

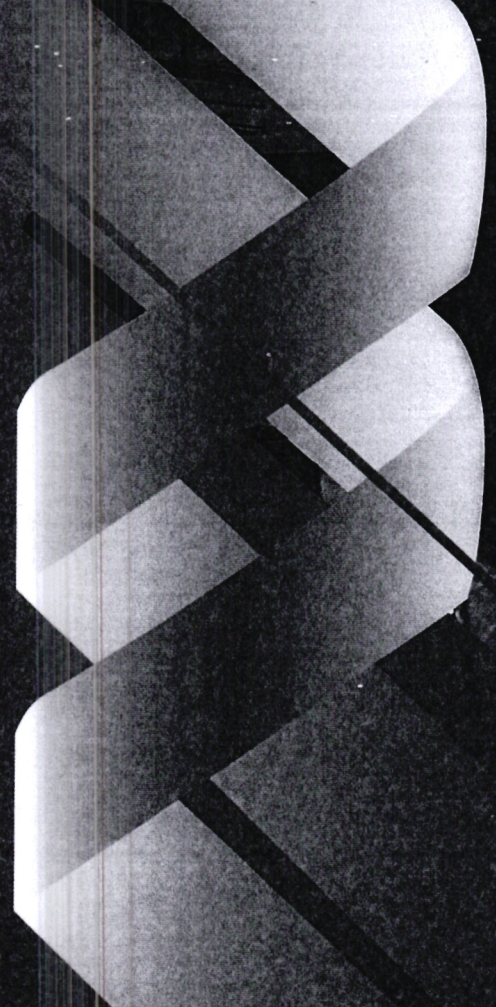


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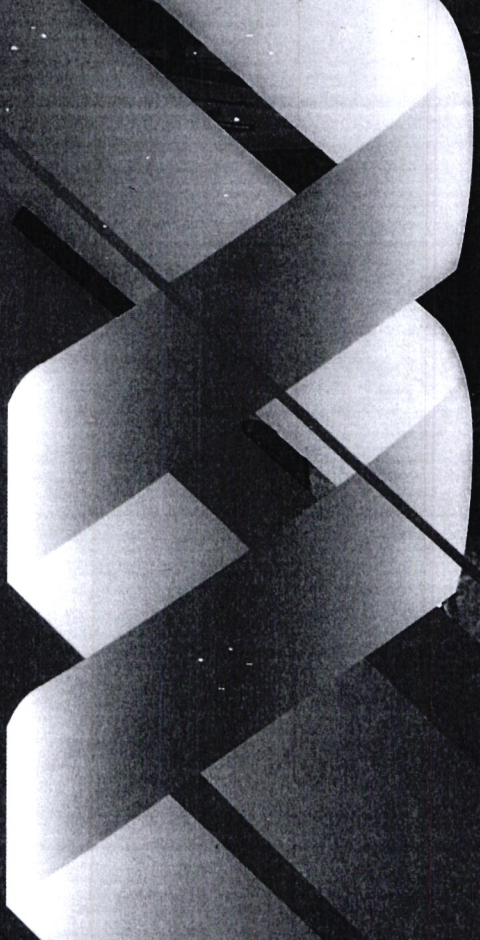
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REPORT
OF
THE AUDITOR-GENERAL
FOR
THE NATIONAL GOVERNMENT FUNDS
FOR
THE FINANCIAL YEAR
2021/2022

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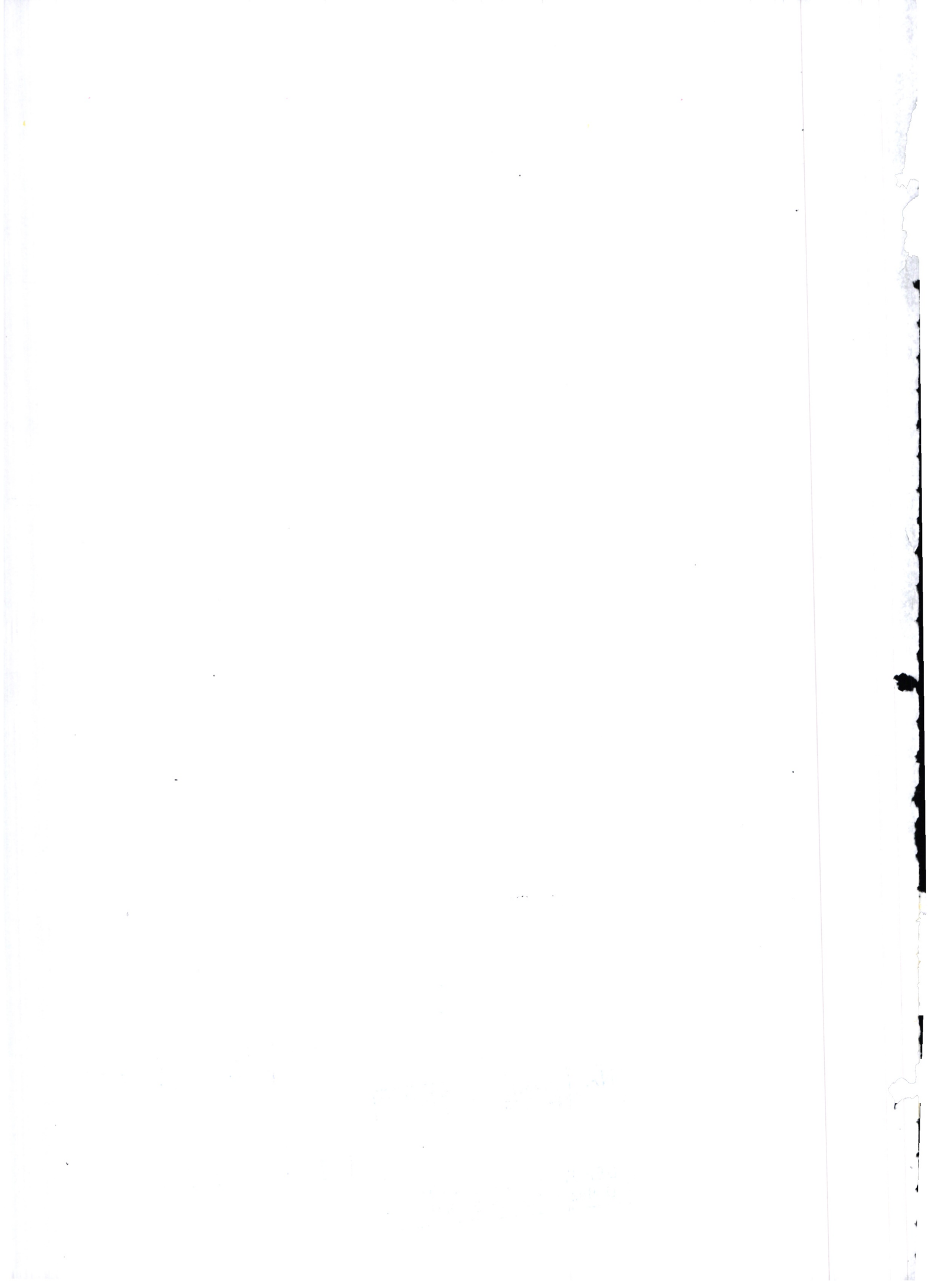


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Foreword

This report, is a compilation of the audit reports of National Government Funds for the year ended 30 June, 2022.

The Auditor-General is mandated by the Constitution of Kenya, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. In addition, Article 229(6) requires the Auditor-General to confirm whether or not public resources have been applied lawfully and in an effective way. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

Article 229 (7) of the Constitution requires the Auditor-General to audit and submit reports to Parliament or the relevant County Assembly within six (6) months after the end of the financial year. However, Section 81(4) of the Public Finance Management Act, 2012, reduces the timeline to three (3) months by giving entities leeway up to the end of September to prepare and submit financial statements for audit. This reduces the duration for audit and reporting from six (6) months given by the Constitution to three (3) months. This has been adversely affecting the timelines for reporting, leading to backlogs and affecting the efficiency and effectiveness for oversight by Parliament and the County Assemblies.

Further, as previously reported, an effective mechanism for follow up on implementation of audit recommendations is lacking and as such most audit queries recur in subsequent audit reports due to lack of requisite action. Section 204(1)(g) of the Public Finance Management Act, 2012 provides that the Cabinet Secretary for matters relating to finance may apply sanctions to a national government entity that fails to address issues raised by the Auditor-General, to the satisfaction of the Auditor-General.

However, despite numerous reports indicating lack of accountability and documents to support the legality and effectiveness in the use of public resources, failure to apply the requisite sanctions and consequences has resulted to some Accounting Officers not adequately accounting for the management and use of public resources with impunity. Lack of action and sanctions has also led to fiscal indiscipline including misallocations, wastage of resources, lack of value for money in implementation of projects and loss of public funds, thereby impacting negatively on development programmes. This in turn threatens economic growth and sustainability of service delivery to citizens. There are instances where some Accounting Officers are in breach of Section 62 of the Public Audit Act, 2015 by failing to adequately prepare for audit which is exhibited by numerous inaccuracies in financial statements presented for audit, lack of requisite supporting documents, several revisions of financial statements and, in some cases, reluctance to cooperate with the auditors during the audit process.

The Office of the Auditor-General has been continuously improving on the effectiveness and quality of the audit process to ensure that the results of audit and the recommendations thereof are credible, relevant, reliable and value adding. This is geared towards influencing improved decision making and positive impact on the lives and livelihoods of citizens and other stakeholders. Provision of quality and effective audit services and confirmation of the lawfulness and effectiveness in programme implementation requires comprehensive scrutiny and evaluation of supporting documents. Most critical is the physical confirmation of the existence and utilization of projects or programmes implemented throughout the country. To achieve this requires an independent and well-resourced audit Office with guaranteed adequate funding to enable efficient, effective and timely execution of the audit cycle as well as retention of optimal staffing levels to ensure continuous, quality and sustainable audit operations.

The Office continues to seek financial independence and support from Parliament and The Executive through The National Treasury for enhancement of resources to enable it build technical capacity, expand its presence in the counties, widen the scope and comprehensiveness of audit and motivate staff. We continue to devolve our services closer to the people through establishment of regional offices and construction of office premises to accommodate our staff in order to address the audit needs at the grassroots level. During the year under review, we established the Upper North Regional Office in Isiolo and the North Western Regional Office in Kitale. We have so far constructed regional offices in Garissa, Kakamega and Eldoret, while construction works in Embu is almost complete. Plans for construction of our Headquarters in Nairobi, which is currently at the design stage, has been delayed by lack of funding. However, the Office continues to make appeals to Parliament and The National Treasury for adequate funds to enable us perform our functions and achieve our mandate in enhancing accountability across government, both at the national and county levels, and in all other entities funded from public funds.

The audit scope has been expanding over the years due to the expansion of government programs to ensure sustainable development and delivery of continuous and quality services to the citizens. This has led to growth in the national budget and formation of additional entities that I am required to audit and report on. All the over nine thousand (9,000) Public Secondary Schools were from 30 June, 2022 required to prepare and submit financial statements to the Auditor-General for audit and quite a number have complied. In addition, I am required to audit and report on financial statements for all the three hundred and fifty-eight (358) Level 4 hospitals and fourteen (14) Level 5 hospitals separately. In the current financial year, I am also required to audit a total of two hundred and eighteen (218) Technical and Vocational Education and Training (TVET) Institutions and the number could increase as we are currently undertaking an evaluation exercise with the State Department for Technical, Vocational Education and Training to identify all institutions funded by the Exchequer including the Community Vocational Training Institutions that are estimated to be over one thousand and two hundred (1,200) Institutions. In addition, new projects and funds have been created that require timely oversight.

During the period under review, the Office of the Auditor-General made great strides in enhancing delivery of audit services to the people of Kenya. The Office has entered into partnerships with other Supreme Audit Institutions (SAIs) regionally and globally and with local oversight institutions such as the Ethics and Anti-Corruption Commission (EACC), the State Corporations Advisory Committee (SCAC) and the Salaries and Remuneration Commission (SRC) among other organizations, as we strive to increase the impact of audit through learning, knowledge sharing, innovation and collaboration.

Specific reports together with my opinion for each entity are contained in the respective Fund's audited financial statements for the year ended 30 June, 2022, which I have already submitted to Parliament and to each Accounting Officer.

I wish to sincerely thank the entire staff of the Office of the Auditor-General for their commitment, passion and professionalism in carrying out their duties despite the challenges posed by lack of adequate funds. Special appreciation goes to the team that prepared this Consolidated National Government Funds Report.

I wish also to appreciate my clients or auditees for the cooperation they accorded my staff during the audit.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

17 March, 2023

1.0 Introduction

1.1 Constitutional Mandate of the Auditor-General

The Auditor-General is mandated by the Constitution of Kenya, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include; the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

The Constitution requires the Auditor-General to audit and submit the audit reports of the public entities to Parliament and the relevant County Assemblies by 31 December, every year. In carrying out the mandate, the Auditor-General, is also required, under Article 229 (6) to assess and confirm whether the public entities have utilised the public resources entrusted to them lawfully and in an effective way.

Further, the objects and authority of the Auditor-General, as outlined in Article 249 of the Constitution, are: to protect the sovereignty of the people; to secure the observance by all State Organs of democratic values and principles; and, to promote constitutionalism. The Auditor-General has also been given powers by the Constitution, under Article 252, to conduct investigations, conciliations, mediations and negotiations and to issue summons to witnesses for the purpose of investigations.

1.2 Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS), as prescribed by the Public Sector Accounting Standards Board (PSASB), and 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.

Management is also responsible for maintaining an effective internal control environment necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for the assessment of the effectiveness of internal control, risk management and governance.

Further, Management is required to ensure that the activities, financial transactions and information reflected in the financial statements, are in compliance with the law and other relevant or applicable authorities, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how each 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.

1.3 Auditor-General's Responsibility

My responsibility is to conduct an audit of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and to issue an auditor's report. The audit report includes my opinion as provided by Section 48 of the Public Audit Act, 2015, and the report is submitted to Parliament in compliance with Article 229(7) of the Constitution.

In addition, Article 229(6) of the Constitution requires me to express a conclusion on whether or not, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the law and other authorities that govern them, and that public resources are applied in an effective way. I also consider the entities' control environment 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.

I am independent in accordance with Article 249(2) of the Constitution of Kenya and ISSAI 130 on the 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 public entities in the Republic of Kenya.


1.4 Reporting Structure

The reporting structure of my report address the reporting requirements of Article 229(6) of the Constitution of Kenya, which requires that an audit report shall confirm whether or not public resources have been applied lawfully and in an effective way. Section 7(1) (a) of the Public Audit Act, 2015 also requires that I provide assurance on the effectiveness of internal controls, risk management and overall governance.

In addition, the International Standards of Supreme Audit Institutions (ISSAIs), require the incorporation of Key Audit Matters in the report on the financial statements, which are those matters that I determine in my professional judgment, are of most significance in the audit of the financial statements as a whole, for the year under review.

In order to address these requirements, my audit reports contain the following:

- i. **Report on Financial Statements**, in which I give an audit opinion on whether the financial statements present fairly, in all material respects the financial position and performance of the entity.
- ii. **Report on Lawfulness and Effectiveness in Use of Public Resources**, in which I give a conclusion on whether or not public resources have been applied lawfully and in an effective way.

- 
- iii. **Report on Effectiveness of Internal Controls, Risk Management and Governance**, in which I give a conclusion on whether internal controls, risk management and overall governance were effective.
 - iv. **Report on Other Legal and Regulatory Requirements** is included where applicable, especially for the entities that are registered under the Companies Act, 2015 and any other enabling legislation or authorities that require such disclosure.

1.5 Audit Opinions

I have expressed different types of audit opinions based on the following criteria:

a) **Unmodified Opinion**

The books of accounts and underlying records agree with the financial statements and no material misstatements were found. The financial statements present fairly, in all material respects, the operations of the entity. The financial statements with Unmodified Opinion are listed in Appendix A.

b) **Qualified Opinion**

Financial transactions were recorded and are to a large extent in agreement with the underlying records, except for cases where I noted material misstatements or omissions in the financial statements. The issues though material, are not widespread or persistent. The financial statements with Qualified Opinion are listed in Appendix B.

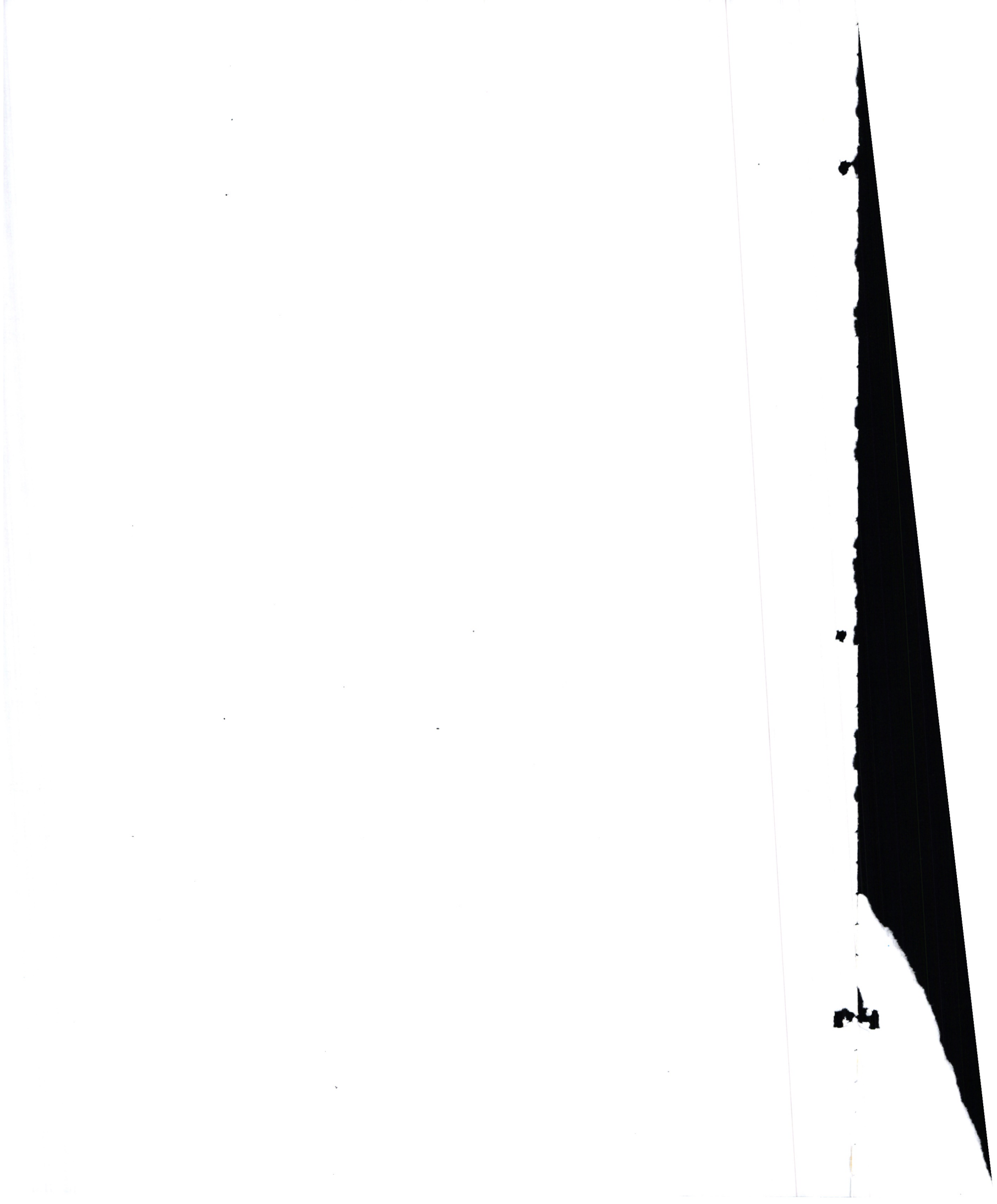
c) **Adverse Opinion**

The financial statements exhibit significant misstatements with the underlying accounting records. There exists significant disagreement(s) between the financial statements and the underlying books of accounts and/or standards. These problems are widespread, persistent and require considerable interventions by the management to rectify. The financial statements with Adverse Opinion are listed in Appendix C.

d) **Disclaimer of Opinion**

The financial statements exhibit serious and significant misstatements that may arise from inadequate information, limitation of scope, inadequacy or lack of proper records such that I was not able to form an opinion on the financial operations. The financial statements with Disclaimer of Opinion are listed in Appendix D.

The key findings noted during the audit of the financial statements for the year ended 30 June, 2022 are highlighted in the ensuing pages.



REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

16. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

17. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE OFFICERS AND PUBLIC OFFICERS CAR LOAN SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

18. Unsupported Cash and Cash Equivalents Balance

The statement of financial position and as disclosed in Note 10 to the financial statements, reflects cash and cash equivalents balance of Kshs.655,415,103 which includes a balance of Kshs.139,395,452 in respect of lien. However, the Management did not provide a cash book, bank statements, bank reconciliation statements, bank confirmation certificate or schedules to support the balance.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.655,415,103 could not be confirmed.

Emphasis of Matter

19. Low Uptake of Loans by State Officers and Public Officers

I draw your attention to Part I(a) on the background information in the financial statements which discloses that the State Officers and Public Officers Motor Car Loan Scheme Fund was established in 2015 through Legal Notice No.195 of 25 September, 2015 and pursuant to guidelines provided by Salaries and Remuneration Commission on Car Loan benefit for State Officers and Other Public Officers in December, 2014. The Fund has however experienced low response from state officers and public officers which compelled Management to invest in Treasury Bills so that the allocated funds do not lie idle. The loans disbursement performance remains relatively low at 5.04% (2021 - 3.81%) in comparison to the total current assets of Kshs.3,694,323,469 held in the Fund's accounts as at 30 June, 2022. The objective and purpose for which the Fund was established may not be achieved.

My opinion is not modified in respect of this matter.

Other Matter

20. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.167,000,000 and Kshs.83,242,753 respectively resulting to an under-collection of Kshs.83,757,247 or 50% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.3,572,105,000 and Kshs.3,086,670,681 respectively resulting to an under-expenditure of Kshs.485,434,319 or 13% of the budget.

The undercollection and underperformance affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

21. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

22. There were no material issues relating to effectiveness of internal controls, risk management and governance.

GOVERNMENT CLEARING AGENCY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

23. Unsupported Fund Balances

As previously reported, the statement of financial position reflects balances of Kshs.300,931,776 and Kshs.52,973,896 in respect of the accounts receivables and accounts payables respectively. The balances relate to opening balances brought forward from 2020/2021 and earlier years. However, the amounts were not supported by ledger, trial balance or any verifiable documents from which the receivables and payables were drawn.

In the circumstances, the accuracy and completeness of accounts receivables and accounts payables balances of Kshs.300,931,776 and Kshs.52,973,896, respectively could not be confirmed.

24. Delay in Winding Up the Fund

As previously reported, the Fund has been dormant for over ten (10) years. The National Treasury formed a task force on the winding up of dormant funds which included the

Government Clearance Agency Fund. Further, The National Treasury, in consultation with the Attorney General, developed a Cabinet Memorandum on winding up of the dormant funds. This effort resulted to Revocation Orders which were approved by the Cabinet. However, there was no evidence provided to indicate that the Repeal Act had been passed by the National Assembly. Management has, therefore, continued to prepare financial statements for a dormant fund over the years.

In the circumstances, delay in the winding up process have resulted to wastefulness in the use of public resources as well as bearing the burden of redundancy in the maintenance of records.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

25. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

26. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

TREASURY MAIN CLEARANCE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

27. Long Outstanding and Unsupported Balances

The statement of financial position reflects balances of Kshs.12,503,607,446 and Kshs.12,490,478,941 in respect of accounts receivables -debtors and accounts payables - creditors respectively. As previously reported, the balances have been outstanding for a long period of time and were not supported. Further, Management stated that the amount related to old balances that were carried forward for many years and that it had submitted a draft revocation order to the National Assembly to wind up the Fund. However, the orders had not been acted upon by the National Assembly at the time of audit.

In the circumstances, the recoverability of the long outstanding accounts receivables - debtors and the discharge of the creditors could not be confirmed.

28. Unsupported Deficit Balance Brought Forward

The statement of financial position reflects a net financial position (closing fund balance) of Kshs.13,128,505 which consists of a fund balance and deficit brought forward of Kshs.14,000,000 and Kshs.871,495 respectively. However, as previously reported the balances were not supported by any reconciliation statement.

In the circumstances, the accuracy of the closing fund balance of Kshs.13,128,505 as at 30 June, 2022 could not be confirmed.

Emphasis of Matter

29. Delay in Winding Up of the Fund

As reported previously, the Fund has been dormant for eleven (11) years. The National Treasury formed a Task Force on the winding up of dormant funds which included the Treasury Main Clearance Fund. Thereafter, The National Treasury sought and got legal opinion and recommendations from the Attorney General on the winding up of the Fund. A Cabinet Memorandum on winding up of the dormant funds was forwarded to the Attorney General in September, 2019 who advised that draft Revocation Orders be prepared on the same.

The Revocation Orders were prepared and submitted to the Cabinet for consideration and approval. On 2 March, 2021, the Head of Public Service communicated to the Cabinet approval for Revocation Order of the dormant funds. The Revocation Orders were submitted to the Attorney General's Office for onward transmission to the National Assembly for approval of the winding up of the dormant funds on 12 April, 2021. However, there was no evidence provided to confirm that the Revocation Orders had been passed by the National Assembly and the process of winding up of the Fund had not been completed by the time of the audit.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

- 30.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

- 31.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA LOCAL LOANS SUPPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

32. Unsupported Balances in the Financial Statements

As previously reported, the statement of assets and liabilities reflects Kshs.9,045,400, Kshs.6,364,973 and Kshs.71,595,406 in respect of the bank balance, investments at cost and accounts receivables - accrued interest respectively. However, the amounts were not supported with ledgers, trial balance and schedule of details or any verifiable documents from which the interest was receivable.

In the circumstances, the accuracy and validity of the balances as at 30 June, 2022 could not be confirmed.

33. Delay in Winding Up the Fund

As reported previously, the Fund has been dormant since June, 2006. Review of records revealed that The National Treasury had formed a task force on the winding up of dormant funds which included the Kenya Local Loans Support Fund. Further, The National Treasury, in consultation with the Attorney General developed a Cabinet Memorandum on winding up of the dormant funds. This effort resulted to Revocation Orders which were approved by the Cabinet. However, there was no evidence provided to confirm that the Repeal Act had been passed by the National Assembly. Management has over the years continued to prepare financial statements using opening balances.

In the circumstances, delay in the winding up process have resulted to wastefulness in the use of public resources as well as bearing the burden of redundancy in the preparation of financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

34. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

35. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

AFRICAN UNION AND OTHER INTERNATIONAL ORGANIZATIONS SUBSCRIPTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

36. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

37. Multiple Laws Guiding Operations of the Fund

As previously reported, I draw your attention to overview on the Fund financial statements which indicates that the Fund was established under a Gazette Notice No. 10 of 2017, in exercise of Section 24 of the Public Finance Management Act, 2012. The Public Finance Management (African Union and Other International Organizations Subscription Fund) Regulations, 2017 established the African Union and Other International Organizations Subscription Fund through which Kenya's contributions to African Union and Other International Organizations across all Government agencies were to be paid. Until 2017, the Government through The National Treasury had been paying subscriptions to International Organizations through Vote R53 – Consolidated Fund Services - Subscriptions to International Organizations under various pieces of legislation namely: International Finance Corporation Act, CAP 466, International Development Association Act, CAP 465, Bretton Woods Agreements Act, CAP 464, the African Development Bank Act, CAP 492 and the Multilateral Investment Guarantee Agency Convention, 1988 (Revised 2010).

Previously, the Ministries, Departments and Agencies, (MDAs) had been remitting such subscriptions through their voted provisions within their budgets. The establishment of the African Union and Other International Organizations Subscription Fund therefore rendered all other individual voted provisions to be consolidated and budgeted under one umbrella body, the African Union and Other International Organizations Subscription Fund.

Management had not caused the revocation or repealing of the earlier laws to be in tandem with the current legislation and therefore avert the risk of making multiple payments to the international organizations.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

38. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE.

Conclusion

39. There were no material issues relating to effectiveness of internal controls, risk management and governance.

CREDIT GUARANTEE SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

40. There were no material issues noted during the audit of the financial statements of the Scheme.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

41. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

42. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PUBLIC SERVICE SUPERANNUATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

43. There were no material issues noted during the audited of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

44. Unremitted Pension from Employer Contributions

The statement of financial position and as disclosed in Note 4 to the financial statements reflects a balance of Kshs.8,308,743,652 in respect of receivables from exchange transactions which includes an amount of Kshs.7,883,302,467 in respect of employer's

contributions due as at 30 June, 2022. This is contrary to Section 8(c) of the Public Service Superannuation Scheme Act, 2012 which states that, not later than ten working days after the end of the month in which the contributions are due, the Government shall remit an amount comprising the member's and the Government's contribution to the custodian. As at the time of the audit, in February, 2023, more than seven months after the contributions became due, out of the balance of Kshs.7,883,302,467, only an amount of Kshs.4,012,091,972 had been received leaving a balance of Kshs.3,871,210,495 unremitted and unless it is paid together with the penalty provided for under Section 6(2) of the Public Service Superannuation Scheme Act, 2012, contributors stand to lose returns that would have been earned had the contributions been received in time.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

45. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PROVIDENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

46. Long Outstanding Receivables

The statement of financial position reflects a balance of Kshs.3,921,000 in respect of other receivables which as disclosed in Note 9 to the financial statements represents an amount owed by the defunct Cereals and Sugar Finance Corporation. As previously reported, the amount has been outstanding for a long time pending conclusion of the winding up process of the Corporation. The Fund may not recover the amount owed by the defunct Corporation which may result to loss of public funds.

In the circumstances, the recoverability of other receivables balance of Kshs.3,921,000 was doubtful.

47. Unsupported Long Outstanding Payables

The statement of financial position reflects a balance of Kshs.9,715,111 in respect to other pending payables and as disclosed in Note 11 to the financial statements. This represented amounts due to National Government entities. However, as previously reported, the supporting documents or analysis for the balance were not provided for review. Further, the balance had remained outstanding for a long period of time.

In the circumstances, the accuracy and completeness of other pending payables balance of Kshs.9,715,111 could not be confirmed.

Emphasis of Matter

48. Delay in Winding Up the Fund

As previously reported, the Provident Fund does not have any surviving beneficiaries as disclosed in Note 7 to the financial statements. The National Treasury had formed a Task Force on the winding up of dormant funds which included the Provident Fund and in consultation with the Attorney General developed a Cabinet Memorandum on winding up of the dormant funds. This effort resulted to revocation orders which were approved by the Cabinet. However, there was no evidence provided to confirm that the Repeal Act had been passed by the National Assembly. The winding up of the Fund has taken an unduly long time resulting into wastage of public resources.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

49. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

50. There were no material issues relating to effectiveness of internal controls, risk management and governance.

EUROPEAN WIDOWS AND ORPHANS PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

51. Doubtful Recoverability of Receivables

As reported in the previous years, the statement of financial position reflects a balance of Kshs.16,900,000 in respect to receivables which, as disclosed under Note 12.9 to the financial statements, represents an amount of Kshs.16,900,000 being cash owed by the defunct Cereals and Sugar Finance Corporation. The amount had been outstanding for more than ten (10) years pending conclusion of the winding up process of the Corporation and the Fund may not recover the amount resulting to loss of public funds.

Under the circumstances, the recoverability of receivables accounts balance of Kshs.16,900,000 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

- 52.** There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

- 53.** There were no material issues relating to effectiveness of internal controls, risk management and governance.

ASIAN OFFICERS FAMILY PENSIONS FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

54. Unsupported Receivables

The statement of financial position reflects receivables balance of Kshs.15,200,000 which, as disclosed in Note 8 to the financial statements related to cash owed by defunct Cereals and Sugar Finance Corporation. The amount had been outstanding for long and no supporting documents were provided for audit. Although Management stated that a Task Force to wind up dormant Funds including Cereals and Sugar Finance Corporation was instituted, the recoverability of the receivable will be determined once the Task Force Committee completes. The process had not been finalised as at the time of the audit.

In the circumstances, the accuracy, completeness and recoverability of the outstanding account receivables balance of Kshs.15,200,000 could not be confirmed.

Other Matter

55. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.5,297,728 and Kshs.3,000 respectively, resulting to an underfunding of Kshs.5,294,728 or 100% of the budget. Similarly, the Fund spent a total of Kshs.1,093,196 against an approved budget of Kshs.1,761,316 resulting to an underexpenditure of Kshs.668,120 or 38% of the approved budget.

The underfunding and underexpenditure affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

56. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

57. There were no material issues relating to effectiveness of internal controls, risk management and governance.

ASIATIC WIDOWS AND ORPHANS PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

58. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

59. Delay in Winding-Up of the Fund

As previously reported, the Fund has been dormant since June, 2002 when the only surviving beneficiary died. The National Treasury had formed a task force on the winding-up of dormant funds which included the Asiatic Widows and Orphans Pension Fund. Further, The National Treasury, in consultation with the Attorney General developed a Cabinet Memorandum on winding up of the dormant funds. This effort resulted to Revocation Orders which were approved by the Cabinet. However, there was no evidence provided to prove that the Repeal Act had been passed by the National Assembly. In the circumstances, the winding up of the Fund has taken an unduly long time resulting into wastage of public resources.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

60. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

61. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR PLANNING – VOTE 1072

NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

62. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

63. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

64. There were no material issues relating to effectiveness of internal controls, risk management and governance.

WOMEN ENTERPRISE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

65. Long Outstanding Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 17 to the financial statements reflects receivables from exchange transactions balance of Kshs.3,826,850,526. The amount includes balances of Kshs.15,704,964 and Kshs.3,413,671,660 relating to LPO financing and Constituency Women Enterprise Schemes respectively. However, the balances include an amount of Kshs.922,091,922 which had been outstanding for more than one (1) year contrary to the Fund's loans policy.

Further, the receivables balance includes loans due from financial intermediary (FI) partners and piki piki loans advanced to field officers of Kshs.71,330,000 and Kshs.507,170 respectively all totalling Kshs.71,837,170 out of which, an amount of Kshs.71,613,333 represented non-performing loans. However, as previously reported, there were ongoing court cases between the Fund and the Intermediaries. No specific provision for bad debts was made in the financial statements to recognize the impairment.

In addition, the balance includes imprests and advances balance of Kshs.2,174,708 which includes salary advances of Kshs.148,081 owed by former staff members.

In the circumstances, the recoverability and completeness of the receivables from exchange transactions totalling Kshs.993,853,336 could not be confirmed.

Other Matter

66. 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. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

67. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

68. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

69. Failure to Charge Depreciation on Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.176,083,723 and as disclosed in Note 19 to the financial statements. However, the assets were not revalued or charged depreciation to reflect the carrying amount of the property, plant and equipment.

In the circumstances, the accuracy, valuation and completeness of the property, plant and equipment balance of Kshs.176,083,723 could not be confirmed.

70. Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.610,895,558 and as disclosed in Note 17(a) to the financial statements. Review of the respective bank reconciliation statements revealed long outstanding unreconciled expenses in the cash books, revenues and bank payments not in cash books amounting

to Kshs.2,096,499, Kshs.1,435,485 and Kshs.401,526, respectively. Further, stale cheques totalling Kshs.2,096,499 had not been reversed in the cash books at the end of the financial year. In addition, cash book balances held in Kisii and Bungoma County Fund Offices were supported by unsigned bank reconciliation statements while bank reconciliations statements for balances held in Machakos County Fund Office were not provided for audit.

In the circumstances, the existence, accuracy and completeness of cash and cash equivalents balance of Kshs.610,895,558 could not be confirmed.

71. Unsupported Payables

The statement of financial position and as disclosed in Note 16 to the financial statements, reflects payables balance of Kshs.952,000 which includes a balance of Kshs.360,000 owed to the Kenya School of Government. However, the balance was not supported with any documents such as invoice, statement of account and Local Service Order (LSO).

In the circumstances, the accuracy, completeness and validity of payables balance of Kshs.952,000 could not be confirmed.

72. Unsupported Provisions for Gratuity

The statement of financial position reflects provision for gratuity balance of Kshs.18,862,058 and as disclosed in Note 15 to the financial statements. However, Management did not maintain a schedule and analysis to support the provision.

In the circumstances, the accuracy and completeness of provision for gratuity balance of Kshs.18,862,058 could not be confirmed.

Other Matter

73. 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, Effectiveness in Use of Public Resources. However, Management had not resolved the issues or given any explanation for failure to implement the recommendations.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

74. Failure to Use the Government E-Procurement Module

During the year under review, the Fund did not comply with the Executive Order Number 2 of 2018 on use of e-procurement module. Further, the Fund procured two separate stand-alone modules - Integrated Financial and Programmes Management Information System (IFPMIS) and e-board, which are still in the evaluation stage and have not been integrated with IFMIS.

The Management did not provide satisfactory explanation for the failure to use the e-procurement module.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis of the Conclusion

75. Inadequate Governance Structure

During the year under review, the Fund's Board did not have a Corporate Secretary as required by the Organization structure and Section 1.20 of the Mwongozo Code of Governance, 2015 which states that the Board will be assisted by a qualified, competent and experienced Secretary.

In the circumstances, the effectiveness of the internal controls, risk management and overall governance at the Fund could not be confirmed.

**STATE DEPARTMENT FOR INTERIOR AND CITIZEN SERVICES -
VOTE 1021**

NATIONAL HUMANITARIAN FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

76. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

77. Dormant Bank Accounts

Review of records provided for audit indicated that the Fund operated four commercial bank accounts and one account at Central Bank of Kenya which were established for the purpose of disbursing grants to Internally Displaced Persons (IDPs) under the cash payment programme. Review of the bank statements revealed that the bank accounts had been dormant for over two years and had a balance of Kshs.272,621,261 as at 30 June, 2022 despite the conclusion of disbursement of grants to IDPs under the cash payment programme. This was contrary to Section 16 (2) of the Prevention, Protection and Assistance to Internally Displaced Persons and Affected Communities Act, 2012 which provides that the Accounting Officer may, with the approval of the Cabinet Secretary for the time being responsible for finance, invest or place on a deposit interest earning account any of the moneys of the Fund and any interest earned on moneys so invested or deposited shall be placed to the credit of the Fund.

In the circumstances, the effective use of the Fund's financial resources could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

78. Non-Functioning Fund Committee

As reported in the previous year, although the Prevention, Protection and Assistance to Internally Displaced Persons and Affected Communities Act, 2012 prescribes the Fund Administration procedures including the composition and functions of the Committee and Secretariat, there was no evidence in form of minutes to indicate that the Committee deliberated on the matters of the Fund and directed its administration in the year under audit as provided for under the Act. Further, no evidence was provided of an active Secretariat as provided for in the Act.

In the circumstances, the adequacy and effectiveness of risk management and oversight on the Fund could not be confirmed.

GOVERNMENT PRESS FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

79. Long Outstanding Debtors

The statement of financial position reflects receivables from exchange transactions balance of Kshs.189,683,941 which as disclosed in Note 10 to the financial statements includes long outstanding debts amounting to Kshs.68,764,954 that have been outstanding since the year 2017. However, no provision for bad and doubtful debts was made in the financial statements for the long outstanding debts.

In the circumstances, the recoverability of the receivables from exchange transactions balance of Kshs.68,764,954 could not be confirmed.

80. Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.325,145,992 which as disclosed in Note 8 to the financial statements includes postal money orders amounting to Kshs.12,456,139 owed by Postal Corporation of Kenya. The money orders relate to payments made for services rendered by the Fund for the period between 1 July, 2019 and 30 June, 2022 but which had not been cashed. However, confirmation from records held by Postal Corporation of Kenya revealed that the Corporation reflected an amount of Kshs.11,802,499 as owing to the Fund as at 30 June, 2022 hence a variance of Kshs.653,640. Although Management explained that they had engaged Postal Corporation of Kenya for recovery of the uncleared amount, no evidence was provided to support the explanation.

In the circumstances, the accuracy of cash and cash equivalents balance could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

81. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

82. Use of Old and Inefficient Equipment

As reported in the previous year, most of the Fund's printing equipment are old and obsolete with some having been acquired as far as back 1930. The equipment experienced frequent breakdowns and hence incur high maintenance costs. Further, the sourcing for spare parts for maintenance of the equipment/machines has been difficult. In addition, review of machine performance analysis indicates a reduction in production output per hour over the years as detailed below;

Machine Name	Production Speed at Installation (Pages per Hour)	Current Production Speed (Pages Per Hour)
Wanup Timson no.27	12,000	5,000
Rotary 1	12,000	3,000
Platen no.6	8,000	1,300
City Line Express	35,000	22,000

In the circumstances, the use of aged equipment has increased the production cost and hence reduced the Fund's competitiveness in the industry.

83. Lack of an Integrated Print Production Management System

Review of the Government Press Fund production department revealed various production phases involving other departments such as handling customer orders, planning, production, and engineering. However, the Government Press Fund did not have an integrated management system to manage the print production which includes estimating and quoting, scheduling, order entry and job tracking, raw material inventory and shop floor data collection. As a result, it was not possible to have real time tracking of the customer orders in the chain of production to enhance efficiency in the production process and decision making.

STATE DEPARTMENT FOR CORRECTIONAL SERVICES – VOTE 1023

PRISON INDUSTRIES REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

84. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects a decrease in payables by Kshs.223,236,974 while a recalculation of the movement in payables under Note 16 to the financial statements, revealed a decrease by Kshs.126,151,443 resulting to an unexplained variance of Kshs.97,085,531.

In addition, the statement reflects no change in non-current receivables while a recalculation of the movement under Note 13(b) to the financial statements revealed an increase of Kshs.59,970,930 resulting to an unexplained variance of Kshs.59,970,930.

Further, the statement reflects an amount of Kshs.260,283,489 in respect of net cash flows used in investing activities. This amount includes Kshs.223,236,974 relating to decrease in payables which represents an operating activity and not an investing activity.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

85. Overstatement of Trade and Other Payables Balance

The statement of financial position and as disclosed in Note 16 to the financial statements reflects trade and other payables - creditors balance of Kshs.186,193,731 which included an amount of Kshs.58,879,973 paid and posted in the cash book on 30 June, 2022. However, the payment was also disclosed in the bank reconciliation statement for the month of June, 2022 among the unrepresented cheques.

In the circumstances, the accuracy of the trade and other payables - creditors balance of Kshs.186,193,731 could not be confirmed.

86. Unsupported Cash and Cash Equivalents Balance

The statement of financial position and as disclosed in Note 10 to the financial statements, reflects cash and cash equivalents balance of Kshs.7,795,251. However, one cash book and a single bank account was maintained in the year under review for recording of financial transactions for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund yet the two (2) Funds are distinct and prepare separate sets of financial statements.

Further, the bank reconciliation statement for the Fund presented for audit reflected an amount of Kshs.20,469,565 as payments in the bank statement not in the cash book as at 30 June, 2022, out of which an amount of Kshs.650,000 related to 2019/2020 financial year. The failure to record the payments in the cash book was not explained.

In addition, the bank reconciliation statement for the month of June, 2022 reflects un-presented cheques totalling Kshs.115,526,747 which included stale cheques totalling Kshs.2,284,510.

In the circumstances, the accuracy, completeness, and existence of the cash and cash equivalents balance of Kshs.7,795,251 could not be confirmed.

87. Unexplained Variance and Incomplete Fixed Asset Register

The statement of financial position reflects non-current assets balance of Kshs.93,404,716 while the corresponding Note 15 to the financial statements indicates a non-current assets balance of Kshs.94,595,861 resulting to an unexplained variance of Kshs.1,191,145.

Further, the assets register provided for audit was not comprehensive and updated to reflect the date/year of acquisition, cost, depreciation rate, disposals and serial numbers as required.

In the circumstances, the completeness and accuracy of the property, plant and equipment balance of Kshs.93,404,716 could not be confirmed.

Emphasis of Matter

88. Material Uncertainty Related to Sustainability of Services

I draw attention to Note 5 to the financial statements which discloses that if the motor vehicle number plates production is transferred to National Transport and Safety Authority (NTSA) or any other Government entity, the sustainability of services of the Prison Industries Revolving Fund shall be affected adversely. As at November, 2022, production of the number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision as a result of which production has since stopped at Kamiti Maximum Prison resulting to the raw materials worth Kshs.101,348,772 and the fixed assets (machinery) held at Kamiti Maximum Prison being idle. These conditions indicate that a material uncertainty exists which may cast significant doubt on the Fund's ability to continue to sustain its services.

My opinion is not qualified in respect of this matter.

Other Matter

89. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget amount of Kshs.608,047,134 and an actual on comparable basis amount of Kshs.381,290,980 resulting to under collections of Kshs.226,756,156 or 37% of the budgeted revenue. Similarly, the statement reflects final recurrent budget expenditure amount of Kshs.652,043,729 against an actual on comparable basis expenditure of Kshs.467,853,225 resulting to an under expenditure of Kshs.184,190,504 or 28% of the budgeted expenditure. Management has not provided justification for the underperformance and suppressed expenditure.

The under collection of revenue may have affected the operations and hence negatively impacted planned activities of the Fund.

90. Unresolved Prior Year Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

91. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

92. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PRISON FARMS REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

93. Unsupported Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 11 to the financial statements reflects cash equivalents balance of Kshs.55,704,138. However, one cash book and a single bank account was maintained in the year under review for recording of financial transactions for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund yet the two Funds are distinct and prepare separate sets of financial statements.

Further, bank reconciliation statement for the month of June, 2022 reflects an amount of Kshs.115,526,747 in respect of unrepresented cheques out of which cheques amounting to Kshs.2,284,510 were stale.

In the circumstances, the accuracy, completeness and existence of cash and cash equivalents balance of Kshs.55,704,138 could not be confirmed.

Other Matter

94. Unresolved Prior Year Audit Issues

In the audit report of the previous year, several issues were raised in the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public

Resources. However, Management has not resolved the issues or given any explanation for failure to resolve the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

95. Failure to Use Information Technology in Finance and Procurement Departments

The Prison Farms Revolving Fund was established by Legal Notice No.87 of the Exchequer and Audit Act (Cap 412) Regulations, 1993 and was deemed to be operational from 1 July, 1992. The Fund, despite being in operation for 30 years, is yet to automate its operations. The financial transactions processing, ledgers and financial statements are done manually.

Further, the Fund is yet to implement e-procurement for managing the procurement processes as required by the Public Procurement and Asset Disposal Regulations, 2020 and the Executive Order No.2 of 2018.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

96. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR INFRASTRUCTURE – VOTE 1091

MECHANICAL AND TRANSPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

97. Unsupported Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.121,978,474. Review of the bank reconciliation statement for the month of June, 2022 revealed payments in the cash book not in bank of Kshs.11,942,594 and receipts in bank not in the cash book of Kshs.6,092,571 whose details on the dates of payment or receipt and payee or paying party were not provided for audit review. In addition, no records were provided to show when the payments in the cash book not in the bank cleared in the bank. Further, no explanation was provided for not updating the cash book with the receipts in bank statement and not in the cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.121,978,474 could not be confirmed.

98. Inaccuracies in Intangible Assets Balance

The statement of financial position and as disclosed in Note 15 to the financial statements reflects a Nil balance for intangible assets. However, the audited financial statements for 2020/2021 financial year reflected intangible assets balance of Kshs.5,906,199. Management provided for audit the movement schedule of the balance from Kshs.5,906,199 to the Nil balance reported in the year under review. Further, and as previously reported, the Nil intangible assets balance excludes an Enterprise Resource Planning (ERP) system procured by the World Bank through the Kenya Transport Sector Support Programme (KTSSP) in the year 2019 at a cost of Kshs.12,397,245 with an aim of integrating its business operations.

In the circumstances, the accuracy of the Nil intangible assets balance could not be confirmed.

99. Unconfirmed Property, Plant and Equipment Balance

The statement of financial position and Note 14 to the financial statements reflect property, plant and equipment balance of Kshs.3,640,633,941. However, and as previously reported, the historical cost of property, plant and equipment balance of Kshs.6,810,896,239 as at 30 June, 2022 was not supported by an updated fixed asset register. The assets register presented for audit had various gaps in the details relating to purchase prices, location, logbook number, and year of purchase. Audit verification of assets revealed that the assets had not been tagged and therefore it was difficult to verify the details against the register and the existence of the assets.

Further, information available indicated that the Fund occupies several parcels of land across the Country whose details and values were not disclosed in the financial statements. Management had not obtained ownership documents for the parcels of land.

In the circumstances, the valuation, accuracy and completeness of the property, plant and equipment balance of Kshs.3,640,633,941 could not be confirmed.

100. Unsupported and Irregular Travel and Subsistence Allowance

The statement of financial performance and as disclosed in Note 5 to the financial statements reflects travel and subsistence allowance of Kshs.101,881,651 which include domestic travel and subsistence allowance of Kshs.34,270,659 out of which an amount of Kshs.4,589,480 was paid as lunch and dinner allowance. However, it was noted that the allowances were paid to officers who had not travelled outside their normal duty stations.

Further, travel and subsistence allowances include project allowances amounting to Kshs.60,396,792. However, an examination of documents revealed that there were no regulated rates to guide in the payment of allowances for attendants, supervisors, operators, drivers and mechanics.

In the circumstances, the validity and accuracy of travel and subsistence allowance totalling Kshs.64,986,272 could not be confirmed.

101. Unsupported Expenditure on Routine Maintenance

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects an amount of Kshs.274,412,500 in respect of routine maintenance of vehicles, equipment and other assets. Included in this expenditure is Kshs.188,536,185 spent on routine maintenance of vehicles and purchase of tyres and tubes. However, examination of payment records and other supporting documents revealed that an expenditure of Kshs.18,035,050 was not supported with documents such as requisitions and records on stores issues and utilization.

In addition, included in the routine maintenance of vehicles, tyres and tubes expenditure are payments totalling Kshs.8,981,250 in respect of gravels and quarry wastes which did not relate to maintenance of vehicles, plants and equipment. Further, although the gravels and quarries were procured and received, no records were provided to show how they were used.

In the circumstances, the accuracy and validity of routine maintenance expenditure of Kshs.274,412,500 for the year ended 30 June, 2022 could not be confirmed.

102. Long Outstanding and Unconfirmed Receivables

The statement of financial position and as disclosed under Note 12 to the financial statements reflects receivables balance of Kshs.85,047,569. Included in this balance is Kshs.48,710,152 due from Kisii County Government which remained outstanding from 2018/2019 financial year. It was also noted that in a letter dated 11 October, 2022, the County acknowledged an amount of Kshs.48,000,000 as the balance owed to the Fund resulting to an unexplained variance of Kshs.710,152. Further, included in the receivables balance is Kshs.36,337,417 due from Nairobi Metropolitan Services (NMS). However, no confirmation had been provided from the NMS confirming the balance. In addition, Management did not provide the Fund's debt collection policy for audit review.

In the circumstances, the accuracy and recoverability of the receivables balance of Kshs.85,047,569 as at 30 June, 2022 could not be confirmed.

103. Trade and Other Payables

The statement of financial position and as disclosed in Note 16 to the financial statements reflects trade and other payables balance of Kshs.19,754,813 as at 30 June, 2022. Included in the balance is an opening balance of Kshs.13,729,635 relating to customer tender deposits dating back to financial year 2017/2018. No explanation was provided for holding the deposits for that long.

In the circumstances, the accuracy and validity of the tender deposits opening balance of Kshs.13,729,635 as at 30 June, 2022 could not be confirmed.

Other Matter

104. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.780,825,553 and Kshs.637,432,854 respectively resulting in a revenue shortfall of Kshs.143,392,699 or 18% of the budget. Similarly, the Fund spent an amount of Kshs.490,077,153 against an approved budget of Kshs.780,825,554 resulting in an under-absorption of Kshs.290,748,401 or 37% of the budget.

The under-funding and under-absorption affected the planned activities of the Fund and impacted negatively on service delivery to the public.

105. Unresolved Prior Year Audit Matters

In the audit report of the previous year, a number of issues were raised. However, Management has not resolved the issues or disclosed the prior year matters as provided by the Public Sector Accounting Standards Board (PSASB) and The National Treasury's Circular dated 30 June, 2022.

106. Poor Financial Performance

During the year under review, the Fund reported a deficit of Kshs.128,695,987 (2020/2021 deficit - Kshs.208,927,996) resulting in depletion of accumulated reserves from Kshs.1,626,608,870 as at 1 July, 2021 to Kshs.1,497,912,883 as at 30 June, 2022. Management did not disclose strategies put in place to reverse the unfavourable trend which if not addressed timely, may adversely affect the Fund's ability to sustain its services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

107. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

108. Non-Compliance with Authorized Staff Establishment

Review of the Fund's authorized staff establishment revealed that in-post staff in various cadre were 981 against an authorized establishment of 2,695 resulting in a shortage of 1,714. The staff shortage, if not addressed, could impact negatively on the operations of the Fund.

ROADS ANNUITY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

109. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

110. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.11,822,186,340 and Kshs.14,472,865,319 respectively, resulting to an over-funding of Kshs.2,650,678,979 or 22% of the budget. Further, the statement indicates that out of the budgeted receipts of Kshs.11,822,186,340, the Fund budgeted to spend only Kshs.2,994,000,000, leaving Kshs.8,828,186,340 not allocated for spending. In addition, the actual receipts of Kshs.14,472,865,319 exceeded actual expenditure of Kshs.2,937,429,510, resulting to surplus cash of Kshs.11,535,435,809 that remained unutilized as at 30 June, 2022. According to the supporting documents provided for audit, the expenditure of Kshs.2,937,429,510 was utilized on one (1) project-Lot 33 (Ngong-Kiserian-Isinya-Kajiado-Imaroro Road), representing ninety-one (91) km of roads out of the initial target of four hundred and sixty-five (465) km under the first phase of the annuity programme.

However, no disclosure was provided on why the Management budgeted to spend only Kshs.2,994,000,000 despite there being enough projects to fully absorb the receipts budget of Kshs.8,828,186,340 not allocated for spending.

In the circumstances, the Fund may not achieve its objectives as stipulated in Regulation 5 of the Public Finance Management (Roads Annuity Fund) Regulations, 2015.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

111. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

112. Effectiveness of the Road Annuity Oversight Committee

As previously reported, review of the composition of the Fund's Oversight Committee revealed that, the Committee is not duly constituted as required by Regulation 12(1) of the Public Finance Management (Roads Annuity Fund) Regulations, 2015 as there was no representation from the Kenya Bankers Association and two other persons being eminent professionals drawn from the engineering, accounting or legal professions. It was therefore not clear whether the Oversight Committee as constituted discharged its oversight functions as provided in the law.

In the circumstances, the Oversight Committee may not effectively discharge its mandate as envisaged by the Public Finance Management (Roads Annuity Fund) Regulations, 2015.

STATE DEPARTMENT FOR TRANSPORT – VOTE 1092

RAILWAY DEVELOPMENT LEVY FUND (HOLDING ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

113. Unaccounted for Disbursements

The statement of receipts and payments and Note 7 to the financial statements reflects transfers to The National Treasury of Kshs.26,844,351,913 for railway related development. However, records held at Kenya Railways Corporation which is the implementing agency indicated that the amounts received by the Corporation and amounts paid by The National Treasury to various Government entities on behalf of the Corporation totalled Kshs.26,792,446,818. The resultant difference of Kshs.51,905,095 was not explained or reconciled.

In the circumstances, the accuracy and completeness of transfers to The National Treasury of Kshs.26,844,351,913 could not be confirmed.

114. Irregular Payments from the Fund

The statement of receipts and payments reflects transfers to The National Treasury of Kshs.26,844,351,913 as disclosed in Note 7 to the financial statements. Included in the amount are payments totalling Kshs.2,099,848,494 for the purchase of Meter Gauge Railway (MGR) locomotives. However, Section 8(3) of the Miscellaneous Fees and Levies Act, 2010 provided that the purpose of the Railway Development Levy shall be to provide funds for the construction and operation of a Standard Gauge Railway (SGR) network in order to facilitate the transportation of goods. No justification was provided for the utilization of the funds on the purchase of the MGR locomotives.

In the circumstances, the regularity of the expenditure of Kshs.2,099,848,494 on purchase of MGR locomotives could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

115. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

116. There were no material issues relating to effectiveness of internal controls, risk management and governance.

**STATE DEPARTMENT FOR HOUSING AND URBAN
DEVELOPMENT – VOTE 1094**

CIVIL SERVANTS HOUSING SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

117. Inaccuracies in the Financial Statements

The statement of financial position reflects a balance of Kshs.2,569,169,152 in respect of work-in-progress. However, work in progress was reported under current assets instead of non-current assets.

In addition, the statement of comparison of budget and actual amounts reflects final expenditure budget of Kshs.271,984,361. However, the total approved budget was Kshs.3,250,600,000 comprising of recurrent expenditure of Kshs.310,600,000 and development expenditure of Kshs.2,840,000,000. The resulting variance of Kshs.2,978,615,639 was not explained or reconciled.

Further, the statement of comparison of budget and actual amounts reflects final revenue budget of Kshs.473,556,292. However, the approved receipts budget was Kshs.3,400,000,000 resulting to an unexplained and unreconciled variance of Kshs.2,926,443,708.

In the circumstances, the accuracy and completeness of the financial statements for the financial year ended 30 June, 2022 could not be confirmed.

118. Unsupported Revenue Balances

118.1 Mortgage Interest

The statement of financial performance reflects mortgage interest income of Kshs.203,188,793 as disclosed in Note 6 to the financial statements. However, Management did not provide for audit review the detailed monthly analysis indicating amounts that accrued from each loan.

In the circumstances, the accuracy and completeness of mortgage interest of Kshs.203,188,793 for the year ended 30 June, 2022 could not be confirmed.

118.2 Investment Interest

The statement of financial performance reflects investment interest of Kshs.152,308,983 as disclosed in Note 7 to the financial statements. However, Management did not provide detailed analysis in support of the balance.

In the circumstances, the accuracy and completeness of investment interest of Kshs.152,308,983 for the year ended 30 June, 2022 could not be confirmed.

118.3 Rental Income

The statement of financial performance reflects rental income of Kshs.95,722,648 as disclosed in Note 9 to the financial statements. However, Management did not provide detailed analysis in support of the balance.

In the circumstances, the accuracy and completeness of rental income of Kshs.95,722,648 for the year ended 30 June, 2022 could not be confirmed.

119. Unsupported Refurbishment of Residential Buildings

Included in the repairs and maintenance balance of Kshs.16,836,662 is expenditure on refurbishment of residential buildings of Kshs.10,797,713 as disclosed in Note 14 to the financial statements. However, Management did not provide supporting schedules with details of the refurbished houses.

In the circumstances, the accuracy and completeness of refurbishment of residential buildings expenditure of Kshs.10,797,713 for the year ended 30 June, 2022 could not be confirmed.

120. Unsupported Cash and Cash Equivalents Balances

The statement of financial position reflects cash and cash equivalents balance of Kshs.2,221,363,832 as disclosed in Note 16 to the financial statements. However, included in the balance is an amount of Kshs.51,423,249 in respect of deposit bank account. Bank reconciliation statement for the month of June, 2022 reflects payments in bank statement not in the cash book totalling Kshs.1,259,840 whose clearance status as at the time of the audit was not disclosed. Additionally, the statement includes two (2) unrepresented cheques amounting to Kshs.2,750,500 paid on 30 June, 2022 vide payment voucher Nos.10115 and 10116 to the Fund Administrator whose details were not provided for audit purposes.

Further, included in the balance is Kshs.1,137,283 in respect of operation bank account and for which bank confirmation certificate was not provided for audit review. Additionally, included in the balance is Kshs.2,168,803,300 in respect of four (4) fixed deposit banks accounts and for which Management did not provide for audit verification the bank confirmation certificates. Further, no approvals from The National Treasury for depositing the funds in fixed deposit bank accounts was provided for audit.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.2,221,363,832 as at 30 June, 2022 could not be confirmed.

121. Unsupported and Long Outstanding Current Receivables from Exchange Transactions

The statement of financial position reflects current portion of receivables from exchange transactions balance of Kshs.676,392,613 as disclosed in Note 17(a)(i) to the financial statements. Included in the balance are mortgage principal arrears-HFCK of Kshs.142,662,920, mortgage interest-HFCK of Kshs.26,401,375, investment interest arrears of Kshs.8,176,666 and credit interest on bank of Kshs.2,813,475 whose supporting schedule were not provided for audit review.

In addition, the balance includes rent and service charge arrears balance of Kshs.377,317,476 whose supporting schedule did not disclose persons or institutions from whom the rent and service charge arrears were due from.

Further, the balance includes an amount of Kshs.109,647,557 due from the Principal Secretary, Ministry of Lands and which had been outstanding for several years.

In the circumstances, the recoverability, accuracy and completeness of current receivables from exchange transactions balance of Kshs.676,392,613 could not be confirmed.

122. Unsupported Long-Term Receivables from Exchange Transactions

The statement of financial position reflects long-term receivables from exchange transactions balance of Kshs.6,558,557,448 as disclosed in Note 17(b) to the financial statements. However, the supporting schedules provided for audit in respect of each category of the reported balances were incomplete as they did not reflect key beneficiaries information such as names, personal numbers, job groups, dates of the loans, amounts of loans issued, repayment periods, opening loan balances, repayments during the year, closing loan balances and locations of the houses. In addition, Management did not provide for bad and doubtful debts during the year.

In the circumstances, the recoverability, accuracy and completeness of long-term receivables from exchange transactions balance of Kshs.6,558,557,448 could be confirmed.

123. Inaccuracies in Work-In-Progress Balance

The statement of financial position reflects work-in-progress balance of Kshs.2,569,169,152 as disclosed in Note 18 to the financial statements. However, Management did not provide for audit review the analysis of the balance per project. In addition, the balance includes purchase of houses for sale of Kshs.1,046,000,000 and which ought to have been disclosed as land and buildings.

Further, the balance includes expenditure on statutory fees and other charges of Kshs.4,783,624 which is at variance with the ledger's negative balance of Kshs.4,783,624 resulting to an unexplained and unreconciled variance of Kshs.9,567,248.

Additionally, the balance includes construction cost of Kshs.1,377,777,649 which is at variance with the ledger balance of Kshs.1,405,876,084 resulting to an unexplained and unreconciled variance of Kshs.28,098,435.

In the circumstances, the accuracy and completeness of the work-in-progress balance of Kshs.2,569,169,152 as at 30 June, 2022 could not be confirmed.

124. Unexplained Variances Between Property, Plant and Equipment and Fixed Assets Register Balances

The statement of financial position reflects property, plant and equipment net book value balance of Kshs.877,238,301 as disclosed in Note 19(a) to the financial statements. However, the following anomalies were noted;

- i. A comparison between the financial statements and fixed asset register balances revealed unexplained and unreconciled variances as tabulated below:

Description	Financial Statements (Kshs.)	Fixed Assets Register (Kshs.)	Variance (Kshs.)
Net Land and Buildings Rental - Investment Property	864,743,611	888,534,142	(23,790,531)
Motor Vehicle	30,190	40,252	(10,062)
Furniture and Fittings	4,699,411	2,953,706	1,745,705
Computers	6,903,614	1,688,741	5,214,873
Plant and Equipment	861,475	3,888,131	(3,026,656)

- ii. The depreciation amount of Kshs.20,884,361 in the property, plant and equipment movement schedule could not be traced to the fixed assets register.
- iii. Desktop computers and tablets with a balance of Kshs.3,925,310 were wrongly classified under land and buildings in the assets register.
- iv. The assets register reflects plant and equipment additions of Kshs.700,000 while the property, plant and equipment movement schedule reflect additions of Kshs.451,000 resulting to an unexplained and unreconciled variance of Kshs.249,000.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.877,238,301 could not be confirmed.

125. Investment Properties with no Ownership

The statement of financial position reflects net land and buildings rental - investment property balance of Kshs.864,743,611 as disclosed in Note 20 to the financial statements. However, ownership titles for parcels of land on which some housing units are located were not provided for audit review. The properties include Kileleshwa Gichugu I, Kileleshwa Gichugu II, Kilimani-Dennis Pritt, Park Road-Nairobi, Jogoo Road-Nairobi, Kibera Highrise, Mukenia South B, Kileleshwa Flats, Shauri Moyo-Kisumu, Kiambu, Bondeni-Nakuru, Machakos and Embu.

In the circumstances, the ownership of the investment properties of Kshs.864,743,611 could not be confirmed.

Other Matter

126. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects actual expenditure amount of Kshs.192,737,179 against an approved budget of Kshs.271,984,361 resulting in an under expenditure of Kshs.79,247,182 (or 29%) of the budget. The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

127. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public

Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given explanations for failure to do so, contrary to the reporting format prescribed by the Public Sector Accounting Standards Board and The National Treasury Circular dated 6 July, 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

128. There were material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

129. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA SLUM UPGRADING, LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

130. Unauthorized Administrative and Other Operating Costs

The statement of financial performance reflects administrative and other operating costs of Kshs.54,151,293 against an approved budget of Kshs.50,000,000 resulting in an unapproved overexpenditure of Kshs.4,151,293. Further, the expenditure includes administration fees of Kshs.1,232,430 and various payments to staff totalling Kshs.18,843,736 whose basis and justification were not provided. In addition, out of the payments to staff, an amount of Kshs.5,884,819 was described as payments to various officers and no supporting documentation or details of payments were provided for audit.

In the circumstances, the accuracy and validity of administrative and other operating costs of Kshs.54,151,293 could not be confirmed.

131. Unsupported Subsidy from Disposal of Houses

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects subsidy from sale of houses of Kshs.90,150,000. The subsidy arose from transfer of two hundred and twenty-seven (227) housing units of the Mavoko Sustainable Neighbourhood Project to the Civil Servants Housing Scheme at Kshs.632,150,000 against a market value (Acquisition Costs) of Kshs.722,300,000 resulting to a subsidy of Kshs.90,150,000. However, the approved Cabinet memo authorizing the sale/transfer of the 227 units to the Civil Servants Housing Scheme was not provided. Further the subsidy of Kshs.90,150,000 was a loss to the Fund and no

justification was provided as to why the loss was absorbed by the Fund yet the housing units were intended for sale to civil servants at cost price.

In the circumstances, the completeness and validity of the subsidy amount of Kshs.90,150,000 could not be confirmed.

132. Unsupported Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 11 to the financial statements reflects cash and cash equivalents balance of Kshs.518,262,835 which includes Kshs.218,263,555 held at a local bank. Review of the bank reconciliation statement for the month of June, 2022, revealed three unrepresented cheques totalling Kshs.174,000 were stale as at 30 June, 2022. Further, there were receipts in the bank statement not yet recorded in the cash book amounting to Kshs.19,670,039, which included receipts amounting to Kshs.4,543,965 that relate to the period between 04 August, 2016 and 31 December, 2020 and a further Kshs.5,538,346 which relates to the period 09 January, 2021 to 31 December, 2021. In addition, a receipt of Kshs.18,175,583 made on 30 June, 2022 was not supported.

Management did not provide an explanation why these long outstanding receipts were not recorded in the cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.518,262,835 could not be confirmed.

133. Undisclosed Imprests Balance

Review of the bank reconciliation statement for the month of June, 2022 revealed that payments totalling Kshs.6,474,600 were made to staff on 30 June, 2022 through a local bank but were not reflected as outstanding imprest as at the close of the year. Further, no documents were provided to indicate when the activities were to take place.

In the circumstances, the accuracy and validity of the nil imprest balance as at 30 June, 2022 could not be confirmed.

134. Unsupported Current Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 12 to the financial statements reflects current receivables from exchange transactions balance of Kshs.360,709,990 which includes mortgage receivable balance of Kshs.28,559,990 and receivable from the Civil Servants Housing Scheme Fund of Kshs.332,150,000. The amount was the outstanding balance from the transfer of two hundred and twenty seven (227) housing units. However, the analysis of the mortgage receivables balance of Kshs.28,559,990 was not provided for audit.

In the circumstances, the accuracy of the current receivables from exchange transactions balance of Kshs.28,559,990 could not be confirmed.

135. Unsupported Non-Current Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 12 to the financial statements reflects non-current receivables from exchange transactions balance of

Kshs.1,210,257,625. The amount includes advance payments of Kshs.349,169,394, mortgage receivable of Kshs.556,881,489 and contract retention of Kshs.304,206,742. However, detailed analysis to support the advance payments balance of Kshs.349,169,394 and mortgage receivables of Kshs.556,881,489 were not provided. Further, the contract retention balance of Kshs.304,206,742 was similarly included under payables from exchange transactions. The basis for the inclusion of retention money as a receivable was not provided.

In the circumstances, the accuracy, completeness and validity of the non-current receivables from exchange transactions balance of Kshs.1,210,257,625 could not be confirmed.

136. Unsupported Work-In-Progress

The statement of financial position and as disclosed in Note 13 to the financial statements reflects work-in-progress balance of Kshs.7,818,429,056. However, the balance includes an unexplained adjustment of Kshs.395,632,323 described as understatement of advance in prior year.

In the circumstances, the accuracy and completeness of the work-in-progress balance of Kshs.7,818,429,056 could not be confirmed.

137. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects net receipts and net payments to related parties of equal amounts of Kshs.750,000,000 which as reflected under Note 18(a) to the financial statements relates to Kenya Informal Settlement Improvement Project. Review of the projects financial statements indicated that the transactions related to reimbursement of funds transferred to Safaricom for National Housing Project wages and that the funds were not accounted for in the statement of financial performance. However, no explanation was provided for failure to account for the funds in the statement of financial performance.

Further, the statement reflects prior year net receipts from related parties' amount of Kshs.114,955,197 which did not have a corresponding payment. In addition, the amount of Kshs.114,955,197 was at variance with the amount of Kshs.4,147,765,009 reflected under Note 18(a) to the financial statements, resulting to an unexplained variance of Kshs.4,032,809,812.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

138. Lack of an Updated Fixed Assets Register

The statement of financial position and as disclosed in Note 14 to the financial statements reflects property, plant and equipment balance of Kshs.2,702,280,033. However, the Management did not maintain an updated asset register contrary to Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to be responsible for maintaining a register of assets under his or her control or possession.

In the circumstances, the existence, accuracy and completeness of the property, plant and equipment balance of Kshs.2,702,280,033 could not be confirmed.

Other Matter

139. Pending Bills

As disclosed in Note 15 to the financial statements are pending bills due to contractors for work done and certified totalling to Kshs.172,547,235. Management has not provided reasons for non-payment of the pending bills despite having a bank balance of Kshs.518,262,835 as at 30 June, 2022. The Fund risks incurring significant unquantified interest costs and penalties due to delays in settling invoiced bills. In addition, failure to settle bills during the year in which they relate adversely affects provisions of the subsequent year to which they have to be settled as a first charge.

140. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.1,265,000,000 and Kshs.1,271,665,607 respectively resulting to an overfunding of Kshs.6,665,607 or 0.5% of the budget. Similarly, the Fund expended Kshs.403,985,139 against an approved budget of Kshs.1,340,000,000 resulting to an underexpenditure of Kshs.936,014,861 or 70% of the budget.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

141. Presentation and Disclosure of the Financial Statements – Non-Compliance with Public Sector Accounting Standards Board Guidelines

The financial statements of the Fund for the year ended 30 June, 2022 were not prepared in accordance with the recommended reporting template by the Public Sector Accounting Standards Board (PSASB) revised on 30 June, 2022. The following unsatisfactory matters were observed on the presentation and disclosure of the statement of cash flows;

- i. The statement of cash flows only contained net cash flows from operating activities and omitted the net cash flows from investing activities and financing activities. This is despite the fact that the statement of financial position and the statement of changes in net assets indicate that there were cash flows from investing and financing activities respectively.
- ii. The statement of cash flows did not have a disclosure note on net cash flows from operating activities whereas the recommended reporting template requires the Fund to include a disclosure note.
- iii. The financial statements did not contain a statement on the following areas though they are recommended in the financial reporting template:

- a) The Corporate Governance Statement;
- b) The Management Discussions and Analysis Section; and
- c) The Environmental and Sustainability Reporting Section.

In the circumstances, the presentation and disclosure of the Fund's financial statements did not comply with the PSASB reporting guidelines.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

142. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR PUBLIC WORKS – VOTE 1095

STORES AND SERVICES FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

143. Lack of Underlying Records and Approved Budget

As previously reported, Management did not provide the underlying records used to prepare the financial statements by way of approved budget and trial balance. In addition, the financial statements presented for audit did not include the statement of comparison of budget and actual amounts as per the prescribed reporting template issued by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

144. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.1,232,261 and as disclosed in Note 9 to the financial statements which had been outstanding for more than four (4) years. However, as previously reported, Management did not provide any documentation or information in support of this balance. In addition, no provision for bad and doubtful debts was made in respect of the amount.

In the circumstances, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.1,232,261 could not be confirmed.

145. Unsupported Inventories

The statement of financial position reflects inventories balance of Kshs.197,048,168 and as disclosed in Note 10 to the financial statements. However, Management did not provide for audit the supporting documents including stock take schedules and stock ledgers. In addition, the amount had remained the same over the years without an explanation from the Management.

In the circumstances, the accuracy and existence of the inventory balance of Kshs.197,048,168 as at 30 June, 2022 could not be confirmed.

146. Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.76,808,202 and as disclosed in Note 11 to the financial statements. However, the following anomalies were observed:

146.1 Unsupported Suspense Account Balance

Included in the trade and other payables from exchange transactions balance of Kshs.76,808,202 is a suspense account balance of Kshs.19,641,489. However, as previously reported, supporting documents for the balance were not provided for audit.

In the circumstances, the accuracy, existence and completeness of the suspense account balance of Kshs.19,641,489 could not be confirmed.

146.2 Unsupported Payments Received in Advance

Included in the trade and other payables from exchange transactions balance of Kshs.76,808,202 is payments received in advance balance of Kshs.57,166,713. However, as previously reported, the documents in support of the balance by way of bank statements or a schedule indicating dates of the deposits were not provided for audit review.

In the circumstances, the accuracy and completeness of the payments received in advance balance of Kshs.57,166,713 could be confirmed.

147. Unsupported Bank Overdraft/Long Term Portion of Borrowing

The statement of financial position reflects borrowings-bank overdraft (CBK) balance of Kshs.283,595,154 and as disclosed in Note 12 to the financial statements. However, as reported previously, Management did not provide for audit the supporting documents for this balance. This was contrary to Regulation 83(3) of Public Finance Management (National Government) Regulations, 2015 which requires that a National Government overdraft at the Central Bank of Kenya shall be retired by the end of the financial year.

In the circumstances, the accuracy and regularity of the bank overdraft balance of Kshs.283,595,154 could not be confirmed.

148. Ineffective Audit Committee

Review of Fund's records revealed that the Audit Committee of the State Department for Public Works met twice during the year under review. This was contrary to Regulation 179(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the audit committee shall meet at least once in every three months.

In the circumstances, the effectiveness of the Audit Committee over the Fund's operations could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

149. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

150. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

MINISTRY OF LANDS AND PHYSICAL PLANNING – VOTE 1112

LAND SETTLEMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

151. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.12,039,439,278 and as disclosed in Note 13 to the financial statements. Included in the balance were long term loans repayments due and development loans issued balances of Kshs.6,811,916,396 and Kshs.68,966,377 respectively both totalling Kshs.6,880,882,773. Review of records provided revealed that some of these loans were issued to settlers as far back as the year 1962 and have remained outstanding to date. In addition, Fund Management has no clear policy on evaluation of the account receivables from time to time to determine the recoverability of the outstanding loans.

In the circumstances, the accuracy and recoverability of the non-current receivables from exchange transactions balance of Kshs.6,880,882,773 could not be confirmed.

152. Variance in Long Term Outstanding Interest Receivables

The statement of financial position reflects receivables from exchange transactions balance of Kshs.12,039,439,278 which as disclosed in Note 13 to the financial statements includes an amount of Kshs.5,158,556,505 relating to outstanding long term interest receivables. However, the latter balance is at variance with the supporting schedule balance of Kshs.5,163,007,149 resulting in an unreconciled variance of Kshs.4,450,644. Further, the interest has accumulated over the years on loans issued to settlers since the year 1962 and the Fund has continued to compound cumulative interest on the loans without due consideration to their recoverability.

In the circumstances, the accuracy and recoverability of the outstanding long-term interest receivables balance of Kshs.5,158,556,505 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

153. Undistributed Land

153.1 Kisima Njoro for Resettlement of Internally Displaced Persons (IDPs) in Nakuru County

As previously reported, Kisima Njoro land was purchased at a cost of Kshs.396,984,000 as per agreement for sale dated 3 October, 2012 for resettlement of Internally Displaced Persons (IDPs). However, audit verification of the land carried out in the month of October, 2022, revealed that the land had not been surveyed or sub-divided and, therefore, the beneficiaries had not been settled ten (10) years after the purchase of the land.

153.2 Mikanjuni Farm in Kilifi County

As previously reported, the Fund purchased Mikanjuni Farm at a cost of Kshs.377,000,000 as per agreement for sale dated 22 April, 2020 for resettlement of informal settlers. Although a list of beneficiaries was provided for audit by the Land Adjudication and Settlement Officer of Kilifi County, the farm was still listed as undistributed by the Fund as of October, 2022. No justification was given for not distributing and settling the informal settlers.

153.3 Kadza Ndani Land in Mombasa County

As previously reported, the Fund purchased three (3) parcels of land at Kadza Ndani in Mombasa County at a cost of Kshs.378,000,000 as per sale agreement dated 11 September, 2020 for resettlement of informal settlers. Although a list of beneficiaries was provided by the Land Adjudication and Settlement Officer of Mombasa County, the land was still listed as undistributed as of October, 2022. No justification was given for not distributing and settling the informal settlers.

In the circumstances, the objective for which the land was acquired and value for money had not been achieved.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

154. Lack of Risk Management Policy

During the year under review, the Fund did not have in place Risk Management Policy. As a result, there was no formal approved processes and guidelines on how to identify, assess and mitigate operational, legal and financial risks.

In the circumstances, the Management of the Fund is not in a position to evaluate, rank and prioritize critical risks and channel resources towards mitigating identified risks.

155. Weak Control Environment in Field Offices

Field verification during the month of September, 2022 in ten (10) sampled land adjudication and settlement offices revealed the following unsatisfactory matters;

- i. The stations were under-staffed with none having an accountant or an officer with financial management background to manage the funds disbursed to the stations.
- ii. The stations operated a bank account for funds received for the office administration but did not maintain a cash book. Further, the monthly bank reconciliation statements had not been prepared and submitted to The National Treasury with a copy to the Office of the Auditor-General as stipulated under Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015.
- iii. Inadequate office space, no filing cabinets and a filing system which made retrieval of records difficult.

In the circumstances, internal controls, risk management and governance systems were not effective.

STATE DEPARTMENT FOR SPORTS – VOTE 1132

SPORTS, ARTS AND SOCIAL DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

156. Inaccuracies in Cash and Cash Equivalents

The statement of financial position and Note 29 to the financial statements reflects cash and cash equivalents balance of Kshs.1,304,437,854 as at 30 June, 2022. However, a total of Kshs.1,304,385,284 held in seven (7) bank accounts was not supported by certificates of bank balances.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,304,437,854 as at 30 June, 2022 could not be confirmed.

157. Unaccounted for Returns for Promotion and Development of Sports

The statement of financial performance and Note 23 to the financial statements reflects transfers to Government Implementing Agencies and Sports Organizations amounting to Kshs.13,786,295,836 which includes an amount of Kshs.10,605,595,467 in respect of promotion and development of sports. However, returns amounting to Kshs.6,715,627,315 for sports promotion and development were received by the Fund, leaving an amount of Kshs.3,889,968,152 not accounted for by the respective Federations and Organizations.

Further, the Fund continued to disburse money to sports organizations that had not accounted for previous moneys contrary to the provisions of Regulation 15(5) of the Public Finance Management (Sports, Arts and Social Development) Regulations, 2018 which provides that a recipient who fails to comply with Paragraph (2)(3) shall not be eligible for any subsequent disbursement until full compliance.

In the circumstances, the regularity, accuracy and completeness of promotion and development of sports returns amounting to Kshs.10,605,595,467 could not be confirmed.

158. Irregular Payment of Board Sitting Allowance

The statement of financial performance and Note 19 to the financial statements reflects an amount of Kshs.4,774,000 in respect of remuneration to Oversight Board which includes an amount of Kshs.70,000 paid to a Board Member as sitting allowances for chairing Board meetings. However, the Chairperson was not appointed as required by Regulation 8(4) of the Public Finance Management (Sports, Arts and Social Development Fund) Regulations, 2018 which states that the President shall appoint one of the members to be the Chairperson of the Board.

In the circumstances, the regularity of the sitting allowances amounting to Kshs.70,000 could not be confirmed.

159. Understated Office Rental Costs

The statement of financial performance and Note 17 to the financial statements reflects general administrative expenses amounting to Kshs.120,733,096 which includes an amount of Kshs.12,408,702 in respect of office rental costs. However, review of the lease agreement revealed that the lease was renewed on 22 October, 2021 and office rent adjusted upwards resulting to an increase by Kshs.508,148 which was not paid or disclosed in the financial statements.

In the circumstances, the accuracy and completeness of the office rental costs amounting to Kshs.12,408,702 could not be confirmed.

Other Matter

160. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.15,257,440,000 and Kshs.13,744,770,386 respectively resulting to an underfunding of Kshs.1,512,669,614 or 10% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of Kshs.14,168,139,564 and Kshs.13,980,042,979 resulting to underabsorption of Kshs.188,096,585 or 1% of the budget.

The underfunding and underabsorption of the available funds affected the planned activities and may have impacted negatively on service delivery to the public.

161. Unresolved Prior Year Matters

In the audit of the previous year, several issues were raised. Management indicated that it had resolved prior year audit issues. However, supporting documents including invitations to appear before Parliamentary Committee, the Committee's recommendations and implementation reports were not provided for audit review as required by the Public Sector Accounting Standards Board template and The National Treasury's Circular Ref: AG/4/16/3/Vol.3(66) dated 06 July, 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

162. Late Submission of Financial Statements

The Fund's financial statements for the year ended 30 June, 2022 were submitted to the Office of the Auditor-General on 14 November, 2022, forty-three (43) days after the statutory deadline date of 30 September, 2022. This was contrary to provisions of Section 84(3) of the Public Finance Management Act, 2012 which states that, not later than three months after the end of each financial year, the Administrator of a National Public Fund shall submit the financial statements prepared under this section to the Auditor-General.

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

163. Non-Compliance in Presentation of the Financial Statements

Review of the financial statements for the year ended 30 June, 2022, revealed that Management presented the financial statements which had roman page numbering for preamble information. However, the financial statements page numbering starts from page 32 leaving out pages of number 1 to 31. Similarly, the footnotes to the financial statements also revealed inconsistencies in page numbering.

In the circumstances, the financial statements do not comply with the financial reporting guidelines issued by the Public Sector Accounting Standards Board.

164. Irregular Disbursements to World Under 20 Championship

The Fund disbursed amounts totalling Kshs.1,361,000,000 to World Under 20 Championship Committee in the 2019/2020 and 2020/2021 financial years to facilitate the preparation and hosting of the World Under 20 Championship Competition in Nairobi, Kenya which happened during 2021/2022 financial year. The event had its own Organizing Committee which was gazetted vide Gazette Notice No.1911 of 01 March, 2019. However, review of the procurement documents revealed that procurement of goods, works and services were conducted through restricted tender method. No explanation was provided to justify the choice of the restricted procurement method as required by Section 102(1) of the Public Procurement and Asset Disposal Act, 2015.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

165. Weak Corporate Governance Structure

Review of the Fund's corporate governance system revealed that Board Members and Chairperson of the Fund were appointed by the Head of Public Service. This was contrary to Regulation 8(3)(4) of the Public Finance Management (Sports, Arts and Social Development Fund) Regulations, 2018 which states that the person nominated under paragraph (2)(f)(g)(h) shall be appointed by the Cabinet Secretary. The President shall appoint one of the members appointed under this regulation to be the chairperson of the Board. Further, the Oversight Board passed resolutions affecting the operations of the Fund during four (4) different Board meetings attended by three (3) Board Members contrary to Regulation 8(8) of the Public Finance Management (Sports, Arts and Social Development Fund) Regulations, 2018 which states that the quorum for the conduct of meetings of the Board shall be four members. In addition, five (5) Oversight Board minutes for the meetings held during the year were not signed.

In the circumstances, Management was in breach of the law and the efficiency and effectiveness of governance systems could not be confirmed.

166. Failure to Appoint a Substantive Chief Executive Officer

Review of the Fund's personnel records and financial statements submitted for audit, revealed that, the Fund was headed by an Acting Chief Executive Officer since 12 February, 2019. This was contrary to Regulation 12(1)(2) of the Public Finance Management (Sports, Arts and Social Development) Regulations, 2018 which state that there shall be a secretariat of the Fund which shall consist of a Chief Executive Officer and such other staff as are necessary for the proper discharge of the functions of the Fund. The Chief Executive Officer and other staff of the Secretariat shall be appointed competitively in consultation with the Public Service Commission.

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

167. Lack of Internal Audit Function and an Audit Committee

The Fund had not established an internal audit function and an Audit Committee of the Board during the year under review. This was contrary to Section 73(1) and (5) of the Public Finance Management Act, 2012 which provides for the establishment of the internal audit function and an Audit Committee. As such the Fund did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

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

MINISTRY OF ENERGY – VOTE 1152

PETROLEUM DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

168. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

169. Budgetary Performance and Control

The statement of comparison of budget and actual amounts reflects receipts budget and actual amounts on comparable basis of Kshs.2,333,000,000 and Kshs.2,346,184,703 respectively resulting to an over collection by Kshs.13,184,703 or 0.6% of the budget. Similarly, the Project spent an amount of Kshs.2,335,647,077 against the approved budget of Kshs.2,333,000,000 resulting to an over-expenditure of Kshs.2,647,077 or 0.1 % above the approved budget.

The over collection of revenue and over-expenditure was as a result of interest income and general expenses which were not budgeted for and Management has not explained the failure to budget for the income and expenditure.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

170. Irregular Utilization of the Fund Resources

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects transfers to other Government Entities of Kshs.2,333,000,000. The Fund Management transferred the funds to various Government entities and one private entity all of which have no responsibility in the oil and petroleum industry, contrary to Section 4(4) of the Petroleum Development Fund Act, No.4 of 1991 (Revised 2012), which provides that there shall be paid out of the Petroleum Development Funds such monies as are necessary for the development of common facilities for distribution or testing of oil products and matters relating to the development of the oil industry.

Further, Management did not provide explanations to support how the funds were utilized upon being transferred to the entities listed below;

No.	Payee	Amount (Kshs.)
1.	Ministry of Energy	386,000,000
2.	Kenya Association of Manufacturers	35 000,000
3	Kenya Energy Sector - Environment and Social Responsibility Programme	72,000,000

No.	Payee	Amount (Kshs.)
4.	Rural Electrification and Renewal Energy Corporation	1,740,000,000
5.	Nuclear Power and Agency	100,000,000
	Total	2,333,000,000

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

171. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA ENERGY SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

172. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

173. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted revenue and actual on comparative basis of Kshs.72,000,000 and Kshs.86,052,723 respectively resulting to revenue overcollection of Kshs.14,052,723 or 20% of the budget. Further, the Fund budgeted to spend Kshs.72,000,000 but spent Kshs.68,258,437 resulting in under expenditure of Kshs.3,741,563 or 5%.

The under absorption of funds affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

174. Low Contribution to the Fund

As previously reported, the projected contributions towards the Fund by eight (8) Agencies, based on the 2019-2029 Action Plan, revealed that out of the expected contribution of Kshs.824,000,000, only Kshs.230,000,000 or 28% was realized from three (3) Agencies while five (5) Agencies had not made any contributions over the last three years as detailed below;

No.	Organization	Proposed Phase Two Allocation (2019-2029) (Kshs.)	Contribution Allocation for Last 3 Years (Kshs.)	Total Contribution Received in the Last 3 Years (Kshs.)	Deficit in Contribution (Kshs.)
1	Ministry of Energy (MOE)	659,000,000	197,700,000	222,000,000	-24,300,000
2	Kenya Electricity Transmission Company	5,000,000	1,500,000	0	1,500,000
3	Geothermal Development Company	54,000,000	16,200,000	0	16,200,000
4	Nuclear Power and Energy Agency	12,000,000	3,600,000	0	3,600,000
5	Kenya Power and Lighting Company Limited	10,000,000	3,000,000	2,000,000	1,000,000
6	Energy and Petroleum Regulatory Authority	20,000,000	6,000,000	6,000,000	0
7	Kenya Electricity Generating Company	10,000,000	3,000,000	0	3,000,000
8	Rural Electrification & Renewable Energy Corporation	54,000,000	16,200,000	0	16,200,000
	Total	824,000,000	247,200,000	230,000,000	17,200,000

No explanation was given as to why the five (5) Agencies were not contributing in accordance with the agreement.

In the circumstances, the non-contribution to the Fund is a violation of the terms of agreement and may impact negatively on the operations of the Fund and its ability to achieve the intended goals and objectives.

175. Low Utilization of Funds on Core Activities

The Ministry of Energy entered into a contract with the Kenya Forest Service to procure goods, works and services required for the project from Community Forest Association and to be financed out of the proceeds of the Fund. Review of the financial records revealed that out of an expenditure of Kshs.10,476,848 relating to afforestation at various forest areas, only an amount of Kshs.3,303,068 or 32% was incurred on the afforestation projects. The balance of the expenditure of Kshs.7,173,780 or 68% was incurred on other expenses that were not related to afforestation. Further, Management of the Fund did not have control of the procurement records and thereby affecting the accountability of the process.

In the circumstances, the objectives of the Fund may not be attained.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT
AND GOVERNANCE

Conclusion

176. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR LIVESTOCK – VOTE 1162

VETERINARY SERVICES DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

177. Unsupported Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.29,596,333 and as disclosed in Note 12 to the financial statements. However, detailed analysis of individual assets costs, accumulated depreciation and net book value under the various classes of assets was not provided for audit.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.29,596,333 could not be confirmed.

178. Long Outstanding Receivables

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.374,800. The balance relates to outstanding imprest of Kshs.98,000 and rent arrears of Kshs.276,800 due from various staff and have been outstanding for more than one year. However, no provision for doubtful debts was made in the financial statements for the outstanding debts. In addition, there was no evidence of progress made to recover these debts.

In the circumstances, the accuracy, completeness and recoverability of the receivables from non-exchange transactions balance of Kshs.374,800 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

179. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

180. Lack of Enterprise - Wide Risk Management (ERM)

As previously reported, there was no documented enterprise-wide risk management process and policies in place during the year under review to effectively guide the enterprises risk management processes at large. It was not clear how the Management managed risk exposure. This was in contravention of Regulation 165(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which requires

the Accounting Officer to ensure that the entity develops risk management strategies, which include fraud prevention mechanism; and the entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, internal controls and risk management systems were not effective.

STATE DEPARTMENT FOR CROP DEVELOPMENT AND AGRICULTURAL RESEARCH – VOTE 1169

COMMODITIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

181. Unsupported Prior Year Adjustments

The statement of financial position and as disclosed in Note 26 to the financial statements reflects revenue reserves of (Kshs.11,981,926,000) which includes a prior year adjustment figure of (Kshs.1,006,000) dating back to 2016/20217 financial year. Although Management explained that the prior year adjustments arose after a reconciliation of loans, the reconciliation amounts were not supported by the loan statements.

In the circumstances, the validity, accuracy and completeness of the prior year adjustments of (Kshs.1,006,000) could not be confirmed.

182. Lack of Logbooks for Motor Vehicles

The statement of financial position reflects property, plant and equipment balance of Kshs.17,364,000 whose original cost as disclosed in Note 21 to the financial statements was Kshs.170,172,000. The balance of Kshs.170,172,000 includes motor vehicles with a cost of Kshs.65,208,000. However, the Fund did not have logbooks for one motor vehicle and one motorcycle costing Kshs.8,859,358 and Kshs.111,071 respectively, both totalling Kshs.8,970,429.

In the circumstances, ownership status of the motor vehicle and the motorcycle valued at Kshs.8,970,429 could not be confirmed.

183. Long Outstanding Loans

The statement of financial position reflects long term receivables of Kshs.657,067,000 which as disclosed in Note 18 (iv) to the financial statements is a net of gross loans and advances of Kshs.15,805,522,000 and of a total provision of Kshs.14,686,786,000 or 93% of the gross amounts.

Review of loans disbursement records revealed that the balance includes a loan number LN0377 of Kshs.31,100,000 for coffee establishment that had been disbursed to a farmer in Nyeri on 2 March, 2016 and was to be repaid within 18 months. However, the farmer had not finished servicing the loan by the renegotiated repayment date of 30 June, 2021 and the outstanding balance as at 30 June, 2022 was Kshs.46,289,452.

Further, the balance includes loans that were inherited from Agriculture and Food Authority, Sugar Board and Coffee Development Fund that are non-performing and have outstanding overdue total principal and interest arrears balances totalling Kshs.19,287,452,848.

In the circumstances, the accuracy and recoverability of the receivables from exchange transactions - gross loans and advances of Kshs.15,805,522,000 could not be confirmed.

184. Failure to Revalue Fully Depreciated Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.17,364,000. However, Note 21 to the financial statements reflects fully depreciated property, plant and equipment with a historical cost value of Kshs.140,128,248 whose residual values over the remaining useful life of assets was not estimated and disclosed in the financial statements. This indicates a possible material variance between the fair value and the carrying value of the assets necessitating a revaluation as required under paragraph 49 of IPSAS 17 - property, plant and equipment.

Further, the Fund has no assets and liabilities management policy contrary to Paragraph 4(4.5) of The National Treasury Policy on Assets and Liabilities Management in the public sector.

In the circumstances, it has not been possible to confirm the fair statement of the property, plant and equipment net book value of Kshs.17,364,000 reflected in the financial statement.

185. Irregular Payment of House Allowances

The statement of financial performance reflects Kshs.115,697,000 in respect of employee costs. However, review of the payroll records for the year under review revealed that there were employees whose house allowances exceeded the approved rate by the Salaries and Remuneration Commission (SRC) as per their respective grades resulting in an over-expenditure of Kshs.3,270,250. No evidence was provided to confirm if approval for the payments of the allowances was granted by SRC.

In the circumstances, the regularity of the house allowance payment of Kshs.3,270,250 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

186. Lack of an Approved Staff Establishment and Remuneration Structure

During the year under audit, the Fund did not have an updated approved staff establishment hence it was not possible to establish the optimal levels or number of employees per post.

In addition, the salary structure and scale used by the Fund for payment of employees' salaries and allowances was not approved by the Salaries and Remuneration Commission contrary to Article 230(4) (a & b) of the Constitution.

In the circumstances, the regularity of the payments of salaries and allowances could not be confirmed.

187. Irregular Procurement of Security Expenses

The statement of financial performance reflects an amount of Kshs.100,402,000 in respect of use of goods and services which includes a payment of Kshs.1,174,000 that

was made to a security firm. This was as a result of a contract extension to provide security service at Kshs.40,000 plus VAT per guard per month. The contract was an extension of an earlier contract dated 1 January, 2017 whose charges for security services was Kshs.27,543 plus VAT per guard per month.

In the circumstances, it was not possible to confirm if value for money was realized for Kshs.1,174,000 expenditure on security services.

188. Board of Trustees Matters

The statement of financial performance reflects remuneration of trustees of Kshs.17,160,000 and as disclosed under Note 11 to the financial statements. However, the appointment letters for two (2) Board Members were not provided for audit review. The Fund Management vide a letter dated 16 December, 2019 requested the Principal Secretary, State Department for Crops Development and Agricultural Research for the appointment letters but no evidence was provided to indicate that they were received.

In addition, the Fund did not have a substantive holder for the position of Corporate Secretary. Minutes of the Board meetings were taken by the Legal Manager on behalf of the Managing Trustee but no evidence inform of delegation of authority or appointment letter was provided for audit.

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

189. Failure to Prepare Financial Statements for the Staff Car Loan and Mortgage Scheme

Note 23 to the financial statements reflects investment in staff mortgage loan and car loan of Kshs.115,011,000 and Kshs.11,326,000 respectively. However, the Fund did not prepare financial statements for the schemes and submit them for audit as required by a Circular of 17th December, 2014 on Car Loan and Mortgage Schemes for State Officers and other Public Officers of the Government of Kenya.

The National Treasury through a memo dated 20 June, 2022 gave Management the authority to open and operate a Commodities Staff Mortgage Account. Management opened an account with a local bank and deposited Kshs.30,000,000 to the account without entering into a contractual agreement with the bank on the management of the scheme. In addition, the status report on the transition from the Housing Finance Company (HFC) Scheme to the Cooperative Scheme was not provided for audit review.

In the circumstances, Management contravened the requirements of the Salary and Remuneration Commission circular on car loan and mortgage schemes.

190. Irregular Investment of Surplus Funds in Fixed Deposits at Commercial Banks

The reported cash and cash equivalents balance of Kshs.1,880,202,000 includes Kshs.1,794,659,000 being fixed deposits held in commercial banks, as disclosed under Note 17 (C) to the financial statements. This was contrary to The National Treasury Circular of 26 March, 2018 which directed all State Corporations and Semi-Autonomous Government Agencies (SAGAs) to invest surplus funds in Treasury Bills and/or Treasury Bonds directly through Central Bank of Kenya without intermediaries. All funds previously

held in fixed deposits in commercial banks/financial institutions were not to be rolled over but retired and invested in Treasury bills/bonds. Although Management provided authority from National Treasury dated 13 November, 2017 in support of the fixed deposits, the letter only authorizes the Fund to invest in on call deposits.

In the circumstances, the regularity of the investment of Kshs.1,794,659,000 in fixed deposits accounts could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

191. There were no material issues relating to effectiveness of internal controls, risk management and governance.

AGRICULTURAL INFORMATION RESOURCE CENTRE REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

192. Inaccuracies in the Financial Statements

The statement of financial performance reflects expenditure on purchase of goods and services of Kshs.2,475,395 while the corresponding Note 4 to the financial statements reflects an amount of Kshs.2,575,395 resulting to an unreconciled variance of Kshs.100,000.

Further, Note 8 to the financial statements reflects internet connection expenses of Kshs.654,288 out of which VAT payment of Kshs.7,569 was recorded as Kshs.75,680 resulting to overstatement of Kshs.68,111.

In addition, the statement of changes in net assets reflects opening capital replacement development reserve balance of Kshs.10,881,738 as at 1 July, 2021. However, audited financial statements for the previous year reflected a balance of Kshs.9,282,448 as at 1 July, 2020 resulting to an unreconciled variance of Kshs.1,599,290.

In the circumstances, the accuracy and fair presentation of the financial statements could not be confirmed.

193. Understatement of Property, Plant and Equipment Balance

The statement of financial position and as disclosed in Note 13 to the financial statements reflects property, plant and equipment net book balance of Kshs.336,683. However, the balance excludes fully depreciated assets with total original cost of Kshs.38,347,572 but which were still in use and had not been revalued. This is contrary to Paragraph 49 of the International Public Sector Accounting Standard (IPSAS) No.17 on property, plant and equipment, which provides for revaluation of property, plant and equipment every three to five years.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.336,683 could not be confirmed.

194. Inaccuracies in Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.923,285 and a comparative balance of Kshs.809,219. However, and as previously reported, the comparative balance was the amount as per the bank statement and not the cash book balance of Kshs.277,052. Further, reflected in the respective bank reconciliation statement was unbanked cash amount of Kshs.18,000 which Management explained was as a result of an amount of Kshs.102,000 being recorded as Kshs.120,000. No explanation was provided by Management for failure to adjust the cash book accordingly.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.923,285 could not be confirmed.

195. Unsupported Receivables from Exchange Transactions Balance

The statement of financial position and as disclosed in Note 11 to the financial statements reflects receivables from exchange transactions balance of Kshs.7,804,209. Review of the debtors ageing analysis revealed that debtors amounting to Kshs.7,316,169 have been outstanding for more than one (1) year. However, no provision for bad and doubtful debts was made for the outstanding debts and Management had not provided evidence of efforts made to collect the debts.

Further, the receivables balances were not supported with relevant documents including individual debtors' statements and contract documents.

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.7,804,209 could not be confirmed.

196. Long Outstanding Current Liabilities

The statement of financial position and as disclosed in Note 17 to the financial statements reflects current liabilities balance of Kshs.1,498,598. Review of the supporting ledger revealed that the payables have been long outstanding with some dating back to the financial year 2017/2018 for which none of the creditors has laid claim on the amounts. However, the Management did not explain why these payables had remained unpaid.

In the circumstances, the accuracy and existence of the current liabilities balance of Kshs.1,498,598 could not be confirmed.

197. Unsupported Daily Subsistence Allowance

The statement of financial performance and as disclosed in Note 5 to the financial statements reflects employee costs of Kshs.38,894,500 relating to daily subsistence allowances. Included in the expenditure are payments of Kshs.36,762,800 made to facilitators and trainees involved in generating baseline data for livestock masterplan development at ward level for the State Department for Livestock. However, the expenditure was not supported with signed daily attendance registers.

In the circumstances, the propriety, accuracy and completeness of the daily subsistence allowances expenditure of Kshs.38,894,500 could not be confirmed.

Other Matter

198. Failure to Disclose Material Uncertainty in Relation to Sustainability of Services

The statement of financial performance reflects a deficit of Kshs.820,932 resulting into an accumulated deficit of Kshs.2,216,159. This material uncertainty casts significant doubt on the Fund's ability to continue to sustain its services and may face challenges in settling obligations as and when they may fall due.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

199. Lack of Approved and Balanced Budget

The statement of comparison of budget and actual amounts reflects total budgeted income and expenditure of Kshs.41,400,000 and Kshs.23,419,036 respectively. However, the amounts were not supported with the approved budget. Further, the statement reflects actual expenditure of Kshs.54,676,672 resulting to an over expenditure of Kshs.31,257,636. This was contrary to Regulation 33 of Public Finance Management (National Government) Regulations, 2015 which provides that, the expenditure entered in national government budget estimates shall be authorised for one financial year only and that budget shall be balanced.

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

200. Non-Adherence to the Provisions of the Public Procurement Regulations

Contrary to Regulation 40 of the Public Procurement and Asset Disposal Regulations, 2020, the procurement plan provided for audit review was not prepared in accordance with the set format and was not approved by the Cabinet Secretary.

Further, there was no evidence that the annual departmental procurement plans were submitted to the Accounting Officer by heads of user departments prior to the commencement of the financial year.

In addition, there was no evidence that the Fund prepared and submitted quarterly reports on implementation of the annual procurement plan to the Cabinet Secretary.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

201. Failure to Appoint Members to the Board of Directors

Section 2, page V of the financial statement lists seven (7) persons including the Fund's director as being members of the Board of Directors. However, review of records revealed that the Fund did not have a duly appointed and functional Board. The Fund therefore

lacked the governance structure as prescribed in the Exchequer and Audit (Agricultural Information Resource Centre Revolving Fund) Regulations, 1993.

In the circumstances, risk management and governance structures were not effective.

202. Internal Controls Weaknesses

Assessment of the Fund's internal control environment revealed that the Fund did not have an internal audit function to continuously monitor implementation of internal controls. No evidence was provided to confirm that internal audit activities were performed on the Fund. Further, during the year under review the Fund did not have a documented Risk Management Policy and did not perform any risk assessments. In addition, the Fund Management had not established a disaster recovery/business continuity plan.

In the circumstances, the Fund's internal controls were not effective.

STATE DEPARTMENT FOR CO-OPERATIVES – VOTE 1173

CO-OPERATIVE SOCIETIES LIQUIDATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

203. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

204. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

205. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MANAGEMENT AND SUPERVISION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

206. Unsupported Cash and Cash Equivalents

The statement of financial position and Note 4 to the financial statements reflect cash and cash equivalents balance of Kshs.2,536,230. However, the balance was not supported with a cash book and a bank reconciliation statement. Further, Management did not open a separate bank account for the Fund but instead operated the Fund from the State Department for Cooperatives Deposit Account.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.2,536,230 could not be confirmed.

207. Long Outstanding Debts

The statement of financial position and Note 7 to the financial statements reflect management and supervision fees - debtors balance of Kshs.10,219,347. Review of the schedules provided for audit revealed that these debts remained un-recovered for more than ten (10) years. It was not clear why these debts remained uncollected and no evidence of Management's effort to recover the debts was provided.

In the circumstances, the accuracy and recoverability of the debtors balance of Kshs.10,219,347 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

208. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

209. There were no material issues relating to effectiveness of internal controls, risk management and governance.

COFFEE CHERRY ADVANCE REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

210. Inaccuracies in the Financial Statements

The financial statements presented for audit had the following inaccuracies:

- i. The statement of financial performance reflects Nil balance in respect of other income (CCARF 3% Admin Charges) while the supporting schedules reflects an amount of Kshs.4,569,522.
- ii. The statement of financial position reflects cash and cash equivalents balance of Kshs.2,917,791,246 and a comparative balance of Kshs.2,867,405,160 while the supporting Note 13 to the financial statements reflects Kshs.2,898,209,112 and Kshs.2,838,428,505 resulting to variances of Kshs.19,852,134 and Kshs.28,976,655 respectively.
- iii. The statement of financial position reflects current receivables from exchange transactions balance of Kshs.101,396,534 and comparative balance of Kshs.2,571 while the supporting Note 14 (b) to the financial statements reflects Kshs.101,396,494 and Kshs.13,400,216 resulting to variances of Kshs.40 and Kshs.13,397,645 respectively.
- iv. The statement of financial position reflects current liabilities amounting to Kshs.6,181,918. However, the balance was not supported by any note to the financial statements.
- v. The statement of financial position reflects total assets balance of Kshs.3,032,138,972. However, total equity and liabilities amounts to Kshs.3,025,381,697 resulting in an unexplained variance of Kshs.6,757,274.

- vi. The statement of cash flows reflects net cash flows from operating activities amounting to Kshs.151,785,620. However, the corresponding Note 17 to the financial statements reflects an amount of Kshs.89,361,314 resulting in an unexplained variance of Kshs.62,424,305.

In the circumstances, the presentation, accuracy and completeness of the above balances as reflected in the financial statements could not be confirmed.

211. Omission in Presentation and Disclosure of the Financial Statements

Review of the financial statements revealed that the financial statements were not signed by the Chairman of the Board and Appendix 1 on implementation status of the Auditor-General's recommendations which appears on page 31 of the financial statements was not signed by the Managing Director. In addition, Note 14(c) to the financial statements reflects disclosures on movement of Equity Investment together with impairment allowances/provision. However, the source and intent of the disclosure was not clear. This is contrary to the Public Sector Accounting Standard Board Reporting Template (Revised 2022).

In the circumstances, presentation and disclosure of the financial statements was not in the format prescribed by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

212. Failure to Prepare Annual Workplan and Budget for the Fund

The Fund did not prepare an annual work programme and budget for the financial year ended 30 June, 2022. In the foregoing circumstances, it was impossible to establish the Fund's approved activities and cost estimates thereof for the financial year under review as envisaged. This was in contravention of Regulation 23(1) of the Public Finance Management (Coffee Cherry Advance Revolving Fund) Regulations, 2020 which states that, "at least six months before the commencement of each financial year, the Board shall cause to be prepared estimates of the revenue and expenditure of the fund for that year".

Further, Regulation 6(2) of the Public Finance Management (Coffee Cherry Advance Revolving Fund) Regulations, 2020 stipulates that the expenditure on the Fund shall be on the basis of and limited to annual work programmes and cost estimates which shall be prepared by the Administrator at the beginning of every financial year and approved by the Board.

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

213. Late Submission of the Annual Report and Financial Statements

The Fund submitted the annual financial statements to the Office of the Auditor-General on 2 November, 2022, two (2) months after the deadline of 30 September, 2022. This was contrary to Section 47(1) of the Public Audit Act, 2015 which requires the financial

statements to be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

214. Irregular Investment of Undisbursed Funds in Call Accounts at a Commercial Bank

The reported cash and cash equivalents balance of Kshs.2,917,791,246 includes an amount of Kshs.2,894,433,219 invested in call deposits held at a local bank as disclosed in Note 13 to the financial statements. This was contrary to The National Treasury Circular of 26 March, 2018 which directed all State Corporations and Semi-Autonomous Government Agencies (SAGAs) to invest surplus funds in Treasury Bills and/or Treasury Bonds directly through Central Bank of Kenya without intermediaries. All funds previously held in fixed deposits in commercial banks/financial institutions were not to be rolled over but retired and invested in Treasury bills/bonds.

Further, the balances held with the commercial banks on call deposit have accumulated unapplied interest of Kshs.278,824,709. Unapplied funds do not benefit from interest, unless rolled over as part of the principal balances. This has denied the Fund the benefit of a higher return on those unapplied funds.

In the circumstances, Management was in breach of The National Treasury directive.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

215. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MINISTRY OF LABOUR – VOTE 1184

OCCUPATIONAL SAFETY AND HEALTH FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

216. Long Outstanding Payables

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.681,213 and as disclosed in Note 10 to the financial statements. Review of documents provided for audit revealed the balance comprises of Kshs.300,000 and Kshs.381,213 in respect of audit fees and retention fees respectively which have remained outstanding for a period of more than one year. No plausible explanation was provided for non-payment of the outstanding payables before the end of the financial year under review.

In the circumstances, the completeness and accuracy of the trade and other payables from exchange transactions balance of Kshs.681,213 could not be confirmed.

217. Variance in Comparative Balance-Specialized Plant and Equipment

The statement of financial performance reflects comparative amount in respect to purchase of specialized plant and equipment of Kshs.13,365,540. However, audited financial statements for the year ended 30 June, 2021 did not reflect an amount in respect to purchase of specialized plant and equipment.

In the circumstances, the existence and accuracy of the comparative amount on purchase of specialized plant and equipment of Kshs.13,365,540 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

218. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

219. There were no material issues relating to effectiveness of internal controls, risk management and governance.

**STATE DEPARTMENT FOR SOCIAL SECURITY AND PROTECTION –
VOTE 1185**

THE NATIONAL ASSISTANCE TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

220. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

221. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total actual expenditure of Kshs.39,438,331 against total actual receipts of Kshs.35,336,560. However, the Fund did not prepare an itemized budget contrary to Regulation 32(4) of the Public Financial Management (National Government) Regulations, 2015 which requires that budget proposals to be submitted in the prescribed formats that support program-based budgeting and classification of expenditure in economic classes. Management did not provide explanation for the anomaly.

In the circumstances, the efficiency and effectiveness of the budgetary making process could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

222. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

223. Lack of an Internal Audit Department and Audit Committee

The Fund has not established an internal audit function and an Audit Committee of the Board. This is contrary to Section 73(1) and (5) of the Public Finance Management Act, 2012 which provides for the establishment of the internal audit function and an Audit Committee. The Fund therefore, did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

In the circumstances, the effectiveness of internal controls and risk management could not be confirmed.

STREET FAMILIES REHABILITATION TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

224. Lack of Land Ownership Documents

The statement of financial position and Note 8 to the financial statements reflect property, plant and equipment balance of Kshs.10,603,417. However, the balance excludes unvalued parcels of land that had no ownership documents as detailed below:

224.1 Land Donated by Kenya Pipeline Company Limited

As previously reported, Kenya Pipeline Company (KPC) donated and surrendered to the Fund a piece of land at Mukuru kwa Njenga area of Nairobi on 23 August, 2007 vide a letter addressed to the Commissioner of Lands by the Managing Director of the Company. The title deed was surrendered to the Commissioner of Lands on 06 August, 2007 for purposes of transferring and registering the property in the name of the Fund. However, audit verification revealed that the land was encroached upon and ownership had not been transferred to the Fund.

224.2 Parcels of Land in Embu, Murang'a and Laikipia

As previously reported, available information indicates that the defunct Local Authorities of Embu, Murang'a and Laikipia had informally allocated land to the Street Families Rehabilitation Trust Fund as captured in the Minutes dated 19 September, 2016. However, audit revealed that the Fund had not identified the location of these properties and had not obtained their ownership documents. Further, Management did not demonstrate efforts put in place to acquire the ownership documents.

In the circumstances, the ownership, accuracy and completeness of the property, plant and equipment balance of Kshs.10,603,417 as at 30 June, 2022 could not be confirmed.

Other Matter

225. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised in the Report on Financial Statements. However, Management did not resolve the issues or disclose all the prior year matters as provided by the Public Sector Accounting Standards Board Templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

226. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

227. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MINISTRY OF PETROLEUM AND MINING – VOTE 1194

PETROLEUM DEVELOPMENT LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

228. Unaccounted for Transfers to Other Government Entities

The statement of receipts and payments and Note 3 to the financial statements reflects an amount of Kshs.23,572,772,102 being transfers to other Government entities. The transfers include amounts of Kshs.220,000,000 and Kshs.200,000,000 transferred to National Oil Corporation of Kenya (NOCK) and Energy and Petroleum Regulatory Authority (EPRA) respectively. However, budget, work plans, cost statements for oil and gas exploration activities and oil exploration and monitoring reports to support the transfers were not provided. In addition, framework agreement in support of the transfers was not provided for audit verification.

Further, during the year under audit, the Fund transferred a total of Kshs.23,152,125,774 to the Ministry of Petroleum and Mining. However, no supporting evidence was provided to demonstrate that the transferred funds were used as provided by Section 4(4) of the Petroleum Development Act, 1991 and the Petroleum Development Levy Order No. 124 issued on 10 July, 2020. The Act and the Order requires that the funds be used for development of common facilities for distribution or leasing of oil products, for matters relating to development of oil industry as the Minister may direct and for matters relating to development of the oil industry including stabilization of local petroleum pump prices.

In the circumstances, it was not possible to confirm whether the transferred funds totalling Kshs.23,572,772,102 were used for the intended purposes.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

229. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

230. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PETROLEUM TRAINING LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

231. Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.664,105,397 which includes an amount of Kshs.111,338,125 held at the surface fees bank account as disclosed in Note 6 to the financial statements. According to Section 52(3) of the Petroleum Act, 2019, all moneys raised by the contractors as training contribution shall be paid into the Training Fund. However, amounts collected in respect of surface fees do not comprise the Training Fund revenue and ought to have been accounted for under the Ministry as Appropriations-In-Aid or surrendered to the Exchequer.

In the circumstances, the accuracy of the surface fees bank account balance of Kshs.111,338,125 as at 30 June, 2022 could not be confirmed.

232. Long Outstanding Training and Service Fees

The statement of financial position reflects a balance of Kshs.2,732,715,009 in respect of accounts receivable - fines, penalties, and levies. The balance relates to training levy and service fees brought forward from the financial year 2020/2021 amounting to Kshs.2,280,948,522 which has been accumulating over the years and had remained unpaid by oil exploration companies since the year 2011. The amount was due from nine (9) oil companies that operated eighteen (18) oil blocks as at 30 June, 2022.

Further, two (2) of the nine (9) contractors with an outstanding amount of US\$.925,751.10 (equivalent to Kshs.99,842,256) have since relinquished their blocks to the Government while the remaining seven (7) are still active. However, the two contractors who relinquished their blocks were discharged before settling the outstanding training levy and surface fees. Management did not provide evidence to demonstrate efforts made to recover the outstanding amounts.

In the circumstances, the recoverability of accounts receivables balance of Kshs.2,732,715,009 as at 30 June, 2022 remains doubtful.

233. Unaccounted for Expenditure

The statement of financial performance reflects an amount of Kshs.30,000,000 in respect of transfer to other Government units. The amount relates to transfers to the National Oil Corporation of Kenya for training activities during the year under review. However, the amount was not reflected in the Company's financial statements. Further, detailed expenditure returns, approved training plans, training attendance registers, evidence of travel documents and proof of hire of venues used for training were not provided for audit review.

In the circumstances, it was not possible to confirm whether the funds were received by the Corporation and utilised for training in upstream petroleum operations as provided for in the Act.

234. Inaccuracies in Accounts Receivables Balances

The statement of financial position reflects accounts receivables - fines, penalties and levies balance of Kshs.2,732,715,009 as at 30 June, 2022. As disclosed in Note 7 to the financial statements, the balance comprises of fines, penalties and levies brought forward from 2020/2021 financial year amount of Kshs.2,280,948,522 and fines, penalties and levies for the year under review amount of Kshs.451,766,487.

Review of the ledgers revealed that the accounts receivables - fines, penalties and levies brought forward was translated at a historical rate of Kshs.93.47 instead of the closing rate of Kshs.117.8324. Additionally, the account receivables - fines, penalties and levies for the year was translated at a rate of Kshs.117.45 instead of the closing rate of Kshs.117.8324. This was contrary to paragraph 44(a) of the International Public Sector Accounting Standards (IPSAS) which requires that assets and liabilities for each statement of financial position presented, including comparatives be translated at the closing rate at the date of that statement of financial position.

In the circumstances, accuracy of the account receivables - fines, penalties and levies balance of Kshs.2,732,715,008 could not be confirmed.

235. Inaccuracies in Revenue from Non-Exchange Transactions

The statement of financial performance reflects revenue from non-exchange transactions - fines, penalties and levies amounting to Kshs.21,726,282 (2020 - Kshs.198,837,610) comprising of Kshs.18,630,000 and Kshs.3,096,282 in respect of training levy and surface fees respectively as disclosed in Note 1 to the financial statements. According to Section 52(3) of the Petroleum Act, 2019, the Fund comprises of funds raised from contractors as training contribution. Effectively, amounts collected in respect of surface fee do not comprise the Training Fund revenue and ought to have been accounted for under the State Department as Appropriation-In-Aid or surrendered to the Exchequer. However, the financial statements of the Fund recognised the amounts received in respect of surface fee but did not recognise an accrued transfer to The National Treasury expense and the corresponding liability under accounts payable in the statement of financial position as at 30 June, 2022.

In addition, the reduction of the levies for the Oil Company - Training Levy from Kshs.147,792,592 to Kshs.18,630,000 and surface fee from Kshs.51,045,016 to Kshs.3,096,282 have not been explained or reconciled despite the fact that fines, penalties and levies not recoverable from the oil Companies have increased by over 40%.

In the circumstances, the accuracy of the revenue from non-exchange transactions of Kshs.3,096,282 from surface fees included in the statement of financial performance for the year under review could not be confirmed.

Other Matter

236. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and the Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved the issues or explained their failure to do so contrary to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury Circular dated 11 May, 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

237. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.260,471,428 and Kshs.54,764,691 respectively resulting to an under-funding of Kshs.205,706,737 or 79% of the budget. Similarly, the Fund expended a total of Kshs.286,921,963 against an approved budget of Kshs.260,471,428 resulting in an excess expenditure of Kshs.26,450,535 or 9% of the budget. Management did not provide the approval or authority for the excess expenditure.

In addition, Management did not provide a statement explaining the variations between the actual expenditure and the budgeted amount in the financial statements as required under Section 81(2) of the Public Finance Management Act 2012.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

238. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR GENDER – VOTE 1212

UWEZO FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

239. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.2,216,249,041 and as disclosed in Note 14 to the financial statements. The balance includes two hundred and ninety (290) constituencies bank balances amounting to Kshs.1,928,935,051 which was derived from bank statements and was not supported with bank reconciliation statements, certificates of bank balances, board of survey reports and copies of cash book extracts. In addition, audit verification revealed that the constituencies had unreconciled balances resulting from untraceable deposits and unrepresented cheques.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.2,216,249,041 could not be confirmed.

240. Unsupported Long-Term Receivables-Outstanding Loans

The statement of financial position reflects long-term receivables-outstanding loans balance of Kshs.4,790,521,663 and as disclosed in Note 16 to the financial statements. However, the balance was not supported with debtors' ledgers detailing loans issued since inception, repayments made and outstanding balances. In addition, Fund's overall loan performance indicates loan disbursements of Kshs.6,716,400,895 and loan repayments of Kshs.741,048,530 or 11% of the disbursement resulting to an outstanding balance of Kshs.5,975,352,365 or 89% whose recoverability is doubtful. Further, no provision for bad and doubtful debts was made in the financial statements.

In the circumstances, the accuracy and completeness of the long-term receivables-outstanding loans balance of Kshs.4,790,521,663 could not be confirmed.

241. Unsupported Trade and Other Exchange Payables

The statement of financial position reflects trade and other exchange payables balance of Kshs.2,087,911 and as disclosed in Note 18 to the financial statements. The balance relates to eight (8) Constituencies, however, analysis of these balances revealed balances totalling Kshs.8,268,312 resulting to unreconciled variance of Kshs.6,180,401. In addition, the trade and other exchange payables balance excludes outstanding audit fees of Kshs.5,220,000 since the financial year 2013/2014.

In the circumstances, the accuracy and completeness of the trade and other exchange payables balance of Kshs.2,087,911 could not be confirmed.

Other Matter

242. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final expenditure budget of Kshs.361,041,445 against actual expenditure of Kshs.155,120,092 resulting in an under expenditure of Kshs.205,921,353 or 57 % of the budget.

The under-expenditure affected the Fund's principal activity of expanding access to finances in promotion of youth and women businesses and enterprises at the constituency level for economic growth towards the realisation of the goals of Vision 2030.

243. Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

244. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

245. Use of Manual Records

The Board had approved the procurement of Enterprise Resource Planning (ERP) system and during the year under review, a budget provision of Kshs.17,000,000 was made. However, the system has not been procured and the Fund continues to use manual system to account for loans and the two hundred and ninety (290) constituencies bank accounts. In addition, the procurement of goods and services has not been digitized contrary to Executive Order No.2 of 2018 requiring every public entity to implement the e-procurement system.

In the circumstances, the effectiveness of controls of the manual systems could not be confirmed.

246. Weaknesses in Fund Administration

The statement of financial position reflects long-term receivables-outstanding loans balance of Kshs.4,790,521,663 and as disclosed in Note 16 to the financial statements. A review of records maintained at eight (8) sampled Constituency Uwezo Fund offices revealed that, there was no follow-up of beneficiaries to ensure timely loan repayments, loan reconciliations were not done, there were delays in releasing administrative funds due to non-compliance in making returns, there were no backups and there were defaults on loan repayments.

In the circumstances, the effectiveness of controls on loan issuing and repayments could not be confirmed.

STATE DEPARTMENT FOR PUBLIC SERVICE – VOTE 1213

NATIONAL YOUTH SERVICE - MECHANICAL AND TRANSPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

247. Unsupported Receivables

The statement of financial position reflects balances of Kshs.1,151,440,547 and Kshs.778,211,304 in respect to receivables from National Youth Service (NYS) Units and receivables from external operations and as disclosed in Note 19 and Note 20 to the financial statements respectively both totalling Kshs.1,939,651,851. Included in the receivables from external operations balance is an amount of Kshs.641,736,869 brought forward from 2020/2021 financial year and prior years whose ageing analysis was not provided for audit. Further, although the recoverability of the total receivables amounting to Kshs.1,939,651,851 is doubtful, provisions for bad and doubtful debts were not made to recognize possible impairment of the debts.

In the circumstances, the accuracy, completeness and recoverability of the receivables totalling to Kshs.1,939,651,851 could not be confirmed.

248. Unsupported Sundry Creditors

The statement of financial position reflects sundry creditors balance of Kshs.8,579,233, as disclosed in Note 25 to the financial statements. However, the supporting schedules were not provided for audit. Further, the balance has been long outstanding and Management did not provide justification for the delayed payments.

In the circumstances, the accuracy and completeness of the sundry creditors balance of Kshs.8,579,233 could not be confirmed.

249. Unconfirmed Small Vehicles, Commercial Trucks, and Plant and Machinery Balance

The statement of financial position reflects total small vehicles, commercial trucks, and plant and machinery balance of Kshs.3,631,036,963 and as disclosed in Note 22 to the financial statements. However, as previously reported, the Management had not valued the assets for financial reporting purposes since inception and the depreciation policy had not been approved by the Council. Further, furniture and fittings such as executive tables, chairs and cabinets had not been tagged with identification numbers.

In the circumstances, the accuracy and completeness of small vehicles, commercial trucks, and plant and machinery balance of Kshs.3,631,036,963 could not be confirmed.

Other Matter

250. Grounded Motor Vehicles, Plant and Equipment

Review of the Fund's assets register revealed that one hundred and thirty (130) motor vehicles, plant, machinery and equipment had been grounded for a long time due to

various mechanical defects. Management had not made any efforts to repair or dispose the assets.

In the circumstances, the assets continued to deteriorate and any salvage value that could have been realized may be lost.

251. Unresolved Prior Year Audit Issues

In the audit report of the previous year, several issues were raised in the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to resolve the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

252. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

253. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR YOUTH AFFAIRS – VOTE 1214

YOUTH ENTERPRISE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

254. Unconfirmed Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.3,023,667,308. However, Note 17 to the financial statements reflects a balance of Kshs.3,023,488,374 resulting to a variance of Kshs.178,934 which was not reconciled or explained. Further, the receivables balance includes unidentified loans repaid of Kshs.90,148,885 out of which loan repayments totalling Kshs.88,142,199 has remained unidentified since July, 2008. Management did not explain the long delay in allocating the repayment to respective borrowers' accounts.

In addition, the receivables balance of Kshs.3,023,667,308, includes an amount owed by a local bank of Kshs.180,363,789. Review of judgement on corruption case Number 13 of 2016, revealed that the amount was irregularly paid to a supplier. This led to conviction of the Director and the Company for conspiracy to commit an economic crime, unlawful acquisition of public property and making false documents. However, no evidence on effort made by Management to recover the amount was provided and its recovery is therefore doubtful.

Further, Management did not provide for bad and doubtful debts.

In the circumstances, the accuracy, completeness and recoverability of the receivables from exchange transactions balance of Kshs.3,023,667,308 could not be confirmed.

Emphasis of Matter

255. Going Concern of the Fund

I draw your attention to the disclosure in Note 24 to the financial statements which indicates that the Fund had been reporting losses over several years. During the year under review, the Fund continued to register dismal performance, reporting a deficit of Kshs.123,233,755. The poor performance has prevailed over the last seven years. This has eroded the capital invested in the revolving Fund and impaired the ability of the Fund to discharge its mandate and thus, casts significant doubt on the ability to sustain its services in the foreseeable future.

My opinion is not modified in respect of this matter.

Other Matter

256. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget and actual receipts on a comparable basis of Kshs.454,219,340 and Kshs.400,057,803 respectively resulting to an underfunding of Kshs.54,161,537, or 12% of the budget under

the Recurrent Vote. Similarly, the Fund expended Kshs.523,291,558 against an approved budget of Kshs.443,119,340 resulting to an over expenditure of Kshs.80,172,218 or 18% of the budget. The underfunding affected the planned activities and may have impacted negatively on service delivery to the public while the overexpenditure was incurred irregularly.

Further, the statement of comparison of budget and actual amounts also reflects final budget and actual receipts on a comparable basis of Kshs.730,000,000 and Kshs.406,800,000 respectively resulting to an underfunding of Kshs.323,200,000 or (44%) of the budget under the Development Vote. Similarly, the Fund expended Kshs.394,008,848 against an approved budget of Kshs.741,100,000 resulting to an underexpenditure of Kshs.347,091,152 or 47% of the budget. The underfunding and underexpenditure affected the planned activities and may have impacted negatively on service delivery to the public.

257. Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised in the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management did not resolve the issues or give explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board Templates and The National Treasury's Circular.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

258. Doubtful Recovery of Receivables from Non-Exchange Transactions

The statement of financial position and Note 18 to the financial statements reflect prepayments balance of Kshs.944,281, being rental deposits for premises that the Fund vacated in 2017. However, the refund is yet to be made contrary to Regulation 64(1) of the Public Finance Management (National Government) Regulations, 2015 which require an Accounting Officer to ensure adequate safeguards exist and are applied for the prompt collection and proper accounting for all revenue and adequate measures, including legal action where appropriate, are taken to obtain payment. Management did not provide explanation for not recovering the deposit.

In the circumstances, delayed recovery of the rental deposits could result to loss of public funds.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

259. Grounded Motor Vehicles and Motor Cycles

Review of the assets register revealed that six (6) motor vehicles and one hundred and seventy-five (175) motorcycles were grounded due to various mechanical defects.

Although Management indicated that, it sought for approval of the Head of Public Service for disposal of the assets on 6 March, 2018, no response had been received as at the time of the audit.

As a result, the assets continue to deteriorate and salvage value that could have been realized from sale, may be lost.

NATIONAL INTELLIGENCE SERVICE – VOTE 1281

INTELLIGENCE SERVICE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

260. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

261. Material Uncertainty Related to Sustainability of Services

As disclosed in Note 17 to the financial statements, the Management is in the process of winding up of the Fund in accordance with the provisions of Regulation 207(1)(i) of the Public Finance Management Regulations, 2015. The Regulations states that the initial approval for establishment of a National Public Fund shall be for a maximum period of ten (10) years. The Fund's bank account has been closed and the acquired assets are in the process of being transferred to National Intelligence Service.

There is therefore a material uncertainty on the Fund's ability to continue to sustain its services.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

262. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

263. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OFFICE OF THE REGISTRAR OF POLITICAL PARTIES – VOTE 1311

POLITICAL PARTIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

264. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

265. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

266. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PARLIAMENTARY SERVICE COMMISSION – VOTE 2041

PARLIAMENTARY CATERING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

267. Unconfirmed Receivables Balance

The statement of financial position reflects receivables balance of Kshs.42,591,583. As disclosed in Note 8 and Annex II to the financial statements. The balance includes an amount of Kshs.41,357,388 owed to the Fund by the National Assembly, Parliamentary Joint Services and the Senate. However, the outstanding balance was not disclosed as part of the pending bills in the respective financial statements as detailed below:

Vote Name	Amount (Kshs.)
National Assembly - Offices and Committees	18,619,462
Parliamentary Joint Services and Centre for Parliamentary Studies and Training	12,671,938
Senate - Offices and Committees	10,065,988
Total	41,357,388

In the circumstances, the accuracy and validity of the receivables balance of Kshs.42,591,583 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

268. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

269. There were no material issues relating to effectiveness of internal controls, risk management and governance.

Appendix A: Unmodified Opinion

No. National Government Funds

1. Equalisation Fund – The National Treasury
2. Contingencies Fund – The National Treasury
3. Petroleum Development Levy (Holding Account) – The National Treasury
4. COVID-19 Emergency Response Fund – The National Treasury
5. Asiatic Widows and Orphans Pension Fund – The National Treasury
6. African Union and Other International Organizations Subscription Fund – The National Treasury
7. Credit Guarantee Scheme – The National Treasury
8. Public Service Superannuation Scheme Fund – The National Treasury
9. National Government Constituencies Development Fund – Central Bank of Kenya – State Department for Planning
10. National Humanitarian Fund – State Department for Interior and Citizen Services
11. Roads Annuity Fund – State Department for Infrastructure
12. Petroleum Development Fund – Ministry of Energy
13. Kenya Energy-Sector Environment and Social Responsibility Program Fund – Ministry of Energy
14. Co-operative Societies Liquidation Fund – State Department for Co-operatives
15. The National Assistance Trust Fund – State Department for Social Security and Protection
16. Intelligence Services Development Fund – National Intelligence Service
17. Political Parties Fund – Office of the Registrar of Political Parties

Appendix B: Qualified Opinion

No. National Government Funds

1. Provident Fund – The National Treasury
2. European Widows and Orphans Pension Fund – The National Treasury
3. Asian Officers Family Pension Fund – The National Treasury
4. State Officers and Public Officers Motor Car Loan Scheme Fund – The National Treasury
5. Women Enterprise Fund – State Department for Planning
6. National Government Affirmative Action Fund – State Department for Planning
7. Government Press Fund – State Department for Interior and Citizen Services
8. Prison Industries Revolving Fund – State Department for Correctional Services
9. Prison Farms Revolving Fund – State Department for Correctional Services
10. Mechanical and Transport Fund – State Department for Infrastructure
11. Railway Development Levy Fund (Holding Account) – State Department for Transport
12. Kenya Slum Upgrading Low Cost Housing and Infrastructure Trust Fund (KENSUF) – State Department for Housing and Urban Development
13. Land Settlement Fund – Ministry of Lands and Physical Planning
14. Sports, Arts and Social Development Fund – State Department for Sports
15. Veterinary Services Development Fund – State Department for Livestock
16. Commodities Fund – State Department for Crop Development and Agricultural Research
17. Management and Supervision Fund – State Department for Co-operatives
18. Coffee Cherry Advance Revolving Fund - State Department for Co-operatives
19. Occupational Safety and Health Fund – Ministry of Labour
20. Street Families Rehabilitation Trust Fund – State Department for Social Security and Protection
21. Petroleum Development Levy Fund – Ministry of Petroleum and Mining

Appendix B: Qualified Opinion

No. National Government Funds

22. Petroleum Training Levy Fund – Ministry of Petroleum and Mining
23. Uwezo Fund – State Department for Gender
24. National Youth Service - Mechanical and Transport Fund – State Department for Public Service
25. Youth Enterprise Development Fund – State Department for Youth Affairs
26. Parliamentary Catering Fund – Parliamentary Service Commission

Appendix C: Adverse Opinion

No. National Government Funds

1. Rural Enterprise Fund – The National Treasury
2. Treasury Main Clearance Fund – The National Treasury
3. Civil Servants Housing Scheme Fund – State Department for Housing and Urban Development
4. Agricultural Information Resource Centre Revolving Fund – State Department for Crop Development and Agricultural Research

Appendix D: Disclaimer of Opinion

No. National Government Funds

1. Government Clearing Agency Fund – The National Treasury
2. Kenya Local Loans Support Fund – The National Treasury
3. Stores and Services Fund – State Department for Public Works