/23 was KShs. 921.70 million, KShs. 1,494.89 million and KShs. 2,137.89 respectively. The actual expenditure for the FY 2020/21, FY 2021/22 and FY 2022/23 was KShs. 906.73 million and KShs. 1,509.07 million and ksh 1,983.99 respectively.

The total approved development budget for the State Department for the FY 2020/21 was KShs. 762 million, FY 2021/22 was KShs. 432.71 million and FY 2022/23 Ksh 20,822.50 The actual expenditure for the three consecutive financial years was KShs. 761 million, KShs. 429.14 million and Ksh 12,802.97 respectively.

Table 2.2: Analysis by Category of Expenditure: Recurrent (KShs. Million)

| Sector: Agriculture, Rural and Urban Development | | | | | | | |
|--|----------------------------------|-------------------------------|---------------|---------------|--------------------|---------------|---------------|
| Vote 1173: State Department for Co- operatives | Economic Classificatio n | Approved Budget Allocation | | | Actual Expenditure | | |
| | | 2020/2 1 | 2021/22 | 2022/23 | 2020/2 1 | 2021/22 | 2022/23 |
| | Gross | 921.7 | 1,494.8 9 | 2,137.8 9 | 906.73 | 1,509.07 | 1,983.9 9 |
| | AIA | 548.6 | 1,048.8 0 | 1,373.7 9 | 539.1 | 1059.36 0 | 1,259.8 5 |
| | NET | 373.10 | 446.09 | 764.1 | 367.65 | 449.71 | |
| | Compensatio n of employees | 206.4 | 244.60 | 256.64 | 205.5 | 244.68 | 251.19 |
| | Transfers | 549.8 | 1120.00 | 1,472.9 8 | 540.3 | 1131.34 | 1,355.6 9 |
| | Other Recurrent | 165.5 | 130.29 | 218.72 | 160.91 | 133.05 | 226.69 |
| | Of which | | | | | | |
| | <i>Utilities</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | <i>Rent</i> | 0.00 | 8.86 | 8.86 | 0.00 | 8.86 | 8.86 |
| | <i>Insurance</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | <i>Subsidies</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | <i>Gratuity</i> | 0.00 | 2.11 | 7.50 | 0.00 | 2.11 | 7.50 |
| | Contracted Guards & | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| | | | | | | |
|----------------|---------|---------|---------|---------|---------|---------|
| Programme: Co- | 2020/21 | 2021/22 | 2022/23 | 2019/20 | 2020/21 | 2021/22 |
|----------------|---------|---------|---------|---------|---------|---------|

. Obonyo, is the technical head and oversees five technical officer and technical heads of

tary (PS) in the Ministry in Enterprises (MSMEs) ratives. His career spans mmercial planning and y in Kenya and the East rnational Oil majors Total) Kenya Limited (4 years) holds a Masters Degree in in Economics from The alist.

a Ndegwa

Post Graduate Diploma in Sweden, Diploma in ee College, Israel. dministration and central aining, I was the Parade t the Administration Police Headed the Refugee ent's Office and Ministry of be the first Administrative Ministry of Transport from id Transport Department to hicle, later on became the s Tribunal. While in the d as the Administrator Kenya e Ministry of Environment, I omplaints Committee on

for Cooperatives and responsible for the general administration. The Commissioner for Cooperative Development Mr. David K of the State Department responsible for cooperative developn departments. The photos shown below are for the accounting various divisions.



Principal Secretary Patrick K. Kilemi
Patrick Kiburi Kilemi is the Principal Sec of Co-operatives and Micro, Small & Med Development, State Department for Co-op over 20 years in sales, marketing, c pricing experience in the petroleum indus and Central African region mainly with Int Kenya Limited (11 years), Chevron (Calte and Mobil Oil Kenya Limited (3 years). He Economics and Bachelors of Arts Degree University of Nairobi. He is a CPA (K) fir



Secretary Administration: Mr. El Samr
BA Economics & Public Administration Punjab University (India), MPA UoN, Urban Transport - Lund University Management of Public Transport - Gal 36 years of Service, both in field government. During my paramilitary 1 Commander of the Pass Out Parade 1988: Training College in Embakasi. Coordination Unit, under the Vice Presic Home Affairs. I was later honoured to Officer in the Prisons Department. At the field administration I was posted to Rc deputise the Registrar of Motor of V Registrar Transport Licensing Appea Ministry of Industrialization I was poste Industrial Training Institute (KITI). In tl was posted as the head Public Environment.

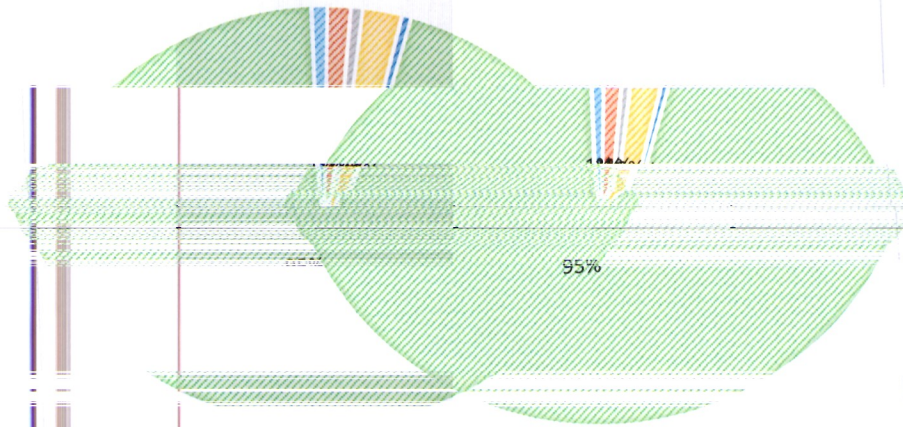
*State Department for Cooperatives
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| | | | | | | |
|---|----------------|-----------------|-----------------|--------------|----------------|------------------|
| Sub Programme 1: Governance and Accountability | 72.64 | 79.68 | 81.18 | 69.92 | 81.71 | 79.44 |
| Sub Programme 2: Co-operative Advisory Services | 643.92 | 914.86 | 1,242.90 | 633.09 | 852.56 | 711.38 |
| Sub Programme 3: Marketing, Value Addition & Research | 375.73 | 711.75 | 466.34 | 374.37 | 783.98 | 466.34 |
| Sub Programme 4: Co-operative Development and Investments | 400 | 50.00 | 20,700.0 | 400 | 50.00 | 12,700.00 |
| Sub Programme 5: General Administration, Planning and Support Services | 191.27 | 171.30 | 469.98 | 189.94 | 169.98 | 436.26 |
| Total Vote for 1173 | 1683.56 | 1,927.60 | 22,960.4 | 1,667 | 1938.22 | 14,393.42 |

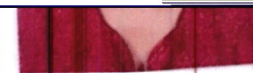
Percentage distribution of development expenditure of projects as at 2022/23

DEVELOPMENT BUDGET

- Cotton
- NKCC
- CMIS
- Coffee Revitalization industry
- Warehouse Refurshment KNTC
- Financial Inclusion



external resources for
onal Treasury Resource
also worked has a CFO
ry of ICT and currently



with extensive training on mobilization of
Government projects. She worked at the National
Mobilization Department for 14years. She has
for three years including working in the ministry
at SDC.

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Table 2.1: Review of Subsector programme performance 2020/21 – 2022/23

| Programme | Delivery unit | Key Outputs | Key performance indicators | Planned Targets | | | Achieved Targets | | | Remarks |
|---------------------------------------|---------------------------|-------------------------------|--|-----------------|-----------|-----------|------------------|-----------|-----------|---|
| | | | | 2020/2021 | 2021/2022 | 2022/2023 | 2020/2021 | 2021/2022 | 2022/2023 | |
| SP 1.1: Governance and accountability | Co-operative Audit | Audited accounts | No. of Audited accounts registered | 3,800 | 3,800 | 3,800 | 3,446 | 4,107 | 4,734 | In 2020/21 submission of audits was adversely affected by COVID 19 travel restrictions. There was improved compliance thereafter. |
| | | | | 8 | 6 | 6 | 13 | 12 | 9 | Performance is demand driven and the shortfall in achievement is attributed to improved governance. |
| ECCOS | Co-operative Registration | Inquiries of co-op societies. | No. of inquiries carried out and concluded | 18 | 8 | 6 | 13 | 12 | 9 | Performance is demand driven and the shortfall in achievement is attributed to improved governance. |
| | | Co-operative Inspections | No. of inspection reports produced | 6 | 5 | 8 | 5 | 6 | 5 | Reduction in inspection carried out was due to improved governance. |
| | | Administrative procedure | No. of DIALs filed by | 5000 | 8,000 | 10,000 | 4600 | 8595 | 6375 | Target achieved for FY 2020/21 because it was a |

osed of:

| Designation |
|--------------------------|
| CCD |
| Secretary Administration |
| DAG |
| DOP |
| CFO |
| HRM&D |
| Audit |

y change as may be required
MDA.

Executive Order No .1 of 2023 and
tive Policy. The State Department's
eties (Amendment Act) 2004. In its
l and complied with the provisions of
ocurement and Assets Disposal Act
ulations, 2022 which systematically

In reference to the treasury circular BIC committee is com

| S/NO | Names |
|------|-------------------|
| 1 | David Obonyo |
| 2 | El- Samma Ndegwa |
| 3 | Margaret Nyaywera |
| 4 | John Musale |
| 5 | Jane Musundi |
| 7 | Dr. Ruth Bosire |
| 8 | Javel Murira |

Their activities are:

- i) To review and consider cash flow plans
 - ii) To review the utilization of cash limits and consider a
 - iii) To review the utilization of donor funds voted for the
- Compliance with laws and regulations among others.**

The State Department was guided in its operations by th
the Sessional Paper No. 4 of 2020 on National Cooper
main responsibility was to enforce the Cooperative So
operations State Department for Cooperatives was guide
the Public Finance Management Act (2012), Public F
(2015) and Public Investment Management (PIM) Re

*State Department for Cooperatives
Annual Report and Financial Statements for the year ended 30th June 2023*

| Program me | Delivery unit | Key Outputs | Key performance indicators | Planned Targets | | | Achieved Targets | | | Remarks |
|------------|---------------|---|---------------------------------|-----------------|-----------|-----------|------------------|-----------|-----------|--|
| | | | | 2020/2021 | 2021/2022 | 2022/2023 | 2020/2021 | 2021/2022 | 2022/2023 | |
| | | | | 1 | 22 | 23 | 21 | 22 | | Regulations enhanced members confidence in the Saccos. The income tax waivers as a result of COVID 19 pandemic increased the disposable income thus increase in member savings in 2020/21. |
| | | Modern Cotton co-operatives ginneries. | Feasibility Studies carried out | - | 1 | 1 | - | 1 | | For 2020/21 feasibility study for PAVI FCS was carried out. |
| | | No. of Modernized co-operatives ginneries | | 1 | 2 | | 0 | 0 | 1 | Luanda ginnery was completed in 2021/2022 and handed over. |

STATEMENT

Estimated cost of Project

| Particulars | 2019 | 2020 | 2021 |
|-------------|----------|----------|------|
| Total | 3,025.00 | 3,025.00 | 0.00 |
| Local | 3,025.00 | 3,025.00 | 0.00 |
| Foreign | 0.00 | 0.00 | 0.00 |

| Particulars | 2019 | 2020 | 2021 |
|-------------|----------|----------|------|
| Total | 3,025.00 | 3,025.00 | 0.00 |
| Local | 3,025.00 | 3,025.00 | 0.00 |
| Foreign | 0.00 | 0.00 | 0.00 |

| Particulars | 2019 | 2020 | 2021 |
|-------------|----------|----------|------|
| Total | 3,025.00 | 3,025.00 | 0.00 |
| Local | 3,025.00 | 3,025.00 | 0.00 |
| Foreign | 0.00 | 0.00 | 0.00 |

8. Environmental and Sustainability Reporting

The State Department of Co-operatives exists to transform lives. This is our purpose; the driving force behind everything we do by putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of the sustainability activities conducted in the year:

a) Sustainability strategy and profile

The current leadership recognizes the crucial role of co-operative sector in the delivery and attainment of the Kenya vision 2030, MTP IV and BETA Aspirations. However, changing Government policies, unfavourable bilateral and multi-lateral relations as well as devolution of co-operative function i.e., Multi-layered government policies implementation framework has posed

some challenges in some of the areas. Despite of the challenges, the State Department together with its key stakeholders have emphasized on ensuring sustained economic sustainability on both investment and resource allocation.

Co-operatives public participation is an emerging business model which led to accelerated growth of the cooperative movement. In addition, the State Department has continuously complied to laws and regulations governing them thus non exposure to the potential contingent liability.

Risk management framework focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risk on its performance by setting acceptable risk levels.

b) Environmental performance /climate change/ mitigation of natural disasters

The State Department advocates environmental consciousness by instituting deliberate efforts to ensure environmentally friendly activities are planned. The State Department is currently implementation the presidential directive of National Tree Growing Restoration campaign.

c) Employee Welfare

The department is mandated with building human resource capacity. This ensures improved service delivery, professionalism and competence of staff. The performance appraisal system is used to measure individual deliverables on quarterly basis. Training projections are done on yearly basis to fill the skill gap.

Operational practices

a) Responsible Supply chain and supplier relations

The State Department upholds high levels of openness with regard to implementation public procurement and assets disposal. All tenders are advertised in both the print media and the organization's website to give a fair chance to all suppliers and service providers. The Department also ensures that 30 percent and 40 percent of the procurement budget goes to the AGPO and local merchants respectively and is complied with in the annual performance contracts.

The Department also ensures that there are no pending bills at the end of each financial year and therefore all contracts are honoured to the later.

b) Community Engagements-

The state Department continued to implement the Coffee Revitalization Programme where the community, through Coffee Co-operatives Factories, have benefited from employment during construction of coffee drying beds in 100 (No.) selected coffee factories in coffee growing areas.

9. **Statement of Management Responsibilities**

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer for a National Government State Department for Cooperatives shall prepare financial statements in respect of that State Department for Cooperatives. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the *State Department for Cooperative* is responsible for the preparation and presentation of the State Department for Cooperative's financial statements, which give a true and fair view of the state of affairs of the State Department for Cooperatives for and as at the end of the financial year 2022 ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangements 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 State Department for Cooperatives, (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the State Department for Cooperatives; (v) selecting and applying appropriate accounting policies, and (vi) making accounting estimates that are reasonable in the circumstances.

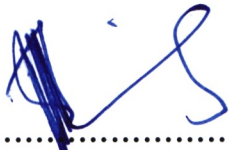
The Accounting Officer in charge of the *State Department for Cooperative* accepts responsibility for the State Department for cooperatives' financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the *State Department for Cooperative* financial statements give a true and fair view of the state of State Department for Cooperatives' transactions during the financial year ended June 30, 2023, and of the State Department for Cooperatives' financial position as at that date. The Accounting Officer in charge of the *State Department for Cooperative* further confirms the completeness of the accounting records maintained for the *State Department for Cooperative* which have been relied upon in the preparation of the State Department for Cooperatives' financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the *State Department for Cooperative* confirms that the State Department for Cooperatives has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the State Department for Cooperatives' funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the State Department for Cooperatives' financial statements have been prepared in a form that

State Department for Cooperatives
Annual Report and Financial Statements for the year ended 30th June 2023

complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

The *State Department for Cooperative* financial statements were approved and signed by the Accounting Officer on 30/06/2023.



.....
Patrick Kilemi
Principal Secretary



.....
Deputy Accountant General
Margret Nyaywera
ICPAK Member: 5429

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers

**REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR
CO-OPERATIVES FOR THE YEAR ENDED 30 JUNE, 2023**

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 of 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 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.

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

The 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.

THE FINANCIAL STATEMENTS

The accompanying financial statements of State Department for Co-operatives set out on pages 1 to 28, which comprise of the statement of financial position, statement of financial liabilities as at 30 June, 2023, and the statement of receipts and payments for the year ended 30 June, 2023.

Office of the Auditor-General on State Department for Co-operatives for the year ended 30 June, 2023

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 State Department for Co-operatives as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the State Department for Co-operatives 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 on in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.22,960,394,787 and Kshs.14,677,769,139 respectively resulting in a shortfall of Kshs.8,282,625,648 or 36% of the budget. Similarly, the State Department spent Kshs.14,674,154,461 against approved budget of Kshs.22,960,394,787 resulting to under absorption of Kshs.8,286,240,327 or 36% of the budget.

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

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. The issues remain unresolved, as the report has not been discussed by the relevant Parliamentary Committee.

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, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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 overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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 controls 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 State Department's ability to sustain its services, disclosing, as applicable, matters related to sustainability of its services and using the applicable basis of accounting unless Management is aware of the intention to terminate the State Department or 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 State Department's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal 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 State Department's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the State Department to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

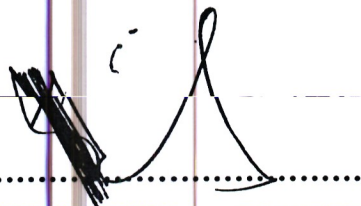
Nairobi

10 November, 2023

11. Statement of Receipts and Payments for the Year ended 30th June 2023

| | Note | 2022-2023 Kshs | 2021-2022 Kshs |
|-------------------------------------|------|-----------------------|--------------------|
| RECEIPTS | | | |
| Exchequer releases | 1 | 13,489,034,634 | 875,043,766 |
| Other Receipts | 2 | 1,188,734,506 | 27,350,828 |
| TOTAL REVENUES | | 14,677,769,139 | 902,394,594 |
| PAYMENTS | | | |
| Compensation of Employees | 3 | 251,193,265 | 244,683,479 |
| Use of goods and services | 4 | 233,558,728 | 344,120,894 |
| Transfers to Other Government Units | 5 | 14,025,636,242 | 243,700,000 |
| Social Security Benefits | 6 | 7,426,403 | 2,106,216 |
| Acquisition of Assets | 7 | 156,652,821 | 66,097,281 |
| TOTAL PAYMENTS | | 14,674,467,460 | 900,707,870 |
| SURPLUS/DEFICIT | | 3,301,679 | 1,686,724 |

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 30/9 2023 and signed by:



.....
PATRICK NJIRU
Accounting Officer



.....
Name
Head of Accounting Unit

Department
for Co-

2020/2
1

2021/2
2

2022/23

2020/2
1

2021/2
2

2022/23

2023/24



er for Cooperative Development Mr. David K. Obonyo, is the technical head
 ertment responsible for cooperative development and oversees five technical
 photos shown below are for the accounting officer and technical heads of

Principal Secretary Patrick K. Kilemi

Patrick Kiburi Kilemi is the Principal Secretary (PS) in the Ministry of Co-operatives and Micro, Small & Medium Enterprises (MSMEs) Development, State Department for Co-operatives. His career spans over 20 years in sales, marketing, commercial planning and pricing experience in the petroleum industry in Kenya and the East and Central African region mainly with International Oil majors Total Kenya Limited (11 years), Chevron (Caltex) Kenya Limited (4 years) and Mobil Oil Kenya Limited (3 years). He holds a Masters Degree in Economics and Bachelors of Arts Degree in Economics from The University of Nairobi. He is a CPA (K) finalist.

Secretary Administration: Mr. El Samma Ndegwa

BA Economics & Public Administration
 Punjab University (India), MPA UoN, Post Graduate Diploma in Urban Transport – Lund University, Sweden, Diploma in Management of Public Transport - Galilee College, Israel.
 36 years of Service, both in field administration and central government. During my paramilitary training, I was the Parade Commander of the Pass Out Parade 1988 at the Administration Police Training College in Embakasi. Headed the Refugee Coordination Unit, under the Vice President's Office and Ministry of Home Affairs. I was later honoured to be the first Administrative Officer in the Prisons Department. At the Ministry of Transport from field administration I was posted to Road Transport Department to deputise the Registrar of Motor of Vehicle, later on became the Registrar Transport Licensing Appeals Tribunal. While in the Ministry of Industrialization I was posted as the Administrator Kenya Industrial Training Institute (KITI). In the Ministry of Environment, I was posted as the head Public Complaints Committee on Environment.


The Commission
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 various division



13. Statement of Cash Flows for The Year Ended 30th June 2023

| | Note | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|------|-----------------------|---------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Receipts for operating income | | | |
| Transfers from National Treasury | 1 | 13,489,034,634 | 875,043,766 |
| Other Receipts | 2 | 1,188,734,506 | 27,350,828 |
| Total Receipts | | 14,677,769,139 | 902,394,594 |
| Payments for operating expenses | | | |
| Compensation of Employees | 3 | 251,193,265 | 244,683,479 |
| Use of goods and services | 4 | 233,558,728 | 344,120,894 |
| Transfers to Other Government Units | 5 | 14,025,636,242 | 243,700,000 |
| Social Security Benefits | 6 | 7,426,403 | 2,106,216 |
| Total payments | | 14,517,814,639 | 834,610,589 |
| Adjusted for: | | | |
| Decrease/(Increase) in Accounts receivable: (outstanding | 13 | (1,189,375) | 182,001 |
| Increase/(Decrease) in Accounts Payable: (deposits and | 14 | (26,606,732) | 8,464,944 |
| Prior Year Adjustments | 12 | (2,153,531) | (4,003,901) |
| Net cashflow from operating activities | | 130,004,863 | 72,427,049 |
| CASHFLOW FROM INVESTING ACTIVITIES | | | |
| Acquisition of Assets | 7 | (156,652,821) | (66,097,281) |
| Net cash flows from Investing Activities | | (156,652,821) | (66,097,281) |
| NET DECREASE IN CASH AND CASH EQUIVALENT | | | |
| Cash and cash equivalent at BEGINNING of the year | | 54,994,154 | 48,664,386 |
| Cash and cash equivalent at END of the year | | 28,346,195 | 54,994,154 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The State Department for Cooperatives financial statements were approved on 30/9/2023 and signed by:


.....

Patrick Kilemi
Accounting Officer


.....

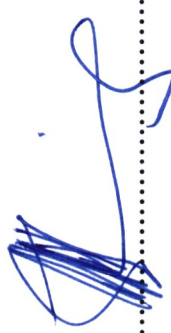
Margret Nyaywera
Head of Accounting Unit
ICPAK M/No. 5429

State Department for Cooperatives
Annual Report and Financial Statements for the year ended 30th June 2023

14. Statement of Comparison of Budget and Actual Amounts for FY2022/23

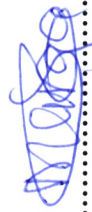
| Revenue/Expense Item | Original Budget a | Adjustments b | Final Budget e=a+b | Actual on Comparable Basis d | Budget Utilisation Difference e=c-d | % of Utilisation Difference to Final Budget f=d/c % |
|-------------------------------------|----------------------|-----------------------|-----------------------|------------------------------------|--|---|
| RECEIPTS | | | | | | |
| Exchequer releases | 936,200,000 | 20,650,402,192 | 21,586,602,192 | 13,489,034,633 | 8,097,567,559 | 62% |
| Other Receipts | 1,326,000,000 | 47,792,595 | 1,373,792,595 | 1,188,734,506 | 185,058,089 | 87% |
| Total Receipts | 2,262,200,000 | 20,698,194,787 | 22,960,394,787 | 14,677,769,139 | 8,282,625,648 | 64% |
| | | | | | | |
| Compensation of Employees | 246,600,000 | 10,035,386 | 256,635,386 | 251,193,265 | 5,442,121 | 98% |
| Use of goods and services | 337,381,895 | (51,026,820) | 286,355,075 | 233,558,728 | 52,796,347 | 82% |
| Transfers to Other Government Units | 1,542,200,000 | 20,665,570,757 | 22,207,770,757 | 14,025,636,242 | 8,182,134,515 | 63% |
| Social Security Benefits | 569,300 | 6,929,806 | 7,499,106 | 7,426,403 | 72,703 | 99% |
| Acquisition of Assets | 135,448,805 | 66,685,658 | 202,134,463 | 156,652,821 | 45,481,642 | 77% |
| Total Payments | 2,262,200,000 | 20,698,194,787 | 22,960,394,787 | 14,674,467,460 | 8,285,927,327 | 64% |
| Surplus/Deficit | - | - | - | 3,301,678 | (3,301,678) | |

The State Department for Cooperatives financial statements were approved on 30/9 2023 and signed by:


.....

Patrick Kilemi

Accounting Officer


.....

Margret Nyaywera

Head of Accounting Unit

ICPAK MNo. 5429.....


*State Department for Cooperatives
Annual Report and Financial Statements for the year ended 30th June 2023*

14 (a) Statement Of Comparison of Budget and Actual Amounts: Recurrent for FY2022/2023

| Revenue/Expense Item | Original Budget a | Adjustments b | Final Budget e=a+b | Actual on Comparable Basis d | Budget Utilisation Difference e=d-c | % of Utilisation Difference to Final Budget f=d/c % |
|-------------------------------------|----------------------|--------------------|-----------------------|---------------------------------|--|--|
| RECEIPTS | | | | | | |
| Exchequer releases | 513,700,000 | 250,402,192 | 764,102,192 | 736,423,671 | 27,678,521 | 96% |
| Other Receipts | 1,326,000,000 | 47,792,595 | 1,373,792,595 | 1,188,734,506 | 185,058,089 | 87% |
| Total Receipts | 1,839,700,000 | 298,194,787 | 2,137,894,787 | 1,925,158,177 | 212,736,610 | 90% |
| PAYMENTS | | | | | | |
| Compensation of Employees | 246,600,000 | 10,035,386 | 256,635,386 | 251,193,265 | 5,442,121 | 98% |
| Use of goods and services | 159,281,895 | 59,441,464 | 218,723,359 | 227,314,498 | (8,591,139) | 104% |
| Transfers to Other Government Units | 1,422,200,000 | 50,776,675 | 1,472,976,675 | 1,294,438,017 | 178,538,658 | 88% |
| Social Security Benefits | 569,300 | 6,929,806 | 7,499,106 | 7,426,403 | 72,703 | 99% |
| Acquisition of Assets | 11,048,805 | 171,011,456 | 182,060,261 | 138,152,521 | 43,907,740 | 76% |
| Grand Total | 1,839,700,000 | 298,194,787 | 2,137,894,787 | 1,918,524,705 | 219,370,082 | 90% |
| Surplus/Deficit | - | - | - | 6,633,472 | (6,633,472) | |

The State Department for Cooperatives financial statements were approved on 30/9/ 2023 and signed by:


.....
Patrick Kilemi
Accounting Officer

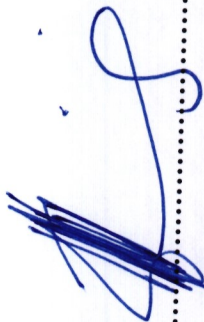

.....
Margret Nyaywera
Head of Accounting Unit
ICPAK M/No.....5429.....

State Department for Cooperatives
Annual Report and Financial Statements for the year ended June 2023

14 (b) Statement of Comparison of Budget and Actual AmDevelopment for 2022

| Revenue/Expense Item | Original Budget a | Adjust b | Final Budget c=a+b | Actual U iffer e=c- |
|-------------------------------------|----------------------|--------------|-----------------------|---------------------------|
| RECEIPTS | | | | |
| Exchequer releases | 422,500,000 | 20,40 | 20,822,400 | 52,1,8,06 |
| Total Receipts | 422,500,000 | 20,40 | 20,822,400 | 52,1,8,06 |
| Payments | | | | |
| Use of goods and services | 178,100,000 | (11) | 67,31 | 6,3,6 |
| Transfers to Other Government Units | 120,000,000 | 20,61 | 20,734,782 | 1,112,8,00 |
| Acquisition of Assets | 124,400,000 | (10) | 20,070 | 8,3,3 |
| Grand Total | 422,500,000 | 20,40 | 20,822,400 | 5,5,18,06 |
| Surplus/Deficit | | | | 1,3,7 |

The State Department for Cooperatives financial statements were approved on 30 2022 mnt


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Patrick Kilemi

Accounting Officer

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responsibility was to enforce the Cooperative Societies (Amendment Act) 2004. In its
State Department for Cooperatives was guided and complied with the provisions of
Finance Management Act (2012), Public Procurement and Assets Disposal Act
Public Investment Management (PIM) Regulations, 2022 which systematically

the Session
main resp
operations
the Public
(2015) and

*State Department for Cooperatives
Annual Report and Financial Statements for the year ended 30th June 2023*

14 (c) Budget Execution by Programmes and Sub-Programmes for FY2022/23

| Programme/Sub-programme | Approved Budget | Actual on comparable b: Budget utilization difference |
|--|------------------------|--|
| Cooperative Development and Governance and Accountability | 22,960,394,787 | 14,674,467,460 |
| | 81,177,606 | 79,551,390 |
| | 1,242,896,325 | 1,061,019,940 |
| Co-operative Advisory Services | 466,338,002 | 402,024,663 |
| Marketing, value addition and | 20,700,000,000 | 12,700,000,000 |
| | 469,982,854 | 431,871,467 |
| Grand Total | 22,960,394,787 | 14,674,467,460 |
| | | 8,285,927,328 |

15 Notes to the Financial Statements

1. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (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.

2. Reporting State Department for Cooperatives

The financial statements are for the (*State Department for Cooperatives*). The financial statements encompass the reporting State Department for Cooperatives as specified under Section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the State Department for Cooperatives:

3. Reporting Currency

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

Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the *State Department for Cooperatives* for all the years presented.

a) Recognition of Receipts

The *State Department for Cooperatives* recognises all receipts from the various sources when the event occurs, and the related cash has been received.

(i) Transfers from the Exchequer

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving *State Department for Cooperatives*.

(ii) External Assistance

External assistance is received through grants and loans from multilateral and bilateral development partners. Grants and loans 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 State Department for Cooperatives or by the beneficiary. In case of grant/loan 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. A similar recognition criteria is applied for loans received in the form of a direct payment. During the year ended 30th June 2023, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

(iii) miscellaneous receipts

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

Significant Accounting Policies (Continued)

b) Recognition of payments

The State Department for Cooperatives recognises all payments when the event occurs, and the related cash has been paid out by the *State Department for Cooperatives*.

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 paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

iii) Interest on Borrowing

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

iv) Principal on borrowing

The repayment of principal payments of principal amount of borrowing is recognized as payment in the period in which the repayment is made. **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 and a summary provided for purposes of consolidation. *This summary is disclosed as an annexure to the financial statements.*

Significant Accounting Policies (Continued)

v) In-kind contributions

In-kind contributions are donations that are made to the State Department for Cooperatives 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 *State Department for Cooperatives* 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.

vi) Third Party Payments

Included in the receipts and payments, are payments made on the State Department for Cooperatives's behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings or grants.

c) 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. A bank account register is maintained, and a summary provided for purposes of consolidation. *This summary is disclosed as an annexure to the financial statements.*

Restriction on Cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits and retentions. As of 30th June 2023, this amounted to Kshs 26,511,391

Cooperatives' funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the State Department for Cooperatives' financial statements have been prepared in a form that

Significant Accounting Policies (Continued)

d) Imprests and advances

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

e) Third party deposits and retention

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted for National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

f) Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items. 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.

g) Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits and retentions, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR CO-OPERATIVES FOR THE YEAR ENDED 30 JUNE, 2023

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 standards and the relevant laws and regulations that have an 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 an 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 State Department for Co-operatives set out on pages 1 to 28, which comprise of the statement of financial assets and financial liabilities as at 30 June, 2023, and the statement of receipts and

Report of the Auditor-General on State Department for Co-operatives for the year ended 30 June, 2023

Significant Accounting Policies (Continued)

l) 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 State Department for Cooperatives; 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 *State Department for Cooperatives* 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. **Note** and *Annex 7* of this financial statement is a register of the contingent liabilities in the year.

State Department for Cooperatives
Annual Report and Financial Statements for the year ended 30th June 2023

Notes to the Financial Statements

1 Exchequer releases

| Description | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|-----------------------|--------------------|
| Total Exchequer Releases for quarter 1 | 301,535,885 | 113,452,132 |
| Total Exchequer Releases for quarter 2 | 10,030,900,202 | 232,117,414 |
| Total Exchequer Releases for quarter 3 | 104,064,785 | 65,496,446 |
| Total Exchequer Releases for quarter 4 | 3,052,533,762 | 463,977,774 |
| TOTAL | 13,489,034,634 | 875,043,766 |

2. OTHER RECEIPTS

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|---|----------------------|--------------------|
| Receipts from Administrative Fees and Charges - Collected as AIA | 1,143,365,582 | 27,350,828 |
| Other Property Income collected as AIA | 45,368,923 | - |
| TOTAL | 1,188,734,506 | 27,350,828 |

3. Compensation for Employees

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Basic salaries of permanent employees | 168,759,124 | 161,346,752 |
| Personal allowances paid as part of salary | 82,434,141 | 83,336,727 |
| TOTAL | 251,193,265 | 244,683,479 |

4. Use of Goods and Services

| | 2022- 2023 | 2021- 2022 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| Communication, Supplies and Services | 7,275,977 | 5,323,866 |
| Domestic Travel and Subsistence, and Other | 52,807,462 | 24,957,919 |
| Foreign Travel and Subsistence, and other | 10,330,807 | 5,076,101 |
| Printing , Advertising and Information Supplies and | 47,742,175 | 2,991,810 |
| Rentals of Produced Assets | 10,830,825 | 8,509,016 |
| Training Expenses | 7,734,836 | 5,419,310 |
| Hospitality Supplies and Servi | 38,852,144 | 13,171,790 |
| Specialised Materials and Supp | 3,104,861 | 7,164,193 |
| Office and General Supplies and Services | 12,555,560 | 18,821,137 |
| Fuel Oil and Lubricants | 11,562,166 | 4,429,559 |
| Other Operating Expenses | 23,716,509 | 238,045,725 |
| Routine Maintenance - Vehicles | 5,308,683 | 5,342,870 |
| Routine Maintenance - Other Assets | 1,736,724 | 4,867,598 |
| TOTAL | 233,558,728 | 344,120,894 |

Notes to the Financial Statements (Continued)

5. Transfer to other government entities

| Description | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|-----------------------|--------------------|
| Current Grants to Government Agencies and other Levels of Government | 1,294,438,017 | 91,200,000 |
| Capital Grants to Government Agencies and other Levels of Government | 12,731,198,225 | 152,500,000 |
| TOTAL | 14,025,636,242 | 243,700,000 |

The above transfers were made to the following self-reporting entities in the year:

| Description | Recurrent Kshs | AIA Kshs | Development Kshs | 2022- 2023 Kshs |
|--|--------------------|----------------------|-----------------------|-----------------------|
| Transfers to SAGAs and SCs | | | | |
| KENYA NATIONAL TRADING CORPORATION LIMITED | 55,500,000 | 273,300,000 | 22,500,000 | 351,300,000 |
| SASRA | - | 613,932,777 | - | 613,932,777 |
| KENYA PLANTERS COOPERATIVE UNION KPCU | 4,912,500 | - | - | 4,912,500 |
| NEW KENYA PLANTERS CO OPERATIVE UNION PUBLIC LIMITED COMPANY | 55,723,817 | 291,068,923 | - | 346,792,740 |
| FINANCIAL INCLUSION FUND | - | - | 12,000,000,000 | 12,000,000,000 |
| NEW KCC LTD | - | - | 700,000,000 | 700,000,000 |
| NEW KENYA PLANTERS CO OPERATIVE UNION PUBLIC LIMITED COMPANY | - | - | 8,698,225 | 8,698,225 |
| TOTAL | 116,136,317 | 1,178,301,700 | 12,731,198,225 | 14,025,636,242 |

Totals from AIA column totaling to KES 1,178,301,700 excludes AIA from HQ Cooperatives KES 10,432,805.25 (KES 6,000,000 from registration services and KES 4,432,805.25 from Audit services). The overall AIA totals for both SAGAs and HQ Cooperatives is thus KES 1,188,734,506 (see Note 2-Other Receipts)

6. Social Security Benefits

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Government pension and retirement benefits | 7,426,403 | 2,106,216 |
| TOTAL | 7,426,403 | 2,106,216 |

7. Acquisition of Assets

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Construction of Buildings | - | 3,334,595 |
| Refurbishment of Buildings | - | 34,725,318 |
| Purchase of Vehicles and Other Transport Equipment | 84,235,599 | - |
| Overhaul of vehicles and other transport equipments | - | 952,120 |
| Purchase of Office Furniture and General Equipment | 53,517,544 | 2,199,242.00 |
| Purchase of Specialised Plant, Equipment and Machinery | 3,834,379 | 190,000 |
| Research, Studies, Project Preparation, Design & Supervision | 15,065,300 | 24,696,006 |
| TOTAL | 156,652,821 | 66,097,281 |

8A. Bank Accounts

| Name of Bank, Account No. & currency | Amount in bank account currency | Indicate whether recurrent, Development, deposit e.t.c | 2022- 2023 | 2021- 2022 |
|--|---------------------------------|--|-------------------|-------------------|
| | | | Kshs | Kshs |
| Central Bank of Kenya, 1000303042,KShs | ksh | Reccurent | 1,492,766 | 427,798 |
| Central Bank of Kenya, 1000303058,KShs | ksh | Development | 342,037 | 1,448,233 |
| Central Bank of Kenya, 1000303069,KShs | ksh | Deposit | 3,296,599 | 27,328,766 |
| Liquidation 1000347066,Kshs | ksh | Deposit | 23,214,793 | 25,789,357 |
| Total | | | 28,346,195 | 54,994,154 |

8B. Cash in hand

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Cash in Hand – Held in domestic currency | - | - |
| TOTAL | - | - |

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Cash in hand should also be analysed as follows:

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|---------------|--------------------|--------------------|
| NSSF Building | - | - |
| TOTAL | - | - |

9. Accounts Receivables - Outstanding Imprest and Clearance Accounts

| Description | 2022- 2023 Kshs | 2021- 2022 Kshs |
|---------------------|--------------------|--------------------|
| Government Imprests | 1,466,875 | 277,500 |
| TOTAL | 1,466,875 | 277,500 |

| | 2022/2023 total | % of the total | 2021/2022 total | % of the total |
|----------------|--------------------|-------------------|--------------------|-------------------|
| Under one year | 1,466,875 | 100% | 277,500 | 100% |
| Total | 1,466,875 | | 277,500 | |

10 Third party deposits and retention

| Description | 2022/2023 Kshs | | 2021/2022 Kshs | |
|-------------------------|-----------------------|---------------------------|---------------------|-------------------------------|
| Liquidation | 23,214,793 | | 25,789,357 | |
| Deposits | 3,296,599 | | 27,328,766 | |
| Total | 26,511,391 | | 53,118,123 | |
| Ageing analysis: | Current FY | % of the Total | Prior FY | % of the Total |
| Under one year | 26,511,391 | 100% | 53,118,123 | 100% |
| Total | 26,511,391 | 100% | 53,118,123 | 100% |

11. Fund balance brought forward

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|------------------------------------|--------------------|--------------------|
| Bank accounts | 54,994,154 | 48,657,081 |
| Cash in hand | - | 7,305 |
| Receivables - Outstanding Imprests | 277,500 | 459,501 |
| Payables - Deposits | (53,118,123) | (44,653,179) |
| TOTAL | 2,153,531 | 4,470,708 |

Notes to the Financial Statements (Continued)

12. Prior Year Adjustments

| Description of the error | Balance b/f FY 2021/2022 as per Financial statements Kshs | Adjustments Kshs | Adjusted Balance b/f FY 2021/2022 Kshs |
|--------------------------|--|---------------------|--|
| Bank account Balances | 54,994,154 | (1,876,031) | (4,003,901) |
| Accounts Payables | (53,118,123) | - | - |
| Receivables | 277,500 | (277,500) | - |
| | 2,153,531 | (2,153,531) | 4,003,901 |

This relates kshs. 1,876,031 to previous years Recurrent and Development bank balances swept to the exchequer. Further kshs. 227,500 previous years imprests surrendered in the current year. This results in the reduction of the fund balance b/f.

13. Changes in Receivables

| Description of the error | 2022- 2023 KShs | 2021- 2022 KShs |
|---|--------------------|--------------------|
| Receivables as at 1 st July 2022 | 277,500 | 459,501 |
| Receivables as at 30th June 2023 | 1,466,875 | 277,500 |
| Net changes in account receivables | (1,189,375) | 182,001 |

Ministry of Industrialization and Trade, Industrial Training Institute (KITI). In the Ministry of Environment, I was posted as the head Public Complaints Committee on Environment.

15 Related Party Disclosures

The following comprise of related parties to the State Department for Cooperatives

- i) Key management personnel that include the Cabinet Secretaries and Accounting Officers
- ii) Other Ministries Departments and Agencies and Development Projects;
- iii) County Governments; and
- iv) State Corporations and Semi-Autonomous Government Agencies.

15 Other Important Disclosures

15.1 Related party transactions:

| Description | FY 2022/2023 | FY 2021/2022 |
|---|-----------------------|--------------------|
| | Kshs | Kshs |
| Transfers to Related Parties | | |
| Transfers to SCs and SAGAs | 14,025,636,242 | 243,700,000 |
| Total Transfers to Related Parties | 14,025,636,242 | 243,700,000 |
| | | |
| Transfers from Related Parties | | |
| Transfers from the Exchequer | 13,489,034,634 | 875,043,766 |
| Total Transfers from Related Parties | 13,489,034,634 | 875,043,766 |

15.2 Pending Accounts Payable (See Annex 1)

| Description | FY 2021/2022 | Balance c/f 2022/2023 |
|-----------------------------|--------------|-----------------------|
| | Kshs | Kshs |
| Construction of Civil Works | - | 892,688 |
| Supply of Goods | - | 8,309,405 |
| Supply of Services | - | 25,900,000 |
| Total | - | 35,102,093 |

15.3: Pending Staff Payables -None

Other important disclosures (continued)

15.4: Other Pending Payables (See Annex 3)

| | Balance b/f Previous FY | Balance c/f Current FY |
|------------------------------|--|---------------------------------------|
| Description | Kshs | Kshs |
| Amounts due to Third Parties | 53,118,123 | 26,511,391 |
| Total | 53,118,123 | 26,511,391 |

16. External Assistance

There were no external assistance received during the year.

Notes to the Financial Statements (Continued)

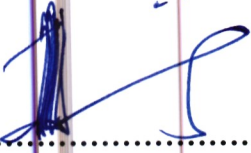
15.5 Progress on follow up of Prior Years Auditor-General's recommendations.

The following is the summary of issues raised by the Auditor-General during the prior year and management comments that were provided.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|---|-----------------------------------|--|
| 1579 | MISTATEMENT OF EXPENDITURE ON RENTALS OF PRODUCED ASSETS | The expenditure which was erroneously posted to rentals have since been reversed and posted to the right Account shown through journal voucher No 4065-1412 | Not Resolved | 31 st December 2023 |
| 1580 | VARIANCES ON COMPENSATION OF EMPLOYEES EXPENDITURE | All the payments were salary items | Not Resolved | 31 st December 2023 |
| 1581 | IRREGULAR AWARD OF TENDER FOR PROPOSED MODERNISATION OF LUANDA FARMERS'S CO-OPERATIVE UNION GINNERY | Bidder No. 6 –M/s Tenestone Ltd failed the preliminary stage (a). By not submitting a dully filled and signed form of tender with validity of 120 days (see the marked area on the attached copy for your reference); | Not Resolved | 31 st December 2023 |

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| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|---|-----------------------------------|--|
| | | (b). Failed to submit a sworn affidavit on default notices and warning for incomplete projects. | | |
| 1582 | IRREGULAR PROCUREMENT FOR CONSULTANCY SERVICES TO MODERNIZE COFFEE FACTORIES | <p>On the last page of the tender opening minutes the secretary erroneously indicated opening date as 29/8/2022 instead of 29/9/2022 which can be treated as a Clerical Error</p> <p>The professional opinion was approved by the Accounting Officer and had been prepared by the Head of Supply Chain Management on 1/11/2021 of which was the same date the Accounting Officer was supposed to approve the professional opinion but there was a Clerical error on indicating the dates.</p> | Not Resolved | 31 st December 2023 |



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Patrick Kilemi
Principal Secretary



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Deputy Accountant General
Margret Nyaywera
ICPAK Member: 5429

16. Annexes

Annex 1 - Analysis of Pending Accounts Payable

| Supplier of Goods or Services | Date invoiced/contracted | Particulars | Original Amount | Outstanding Balance | Comments |
|-------------------------------|--------------------------|--|------------------|---------------------|-------------------|
| Construction of civil works | | | | | |
| Philafe Engineering Limited | - | Modernization of Luanda farmers Cooperative union Busia County | 892,688 | 892,688 | Lack of exchequer |
| Sub-Total | | | 892,688 | 892,688 | |
| Supply of goods | | | | | |
| Flag Forty Two | | Supply and delivery of Bulk SMS and activation for CMIS | 2,440,000 | 2,440,000 | Lack of exchequer |
| Amicus Borehole Drillers Ltd | | Office furniture | 4,839,410 | 4,839,410 | Lack of exchequer |
| Newama Limited | | Supply and delivery of Desktop | 1,029,995 | 1,029,995 | Lack of exchequer |
| Sub-Total | | | 8,309,405 | 8,309,405 | |

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| Supplier of Goods or Services | Date invoiced/contracted | Particulars | Original Amount | Outstanding Balance | Comments |
|-------------------------------|--------------------------|--|-------------------|---------------------|-------------------|
| Agmond International | | Consultancy report on automation of coffee factories project | 8,900,000 | 8,900,000 | Lack of exchequer |
| Agmond International | | Consultancy report on automation of coffee factories project | 14,800,00 | 14,800,00 | Lack of exchequer |
| Sub-Total | | | 25,900,000 | 25,900,000 | |
| Grand Total | | | 35,102,093 | 35,102,093 | |



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Annex 2 - Analysis of Pending Staff Payables-None*

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Annex 3 - Analysis of Other Pending Payables-Attached

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Annex 4 – Summary of Fixed Asset Register

| Asset class | Historical Cost b/f (Kshs) | Additions during the year (Kshs) | Disposals during the year (Kshs) | Historical Cost c/f (Kshs) |
|--|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------|
| Buildings and structures | 62,755,919 | 15,065,300 | - | 77,821,219 |
| Office equipment, furniture and fittings | - | 53,517,544 | - | 53,517,544 |
| Other Machinery and Equipment | 190,000 | 88,069,977 | - | 88,259,977 |
| Total | 62,945,919 | 156,652,821 | - | 219,598,740 |



Annex 5 – List of SCs, Sagas and Public Funds under State Department for Cooperatives

| Description | Recurrent Kshs | AIA Kshs | Development Kshs | 2022- 2023 Kshs |
|--|--------------------|----------------------|-----------------------|-----------------------|
| Transfers to SAGAs and SCs | | | | |
| KENYA NATIONAL TRADING CORPORATION LIMITED | 55,500,000 | 592,765,996 | 22,500,000 | 670,765,996 |
| SASRA | - | 613,932,777 | - | 613,932,777 |
| KENYA PLANTERS COOPERATIVE UNION KPCU | 4,912,500 | - | - | 4,912,500 |
| NEW KENYA PLANTERS CO OPERATIVE UNION PUBLIC LIMITED COMPANY | 55,723,817 | 291,068,923 | - | 346,792,740 |
| FINANCIAL INCLUSION FUND | - | - | 12,000,000,000 | 12,000,000,000 |
| NEW KCC LTD | - | - | 700,000,000 | 700,000,000 |
| NEW KENYA PLANTERS CO OPERATIVE UNION PUBLIC LIMITED COMPANY | - | - | 8,698,225 | 8,698,225 |
| TOTAL | 116,136,317 | 1,497,767,696 | 12,731,198,225 | 14,345,102,238 |



| SACCO NAME | BALANCE | |
|-------------------------------|------------------------------|--|
| 1 Posta Investment Sacco | 9,154,148.00 | |
| 2 Steel Sacco Limited | 240,652.00 | |
| 3 Nawiri Farmers Sacco | - | |
| 4 Akapulco Sacco | 12,622.85 | |
| 5 Drumvale FCS | 186,877.05 | |
| 6 Kandara FCS | 563,911.55 | |
| 7 Nairobi Railways Consumers | 178,248.20 | |
| 8 Boulevard Sacco | 1,524,996.90 | |
| 9 KNFCU | 1,695,383.00 | |
| 10 Tena Sacco | 2,551,735.35 | |
| 11 Ulinzi Sacco | 8,390,331.85 | |
| 12 Hortflo Sacco | 0.55 | |
| 13 Dagpretti Nyakinyua | 64,036.80 | |
| 14 Kimute Co-op Holdings | 380,329.85 | |
| 15 AGIP Sacco | 627,471.20 | |
| 16 Bookies Sacco | 49,226.00 | |
| 17 Muhoroni Sugarcane Growers | 209,381.30 | |
| 18 Kagaa FCS | 508,064.30 | |
| 19 Manderu Handicraft | 48.00 | |
| 20 UFAA Claims | 685,890.75 | |
| 21 Central Kaagari FCS | 8,557.20 | |
| | | |
| Total | 27,031,912.70 | |
| | | |
| Bank Balance as at 10.07.2023 | 23,214,792.70 | |
| | | |
| Surplus/(Deficit) | <u>(3,817,120.00)</u> | |
| | | |



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| CASH ANALYSIS DEPOSIT ACCOUNT | |
|--------------------------------------|---------------------|
| Supplier | Amount |
| Promin Consultants | 2,384,910.00 |
| Questa Intersol Management Ltd | 735,300.00 |
| Total Retention Monies Held | 3,120,210.00 |
| Audit Fees | 176,388.60 |
| Bank Balance as at 30.06.2023 | 3,296,598.60 |

