

REPUBLIC OF KENYA



Enhancing Accountability

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THE AUDITOR-GENERAL

ON

**KENYA CLIMATE SMART AGRICULTURE
PROJECT (IDA CREDIT NO. 5945 – KE)**

**FOR THE YEAR ENDED
30 JUNE, 2019**

**MINISTRY OF AGRICULTURE, LIVESTOCK
AND FISHERIES**



***Project Name:* KENYA CLIMATE SMART AGRICULTURE PROJECT
(KCSAP)**

***Implementing Entity:* MINISTRY OF AGRICULTURE, LIVESTOCK &
FISHERIES**

PROJECT CREDIT NUMBER. 5945-KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 JUNE, 2019**

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

Kenya Climate Smart Agriculture Project (KCSAP)
Annual Report and Financial Statements
For the Financial Year ended 30 June, 2019.

LEGAL BACKDROP

As set out in Section 83 of the Public Finance Management Act, 2012, an Accounting Officer is required to prepare quarterly reports for national government entity as follows;

- (1) An accounting officer for a national government entity shall prepare a report for each quarter of the financial year in respect of the entity.
- (2) In preparing a quarterly report for a national government entity, the accounting officer shall ensure that the report—
 - (a) Contains information on the financial and non-financial performance of the entity; and
 - (b) Is in a form that complies with the standards prescribed and published by the accounting standards board from time to time.
- (3) Not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the cabinet secretary responsible for the entity and the national treasury.

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is Kenya Climate Smart Agriculture Project (KCSAP)

Objective: The key objective of the project is *'to increase agricultural productivity and build resilience to climate change risks in the targeted smallholder farming and pastoral communities in Kenya, and in the event of an Eligible Crisis or Emergency, to provide immediate and effective response.'*

Address: The project headquarters offices are in Capitol Hill Towers 7th Floor

The address of its registered office is: Capitol Hill Towers 7th Floor, Cathedral Road Next to Kilimo House.

Post office address: Box 8073 00200,
 Nairobi - Kenya

The project also has offices/branches as follows:

Selected 24 KCSAP participating counties

	Arid Counties		Semi-Arid Counties		Non-ASAL Counties
1	Marsabit	1	West Pokot	1	Busia
2	Isiolo	2	Baringo	2	Siaya
3	Tana River	3	Laikipia	3	Nyandarua
4	Garissa	4	Nyeri	4	Bomet
5	Wajir	5	TharakaNithi	5	Kericho
6	Mandera	6	Lamu	6	Kakamega
		7	TaitaTaveta	7	Uasin Gishu
		8.	Machakos	8	Elgeyo-Marakwet
		9	Kajiado	9	Kisumu

Contacts: The following are the project contacts

Telephone: (254) 020 2715466

E-mail: infi@kcsap.go.ke

Website: www.kcsap.go.ke

1.2 Project Information

Project Start Date:	The project start date is 16 th May, 2017
Project End Date:	The project end date is 31 st January, 2022
Project Manager:	The project manager is Mr. Francis K. Muthami
Project Sponsor:	The project sponsor is World Bank - IDA

1.3 Project Overview

1.4 Bankers

The following are the bankers for the current year:

- (i) Central Bank of Kenya
- (ii) Kenya Commercial Bank

1.5 Auditors

The project is audited by the Office of the Auditor general (OAG)

1.6 Roles and Responsibilities

List the different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Responsibilities
Francis K. Muthami	National Project Coordinator	Overall Coordination of the Project
James W. Singi	Component 1 Leader	Responsible for Up scaling Climate-Smart Agricultural Practices:
Dr. Charles Lungaho	Component 2 Leader	Responsible for Strengthening Climate-Smart Agricultural Research and Seed Systems
Priscilla W Muiruri	Component 3 Leader	Supporting Agro-weather, Market, Climate and Advisory Services,
John Nginyangi	M& E Officer	Oversee the development and implementation of the KCSAP planning, monitoring and evaluation system
Albert N. Bengi	Finance Officer	Responsible for managing project finances in accordance with the requirements of the Financing Agreement PFM Act and related Project documents
Gordon Andiego	Procurement Officer	Responsible for overseeing the preparation and execution of the project procurement plans to effectively support project operations, ensuring strict adherence to World Bank and GoK procurement guidelines.
Nixon Cheruiyot	Project Internal Auditor	Responsible for ensuring compliance with the laid down Government regulations and value for money in application of project funds towards attainment of the PDO.

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1.7 Funding summary

The Project is for duration of 5 years from 2017 to 2022 with an approved budget of US\$ 279.7 million equivalent to Kshs 27.9 billion as highlighted in the table below:

Below is the funding summary:

Source of funds	Amount received to date – (30.06 2019)		Undrawn balance to date (30.06.2019)			
	Donor currency	Kshs	Donor currency	Kshs		
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
	\$Million	KES Million	\$Million	KES Million	\$Million	KES Million
Loan from External Development Partners	250.00	25,000.00	16.67	1,685.67	233.33	23,314.33
Project Co-Financing (GoK)	29.70	2,970.00	0.40	41.63	29.40	2,928.37
Total	279.70	27,970.00	17.07	1,727.30	262.73	26,242.7

2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* State Department for Crop Development and the *Project Coordinator* for **KCSAP** are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The *Principal Secretary* State Department for Crop Development and the *Project Coordinator* for **KCSAP** accept responsibility for the Project's financial statements, which have been prepared on the

**Kenya Climate Smart Agriculture Project (KCSAP)
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Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* State Department for Crops Development and the *Project Coordinator* KCSAP are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended 30 June 2019, and of the Project's financial position as at that date. The *Principal Secretary* State Department for Crop Development and the *Project Coordinator* KCSAP further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The *Principal Secretary* State Department for Crop Development and the *Project Coordinator* KCSAP confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.


Approval of the Project financial statements

The Project financial statements were approved by the *Principal Secretary* State Department for Crop Development and the *Project Coordinator* for KCSAP project on 25.09. 2020 and signed by them.



Principal Secretary
28/9/20

Date

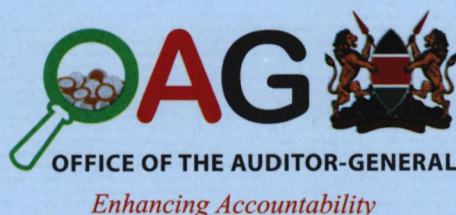


Project Coordinator
25/9/20

Date

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA CLIMATE SMART AGRICULTURE PROJECT (IDA CREDIT NO. 5945 – KE) FOR THE YEAR ENDED 30 JUNE, 2019 – MINISTRY OF AGRICULTURE, LIVESTOCK AND FISHERIES

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Climate Smart Agriculture Project (IDA Credit No. 5945 - KE) set out on pages 1 to 17, which comprise the statement of financial assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Climate Smart Agriculture Project as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and do not comply with the Financing Agreement Credit Number 5945 - KE dated 7 April, 2017 between the International Development Association (IDA) and the Republic of Kenya and the Public Finance Management Act, 2012.

In addition, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the special account statements do not present fairly, transactions for the year, and the closing balances.

Basis for Adverse Opinion

1. Receipts Through the Special Accounts

As disclosed in Note 6.3. to the financial statements, the statement of receipts and payments reflects credit from the World Bank in the year 2018/2019 totalling Kshs.1,374,562,000. This figure, however, differs with the amounts of Kshs.1,402,977,690.48 which constitutes Kshs.373,880,777.78 (US\$3,700,000) and

Kshs.1,029,096,912.70 (US\$9,999,970) received through the two Special Account No.1000319356 and No.10000357231 for the Project. No reconciliation or explanation was provided for the resultant difference of Kshs.28,415,690.48.

In the circumstances, the completeness and accuracy of the receipt of Kshs.1,374,562,000 reflected in the financial statements could not be confirmed.

2. Transfers to Kenya Agricultural and Livestock Research Organization (KALRO)

As disclosed in Note 6.6. to the financial statements, the statement of receipts and payments reflects an amount of Kshs.17,286,373 as having been transferred to KALRO during the year under review. However, Note 6.12 to the financial statements reflects an amount of Kshs. 170,000,000 as having been advanced to KALRO out of which an amount of Kshs.17,286,373 was spent during the year, leaving a balance of Kshs.152,713,627 as at 30 June, 2019. No explanation was provided for reflecting an amount of Kshs.17,286,373 in respect of transfer to KALRO in the statement of receipts and payments on one hand and advances totalling Kshs.170,000,000 to KALRO in the disclosures under Note 6.12. to the financial statements.

In addition, the Advances to KALRO balance of Kshs.152,713,627 as reflected in the statement of assets and liabilities was not supported by verifiable documentary evidence such as bank statements and certificate of bank balances as at 30 June, 2019. Consequently, the validity, completeness and accuracy of the balance could not be confirmed.

Further, a review of KALRO's financial statements for the year ended 30 June, 2019 however revealed that the organization received an amount of Kshs.50,000,000 only in 2018/2019 financial year in respect of the Project. The resultant difference of Kshs.120,000,000 between the amount disclosed in Note 6.12. to the financial statements and KALRO's financial statements has not been reconciled or explained.

3. Transfers to County Governments

The statement of receipts and payments further reflects an amount of Kshs.450,887,640 as having been transferred to the County Governments during the year under review. However, available records indicate that an amount of Kshs.1,029,096,912.70 (US\$9,999,970) was disbursed to the Counties during the year.

Further, and as disclosed in Note 6.13 to the financial statements, the statement of financial assets and liabilities reflects a balance of Kshs.583,383,590 in respect of Advances to Counties. The balance was however not supported by verifiable documentary evidence such as bank statements and certificate of bank balances as at 30 June, 2019. No explanation was provided for this anomaly.

Consequently, the validity, completeness and accuracy of the balance could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Climate Smart Agriculture Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Other Matter

Budget Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,983,863,402 and Kshs.1,443,093,395 respectively resulting to an under-funding of Kshs.1,540,770,007 or 52% of the budget. Further, of the receipted amount of Kshs. 1,443,093,395, only Kshs.642,446,864 was absorbed resulting to an under absorption of Kshs. 800,646,531 or 55% of the receipts.

The Management has attributed the under absorption to delays in the procurement of goods and services. The underfunding affected the planned activities and programmes which may have impacted negatively on service delivery and the public did not received the services as planned.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal control, risk management and governance sections of my report, based on the audit procedures performed, I confirm that, public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Kondabilet Harambee Dam in Elgeyo Marakwet County

A firm was awarded a contract to desilt Kondabilet Harambee Dam in Elgeyo Marakwet County at a contract sum of Kshs.16,420,351. The contract was signed on 12 April, 2019 for a contract period of 120 days. However, the following irregularities were observed:

1.1. Unprocedural Payment of Works

Although the Contractor was paid Kshs.11,128,739 (67.77% of the contract sum) on 10 May, 2019, the interim payment certificate provided for audit examination did not disclose or describe details of work done and paid for. Further, it was not explained what the project inspection and acceptance team used to confirm the amount paid against the actual work done without a detailed Bills of Quantities to establish the basis for the payment.

In addition, the site visit by the technical inspection team was done on 25 April, 2019, while an invoice was raised on 26 April, 2019 and a certificate of work done was raised on 29 April, 2019, an indication that an invoice was raised after site visit by the technical team.

1.2. Incomplete Priced Bills of Quantities

The Bill of Quantities (BQs) prepared did not list or factor in the breakdown of the works to be done including; the length of spillway, measurements of the depth of desilting, cutting away of soil, the height of embankment and layers of compacting soil amongst others. A statement to describe works in the BQs stated that work to be done was desilting the water dam, ensure the top embankment was erosion free and stone pitching of spillway, without any basis of measurements.

The above was done contrary to Section 60(1) of the Public Procurement and Asset Disposal Act, 2015, which requires an Accounting Officer of the procuring entity to prepare specific requirements relating to the goods, works and services being procured that are clear, that give a correct and complete description of what is to be procured and that allow for fair and open competition.

In the circumstances, the propriety in the use of public funds cannot be confirmed and value for money may not have been achieved.

2. Failure to Provide Land Transfer Documents

Examination of procurement records and a site visit at Leshau Pondo Sub-County in Nyandarua County revealed that the Project purchased five acres of land for construction of a water pan at a contract sum of Kshs.2,200,000. However, transfer documents and

title deed for the parcel of land were not provided for audit review to confirm transfer of ownership of the land to the County Government of Nyandarua.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, because of the significance the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Internal Audit Reports

Schedule 2, Section V(4) of the Financing Agreement requires the recipient, not later than four months after the effective date, to designate Project Internal Auditors at National Project Coordinating Unit (NPCU) and each County Project Coordinating Unit (CPCU) under terms of reference and with qualifications satisfactory to the Association. However, during an audit inspection carried out in the month of September, 2019 at various County Coordinating Offices, five counties namely; Kakamega, Siaya, Busia, Nyandarua, and Garissa did not provide for audit review internal audit reports, an indication that the project internal auditors had not been designated as required under the Financing Agreement.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material

misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing financial reporting process, reviewing the effectiveness of how the Project monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness

of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

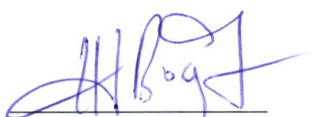
11 November, 2020


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1. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE, 2019

	Note	2018/19		2017/18		Cumulative to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs
RECEIPTS						
Loan from External Development Partners	6.3	1,374,562,000	-	311,104,324	-	1,685,666,324
Receipt From GOK	6.4	68,531,395				68,531,395
TOTAL RECEIPTS		1,443,093,395	-	311,104,324	-	1,754,197,719
PAYMENTS						
Purchase of goods and services	6.5	166,053,091	-	280,875,570	-	446,928,661
Transfer to GOK Entities - KALRO	6.6	17,286,373				17,286,373
Transfer to County Government - GOK & IDA	6.7	450,887,640				450,887,640
Acquisition of non-financial assets	6.8	8,219,760	-	673,000	-	8,892,760
TOTAL PAYMENTS		642,446,864	-	281,548,570	-	923,995,434
SURPLUS/DEFICIT		800,646,531	-	29,555,754	-	830,202,285

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.


Principal Secretary
Name: *Hansodi Boya*


Project Coordinator
Name: *Francis K. Muthami*


Project Accountant
Name: *Albert N. Bengi*

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2. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE, 2019

	Note	2018/19 KShs	2017/18 KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	6.9(a)	53,985,375	24,035,595
Cash Balances	6.9(b)	16,988	12,139
Total Cash and Cash Equivalents		54,002,363	24,047,734
County GOK Balance	6.10	34,260,165	
Advances NPCU	6.11	5,842,540	5,508,020
Advances KALRO	6.12	152,713,627	-
Advances County	6.13	583,383,590	-
TOTAL FINANCIAL ASSETS		830,202,285	29,555,754
REPRESENTED BY			
Balance b/fwd		29,555,754	
Surplus/Deficit for the year		800,646,531	29,555,754
NET FINANCIAL POSITION		830,202,285	29,555,754

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 25.09 2020 and signed by:



Principal Secretary

Date 28/9/20



Project Coordinator

Date 25/9/20



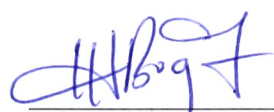
Project Accountant

Date 25.09.2020

3. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 JUNE, 2019

	Note	2018/19 KShs	2017/18 KShs
Receipts for operating activities			
Loan from external Development Partners	6.3	1,374,562,000	-
Counterpart funds receipts	6.4	68,531,395	311,104,324
		1,443,093,395	311,104,324
Payments for operating activities			
Purchase of goods and services	6.5	-166,053,091	-280,875,570
Transfer to GOK Entities – KALRO	6.6	-17,286,373	-
Transfer to County Governments GOK & IDA	6.7	-450,887,640	-
		-634,227,104	-280,875,570
Adjustments during the year (change in receivables)		-736,431,737	-5,508,020
Net cash flow from operating activities		72,434,554	24,720,374
CASHFLOW FROM INVESTING ACTIVITIES			
Net cash flows from Investing Activities	6.8	-8,219,760	-673,000
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings		-	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT			
		29,954,629	24,047,734
Cash and cash equivalent at BEGINNING of the year		24,047,734	-
Cash and cash equivalent at END of the year		54,002,363	24,047,734

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 25.09.2020 and signed by:



Principal Secretary

Date 28/9/20



Project Coordinator

Date 25/9/20



Project Accountant

Date 25.09.2020

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4. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Consolidated	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Utilisation Variance	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts/Payments Item		-				
		-				
Receipts		-				
Receipts from Government of Kenya	80,000,000	-	80,000,000	68,531,395	11,468,605	86%
Proceeds from Domestic and Foreign Grants		-	-	-	-	
Loan from External Development Partners	3,596,183,188	(692,319,786)	2,903,863,402	1,374,562,000	1,529,301,402	47%
Miscellaneous receipts		-	-	-	-	
Total Receipts	3,676,183,188	(692,319,786)	2,983,863,402	1,443,093,395	1,540,770,007	52%
Payments						
Compensation of employees	-	-	-	-	-	
Use of goods and services	1,108,605,412	(517,319,786)	591,285,626	166,053,091	425,232,535	29%
Social Security Benefits		-	-	-	-	
Acquisition of Non-financial Assets	1,273,584,588	(175,000,000)	1,098,584,588	8,219,760	1,090,364,828	13%
Transfers to Counties IDA	1,059,000,000	-	1,059,000,000	416,616,410	642,383,590	39%
Transfers to Counties GOK	-	-	-	34,271,230	-34,271,230	0%
Transfers to KALRO	200,000,000	-	200,000,000	17,286,373	182,713,627	9%
Total Payments	3,641,190,000	(692,319,786)	2,948,870,214	642,446,864	2,306,423,350	22%

Note: The significant budget utilisation/performance differences in the last column are explained in Note 7, **Annex 1** to these financial statements

6. NOTES TO THE FINANCIAL STATEMENTS

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

6.1 Basis of Preparation

6.1.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

6.1.2 Reporting entity

The financial statements are for the Project KCSAP under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

6.1.3 Reporting currency

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

6.2 Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

• Transfers from the Exchequer

Transfer from Exchequer is to be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

• External Assistance

External assistance is received through grants and loans from multilateral and bilateral development partners.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

• **Other receipts**

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

b) Recognition of payments

The Project recognises all payments when the event occurs and the related cash has actually been paid out by the Project.

• **Compensation of employees**

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

• **Use of goods and services**

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

• **Interest on borrowing**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

• **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

• **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

c) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts receivable

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

f) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

g) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

h) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year no disbursements were received in form of direct payments from third parties.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

j) Comparative figures

Where necessary comparative figures for the previous financial year/period have been amended or reconfigured to conform to the required changes in financial statement presentation.

k) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2019.

l) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

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6.3 LOANS FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30th June, 2019 we received funding from development partners in form of loan negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Loans received in cash	Total Amount in KES	
		FY 2018/19	FY 2017/18
		KShs	KShs
Loan from external Development Partners	-	91,566,000	37,388,460
	-	81,896,000	199,942,700
	-	1000,000,000	73,773,164
	-	201,100,000	
Total	-	1,374,562,000	311,104,324

6.4 COUNTERPART FUNDS RECEIPTS GOK

	FY 2018/19		FY 2017/18	
	KShs		KShs	
Quarter 1	-	-	-	-
Quarter 2	-	-	-	-
Quarter 3	41,629,395	-	-	-
Quarter 4	26,902,000	-	-	-
Total	68,531,395	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.5 PURCHASE OF GOODS AND SERVICES

Details	FY 2018/19			FY 2017/18	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	Kshs	KShs	KShs	KShs
Consultancy & Training payments	146,740,355	-	146,740,355	262,627,835	409,368,190
Routine maintenance – Vehicle and other transport equipment	1,721,063	-	1,721,063	4,160,923	5,881,986
Other operating payments	17,591,673	-	17,591,673	14,086,812	35,708,545
Total	<u>166,053,091</u>	=	<u>166,053,091</u>	<u>280,875,570</u>	<u>450,958,721</u>

6.6 TRANSFER TO GOK ENTITIES - KALRO

Details	FY 2018/19			FY 2017/18	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	Kshs	KShs	KShs	KShs
Transfer to GOK Entities - KALRO	17,286,373	=	17,286,373	=	17,286,373
Total	<u>17,286,373</u>	=	<u>17,286,373</u>	=	<u>17,286,373</u>

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6.7 TRANSFER TO COUNTY GOVERNMENT

Details	FY 2018/19			FY 2017/18	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	Kshs	KShs	KShs	KShs
Transfer to County Governments - IDA	416,616,410	=	416,616,410	=	416,616,410
Transfer to County Government - GoK	34,271,230	=	34,271,230	=	34,271,230
Total	<u>450,887,640</u>	=	<u>450,887,640</u>	=	<u>450,887,640</u>

6.8 ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2018/19			FY 2017/18	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Purchase of Office furniture and general equipment	8,219,760	-	8,219,760	673,000	4,862,700
Total	<u>8,219,760</u>	=	<u>8,219,760</u>	<u>673,000</u>	<u>4,862,700</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.9 CASH AND CASH EQUIVALENTS CARRIED FORWARD

	2018/19	2017/18
	KShs	KShs
NPCU Bank accounts (a)	53,985,375	24,035,595
NPCU Cash in hand (b)	16,988	12,139
Total	<u>54,002,363</u>	<u>24,047,734</u>

6.10 COUNTY GOK BALANCE

	2018/19	2017/18
	KShs	KShs
County GOK Bank Balance	34,260,165	
Total	<u>34,260,165</u>	<u>24,047,734</u>

6.11 ADVANCES NPCU STAFF

Name of Officer or Institution	Amount Taken	Balance 2019	Balance 2018
Elfas Mwanga	1,036,000	1,036,000	1,036,000
Alfred Kipkemoi	1,015,000	-	1,015,000
NARIG Project	3,058,740	-	3,058,740
NARIG Project	398,280	-	398,280
Janet Macharia	4,556,400	4,556,400	-
Agnes Wahura	250,140	250,140	-
Total		<u>5,842,540</u>	<u>5,508,020</u>

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6.12 ADVANCES TO KALRO

<i>Name of Officer or Institution</i>	<i>Amount Taken</i>	<i>Balance 2019</i>	<i>Balance 2018</i>
KALRO	50,000,000	32,713,627	-
KALRO	30,000,000	30,000,000	-
KALRO	90,000,000	90,000,000	-
Total	170,000,000	152,713,627	-

6.13 ADVANCES TO COUNTIES

Name.	Amount Outstanding
Kakamega	28,226,820
Baringo	36,796,348
Elgeyo Marakwet	15,795,314
Isiolo	24,717,961
Kericho	40,917,552
Laikipia	25,645,196
Lamu	45,777,835
Machakos	37,277,467
Kisumu	34,113,585
Nyandarua	31,007,913
Mandera	13,312,488
Marsabit	31,106,204

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Nyeri	28,714,831
Siaya	7,020,988
Taita Taveta	15,409,678
Tana River	8,841,516
Tharaka Nithi	18,739,183
Uasin Gishu	31,448,797
Wajir	22,522,123
West Pokot	14,625,651
Kajiado	18,912,938
Bomet	18,154,922
Garissa	234,743
Busia	34,063,537
TOTAL	
583,383,590	

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7. OTHER IMPORTANT DISCLOSURES

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Consolidated	Final Budget	Actual on Comparable Basis	Utilisation Variance	% of Utilisation	Explanation
Receipts					
Receipts from Government of Kenya	80,000,000	68,531,395	11,468,605	86%	
Loan from External Development Partners	2,903,863,402	1,374,562,000	1,529,301,402	47%	Delay in structure set up (KALRO & KMD)
Total Receipts	2,983,863,402	1,443,093,395	1,529,301,402		
Payments					
Use of goods and services	591,285,626	166,053,091	425,232,535	29%	Low level of DA Ceiling
Acquisition of Non-financial Assets	1,098,584,588	8,219,760	1,090,364,828	0.38%	There was delay in the procurement process
Transfers to Counties IDA	1,059,000,000	416,616,410	642,383,590	39%	The disbursement was done in the 3rd Quarter
Transfers to Counties GOK	80,000,000	34,271,230	45,728,770	43%	The disbursement was done in the 3rd Quarter
Transfers to KALRO	200,000,000	17,286,373	182,713,627	9%	Delay in opening project account
Total Payments	2,948,870,214	642,446,864	2,386,423,350		

8. PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS.

The project received an unqualified report in the previous financial year.

ANNEX 2 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost (KShs) 2017/18	Purchases/Additions in the Year (KShs) 2018/19	Closing Cost (KShs) 2019
	(a)	(b)	(d)= (a)+ (b)-(c)
Purchase of Office furniture and general equipment	673,000	8,219,760	8,892,760
Total	673,000	8,219,760	8,892,760

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