

REPUBLIC OF KENYA



*Paper laid by the
Hon. Ada Duale
mof
Tuesday 20.6.2018*

OFFICE OF THE AUDITOR-GENERAL

PARLIAMENT
OF KENYA
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REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
THE STATEMENT OF
OUTSTANDING LOANS**

**FOR THE YEAR ENDED
30 JUNE 2017**

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE STATEMENT OF OUTSTANDING LOANS FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENT

Adverse Opinion

I have audited the accompanying statement of Outstanding Loans as at 30 June 2017 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the statement does not present fairly, the financial position of Statement of Outstanding Loans as at 30 June, 2017, and of its financial performance and its cash flows for the year ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse opinion

1. Outstanding Loan balances

The statement of outstanding loans as at 30 June 2017 reflects total loans issued of Kshs.811,372,028,795 which includes new loans issued in 2016/2017 totaling Kshs.223,856,759,335. An amount of Kshs.17,635,666,924 of the loans issued had been redeemed/repaid, leaving a balance of Kshs.793,736,361,870 outstanding as at that date which represents an increase of Kshs.221,487,512,242 or approximately 39% of total outstanding loan balance of Kshs.572,248,849,628 reported as at 30 June 2016. However, accuracy of the outstanding loan balance of Kshs.572,248,849,628 as at 30 June 2016 could not be confirmed as some eighteen (18) institutions/parastatals with a total loan balance of Kshs.150,164,723,345 reflected in the statement differed with the loan balance of Kshs.117,530,162,338 independently confirmed by these institutions/parastatals during the 2014/2015 financial year as indicated below.

Report of the Auditor-General on the Statement of Outstanding Loans for the year ended 30 June 2017

Outstanding Loans Independently Confirmed as at 30th June, 2015

	Name of Institution	Amount of loan in GOK records	Amount of loan confirmed	Variance
1	Agricultural Finance corporation	529,119,163	538,587,64	(9,468,481)
2	Agricultural settlement fund and Central land board	83,026,236	10,963,879	72,062,357
3	Agro chemical & Food company limited	1,107,075,120	2,941,884,000	(1,834,808,880)
4	Coast water service board	1,551,379,206	795,400,000	755,979,206
5	Coffee Board of Kenya	752,510,309	709,358,000	43,152,309
6	Kenya Airport Authority	1,524,889,530	2,536,891,308	(1,012,001,777)
7	Kenya Civil Aviation Authority	2,016,927,789	2,021,866,063	(4,938,274)
8	Kenya Electricity Generating Co .Ltd	79,461,731,502	64,082,093,864	15,379,637,639
9	Kenya Industrial Estates Ltd	423,950,484	743,218,039	(319,267,555)
10	Kenya Meat Commission	940,241,100	300,000,000	640,241,100
11	Kenya Power and lighting Co. Limited	34,568,563,918	31,527,309,970	3,041,253,947
12	Kenyatta University	10,857,620,656	4,656,592,535	6,201,028,121
13	K-rep Bank	97,495,981	66,223,569	31,272,412
14	Lake Victoria South Water service board	5,734,185,606	2,361,053,466	3,373,132,140
15	National Irrigation Board	2,262,036,544	-	2,262,036,544
16	National Water Conservation and pipeline corporation	2,460,874,897	-	2,460,874,897
17	Rift valley water services board	1,411,529,796	1,362,012,293	49,517,503
18	Tanathi water services Board	4,381,565,506	2,877,707,708	1,503,857,798
	TOTALS	150,164,723,345	117,530,162,338	32,633,561,007

The resultant variance of Kshs.32,633,561,007 was not reconciled or explained casting doubt on the accuracy of the outstanding loan balance of Kshs 572,248,849,628 carried forward to 2016/2017 financial year.

In absence of the circularization and elaborate reporting instrument there is high likelihood of holding onto non-existent balances and eventual loss of public funds.

2. Non-Performing or Dormant Loans

As was reported during the previous financial year, the total outstanding loans balance of Kshs.793,736,361,870 reflected in the statement of outstanding loans as at 30 June

2017 includes loans amounting to Kshs.21,972,597,717 issued to various institutions over the years. However, during the year under review, the said institutions have not made any efforts to repay their respective loans upon maturity as show below.

Effective Years of Loan Repayment

	Corporation/ Entity	Amount Lent (Kshs)	Effective year of repayment
1	Associated Sugar Factory, Ramisi	15,818,960	June,1988
2	Coast Water Services Board	6,756,217,290	June,2018
3	East African Sugar Industries Ltd, Muhoroni	177,123,100	Not indicated
4	Eldoret Municipal Council	1,058,673,824	June,1999
5	Halal Meat Products	27,701,420	Not indicated
6	Kenya Meat Commission	940,241,000	Not Indicated
7	Moi University	231,250,000	Not Indicated
8	Kenya National Federation of Co-operatives	5,595,600	Not indicated
9	Kenya Torray Mills	2,982,480	Not indicated
10	Kenya Tourist Development Corporation	48,000,000	Not Indicated
11	Kenya Urban Transport Various Towns	40,706,140	Not indicated
12	Local Government Loans Authority	7,594,273,720	Not indicated
13	Miwani Outgrowers Mills Ltd	22,600,020	Not indicated
14	Miwani Sugar Mills Ltd (Miwani sugar co. (1989)Ltd)	78,088,180	Not indicated
15	National Water Conservation & Pipeline Corporation	2,460,874,897	Not Indicated
16	Nzoia Sugar Co.Ltd	158,510,100	Not Indicated
17	P.J. Products	2,036,820	Not Indicated
18	Pyrethrum Board of Kenya	863,368,270	2008
19	Riftvalley water services board	1,411,529,796	November,2011
20	South Nyanza Sugar Company	47,200,200	Not Indicated
21	Uplands Bacon	26,205,900	Sept,1981
22	Mumias Outgrowers	3,600,000	Not Indicated
	TOTALS	21,972,597,717	

3. Presentation of the statement

The statement did not contain disclosure on the applicable reporting framework in details as required by the PSASB such as bankers, auditors, addresses, location and management structure, Cabinet Secretary's forward, performance report, independent auditors report and progress made on the auditor's report among others. Further, the statement did not include other requirement as provided for under section 81 of the PFM Act 2012 such as the statement of receipts and payments, cash flow and notes to the statement. In addition, the IPSAS 24 provides for the inclusion of the statement of comparison between the budget and actual amounts to assess the performance of management but the same was not included. The reporting framework upon which the statement was drafted has not been disclosed.

In the absence of the necessary statements and disclosures, the statement does not comply with the Public Sector Accounting Standard Board requirements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Statement of Outstanding Loans in accordance with ISSAI 30 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 statement in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse 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, except for the effects of the matters discussed in the Basis for Adverse Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

Lack of fundamental documents and Criteria of loan disbursement.

The management did not provide the annual work plans, cash books, ledger, trial balances, quarterly reports and monitoring and evaluation reports for the loans issued during the year or such other document as to determine the beneficiaries, terms of the loans and the approval /authorization of disbursement. The determination of loans to benefiting institutions appears to be done outside the Department of Government Investment in Public Entities thus reducing it to the level of implementation of decisions made elsewhere. Due to such, some institutions have not been repaying their loans once they mature while failing institution continue to receive additional funding even when they are underperforming. This is exhibited by the continued growth of the outstanding loans amounts now standing at Kshs. 811billion. There are high chances that the outstanding loans may not be repaid leading to bad debts and loss of public funds.

Responsibilities of Management and Those Charged with Governance for the Statement

Management is responsible for the preparation and fair presentation of the statement in accordance with International Public Sector Accounting Standards (Cash Basis) and for

such internal control as management determines is necessary to enable the preparation of statement that is free from material misstatement, whether due to fraud or error.

In preparing the statement, management is responsible for assessing the statement of Outstanding Loans' ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the statement of Outstanding Loans or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Statement of Outstanding Loans' financial reporting process.

Auditor-General's Responsibilities for the Audit of the Statement

The audit objectives are to obtain reasonable assurance about whether the statement 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 this statement.

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

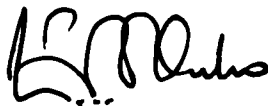
- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the statement of Outstanding Loans' 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 going concern 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 statement of Outstanding Loans' ability to continue to sustain its services. If I

conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the statement of Outstanding Loans to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the statement, including the disclosures, and whether the statement represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the statement of Outstanding Loans to express an opinion on the statement.
- 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

04 May 2018



THE NATIONAL TREASURY

GOVERNMENT INVESTMENTS AND PUBLIC ENTERPRISES (GIPE)

STATEMENT OF OUTSTANDING LOANS

AS AT 30TH JUNE 2017

THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING LOANS AS AT 30TH JUNE 2017

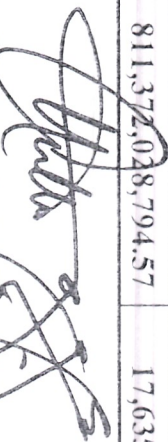
	AMOUNT LENT KSHS	AMOUNT REPAYD/ WRITTEN OFF KSHS	AMOUNT OUTSTANDING KSHS
Balance b/f - 1st July 2016	588,006,269,459.77	15,757,419,831.41	572,248,849,628.36
ADD: NEW LOANS:			
Kenya Electricity Generating Co. Ltd.	5,933,198,648.46	-	5,933,198,648.46
Kenya Electricity Generating Co. Ltd.	45,014,701,800.00	-	45,014,701,800.00
Kenya Power & Lighting Co. Ltd	1,150,080,886.00	-	1,150,080,886.00
Kenya Power & Lighting Co. Ltd	11,199,941,520.86	-	11,199,941,520.86
Lake Basin Development Authority	1,500,000,000.00	-	1,500,000,000.00
IDB Capital Ltd	1,555,675,500.00	-	1,555,675,500.00
Kenya Railways Corporation	151,190,458,579.48	-	151,190,458,579.48
Uchumi Supermarkets Limited	500,000,000.00	-	500,000,000.00
Mumias Sugar Company Limited	2,500,000,000.00	-	2,500,000,000.00
Athi Water Services Board	3,312,702,400.00	-	3,312,702,400.00
Loan Redemptions during the year	-	2,369,247,093.05	-2,369,247,093.05
Less: Loans fully repaid:			
Co-operative Bank of Kenya	(250,000,000.00)	(250,000,000.00)	-
K-Rep Bank Kenya	(241,000,000.00)	(241,000,000.00)	-
Balance Outstanding as at 30TH JUNE 20	811,372,028,794.57	17,635,666,924.46	793,736,361,870.11

DATE:

28/09/17

DR. KAMAU THUGGE, CBS

PRINCIPAL SECRETARY NATIONAL TREASURY



THE NATIONAL TREASURY

SUMMARY OF OUTSTANDING LOANS AS AT 30TH JUNE 2017

TO WHOM LENT	PAGE	AMOUNT LENT KSHS	AMOUNT REPAYED/ WRITTEN OFF KSHS	AMOUNT OUTSTANDING AS AT 30TH JUNE 2017 KSHS
1 Agricultural Finance Corporation	1 - 2	562,294,453.00	80,175,290.00	482,119,163.00
2 Board.	2	126,326,880.00	43,300,643.84	83,026,236.16
3 Agro-chemical & food Company Ltd	2	1,202,075,120.00	95,000,000.00	1,107,075,120.00
4 Associated Sugar Factory Rannisi	3	15,818,960.00	-	15,818,960.00
5 Allii Water Services Board	3 - 4	33,479,586,945.51	481,217,884.60	32,998,369,060.91
6 Catering Levy Trustee	4	140,000,000.00	13,000,000.00	127,000,000.00
7 Coast Water Service Board	4 - 5	6,756,217,290.03	-	6,756,217,290.03
8 Coffee Board of Kenya	5	976,332,369.20	223,822,060.00	752,510,309.20
9 Co-operative Bank of Kenya Ltd	5 - 8	658,861,548.00	182,608,453.60	476,253,094.40
10 Cotton Lint and Seed Marketing Board.	8	23,632,000.00	1,000,000.00	22,632,000.00
11 East African Sugar Industries Limited, Muhoroni	8 - 9	177,123,100.00	-	177,123,100.00
12 Eldoret Municipal Council	9	1,058,673,824.12	-	1,058,673,824.12
13 Equity Bank Ltd	9 - 10	872,782,214.43	383,704,351.26	489,077,863.17
14 Faulu Kenya Deposit Taking Micro-Finance Ltd.	10	200,200,000.00	19,630,722.20	180,569,277.80
15 Halal Meat Products	10	27,701,420.00	-	27,701,420.00
16 IDB Capital Limited	10	1,555,675,500.00	-	1,555,675,500.00
17 Idamat Farmers Co-operative Society Ltd	11	3,000,000.00	2,300,000.00	700,000.00
18 Industrial and Commercial Dev. Corporation	11 - 12	89,230,500.00	20,000,000.00	69,230,500.00
19 Karatina Industrial Estates	12	470,100.00	337,240.00	132,860.00

THE NATIONAL TREASURY

SUMMARY OF OUTSTANDING LOANS AS AT 30TH JUNE 2017

	TO WHOM LENT	PAGE	AMOUNT LENT KSHS	AMOUNT REPAYD/ WRITTEN OFF KSHS	AMOUNT OUTSTANDING AS AT 30TH JUNE 2017 KSHS
20	Kenya Airports Authority	12	1,820,144,346.00	695,717,031.15	1,124,427,314.85
21	Kenya Airways Ltd	12	24,224,000,000.00	-	24,224,000,000.00
22	Kenya Civil Aviation Authority	12 - 13	2,087,092,807.00	260,894,508.80	1,826,198,298.20
23	Kenya Co-operative Creameries Ltd.	13	52,607,460.00	16,356,420.00	36,251,040.00
24	Kenya Electricity Generating Co. Ltd.	13 - 14	136,811,192,242.13	7,518,517,175.06	129,292,675,067.07
25	Kenya Fishing Industries Limited	15	4,217,320.00	1,408,720.00	2,808,600.00
26	Kenya Industrial Estates	15	426,213,120.00	2,262,636.00	423,950,484.00
27	Kenya Meat Commission	15 - 17	940,241,100.00	-	940,241,100.00
28	(K.N.F.C.) Ltd	17	5,595,600.00	-	5,595,600.00
29	Kenya Power and Lighting Co. Limited	17 - 19	61,969,197,827.76	6,619,857,428.21	55,349,340,399.55
30	Kenya Railways Corporation	19 - 20	473,210,691,341.74	-	473,210,691,341.74
31	Kenya Toray Mills	20	2,982,480.00	-	2,982,480.00
32	Kenya Tourist Development Corporation	20	48,000,000.00	-	48,000,000.00
33	Kenya Urban Transport Various Towns	20	40,706,140.00	-	40,706,140.00
34	Finance Ltd.	20	205,100,000.00	20,111,194.00	184,988,806.00
35	Kenyatta University	20	10,857,620,656.00	-	10,857,620,656.00
36	K-Rep Bank Kenya	20	250,000,000.00	215,004,019.00	34,995,981.00
37	Lake Basin Development Authority (L.BDA)	21	1,500,000,000.00	-	1,500,000,000.00
38	Lake Victoria North Water Services Board	21	2,681,445,499.47	-	2,681,445,499.47

THE NATIONAL TREASURY

SUMMARY OF OUTSTANDING LOANS AS AT 30TH JUNE 2017

	TO WHOM LENT	PAGE	AMOUNT LENT	AMOUNT REPAYD/ WRITTEN OFF	AMOUNT OUTSTANDING AS AT 30TH JUNE 2017
			KSHS	KSHS	KSHS
39	Lake Victoria South Water Services Board	22	5,734,185,605.89	-	5,734,185,605.89
40	Local Government Loans Authority	22 - 46	7,688,792,480.00	94,518,760.00	7,594,273,720.00
41	Meru Central Farmers Co-operative Union Ltd	46	188,868,000.00	550,000.00	188,318,000.00
42	Miwani Outgrowers Mills Limited	46	6,600,000.00	-	6,600,000.00
43	Miwani Sugar Company (1989) Limited	46	16,000,020.00	-	16,000,020.00
44	Miwani Sugar Mills Limited	47	78,088,180.00	-	78,088,180.00
45	Moi University	47	250,000,000.00	18,750,000.00	231,250,000.00
46	Mombasa Pipeline Board	47	63,400,000.00	40,435,020.00	22,964,980.00
47	Mumias Outgrowers Company Limited	47	43,208,440.00	26,691,040.00	16,517,400.00
48	Mumias Sugar Company Limited	47	2,500,000,000.00	-	2,500,000,000.00
49	Nairobi City Council	48	123,109,580.00	20,775,820.00	102,333,760.00
50	National Irrigation Board	48	2,262,036,544.00	-	2,262,036,544.00
51	Corporation	48	2,460,874,897.13	-	2,460,874,897.13
52	Nyeri Water and Sewerage Company	48	1,159,592,738.00	403,336,606.00	756,256,132.00
53	Nzola Sugar Company Limited	48 - 49	182,139,360.00	23,629,260.00	158,510,100.00
54	P.J. Products	49	2,036,820.00	-	2,036,820.00
55	Pyrethrum Board of Kenya	49	863,368,270.00	-	863,368,270.00
56	Rafiki Deposit Taking Micro-Finance Ltd.	50	94,300,000.00	9,279,381.90	85,020,618.10
57	Rift Valley Water Services Board	50	1,411,529,796.04	15,000,000.00	1,396,529,796.04
58	Rural Electrification Authority	50	13,649,158,449.70	-	13,649,158,449.70
59	SMEP Deposit Taking Micro-Finance Ltd.	50	100,400,000.00	9,879,638.90	90,520,361.10
60	South Nyanza Sugar Company Limited	50 - 51	253,317,120.00	54,289,700.00	199,027,420.00

THE NATIONAL TREASURY

SUMMARY OF OUTSTANDING LOANS AS AT 30TH JUNE 2017

	TO WHOM LENT	PAGE	AMOUNT LENT KSHS	AMOUNT REPAYD/ WRITTEN OFF KSHS	AMOUNT OUTSTANDING AS AT 30TH JUNE 2017 KSHS
61	Sugar Belt Co-operative Union	51	22,378,600.00	387,160.00	21,991,440.00
62	Tana Water Services Board	51	1,854,116,143.09	-	1,854,116,143.09
63	Tanathi Water Services Board	51	4,381,565,506.35	-	4,381,565,506.35
64	Transcandia Ltd. (MFG)	52	1,000,000.00	400,000.00	600,000.00
65	Uchumi Supermarkets Limited	52	500,000,000.00	-	500,000,000.00
66	Uplands Bacon Factory (K) Ltd	52	26,205,900.00	-	26,205,900.00
67	Various African District Councils	52	6,646,800.00	5,042,600.00	1,604,200.00
68	Various African Farmers	52	1,550,120.00	1,489,200.00	60,920.00
69	Various Persons Engaged in Agriculture	52 - 53	21,769,320.00	14,981,540.00	6,787,780.00
70	Water Resource Management	53	362,612,300.00	-	362,612,300.00
71	West Suk African District Council	53	127,640.00	5,420.00	122,220.00
			811,372,028,794.58	17,635,666,924.52	793,736,361,870.06