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THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT – FIFTH SESSION – 2026

THE TENTH REPORT OF THE PUBLIC INVESTMENTS COMMITTEE ON
SOCIAL SERVICES, ADMINISTRATION AND AGRICULTURE ON THE
CONSIDERATION OF THE AUDITOR GENERAL'S REPORTS ON THE
FINANCIAL STATEMENTS OF SELECTED STATE CORPORATIONS

DIRECTORATE OF AUDIT, APPROPRIATIONS & GENERAL-PURPOSE
COMMITTEES.

CLERK'S CHAMBERS
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NAIROBI

JULY, 2026



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1.2 CHAIRPERSON'S FOREWORD

The Public Investments Committee on Social Services, Administration and Agriculture is one of the six Watchdog Committees in the thirteenth Parliament that examines reports of the Auditor-General laid before the National Assembly to ensure efficiency and effectiveness in the use of public resources. The Committee is established pursuant to National Assembly Standing Order 206 B.

The Public Investment on Social Services, Administration and Agriculture, with regard to the agriculture, public administration, health, and social protection sectors; examines the reports and accounts of public investments, examine the reports of the Auditor-General on public investments; and in the context of the autonomy and efficiency of the public investments, examine whether the affairs of the public investments, are being managed in accordance with sound financial or business principles and prudent Commercial practices. This ensures implementation of *Article 229(8)* of the Constitution on reports laid before the House by the Auditor- General.

In examining the accounts of the Auditor General, the Committee invited Accounting Officers in each of the State Corporations under review adduce evidence before it.

There are more than four hundred (400) State Corporations undertaking different mandates in their respective sectors. Due to this large number, the previous Public Investments Committees had been unable to conclude examination of the accounts of the Auditor General of these State Corporations.

Considering the workload and the backlog, the National Assembly resolved to amend the standing orders by splitting the Public Investment Committee into three Committees, Public Investments Committee on Social Services, Administration and Agriculture (PIC-SSAA) being one of them.

The Committee (PIC-SSAA) with a view to clear the backlog in examining the reports of the Auditor General, embarked on the process of inviting the Accounting Officers for the State Corporations under its mandate to adduce evidence before it.

This report contains observations, findings and recommendations arising from examination of reports of the Auditor-General for Seven (7) State Corporations for different Financial Years. The report is structured as follows;

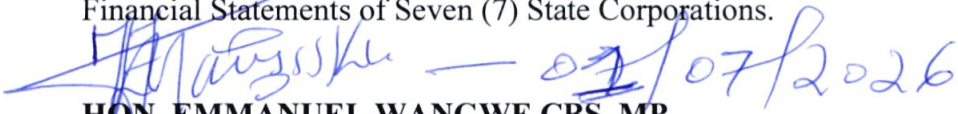
- i) general observations to each of the cross-cutting queries;
- ii) recommendations to each of the cross-cutting queries;
- iii) audit queries identified by the Auditor General in his audit reports of each State Corporations
- iv) Management responses to each of the queries;
- v) Committee Observations/ findings on each query; and
- vi) Committee Recommendations to each query raised

In this report, the Committee makes policy recommendations and at the same time recommends specific actions against specific officers. It further recommends further investigations of certain matters by competent investigative agencies such as the EACC and the DCI.

The Committee appreciates the Offices of the Speaker and the Clerk of the National Assembly for the support accorded to it to fulfil its Constitutional mandate. The Committee further extends its appreciation to the Office of the Auditor- General for the services they offered to the Committee during the entire period.

I also extend my appreciation to my fellow Members of the Committee whose contributions and dedication to duty has enabled the Committee to examine the audit queries and produce this report.

On behalf of the Public Investments Committee on Social Services, Administration and Agriculture and pursuant to National Assembly Standing Order 199(6), it is my pleasant duty and honour to present the 10th Report of the Public Investments Committee on Social Services, Administration and Agriculture on the examination of the Reports of the Auditor- General on the Financial Statements of Seven (7) State Corporations.

 — 07/07/2026
HON. EMMANUEL WANGWE CBS, MP

**CHAIRPERSON – PUBLIC INVESTMENTS COMMITTEE ON SOCIAL SERVICES,
ADMINISTRATION AND AGRICULTURE**

2.2 EXECUTIVE SUMMARY

The 10th Report of the Public Investments Committee on Social Services, Administration and Agriculture contains the Committee examination of Seven (7) State Corporations.

In its examination and scrutiny of the audited financial statements of the various, the Committee primary approach was to elicit background information as to why particular course of financial and/or management actions were or were not taken. This was done with the relevant laws in mind including, the Constitution, the Public Finance Management Act, 2012 and the attendant Regulations, the Public Audit Act, 2015, the Act, and the Public Procurement & Asset Disposal Act, 2015.

The preface of the report contains preliminaries on the establishment of the Committee, its Membership and Secretariat, mandate and the guiding principles governing the Committee while undertaking its mandate.

Part two of the report contains the Committee general observations / findings on cross cutting issues, and its recommendations.

Part three of the report contains reports of the specific, Committee Observations, findings and finally, Committee Recommendations on the State Corporations.

1.0 PREFACE

1.1 Establishment and Mandate of the Committee

- 1) The Public Investments Committee is established under the National Assembly Standing Order (S.O.) 206B and is responsible for the examination of the working of public investments based on their audited reports and accounts. It is mandated to –
 - i) examine the reports and accounts of public investments;
 - ii) examine the reports, if any, of the Auditor General on public investments; and
 - iii) Examine, in the context of the autonomy and efficiency of public investments, whether the affairs of the public investments are being managed in accordance with sound financial or business principles and prudent commercial practices.
- 2) The Committee, in considering the audited accounts of, was guided by the Constitution of Kenya and the following statutes and regulations in carrying out its mandate;
 - i) The Public Finance Management Act, 2012;
 - ii) The Public Audit Act, 2015;
 - iii) The Act, 1986;
 - iv) The Public Procurement and Assets Disposal Act, 2015;
 - v) The National Assembly Standing Orders; and
 - vi) The National Assembly (Powers and Privileges) Act, 2017.

1.2 Committee Membership

3) The Committee membership comprises –

S/No	Member's Name	Constituency	Party
1.	Hon. Emmanuel Wangwe, MP CBS– Chairperson	Navakholo	ODM
2.	Hon. Caleb Amisi Luyai, MP- Vice Chairperson	Saboti	ODM
3.	Hon. Ferdinand Kevin Wanyonyi, MP	Kwanza	FORD-K
4.	Hon. Martin Peters Owino, MP	Ndhiwa	ODM
5.	Hon. Amb. Benjamin Langat, MP	Ainamoi	UDA
6.	Hon. Nixon Nicholas Ngikor Ngikolong, MP	Turkana East	Jubilee
7.	Hon. (Dr.) Lilian Gogo, MP	Rangwe	ODM
8.	Hon. Fatuma Jehow Abdi MP	Wajir	ODM
9.	Hon. Hassan Ahmed Maalim	Banissa	UDA
10.	Hon Elijah Njore Njoroge Kururia, MP	Gatundu North	Independent
11.	Hon. Caleb Mule Mutiso, MP	Machakos Town	MCCP
12.	Hon. Bishop Emeritus (Dr.) Jackson Kipkemai Kosgei, MP	Nominated	UDA
13.	Hon. Joshua Kivinda Kimilu, MP	Kaiti	WDM
14.	Hon. Michael Wambugu Wainaina, MP	Othaya	UDA
15.	Hon. Paul Nabuin Ekwom, MP	Turkana North	ODM

1.3 Committee Secretariat

4) The following members of the Secretariat facilitated the Committee:

Mr. Aden Abdullahi

Principal Clerk Assistant I-Head of Secretariat

Ms. Purity Macharia

Clerk Assistant III

Ms. Mercy Kinyua

Legal Counsel II

Mr. Abdimalik Ahmed

Clerk Assistant III

Mr. Thomas Ogwel

Fiscal Analyst I

Ms. Esther Kariuki

Hansard Officer III

Mr. Wesley Abugah

Research Officer III

Mr. Cosmas Akhonya

Audio Officer

Ms. Maryan Gabow

Public Communication Officer III

Mr. Stanley Langat

Principal Sergeant-At-Arms

Mr James Macharia

Senior Media Relations Officer

1.4 Committee Proceedings

- 5) In its inquiry into whether the affairs of public investments are managed in accordance with sound business principles and prudent commercial practices, the Committee received both oral and written evidence from Chief Executive Officers of various.
- 6) To produce this report, the Committee held eleven (11) sittings in which it examined the evidence adduced by the Accounting Officers of the Seven (7).
- 7) The recommendations are found under various sections of the report on each of the examined.
- 8) The recommendations on the issues raised by the Auditor General for the various State Corporations are found under appropriate sections of the report for each of the State Corporations covered.
- 9) These observations and recommendations, if considered and implemented, will enhance accountability, effectiveness, transparency, efficiency, prudent management, commercial viability and value for money in State Corporations and the public investments sector as a whole.

2.0 General Committee Observations and Recommendations

Lack of Possession and ownership documents on land and buildings

- 10) The Committee observed and noted with concern that, various state corporation namely; National Youth Service, Communications Authority of Kenya, Child Welfare Society of Kenya, Kenya Medical Supplies Authority and Agricultural Finance Corporation have various parcels of land spread across the country. However, ownership documents were missing for various parcels of lands and others had ownership disputes while others had either been grabbed or encroached into denying the institutions chances of utilizing the parcels of land.

Committee Recommendations

The Committee recommended that –

- a) Within six months upon adoption of this report, the National Assembly Departmental Committee on Lands should conduct a comprehensive inquiry into the ownership of all parcels of land owned by Ministries, Departments and Agencies. The objective of the inquiry is to ensure that all public land vests in the respective government entities with legal title and possession. In this respect the Departmental Committee shall propose a Bill for enactment by the National Assembly that provides for;
 - a) Vesting the custody of all public lands title deeds in the National Treasury.
 - b) Comprehensive lands register for all public lands that shall always be maintained at the National Treasury with regular updates when necessary.
 - c) Protective clauses under the Act and a national anti-corruption framework to enhance safeguards against encroachment on public land.

- b) The National Treasury through the National Assembly shall allocate adequate budget for the Departmental Committee on lands, the Ministry of Lands, Public Works, Housing and Urban Development and the National Land Commission to facilitate the inquiry, compensation and issuance of title deeds.
- c) Within three (3) months of adoption of this report, the Accounting Officers of all MDAs should develop and implement a Land Management and Security Framework designed to prevent future encroachments. This framework should include measures such as perimeter demarcation, structured monitoring mechanisms, and periodic reporting to the Board and oversight institutions.
- d) Within three (3) upon adoption of this report, the Accounting Officers for the respective State Corporations should liaise with the Principal Secretaries for the respective State Departments in the line Ministries and the National Land Commission to fast-track the process of acquiring title deeds to resolve ownership disputes and ensure legal actions are taken against private individuals who have illegally acquired public land.
- e) Within three months upon the adoption of this report, the inspector general for the inspectorate of State corporations and the Attorney General should compile a report of all the public lands in respect of MDAs with ownership disputes and submit to the National Assembly to be used as a basis of initiating inquiries on ownership status of the public lands and repossession where applicable. Also put caveats on all the parcels of land owned by various MDAs.

Delay in availing documents to the Auditor-General

- 11) The Committee observed that some Accounting Officers did not avail complete and reconciled financial and accounting records/documentation in time for audit review and verification during the audit exercise leading to unnecessary queries. This is contrary to the provisions of Article 226 of the Constitution and Section 68(2) of the PFM Act 2012 which requires that the financial and accounting records are presented within three (3) months after the close of the financial year. Section 62 of the public Audit Act of 2015 obligates Accounting Officers to provide required documents for audit failure to which they be sanctioned.

Committee Recommendations

The Committee recommended that –

- i) Accounting Officers should always comply with the provisions of Section 68(2) of the Public Finance Management Act of 2012 by submitting all the required information for audit within the stipulated timelines.
- ii) The Accounting Officer who fails to provide required information for audit pursuant to 62(1) of the Public Audit Act, CAP 412B should be prosecuted for the offence pursuant to Section 62(2) of the Public Audit Act CAP 412B.

Long outstanding receivables

- 12) The Committee noted that some State Corporations experienced challenges in recovering their outstanding debts. This was also coupled with lack of collection or recovery mechanisms, lack of effective debt management policies, poor recording systems and co-ordination between the debtors and the recipient entities.

Committee Recommendations

The Committee recommended that –

- i) The Accounting Officers should ensure that there are proper and robust debt collection mechanisms, effective debt management policies and proper systems for recording the debts.
- ii) Within three months upon adoption of this report all the entities with outstanding receivables should initiate recoveries within the statutory provisions and identify any such debts that would be deemed irrecoverable, justification for the cause, prepare a report on the same, have it approved internally by the Board and forwarded to the National Treasury for approval of the write-offs. A copy of such reports should be submitted to the National Treasury and the Auditor-General for review.

Long outstanding payables.

- 13) The Committee noted that although the PFM Act CAP 412A provides that any pending bills from the first charge in the subsequent financial year budget, some State Corporations experienced challenges in paying their outstanding debts. This was occasioned by poor budgetary controls and a lack of proper documentation to support the payables.

Committee Recommendations

The Committee recommended that –

Within three months upon adoption of this report, all the entities with outstanding payables should prepare a report detailing how the payables arose, reasons for non-payment, measures taken to repay.

Non- Compliance with the One Third of Basic Salary Rule.

- 14) The Committee noted with concern that employees of various State Corporations received a net salary of less than one third of the basic salary contrary to the provisions of Section 19 (3) of the employment Act, 2007 which requires that deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.

Committee Recommendations

The Committee recommended that –

The Committee recommends that within three months upon adoption of this report, the Accounting Officers should submit to the National Assembly documented measures undertaken

to strengthen payroll controls through automated payroll validation checks designed to flag any salary processing that violates the one-third rule prior to disbursement.

EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED ACCOUNTS OF NATIONAL YOUTH SERVICE FOR THE FINANCIAL YEARS 2019/2020 -2024/2025

Mr. James Tembur MBS, Commandant General of the National Youth Service was accompanied by Mr. Francis Ndegwa, Director Finance and Mr. Elias Macharia, Accountant appeared before the Committee to adduce evidence on the Audited Accounts of (NYS) for the Financial Year 2019/2020 - 2024/2025.

FINANCIAL YEAR 2019/2020

1.0 Inaccuracies in Cash and Cash Equivalents

- 15) The Committee heard that the statement of financial position and as disclosed in Note to the Financial statements reflects a balance of Ksh.3,425,066,950 in respect of cash and cash equivalents as at 30th June, 2020. Analysis revealed the following unsatisfactory matters:

1.1 Unconfirmed Reconciling Items in the Development Bank Account

- 16) Note 10 to the financial statements reflects a balance of Ksh.311,286,195 in the development account. However, examination of the respective bank reconciliation statements revealed receipts in cashbook not yet recorded in bank statement amount of Ksh.10,340,331 whose dates of clearance in bank could not be confirmed as the bank statements or bank reconciliation statements for the month of July, 2020 were not provided for audit.

Management response

- 17) The Management informed the Committee that that reconciliation for the month of June was done and was well reconciled. However, the uncleared item highlighted of Ksh.10,340,331 was cleared in the following month on 3rd July, 2020.
- 18) The reconciliation and the bank statement for month of July, 2020 has been provided for audit review

Committee Observation

The Committee observed that the management failed to provide the required documentation on reconciliation of Cash and Cash Equivalents on time contrary to Section 62(1) of the Public Audit Act, 2015, CAP 412B which stipulates that no person shall, without justification, fail to provide information within a reasonable time when required under the Act.

Committee Recommendation

The Committee reprimands the then Accounting Officer for breach of Section 62(1) of the Public Audit Act, 2015, CAP 412B.

1.2 Inaccuracies in the KCB National Youth Service Bank Account Balance

- 19) The Committee heard that, note 10 to the financial statements reflects Nil balance relating to the KBC National Service account as at 30th June, 2020. However, examination of the bank reconciliation, the cash book and bank statements revealed stale cheques amounting to Ksh.30,971,159 issued between September and November, 2019.
- 20) Consequently, the accuracy of the bank reconciliation for the development account and the KCB National Service account could not be confirmed.

Management response

- 21) The Management informed the Committee that, the financial statement (Note 10) reflects a Nil balance while the reconciliation had a reconciling item of Ksh.30,971,159 that were cleared later in the month of July and September. In the June reconciliation statement that was provided had a typing error where the preparer recorded the first payment date instead of the replacement date that was later date. However, the said cheques were reversed on 15 June, 2020 and replacement made on the same date. The payments were cleared on 22nd, and 23rd July, 2020 while others were cleared on 17th and 30th September, 2020. Copies of cash book and bank statement has been provided to the auditor for verification.

Committee Observation

The Committee observed that stale cheques amounting to Ksh.30,971,159 issued between September and November 2019 had been reversed on 15th June 2020, replaced the same day and subsequently cleared in July and September 2020. However, the management failed to provide timely and complete documentation thus contravening Section 62(1) of the Public Audit Act, 2015, CAP 412B, which expressly prohibits any person from, without justification, failing to provide information within a reasonable time when required under the Act.

Committee Recommendation

The Committee reprimands the Accounting Officer for breach of Section 62(1) of the Public Audit Act, 2015, CAP 412B and further, directs that the Accounting Officer should always ensure adherence to laws, regulations and other relevant governing legal and regulatory framework.

2.0 Unconfirmed Opening Balances

- 22) The Committee heard that the National Youth Service was established as a state corporation through the National Youth Service Act, 2018. The Service took over the assets and liabilities of the then department of National Youth Service under the State Department for Youth

Management did not provide handing over reports and other documents in support of the opening balances for the assets and liabilities.

- 23) Consequently, the accuracy and completeness of the reported opening balances for assets and liabilities in the statement of financial position could not be confirmed.

Committee Observation

The Committee observed that-

The expenditure of Ksh.161,172,986 on grants and subsidies in relation to FAO (Desert Locust Control), MOH (Covid-19 Mitigation), KPA (Ports Rehabilitation), and KRC (Railway Rehabilitation) was not supported despite the explanation that the Service had engaged in emergency response activities and expended funds in line with memoranda of understanding.

Committee recommendation

The Committee recommends that within three months upon adoption this report the Accounting Officer submit to National Assembly and then Auditor-General the supporting ledgers and documentation for the expenditure of Ksh.161,172,986 on grants and subsidies.

5.0 Misclassification of Revenue from Non-Exchange Transactions

- 24) The Committee heard that the statement of financial performance reflects revenue from non-exchange transactions in form of transfers from Ministries, Departments and Agencies (MDA's) amounting to Ksh.162,888,086 that comprised of Ksh.60,028,248, Ksh.75,957,534, Ksh.10,000,000 and Ksh.16,902,303 received from Kenya Port Authority, Kenya Railways, Ministry of Health, and Food and Agricultural Organization (FAO) respectively.
- 25) However, Management did not provide for audit supporting documents indicating the nature of services provided to the institutions applicable rates and duration of contracts.
In addition, revenue received from the Kenya Ports Authority and the Kenya Railways of Ksh.60,028,248 and Ksh.75,957,534 respectively were wrongly classified as revenue from non-exchange transactions instead of revenue from exchange transactions.
- 26) Consequently, the accuracy, completeness and fair statement of the revenue from non-exchange transactions of Ksh.162,888,086 could not be confirmed.

Management response

- 27) The Management informed the Committee that, at this time the Service was at initial stages as the state corporation and as thus there was no clear guidance on classification of items.
- 28) It is worth noting that the revenue from MDA's totaling to Ksh.162,888,086 was accurately captured and reported as revenue received.

Committee Observation

The Committee observed that revenue of Ksh.162,888,086 received from Kenya Ports Authority, Kenya Railways, Ministry of Health, and FAO, was not properly supported with respect to the services rendered, applicable rates, and contract durations whereas revenue from Kenya Ports Authority (Ksh.60,028,248) and Kenya Railways (Ksh.75,957,534) was misclassified as revenue from non-exchange transactions instead of revenue from exchange transactions. This misclassification of items was misleading to the users of the financial statements.

Committee Recommendation

The Committee reprimands the then Accounting Officer for dereliction of duties by breaching Section 62(1) of the Public Audit Act, 2015, CAP 412B which stipulates that no person shall, without justification, fail to provide information within a reasonable time when required under the Act.

6.0 Irregular Payment of Gratuity the Former Director General National Youth Service

- 29) The Committee heard that the statement of financial performance reflects an amount of Ksh.1,094,972,809 in respect of employees' costs. Included in the amount is Ksh.7,531,909 paid to the former Director General National Youth Service in form of gratuity. The payment was made despite the existence of a court case against the former Director General.
- 30) Consequently, the validity of the expenditure of Ksh.7,531,909 paid to the former Director General – National Youth Service in form of gratuity could not be confirmed.

Management response

- 31) The Management informed the Committee that, the Director HRM&D wrote a memo to the Director General Ref. NYS/PF.1982107553(35) dated 21st February, 2020 stating that the officer is entitled to his gratuity despite an outstanding case in court against the officer. The Director General National Youth Service wrote a letter Ref. NYS/PF/1982107553(29) dated 7th February, 2019 to the Principal Secretary State Department for Youth Affairs requesting for concurrence before making the payments.
- 32) The Principal Administrative Secretary/Accounting Officer State Department of Public Service wrote a letter Ref. No. MPYG/DPSM/MIN/3 VOL.II dated 7th May, 2019 forwarding the former Director General's personal file and communicating the no objection to payment of withheld salary and gratuity.
- 33) However, the Public Service Commission has a circular on the entitlement of terminal benefits on dismissal.

Committee Observation

The Committee observed that the service paid gratuity amounting to Ksh.7,531,909 to former Director -General despite an existence of a court case against him on the basis of advice by the Director HRM&D and concurrence from the Principal Secretary State Department for Youth Affairs through a "no objection" to payment of withheld salary and gratuity.

Committee Recommendation

The Committee recommended that–

- i) Within three months upon adoption of this report, the Inspector General of State corporations should initiate investigations with a view to establishing whether the ruling of the court case was in favour of the Director-General, in absence of which the amount of Ksh.7,531,909 should be recovered with interest at the CBK prevailing rates from then Accounting Officer, the then Finance Officer and the then Board.
- ii) Within three months upon adoption of this report, the Accounting Officer to submit to the National Assembly and the Auditor-General the ruling of the court case warranting the former Director-General payment of the withheld salary and gratuity.

7.0 Payment of Taskforce Allowance

- 34) The Committee heard that the statement of financial performance and as disclosed in Note 4 to the financial statements reflects a figure of Ksh.70,767,049 in respect of hospitality supplies and services. Included in this amount is Ksh.2,505,000 paid as taskforce allowances to eighteen (18) member National Youth Service Multi Agency Pending Bills Verification Committee constituted by the Cabinet Secretary and Ksh.2,516,000 paid in form of task force allowances to members of staff engaged in interviews. However, the payments were not subjected to Pay as Earn (PAYE) as required under the provisions of the Income Tax Act and the Employers Guide to Pay as You Earn Part 1 resulting to an overpayment of Ksh.751,500 to the member National Youth Service Multi Agency Pending Bills Verification Committee and Ksh.754,800 to members of staff engaged in interviews.
- 35) Consequently, the accuracy and validity of the reported expenditure on hospitality supplies and services of Ksh.70,767,049 for the year ended 30th June, 202 could not be confirmed.

Management response

- 36) The Management informed the Committee that, this was an omission that was identified and later corrected. The multi-agency team were recovered in full Ksh.751,500 in the subsequent payment made dated 15th December, 2020.
- 37) The Committee was informed that recovery of Ksh.754,800 from the team conducting the interviews was fully recovered in the month of June, 2021 through the pay roll system and remitted together with the P.A.Y.E for the month of June,2021.

Committee Observation

The Committee observed that although management subsequently recovered the Pay as You Earn (PAYE) as required under the provisions of the Income Tax Act CAP 470 from the allowances amounting to Ksh.2,505,000 paid to eighteen (18) members of the National Youth Service Multi-Agency Pending Bills Verification Committee and Ksh.2,516,000 to staff engaged in interviews without deducting the initial omission reflected weaknesses in internal controls over payroll and statutory compliance.

Committee Recommendation

The Committee reprimands the then Accounting Officer for dereliction of duties for failing to ensure compliance with Income Tax Act CAP 470.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

1.0 Construction of VIP Stand at National Youth Service Parade Ground – Gilgil.

- 38) The Committee heard that the Service entered into a contract for the construction of VIP Stand at Gilgil College at a contract cost of Ksh.14,661,292. The tender document stated that the contract period was fifty-two (52) weeks whereas the State Department of Public Works approved a contract period of twenty-five (25) days from 29th January, 2020 to 30th July, 2020. Physical verification conducted on 30th September, 2020 revealed that the contractor was not on site and the works were incomplete despite of the full contract price.
- 39) In addition, the Service made payment of Ksh.14,661,292 during the year for the contract. However, examination of Bills of Quantities revealed that the quantities in relation to structural Steel frame and roofing were scaled downwards to Ksh.3,286,550 from Ksh.3,324,350 and Ksh.1,641,400 from Ksh.3,276,600 respectively. This resulted in estimated costs of Ksh.12,720,612. The payment did not take into consideration the downwards variations.
- 40) Consequently, value for money has not been realized due to the delayed implementation of the project and failure to consider the downward variations in contract specifications.

Management response

- 41) The Management informed the Committee that the works are fully completed and a certificate of completion issued out. It's in good use and no defects identified so far.

Committee Observation

The Committee observed that-

- i) There was an unexplained duration discrepancy with respect to the tender document for Ksh.14,661,292 which stipulated a contract period of 52 weeks, whereas the State Department of Public Works approved a contract period of 25 days.
- ii) The service had paid full payment of Ksh.14,661,292 although Physical verification conducted on 30th September 2020 revealed that the contractor was not on site and the works remained incomplete despite full payment of the contract price pointing to poor contract management. However, Management indicated that the works were completed but failed to provide the certificate of completion for review.
- iii) Although the Bills of Quantities provided revealed a downward review of the structural steel frame and roofing costs from Ksh.3,324,350 to Ksh.3,286,550 and finally to Ksh.1,641,400 downsizing the original contract cost to Ksh.12,720,612 the Service had

paid the full original contract sum of Ksh.14,661,292, resulting in potential overpayment of Ksh. 1,940,680.

Committee Recommendation

The Committee recommends that-

- i) Within three months upon adoption of this report the Inspector-General state corporations initiate recovery of the overpaid amount of Ksh.1,940,680 from the then Accounting Officer, the then Finance Officer, the then Board with interest at the CBK prevailing rates and provide evidence of recovery to National Assembly.
- ii) Within three months upon adoption of this report the Accounting Officer to submit the certificate of completion of the project and a comprehensive report to the National Assembly justifying how the variation in contract timelines, specifications and costs were processed, approved, and documented.

2.0 Irregular Appointment of Procurement Specialist

- 42) The Committee heard that the Service paid Ksh.6,775,680 to a procurement consultant hired on a two-year contract. The procurement specialist was appointed by the Public Service Commission as a supernumerary post of Advisor. Procurement/Supplies chain Management (Job Group 'T') and made the appointment. However, the roles set out by the Cabinet Secretary are similar to those carried out by the Senior Deputy Director/Head Supply Chain Management at the Service. Further, review of the Integrated Payroll and Personnel Database (IPPD) Data capture Sheet revealed that the officer was earning a monthly basic salary of Ksh.322,040 which was above the maximum threshold as recommended by the Public Service Commission of Ksh.315,700.
- 43) Consequently, the Service did not obtain value for money on the recruitment due to the duplication of duties.

Management response

- 44) The Management informed the Committee that the Cabinet Secretary, Ministry of Public Service, Youth and Gender Affairs, vide letter Ref No. MPYG.CS/CONF/14 dated 9th July, 2018 made a request to the Public Service Commission for the establishment and appointment of Technical Advisor Procurement /Supply Chain Management. This was necessitated by challenges in compliance with procurement regulations after the former Director of Administration (DA) assigned to oversee the process of payment vouchers verification stepped aside creating a gap that required immediate attention.
- 45) The role of the Advisor was to:-
 - i. Review weekly compliance of procurement process in National Youth Service (NYS)
 - ii. Review risk management in the procurement process
 - iii. Review compliance with the implementation of the recently developed procurement manual
 - iv. Advise on the capacity development of personnel in procurement; and
 - v. Review market survey of goods and services and advise on value for money.

- 46) The role of the Head Supply Chain Management is clearly stipulated in the Public Procurement and Asset Disposal Act 2020, and thus there was no conflict/ duplication whatsoever.
- 47) He made the procurement system more robust, as he worked closely with National Treasury in the development of an oracle-based system (IFMIS) tailored for National Youth Service. The process is now at the tender stage.
- 48) He played a big role in formulation of technical parameters for the NYS framework contracts with suppliers: - putting in systems and procedures to ensure suppliers are registered with the Service.
- 49) Mr. Muthaura was also a qualified Engineer, and, in this role, he utilized his knowledge and experience in the implementation of the following Projects; -
 - i) Innovation for regenerative motion re-charging system of a prototype of an electric vehicle and hand cart. Their production will see cheaper vehicles and handcarts for use by Kenyans in all sectors of the economy.
- 50) Development of an electronic procurement system to enable government institution to manage their procurement financing cost which will link the National Treasury, Ministries/Departments and Financial Institution to make procurement process efficient. The project is at an advanced stage.
 - ii) Prepared scope of the construction repair works, procurement of materials for rehabilitation of Kisumu Port and related infrastructure such as roads and repair of buildings.
 - iii) Prepared statement of works, cost of materials and other attendant details for the rehabilitation of Thika-Nanyuki Railway Line.
 - iv) Identification for requirements for construction of school infrastructure to facilitate 100% transition from Primary to Secondary. Model will be constructed as guided by the Ministry of Education.

Salary Scale

- 51) The Cabinet Secretary vide letter Ref No. 3326918 (2) dated 13th July, 2018 clearly stated that the officer was to enter the salary scale at the maximum of Ksh.320,040 p.m. (The basic salary of Ksh.322,040 was as a result of salary review as stipulated in the extracts.

Committee Observation

The Committee observed that-

The Service paid Ksh.6,775,680 to a procurement consultant appointed as a supernumerary Advisor in Job Group 'T' whereas the duties assigned closely mirrored those of the existing Senior Deputy Director/Head of Supply Chain Management, resulting in duplication of roles and no demonstrable value for money.

The Advisor earned a basic salary of Ksh.322,040, which exceeded the PSC-recommended maximum of Ksh.315,700 for the grade, indicating non-compliance with salary guidelines with no clear justification to show that the existing SCM structure could not perform the assigned functions.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure strict adherence to PSC Human Resource Policies and procedures manual in the future appointments.

FINANCIAL YEAR 2020/2021

1.0 Inaccuracies in Land and Building Balances

- 52) The Committee heard that the statement of financial position reflects property, plant and equipment balances of Ksh.430,224,581. As further disclosed in corresponding Note 13 to the financial statements, the balance includes an amount of Kshs.319,321,146 in respect of land and buildings. However, the values of land and buildings were combined together as one class of assets in the financial statements contrary to international Public Sector Accounting Standards IPSAS 17. Land is a tangible asset with unlimited useful life and therefore not depreciated. Due to this erroneous disclosure, the depreciation amount of Kshs.13,305,048 charged on both land and buildings is not fairly stated. Further, additions to land and buildings totaling Ksh.102,789,758 was not supported with documentation.

Management response

- 53) The Management informed the Committee that, at the time of preparation of the report, was still undertaking the valuation of the assets, thus what was reported were the costs of new structures that were acquired/constructed during the financial year 2020/2021.
- 54) Therefore, the presentation is correct and no over estimation on the value reported for the charge on depreciation as raised.
- 55) The valuation of land and buildings is completed, and fair values have been reflected appropriately in the subsequent financial reports provided to the Auditors for review.

Committee Observation

The Committee observed that–

- i) The classification of land and buildings as a single asset category in the financial statements contravenes IPSAS 17, which requires land (non-depreciable) and buildings (depreciable) to be disclosed separately. This misclassification resulted in depreciation being erroneously charged on land, thereby misstating the depreciation expense of Kshs.13,305,048.
- ii) The additions to land and buildings amounting to Kshs.102,789,758 lacked supporting documentation, raising concerns about the reliability and completeness of asset records.

Committee recommendation

The Committee recommends that the Accounting Officer should at all times ensure that the prepared financial statements strictly comply with the relevant accounting standards prescribed by the Public Sector Accounting Standards Board (PSASB).

1.2 Incomplete Fixed Asset Register

- 56) The Committee heard that the statement of financial position reflects property, plant and equipment balance of Kshs.430,224,581 as disclosed in Note 13 to the financial statement. As previously reported, did not maintain a complete and accurate asset register with information relating to the assets such as type of the asset, date of acquisition, supplier, cost, location, code current values, remaining useful life and salvage value. Further, the assets have not been tagged for tracking and identification.

Management response

- 57) The Management informed the Committee that the Service has updated the asset register. Also, the tagging process has been done and the numbers incorporated in the Main asset register

Committee Observation

The Committee observed the Service did not maintain a complete and accurate asset register indicating type of the asset, date of acquisition, supplier, cost, location, code current values, remaining useful life and salvage value. This contravened Regulation 143 of Public Finance Management Regulation (National Government) 2015.

Committee Recommendation

The Committee recommends that the Accounting Officer should at all times comply with provisions of related laws, regulations and other relevant governing legal and regulatory framework.

1.3 Encroachment of National Youth Service Land

- 58) The Committee heard that the Service has approximately 2,247 hectares of land in Yatta, Mavoloni, Athi River, Mombasa Technical Institute and Mwatate among other regions. Physical verification of the land in February and March, 2022 revealed that the parcels of land have not been fenced and were encroached on. Although Management has initiated the process of demarcation of the respective parcels of land, the process has not been finalized.

Therefore, the Service risk losing the parcels of land to encroachment by informal settlers.

Management response

- 59) The Management informed the Committee that the Service has embarked on land marking, border identification and also fencing and digging of trenches in the Units vulnerable to invasion. However, no encroachment has been identified so far.

Committee Observation

The Committee observed that the Service had not fenced its parcels of land, measuring approximately 2,247 hectares located in Yatta, Mavoloni, Athi River, Mombasa Technical Institute, Mwatate, and other regions exposing them to encroachment. this contravenes section 72(1) of the Public Finance Management Act, CAP.412A which requires Accounting Officers to manage assets and liabilities in a manner that ensures value for money in their acquisition, use, and disposal.

Committee Recommendation

The Committee recommended as in its ninth report that within six months upon adoption of the report, the National Assembly Departmental Committee on Lands should conduct a comprehensive inquiry into the ownership of all parcels of land owned by Ministries, Departments and Agencies. The objective of the inquiry is to ensure that all public land vests in the respective government entities with legal title and possession. In this respect the Departmental Committee shall propose a Bill for enactment by the National Assembly that provides for:

- d) Vesting the custody of all public lands title deeds in the National Treasury.
- e) Comprehensive lands register for all public lands that shall always be maintained at the National Treasury with regular updates when necessary.
- f) Protective clauses under the Act and a national anti-corruption framework to enhance safeguards against encroachment on public land.
- f) The National Treasury through the National Assembly shall allocate adequate budget for the Departmental Committee on lands, the Ministry of Lands, Public Works, Housing and Urban Development and the National Land Commission to facilitate the inquiry, compensation and issuance of title deeds.
- g) Within three (3) months of adoption of this report, the Accounting Officer, NYS should develop and implement a Land Management and Security Framework designed to prevent future encroachments. This framework should include measures such as perimeter demarcation, structured monitoring mechanisms, and periodic reporting to the Board and oversight institutions.
- h) Within three (3) upon adoption of this report, the Accounting Officer, NYS should liaise with the Principal Secretaries for the respective State Departments in the line Ministries and the National Land Commission to fast-track the process of acquiring title deeds to resolve ownership disputes and ensure legal actions are taken against private individuals who have illegally acquired public land.

- i) Within three months upon the adoption of this report, the inspector general for the inspectorate of State corporations and the Attorney General should compile a report of all the public lands in respect of MDAs with ownership disputes and submit to the National Assembly to be used as a basis of initiating inquiries on ownership status of the public lands and repossession where applicable. Also put caveats on all the parcels of land owned by various MDAs.

1.4 Non-Disclosure of Biological Assets

- 60) The Committee heard that as disclosed under Note 19 to the financial statements on segment information, the Service has twenty-two (22) field units for empowering youths through technical training, farming and other programmes out of which fifteen (15) units carry out farming activities.
- 61) However, an inspection carried out in Yatta, Athi River, Mavoloni units in March, 2022 revealed that the Service has biological assets with an estimated fair value of Kshs.614,739,760 which have not been disclosed in the financial statements. Management did not provide explanations for non-disclosure of undetermined value of the biological assets.

Management response

- 62) The management informed the Committee that, the Service has several biological assets in various Field Units across the country. These include animals, trees, poultry and fish farming. As at the time of the audit, the Field Units had not received the valuation report from the technical department that had been engaged to carry out the exercise.
- 63) However, this has been completed and well disclosed in the subsequent year's financial reports provided to these auditors for review and assessment.

Committee Observation

The Committee observed that the Service did not disclose biological assets valued at Kshs.614,739,760 in its financial statements, contrary to IPSAS 27, which requires recognition and disclosure at fair value. This led to misrepresentation of the financial statement.

Committee Recommendation

The Committee recommends that the Accounting Officer should at all times ensure that the prepared financial statements strictly comply with the relevant accounting standards prescribed by the Public Sector Accounting Standards Board (PSASB).

1.5 Unsupported Infrastructure and Civil Works

- 64) The Committee heard that the statement of financial position as at 30th June, 2021 and as disclosed under Note 13 to the financial statements reflects property, plant and equipment amounting to Kshs.489,809,814 which included Kshs.242,256,366 in respect to additions of assets and the related works during the year under review. The additions include Ksh.30,381,211

incurred under other infrastructure and civil works, which was not supported with payment vouchers and the underlying documentation.

- 65) In view of the foregoing, the accuracy, completeness and valuation of property, plant and equipment balance of Kshs.430,224,581 as at 30th June, 2021 could not be confirmed.

Management response

- 66) The management informed the Committee that these were structures that were put up during the COVID19 period as a way of mitigations. However, the structures are now complete and in good use by the Youth.
- 67) In addition, they have been inspected by the Auditors and their existence confirmed in the subsequent years and are in proper use.

Committee Observation

The Committee observed that out of an expenditures amount of Ksh.30,381,211 relating to additions to Infrastructure and civil Works the service only managed to support Kshs.17,358,962 leaving unsupported expenditure of Kshs.13,022,249.

Committee Recommendations

The Committee recommends that –

Within three months upon adoption of this report, the Inspector General of State Corporations to surcharge and recover from the then Accounting Officer Kshs.13,022,249 and interest at the prevailing CBK rates.

2.0 Refundable Deposits by Customers

- 68) The Committee heard that the statement of financial position and as disclosed under Note 15 to the financial statement reflect a balance of Kshs.1,564,205,897 in respect of refundable deposits from customers. The balance comprised of Kshs.1,211,422,162 and Kshs.352,783,734 for service men/women savings and other deposits-cohorts, wages, kitchen and allowances payable to Service Men/women respectively. However, included in the balance is an amount of Kshs.41,757,563 in respect of retention monies from the contractors which was not analyzed, itemized and supported.
- 69) In addition, an amount of Kshs.352,783,734 was owed to cohorts that were engaged in the six (6) months Youth Empowerment Programmes between September, 2014 and February 2015. However, management had not paid the cohorts as at the time of the audit. Management did not provide explanation for the delay in paying the cohorts.
- 70) In the circumstance, the accuracy and completeness of retention monies balances Kshs.41,757,563 could not be confirmed.

Management response

- 71) The management informed the Committee that Ksh.41,757,563.00 in respect to retention owed to contractors who did the job. The Service has been waiting for them to claim and be refunded upon provision of receipt vouchers (FO.17) that was issued to upon deductions. However, the analysis was provided in the subsequent Financial Years report. The Service has been in the process of tracking and reaching the beneficiaries so that the same can be released to them.

Committee Observation

The Committee observed that the Service failed to itemize and support retention monies amounting to Kshs.41,757,563. Further Kshs.352,783,734 owed to cohorts engaged in the six-month Youth Empowerment Programmes remained unpaid at the time of audit, with no explanation provided for the delay.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer should fast-track payment of the deposits by customers and report the progress to the National Assembly.

Unresolved Prior Year Audit Matters

- 72) The Committee heard that in the 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, the management had not resolved the issues.

Management response

- 73) The Management informed the Committee that the Service did not respond to the issue.

Committee Observation

The Committee observed that the Service had not resolved the prior year issues raised in the report of the Auditor General contrary to section 31 (1) (a) of Public Audit Act, CAP 412B which states that a State Organ or a public entity that had been audited shall, as a preliminary step, submit a report on how it has addressed the recommendations and findings of the previous year's audit.

Committee Recommendation

The Committee reprimands the then Accounting Officer for breach of section 31 (1) (a) of Public Audit Act, CAP 412B.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

1.0 Incomplete Rehabilitation and upgrading of Sewer at Nairobi Holding Unit

- 74) The Committee heard that the Service entered into a contract for the Rehabilitation and Upgrading of Sewer at Nairobi Holding Unit on 4th May, 2020. The Service had paid Kshs.35,558,176 as at 30th June, 2021 which was not recognized as work in progress in the financial statements. Further, physical verification of the project in May, 2022, about twelve (12) months after the lapse of completion date revealed that, the contractor had abandoned the site leaving the cut-off sections of internal tarmac roads open without tarmac. As a result, value for money has not been realized in the implementation of the project.

Management response

- 75) The Management informed the Committee that, the sewer is part of the building structure and at the time when it was done the valuation of the asset was on going thus making it part of the building and infrastructure. at the moment, the sewer system is complete and in good working condition. This has been confirmed by the auditors in the subsequent reports of .

Committee Observation

The Committee observed that-

made payments totalling to Kshs.35,558,176 for the sewer rehabilitation project at the Nairobi Holding Unit but failed to recognize it as work-in-progress in the financial statements. Physical verification revealed that the contractor had abandoned the site, leaving sections of internal roads incomplete. Management claim that the system was complete and functional and was not supported by completion certificate.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer should submit to the National Assembly and Auditor-General certificate of completion. The Auditor-General to review and report in the subsequent audit cycle.

2.0 Stalled Projects

2.1 Stalled Construction of Four-Storey Classrooms Block and Workshops at NYS Engineering Institute – Ruaraka

- 76) The Committee heard that management entered into a contract for the construction of a four storey classrooms block and workshops at the NYS Engineering Institute in Ruaraka on 13th April, 2011 at contract sum of Ksh.88,794,355. The project was to take 52 weeks ending on 9th June, 2012. This was later extended by thirty-one (31) weeks and was expected to have been completed by 12th January, 2013. However, the construction stalled in 2017 after the payment of Kshs.81,884,550 equivalent to 92% of the contract sum against 95% of the works certified.

Physical inspection conducted in May, 2022, revealed that no construction works were ongoing as the contractor had abandoned the site. The incomplete works include electrical, plumbing and drainage that were originally valued at Kshs.4,778,265 as per the State Department of Public Works appraisal report dated 5th April, 2022.

As a result, the value for money has not been realized eleven (11) years after the construction commenced.

Management response

- 77) The Management informed the Committee that the contractor sought mutual termination from the client, awaiting joint Site inspection before handover certificate issued. Thereafter building block can be occupied.

Committee Observation

The Committee observed that-

Although 95% of the construction works for the classrooms and workshops block at the NYS Engineering Institute in Ruaraka had been certified and payments amounting to Kshs.81,884,550—representing 92% of the contract sum made, the project stalled in 2017. The contractor abandoned the site, leaving incomplete critical works such as electrical, plumbing, and drainage valued at Kshs.4,778,265 for eleven years.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer should submit to the National Assembly and Auditor-General certificate of completion. The Auditor-General to review and report in the subsequent audit cycle.

2.2 Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute Ruaraka

- 78) The Committee heard that awarded the contract for the Construction of Double Span Kitchen, Dining and Baracks at NYS Engineering Institute Ruaraka to a construction company in May, 2011 at a contract sum of Kshs.192,000,000. The project commenced on 13th June, 2011 with a contract duration of 80 weeks. The contractor was granted an extension period up to 13th March, 2017. The contractor, however, abandoned the site after receiving payments totaling Kshs.186,248,573, or 90% of the agreed contract sum. Physical inspection of the project in May, 2022, revealed that work had stalled and the contractor had abandoned the site. Further, huge visible cracks on the wall and floor were noted which continue to deteriorate. The management claimed that the delay in completion was mainly due to delayed payments to the main contractor and sub-contractors.
- 79) As a result, value for money has not been realized eleven (11) years after the construction commenced

Management response

- 80) The management informed the Committee that, the main contractor has finished his work and handing over certificate issued. The remaining works, electrical, mechanical and plumbing will be done using internally raised resources. The Management has also confirmed that the cracks on the wall are the expansion joints provided by the architectural design due to the size of the structure.

Committee Observation

The Committee observed that-

- i) Payments totaling Kshs.186,248,573 representing 90% of the contract sum were made to the contractor for the construction of the double span kitchen, dining, and barracks at the NYS Engineering Institute in Ruaraka, however, the works had stalled after the contractor abandoned the site on account of late payments with notable structural defects, including visible cracks on the walls and floors that continue to deteriorate. This underscores weak contract management, inadequate oversight, and failure to safeguard value for money.
- ii) The Management submission that the cracks observed on the walls were expansion joints incorporated in the architectural design was misleading and had no documentary evidence to substantiate the claim.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer to provide to National Assembly all supporting documents, including the handing-over certificate, certified of completed works, and structural assessments of the project and documentary evidence for completion of the remaining electrical, mechanical, and plumbing works as appropriate. Further, the committee directs that the Accounting Officer to ensure corrective measures are put in place for timely completion of planned projects to safeguards against further loss.

2.3 Supply, Delivery and Installation of High and Low-Level pressed steel water Tanks, Booster Pumps and Tower works

- 81) The Committee heard that entered into a contract for the supply, delivery and install high and low-level pressed steel, water tanks, booster pumps and tower work for enough water storage at National Youth Service Vocational Training Institute (VTI) located in the Industrial area, Nairobi at a contract sum of Kshs.11,715,396 on 3rd September, 2019 for a period of sixteen (16) weeks ending on 31 October, 2020.
- 82) Physical inspection in May, 2022, revealed that the project was incomplete. The pump house electrical works and piping works were yet to be completed while water booster pumps were not installed. The contractor abandoned the site on 23rd October, 2020 on the grounds of non-payment of certified works valued at Kshs.5,770,669.
- 83) As a result, value for money has not been realized on the project.

Management response

84) The management informed the Committee that –

- i) The Certificate of Ksh.5,770,669 was paid. The contractor came on Site briefly and never finished.
- ii) The Service sought for termination on account of non-performance.

Committee Observation

The Committee observed that-

- i) The contractor had abandoned of the site in October 2020 citing unsettled Payments amounting to Kshs.5,770,669 for certified works under the contract for supply, delivery, and installation of water tanks, booster pumps, and tower works at the NYS Vocational Training Institute in Nairobi which reflects weak contract management and delayed delivery of services and exposure of public resources to risk, and loss of value for money.
- ii) The Management indicated that the certified amount of Kshs.5,770,669 had been settled and the contractor briefly returned to site, though eventually, termination of the contract was sought on account of non-performance. However, no documentary evidence was submitted to substantiate either the payment, the contractor's return, or the termination process.

Committee Recommendation

The Committee recommends that the Accounting Officer to submit to and Auditor-General a detailed progress report outlining corrective measures taken for timely completion of projects to safeguards against further loss and the Completion certificate for review and report in the subsequent audit cycle.

2.4 Stalled Construction of Housing Units at Vocational Training Institute Industrial Area

- 85) The Committee heard that entered into a contract for the construction of a 12 unit flat at the Vocational Training Institute – Industrial Area at a contract cost of Kshs.49,105,721. However, the contractor abandoned the site after receiving the first payment of Kshs.7,111,432. Management re-advertised the works and awarded the contract for the completion at a contract cost of Ksh.61,098,319 for a period of fifty-two (52) weeks commencing on 26th November, 2019. Physical inspection conducted in May, 2022 revealed that the project was incomplete and the contractor had abandoned site after receiving payments of Kshs.23,000,000.
- 86) As a result, value for money has not been realized on the project on the expenditure of Kshs.339,573,400.

Management response

- 87) The Management informed the Committee that the Contractor sought for extension of four (4) months and he has committed to complete the project within the requested time.

Committee Observation

The Committee observed that-

- i) The initial and a second contractors abandoned the construction of the 12-unit flat at the Vocational Training Institute after receiving Kshs.7,111,432 and Kshs.23,000,000 respectively leaving the project incomplete. However, Physical inspection in May 2022 confirmed that the project remained stalled, with no progress on completion.
- ii) The repeated abandonment of works, escalation of contract costs, and prolonged delays demonstrate weak contract management, inadequate oversight, and exposure of public resources to significant loss, resulting in failure to realize value for money more than a decade after commencement.

Committee Recommendation

The Committee recommends that the Accounting Officer to submit to and Auditor-General a detailed progress report outlining corrective measures taken for timely completion of projects to safeguards against further loss and the Completion certificate for review and report in the subsequent audit cycle.

3.0 Irregular Procurement of Repairs and Maintenance Service

- 88) The Committee heard that the Service awarded a contract for the supply and delivery of paint for contract amount of Ksh.2,995,200 and paid the same on 30th June, 2021. However, it was noted that the contract was awarded to a supplier who was not tendered. Further, the professional opinion to the payment voucher was approved on 8th February, 2021 a day before the quotations were opened and evaluated by the Committee appointed by the Accounting Officer.
- 89) In the circumstances, management was in breach of law in awarding the contract.

Management response

- 90) The management informed the Committee that the awarded Contractor tendered and evaluated appropriately. The Evaluation Minutes were provided to the auditor for verification.
- 91) The highlighted issue on dates was a typing error that arose from the copy and paste of the format of the professional opinion.

Committee Observation

The Committee observed that the award and payment of Kshs.2,995,200 for the supply and delivery of paint was irregular in that the contract was awarded to a supplier who had not tendered contrary to Section 79 of Public Procurement and Asset Disposal Act, CAP 412C which provides that a tender is responsive if it conforms to all the eligibility and other mandatory requirements in the tender documents. Further, the professional opinion was approved one day before the quotations were formally opened and evaluated by the appointed committee thus inconsistent and irregular.

Committee Recommendation

The Committee reprimands the then Accounting Officer for breach of Section 79 of Public Procurement and Asset Disposal Act, CAP 412C.

FINANCIAL YEAR 2021/2022

1.0 Unreconciled variances between the financial statements and the General Ledger

- 92) The Committee heard that a comparison of the general ledger amounts, and the balances reported in the financial statements revealed variances as follows:

N o.	Account Description	Ledger Balance Ksh.	Fin Statement Balance Ksh.	Variance
1.	Woman Supplies	30,415,490	32,411,030	(1,995,540)
2.	Dressing	24,916,540	54,021,384	(29,104,844)
3.	Supplies for production	299,421,961	299,021,384	(193,250)
4.	Fungicides insecticides and sprays	54,794,410	54,962,910	(168,500)
5.	Veterinarian Services	15,814,855.25	15,261,320	553,535
6.	Education and Library Supplies	55,610,805	73,955,750	(18,344,945)
7.	Contracted Professional services	215,684,986	1,237,900	(214,447,086)
8.	Tax Arrears	0	52,536,869	52,536,869
9.	Electricity	134,816,039	139,460,062	(4,643,423)
10	Water	52,178,213	51,004,033	1,174,180
11	Gas	30,243,458.90	34,844,259	(4,600,800)
12	Travelling and Accommodation	143,331,159	124,913,201	18,417,958

- 93) The variances between the two sets of records have not been explained or reconciled. In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

Management response

- 94) The Committee was informed that at this time was operating using the IFMIS system before migrating to the ERP system.

- 95) The IFMIS system is a cash-based accounting system, which recognizes expenses when paid and revenues when received. While the recommended format for financial reporting for SAGAs is accrual-based accounting system. This means that expenses should be recognized when incurred and revenue when earned.
- 96) Due to this, was obliged to do a reconciliation so as to align and have the right figures reported as per the prescribed format.
- 97) Therefore, this called for some adjustments on the ledger/trial balances from the IFMIS System which includes the Opening Stock, Opening Pending Bills and the Closing Stock.
- 98) The inclusion of these brought about the highlighted variances. The contracted services variances of Kshs. 214,447,086.00 was due to inclusion of the ERP implementation cost which was voted in the budget under contracted services. This was corrected through a Journal voucher no 28 dated 18th August since it was capitalized and not expensed.
- 99) The tax arrears accrued as a result of systems assessment undertaken by the Kenya Revenue Authority in the year resulting to a tax obligation of Ksh.52,536,869 at the closure of the year, the same has been recognized appropriately as an expense and a liability.

Committee Observation

The Committee observed that-

A comparison between the general ledger balances and the amounts reported in the financial statements revealed variances that were neither reconciled nor explained by management. This inconsistency points to weaknesses in financial reporting processes.

Committee Recommendation

The Committee recommends that the Accounting Officer should at all times comply with laws, regulations and other relevant governing legal and regulatory framework.

2.0 Unsupported Revenue from Rendering Services

- 100) The Committee heard that the Statement of Financial performance reflects rendering services amounting to Ksh.143,341,313 as further disclosed in note 2 to the financial statements. The amount includes revenue totaling to Ksh.115,322,313 earned from security services. However, the revenue was not supported with ledgers, detailed schedules, or evidence of payment into the bank account.
- 101) In the circumstances the occurrence and completeness of revenue earned from security service of Ksh.115,322,313 could not be confirmed

Management Response

- 102) The management informed the Committee that–
 - i) Revenues earned from rendering of services to government institutions which are recognized when earned but paid for later upon availability of funds by MDAs.

- ii) has availed the Ledger, Schedules and Bank Statements for audit review.

Committee Observation

The Committee observed that the Service did not provide supporting documents for revenues totaling to Ksh.115,322, earned from security services. This is contrary to Section 62(1) of the Public Audit Act, 2015, CAP 412B which stipulates that no person shall, without justification, fail to provide information within a reasonable time when required under the Act.

Committee Recommendation

The Committee reprimands the then Accounting Officer for breach of Section 62(1) of the Public Audit Act, 2015, CAP 412B.

Refundable Deposit and Prepayments from Customers

- 103) The Committee heard that the statement of financial position refundable deposits and prepayments from customers amounting to Ksh.1,435,706,729. The amount includes retentions from contractors of Ksh.41,757,564 and other deposits-cohorts, wages, kitchen and allowances payable to Servicemen/women of Ksh.321,370,062 as disclosed in Note 18 to the financial statements. However, the retentions from contractors of Ksh.41,757,564 was not supported with retention money register, ledgers and aging analysis. Further, the other deposits-cohorts, wages, kitchen and allowances payable to servicemen/women of Ksh.321,370,062 are in the respect to cohorts that were engaged in the six (6) months Youth Empowerment Program between September, 2014 and February, 2015 Management did not provide any explanation for the delay in paying the cohorts.
- 104) In the circumstances, the accuracy and completeness of the deposits and retention monies balance of Ksh.363,127,626 could not be confirmed.

Management response

- 105) The management informed the Committee that after acquisition of a state corporation status the Service inherited some liabilities that were transferred from the then Department of Youth and Gender where it was domiciled. These liabilities included retentions for contractors Ksh.41,757,564 and Ksh.321,377,062 which were incurred during the FY 2014/2015 on Youth Empowerment Programs.
- 106) For retention to be refunded the owner has to claim and produce a valid receipt (MR) that was issued for the amounts retained when he/she was paid the certificates of works done and in addition a clearance certificate of release signed by the project manager. The Service is ready to pay the contractors on demand.
- 107) The cohorts were engaged in a six (6) months Youth Empowerment Program between September, 2014 and February, 2015. The delay in paying the cohorts was caused by the delayed disbursement of funds, however most of the cohorts have been reached out and paid.
- 108) However, there were some who were not reachable because many used the identification details of their parents or guardians to register for mobile numbers complicating efforts to trace them.

- 109) The Service through intervention of the Ministry of Interior and Co-ordination on National Government has made several attempts to trace the beneficiaries' using local administration in vain.
- 110) has escalated the matter to the council for approval to surrender the outstanding monies to the National Treasury for revoting in the supplementary budget.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Refundable Deposit and Prepayments from Customers in its report for financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

4.0 Unsupported Payment for Water Utility Bills at NYS College Gilgil

- 111) The Committee heard that the statement of financial performance reflects use of goods and services balance of Ksh.8,616,723,925. The amount includes water expenditure of Ksh.51,004,033 as disclosed in note 4 to the financial. Included in the water expenditure is Ksh.4,096,211 incurred in respect of payment of water consumed in August, 2021 at NYS College, Gilgil through payment voucher No.402 dated 27/10/2021. However, during the financial year 2020/2021, a payment of Ksh.17,397,654.50 was made to the same company as an advance payment for June, July and August, 2021 the same period thereby resulting to double payment for the utility.
- 112) In the circumstances, the regularity and completeness of the utility expenditure of Ksh.4,096,211 could not be confirmed.

Management response

- 113) The management informed the Committee was that wish to clarify that, all the utilities bills are handled and paid from the Headquarters for all units. states that it had made a pre-payment of ksh10m and not Ksh.17m as in the query.
- 114) However, since this was at the closure of the financial year, the management made advance payments so as to avoid disconnection in the months of July and August while waiting for the funding which is usually delayed. Therefore, this was not a double payment.
- 115) Further the payment of Ksh 4,096,211 was payment for water consumed at Subukia sub-Unit which is part of what is referenced in the document.

Committee Observation

The Committee observed that the payment of Ksh.4,096,211 related to bills for water consumed at Subukia sub-Unit.

Committee recommendation

The Committee recommends that the Accounting Officer should at all times ensure that regular and timely reconciliations of expenditures on utility bills are undertaken to avoid unexplained variances that could lead to overpayment.

5.0 Property, Plant and Equipment

5.1 Unsupported acquisition of Computers and Related Hardware

- 116) The Committee heard that statement of financial position reflects a property, plant and equipment amounting to KSh.29,461,080,443 which includes KSh.18,830,933 in respect to additions/acquisition of computers and as disclosed under note 15 to the financial statements.
- 117) However, payment vouchers and related documentation amounting to KSh.6,218,990, were provided for audit verification leaving a balance of KSh.12,611,943 which was not supported.

Management response

- 118) The Committee was informed that differences arose from the misplacing of the documents which were later traced and provided to the auditors. In addition, the misclassification of items in the newly installed system (ERP) at this time lead to this. has regrated this omission.

Committee Observation

The Committee observed that additions relating to computers and related hardware amounting to KSh.12,611,943 were not supported by payment vouchers and relevant documentation contrary to Regulation 104 (1) of the PFM (National Government) Regulations, 2015 which requires that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment

Committee recommendation

The Committee reprimands the then Accounting Officer for breach of Regulation 104 (1) of the PFM (National Government) Regulations, 2015.

5.2 Incomplete Fixed Asset Register

- 119) The Committee heard that as previously reported, did not maintain a complete and accurate asset register with information relating to the assets such as type of the asset, date of acquisition supplier, cost, location, code, current values, remaining useful life, and savage value. Further, the assets have not been tagged for tracking and identification.

Management response

- 120) The Committee was informed that, register was still at compilation level at this time. Currently and subsequent years the register has been completed and availed to the auditors for perusal.

Committee Observations and Reccomendations

The Committee had deliberated on the issue on Incomplete Fixed Asset Register in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

5.3 Encroachment of National Youth Service Land

- 121) The Committee heard that, has approximately 2,247 hectares of land in Yatta, Mavoloni, Athi River, Mombasa Technical Institute and Mwatate among other regions Physical verification of the land in March, 2023 revealed that the parcels of land have not been fenced and were encroached on. Although Management has initiated the proves of demarcation of the respective parcels of land, the proves has not been finalized.

Management response

- 122) The management informed the committee that land and property are not under any threat of encroachment. However, fencing and demarcating is essential as the surrounding community may be incited to occupy it. All this involves funding which is very limited and not availed. However, has undertaken some steps such as digging trenches (NYSTC Mombasa) and planting green fences in some Units

Committee Observations and Reccomendations

The Committee had deliberated on the issue of Encroachment of National Youth Service Land in its report for financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

Unresolved Prior Year Audit Issues

- 123) The Committee heard that in the 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

Management Response

- 124) The management informed the Committee that management did not respond to the issue

Committee Observations

The Committee observed that several prior year issues had remained unresolved contrary to 31 sections 31 (1) and 53 (1) of the Public Audit Act. CAP 412B.

Committee Recommendations

The Committee reprimands the then Accounting Officer for dereliction of duties and recommends that the Accounting Officer, as a preliminary step, submit a report to the Parliament and the Auditor-General for review, on how it has addressed the recommendation made in respect of this report within three months upon adoption of this report.

1.0 Budgetary Control and Performance

- 125) The Committee heard that, statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.11,128,796,673 and Kshs.11,085,056,392 resulting to a revenue shortfall of Kshs.43,740,281. The financial

statements also reflect a nil balance in respect to transfers from Ministries, Departments and Agencies (MDA's), a decline by a hundred percent (100%) compared with Kshs.211,984,338 reported in the previous year 2020/2021. However, the shortfall was not explained by way of a note contrary to the guidelines issued by the Public Sector Accounting Standards Board which provides that material variances of 10% with the budget be explained in a note.

Management response

- 126) The management informed the committee that, did not receive any transfers from other government Agencies during the reporting period having concluded the engagements with MDAs listed under Note 1b in the financial statements.

Committee Observation

The Committee observed that experienced a revenue shortfall of Kshs.43,740,281, which was attributed to the failure to receive funds from Ministries, Departments, and Agencies (MDAs).

Committee Recommendation

The Committee recommends that the Accounting Officer should ensure at all times that the budgets are realistic, achievable, and always adhere to annual work plans, procurement plans, and revenue collection schedules in compliance with Regulation 44(2) of the PFM (National Government) Regulations, 2015.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

1.0 Stalled Project

1.1 Stalled Construction of Housing Units at Vocation Training Institute – Industrial Area

- 127) The Committee heard that, as previously reported, entered a contract for the construction of a 12-Unit flat at the Vocational Training Institute-Industrial Area at a contract cost of Ksh.49,105,721. However, the contractor abandoned the site after receiving the first payment of Ksh.7,111,432 Management re-advertised the works and awarded the contract for the completion at a contract cost of Ksh.61,098,319 for fifty-two (52) weeks commencing on 26th November, 2019. A physical inspection conducted in March, 2023 revealed minimal construction carried out, but the project was incomplete and the contractor had abandoned the site after receiving payments of Ksh.23,000,000.

In the circumstances, the Service did not realize value for money on the expenditure of Ksh.30,111,432 spent on the project.

Management response

- 128) The management informed the committee that at the time of audit, the project was not complete and the contractor was not on site. This was mainly due to non-honoring of the certificates of payments by the Service caused by lack development budgetary allocation.

- 129) However, the management clarifies that the project is ongoing and will be completed soon. This will be after receiving the funding which has already been allocated in the budget.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Housing Units at Vocation Training Institute – Industrial Area in its report for the financial year 2019/2020, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

1.2 Supply, Delivery and Installation of High-and Low-level Pressed Steel Water Tanks, Booster Pumps and Tower Works (VTI Industrial Area)

- 130) The Committee heard that, the Service entered a contract for the supply, delivery and install high-and low-level pressed steel, water tanks, booster pumps and tower work for enough water storage at the National Youth Service Vocational Training Institute (VTI) located in the Industrial area, Nairobi at a contract sum of Ksh.11,715,396 on 03 September, 2019.
- 131) As previously reported in the financial year 2020/2021, the Service entered into a contract for the supply, deliver and install high-and low-level pressed steel, water tanks, booster pumps and tower works for enough water storage at the National Youth Service Vocational Training Institute (VTI) located in the Industrial area, Nairobi at a contract sum of Ksh.11,715,396 on 9 July, 2019 and a contract signed on 3rd September, 2019 for a period of sixteen (16) weeks ending on 31 October, 2020. The contractor abandoned the site on 23rd October, 2020 on the grounds of non-payment of certified works valued at Ksh.5,770,669. Physical inspection in March, 2023, revealed that the work had stalled, and the project was incomplete.
- 132) Despite several meetings between the officers from National Youth Service (NYS) Nairobi Region works officers and the contractor to discuss the way forward to complete the project, no progress has been made.
- 133) In the circumstances, value for money has not been realized on the project

Management response

- 134) The management informed the committee that, these was occasioned by the delay in making payment since the Service had no budgetary provisions,
- 135) However, at the time of audit inspections the project was incomplete and the contractor was not on the site.
- 136) The contractor resumed and completed the works after payment of the Ksh.5,770,669 certificate the project is currently in use.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Supply, Delivery and Installation of High-and Low-level Pressed Steel Water Tanks, Booster Pumps and Tower Works (VTI Industrial Area)

in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

1.3 Stalled Construction of Four-Stored Classrooms Block and Workshop at NYS Engineering Institute – Ruaraka

- 137) The Committee heard that Service Management entered into a contract for the construction of a four-stored classroom block and workshops at the NYS Engineering Institute in Ruaraka on 13th April, 2011 at a contract sum of Ksh.88,794,355. The project was to take 52 weeks ending on 9th June, 2012. This was later extended by thirty-one (31) weeks to 12th January, 2013. However, as previously reported, the construction stalled in 2017 after the payment of Ksh.81,884,550 equivalent to 92% of the contract sum against 95% of the works certified.

Management response

- 138) The management informed the committee that, at the time of audit the contractor was not on site. This was due to delay in honouring the certificate of payment which was not forthcoming due to lack of budgetary provisions.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Four-Stored Classrooms Block and Workshop at NYS Engineering Institute – Ruaraka in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

1.4 Stalled Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute- Ruaraka

- 139) The Committee heard that as previously reported, awarded the contract for the Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute Ruaraka to a Construction company in May, 2011 at a contract sum of Ksh.192,000,000. The project commenced on 13th June, 2011 with a contract duration of 80 weeks. The contractor was granted an extension period up to 13th March, 2017. The contractor, however, abandoned the site after receiving payments totaling Ksh.186,248,573 or 90% of the agreed contract sum. A physical inspection of the project in March, 2023, revealed that no construction was ongoing at the site and the contractor had abandoned the site. Further, huge visible cracks on the delay in completion was mainly due to delayed payments to the main contractor and sub-contractors. In addition, the Management has not made any efforts to invoke the relevant clauses of the contract to surcharge the contractor for the delayed completion.
- 140) In the circumstances, value for money has not been realized eleven (11) years after the construction commenced.

Management response

- 141) The management informed the committee that at the time of audit the contractor was not on site.

- 142) However, the main contractor had finished the main works and only subcontractors had not finished and thus the main contractor requested for mutual termination to avoid a charge for the delays. The management took over the project and completed it. The buildings are now in use.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute- Ruwara in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

2.0 Intangible Assets-Supply, Installation and Commissioning of Enterprise Resource Planning System

- 143) The Committee heard that signed a six (6) month contract with a firm on 25th June, 2021 for the supply, installation and commissioning of an Enterprise Resource Planning System (ERP) for the National Youth Service scheduled to run through 25 December, 2021. The project's scope entails the supply, delivery, installation, training and implementation of the latest version of Microsoft Dynamics ERP System at the point of signing with nine (9) modules and also supplying, installing and configuring fifty (50) concurrent user licenses for the External Resources Planning. The contractual obligations included among others.
- 144) That Ksh.17,674,071.23 equivalent to thirty percent (30%) of the contract price would be paid to the contractor upon signing, delivery and approval of the signed contract producing inception report, project charter and detailed work plan and upon successful delivery of signed functional requirements documents from the user requirements process.
- 145) An amount of Ksh.35,348,142.46 equivalent to sixty percent (60%) of the contract price would be paid upon system design. System development and testing and training of end users and implementation/Go-live and
- 146) Ksh.5,891,357.08 upon expire of the warranty period, commissioning, and handover.
- 147) The contractor was paid Ksh.17,674,071 equivalent to thirty percent (30%) of the contract price on the presentation of the inception report in March, 2022.
- 148) Review of the implementation of the project revealed that on 25th January, 2022 the contractor requested a six (6) months period contract extension that was granted on the same day.
- 149) On 19th October, 2022, the contract was again extended for a period up to 31st December, 2022. However, the recent and last status report dated 13th December, 2022 by eight (8) days before the expiry of the second extension, revealed that all the twelve (12) modules and local area network together with server architecture had not been officially commissioned in line with provisions of the initial contract.
- 150) Further, presentations made by Management revealed that the project is incomplete despite having been executed for three (3) Financial Years commencing 2021. In addition, no evidence or record was provided to show that Management prepared a multi-year procurement plan in a format set out in the regulations consistent with the medium-term budgetary expenditure

framework for projects or contracts that go beyond one year in line with the provision of Section 53(7) of Public Procurement and Asset Disposal Act 2015. In the circumstances, may not obtain value for money on the expenditure of Ksh.17,674,071 spent on the incomplete ERP system.

Management response

- 151) The management informed the committee that the enterprise resource planning system was at the implementation stage before being fully operational. The users were giving feedback at this time.
- 152) However, the payment was made after successful System development, user acceptance, testing and training of end users.
- 153) The test results confirmed the output was as per user requirement specifications earlier signed by respective functional users who are the Key ERP Modules owners confirming that the results were as per the user requirements specifications.
- 154) The Service server/data center was commissioned on 10th February 2023. All ERP Modules are in operation and working as per the specifications.
- 155) The management also wish to clarify that, the Service had a budget to cater for the contractual obligations and the same was factored in the NYS procurement plans and budgets for F/Y2021/2022, 2022/2023, and 2023/2024 as shown below;
 - i. F/Y 2021/2022 under contracted professional services – ERP software at Ksh.58,000,000
 - ii. F/Y 2022/2023 under contracted professional services – phase II LAN/WAN connectivity at Kes.39,000,000
 - iii. F/Y 2023/2024 under contracted professional services - LAN/WAN connectivity at Kes.58,000,000.

Committee Observation

The Committee observed that contracted a firm on 25th June, 2021 for the supply, installation and commissioning of an Enterprise Resource Planning System (ERP) for the National Youth Service scheduled to run through 25 December, 2021 at a contract price Kshs. 58,913,570. However, the project was incomplete despite having been executed for three (3) Financial Years commencing 2021.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer to provide to the and Auditor General for review and reporting in the subsequent audit cycle a comprehensive report detailing the status of implementation, functionality and the funds expended on the project to date.

3.0 Proposed Construction of Sewerage Works at NYS Training Institute-Naivasha

- 156) The Committee heard that, awarded the contract for the construction of sewerage works at NYS Training Institute Naivasha on 25th October, 2021 at a contract sum of Ksh.52,626,120. The works commenced on 23rd November, 2021 and were expected to be completed within twenty-six (26) weeks by 26th May, 2022. A review of the procurement process and project implementation records however revealed the following anomalies.

i. Performance Security

- 157) According to the notification of award dated 28th September, 2021 for tender No. NYS/Proc/02/2021-2022, the contractor was required to furnish with a performance security amounting to Ksh.2,631,306 equivalent to five percent (5%) of the contract sum of Ksh.52,626,120. However, the tender security offered by Century Bank dated 21st October, covered approximately twenty-four (24) weeks instead of the contract duration of twenty-six (26) weeks. No explanation was provided for the inadequate performance security.

Management response

- 158) The management informed the committee that the performance security submitted by the winning bidder and issued by M/s Century Bank covered the 26 weeks as required from 21st October 2021 to 19th April 2022.

ii. Lack of Clarity in Tender Evaluation

- 159) Review of the tender evaluation that the tax obligations compliance for Kenya Tenders to the tender document from the winning bidder was not indicated as was the case for the other four (4). Further the financial evaluation disqualified unit rate for bill No.3 (D)-hauling of excavated materials quoted below Ksh.930 by four (4) firms based on the Market Survey that had been done on the same. However, the market survey report was not provided for verification. In addition, the firm awarded had quoted Ksh.1,100 which was above the public works estimate rate of Ksh.930 by Ksh.170 of eighteen percent (18%).

Management response

- 160) The management informed the committee that a Tax Compliance Certificate was submitted by the winning bidder as per the bidding document's preliminary requirements.

iii. Failure to Complete Works

- 161) paid a total of Ksh.30,749,940 fifty-eight (58%) of the contract sum to the contractor on 25, March, 2022 through payment voucher No.003 and certificate No.01 dated 10th February, 2022. However, as of the time of the audit in February, 2023, the contractor and not completed the works and had since abandoned the site due to undisclosed reasons.
- 162) In the circumstances, may not obtain value for money on the expenditure of Ksh.30,749,940 spent on the project, with the authorities that govern them.

Management response

- 163) The management informed the Committee that the works were completed and the sewer has been in use with receiving the requisite compliance license from the National Environmental Management Authority

Committee Observation

The Committee observed that–

- i) The performance security submitted by Century Bank was noted to cover only twenty-four (24) weeks instead of the required twenty-six (26) weeks stipulated in the notification of award dated 28th September 2021.
- ii) The tender evaluation revealed anomalies in documentation and consistency. The tender submission by the winning bidder's did not clearly indicate tax obligations compliance as was the case for the other four bidders. Additionally, four firms were disqualified for quoting unit rates below Ksh.930 for Bill No.3 (D) – haulage of excavated materials, based on a market survey whose report was not provided for verification. Furthermore, the awarded firm quoted Ksh.1,100, which exceeded the Public Works estimate rate of Ksh.930 by Ksh.170 (18%).
- iii) paid Ksh.30,749,940, representing fifty-eight percent (58%) of the contract sum, to the contractor on 25th March 2022. However, as of the audit review in February 2023, the contractor had not completed the works and had abandoned the site for undisclosed reasons.

The anomalies amount to offenses under section 176 of the Public Procurement and Asset Disposal Act, CAP. 412C.

Committee Recommendation

The Committee recommends that, within three months upon adoption of this report, the DPP should initiate legal action against the then Accounting Officer in accordance with section 176 of the Public Procurement and Asset Disposal Act, CAP. 412C.

FINANCIAL YEAR 2022/2023

1.0 Unsupported Property, Plant and Equipment Balance

- 164) The Committee heard that, the statement of financial position reflects property plant and equipment balance of Ksh.30,253,103,894 as disclosed in Note 20 to the financial statements. However as previously reported, did not maintain a complete and accurate asset register with information relating to the assets on type of the asset, date of acquisition, supplier cost, location, code, current values, remaining useful life and salvage value. Further, the assets have not been tagged for tracking and identification.
- 165) In addition, has approximately two thousand two hundred and forty-seven (2,247) hectares of land in Yatta, Mavoloni, Athi River, Mombasa Technical institute and Mwatate.

- 166) However, the parcels of land have not been fenced and are encroached. Although Management has initiated the proves of demarcation of the respective parcels of land, the process has not been finalized. Similarly, the NYS engineering Unit land has been encroached by private developers who have constructed structure on it and therefore, risks losing the land due to encroachment by informal settlers.
- 167) In the circumstances, the accuracy, completeness and valuation of the property, plant and equipment balance of Ksh.30,253,103,894 could not be confirmed.

Management response

- 168) The management informed the Committee that at the time of Audit the Asset Register was still at compilation level. So far, the assets identification and tagging exercise is completed and updated. Currently the Asset register has been completed and availed to the auditors for perusal. The soft copy was sent via email to the office of the Auditor General.
- 169) On the issue of encroachment, wishes to clarify that the land is safe, and all ownership documents are in safe custody of.
- 170) The major obstacle is lack of funding for fencing which has been following through the budgetary process without success. However, has undertaken some steps such as digging trenches in Mwatate, and (NYSTC Mombasa) and planting green fences in some Units and use of cutlines for marking boundaries like in Kirmun and Yatta.
- 171) However, on the issue of NYS Engineering Institute the court ruled in favor of NYS, but the residents appealed, and we are still waiting for the court verdict.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Unsupported Property, Plant and Equipment Balance in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

2.0 Unsupported Refundable Deposit from Customers

- 172) The Committee heard that, the statement of financial position reflects refundable deposits from customers amounting to Ksh.1,339,515,130 as disclosed in Note 23 to the financial statements. The amount includes retention monies from contractors of Ksh33,999,266 and other despots-cohorts, Wates, kitchen and allowances payable to servicemen and women of Ksh.344,308,974.
- 173) However, the retentions from contractors of Ksh.33,999,266 were not supported with retention. money register, ledgers and aging analysis. Further, as previously reported, the other deposits-cohorts, wages, kitchen and allowances payable to servicemen and women of Ksh.344,308,974 are in respect to cohorts that were engaged during the six (6) months Youth Empowerment Programme between September, 2014 and February, 2015. Management did not provide satisfactory explanation for the delay in paying the cohorts.
- 174) In the circumstance, the accuracy and completeness of the refundable deposits from customers totaling Ksh.378,308,240 could not be confirmed.

Management response

- 175) The management informed the Committee that acquired the status of a state corporation it inherited some liabilities that were transferred from the mother Department of Youth and Gender by then. These liabilities included retentions for contractors Ksh.33,999,266 and Ksh.344,308,974 which were incurred during the FY 2014/2015 on Youth Empowerment Programs.
- 176) For retention to be refunded the owner has to claim and produce a valid receipt (MR) that was issued for the amounts retained when he/she was paid the certificates/works done in addition a clearance certificate of release signed by the project manager must be availed
- 177) The delay in paying the cohorts engaged in the six (6) months Youth Empowerment Program between September, 2014 and February, 2015 was caused by delay in disbursement of funds, however most of the cohorts have been reached out and paid.
- 178) However, there were some who were not reachable because many used the identification details of parents or guardians to register mobile lines complicating efforts to trace them.
- 179) The Service through intervention of the Ministry of Interior and Co-ordination on National Government has made several attempts to trace the beneficiaries' using local administration in vain.
- 180) The Service has escalated the matter to the council for approval to surrender the outstanding monies to the National Treasury for revoting in the supplementary budget.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Unsupported Refundable Deposit from Customers in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

3.0 Outstanding Receivables from Exchange Transactions

- 181) The Committee heard that, the statement of financial position reflects receivables from exchange transactions balance of Ksh.851,619,418 as disclosed in Note 17 to the financial statements. This balance includes Ksh.377,696,716 in respect of service, hire services of servicemen and women. The balance increased by Ksh.354,515,508 or 1,500% compared with the previous year balance of ksh.23,181,208 which indicates inadequate measures on debt collection. Further, the inter-units' debtors have raised by 37% from Ksh.284,936,674 in the prior year to Ksh.391,955,435. Management did not provide explanation on the failure to collect the debts. Further, no specific provisions by way of bad debt provision have been made in the financial statements to recognize the likely impairment.
- 182) In the circumstances, the recoverability and completeness of the receivables from exchange transactions balance of ksh.851,619,418 could not be confirmed.

Management response

- 183) Management informed the Committee that, during the year under review the Service was undertaking the upgrading of Kisumu Port, Mama Ngina Drive Mombasa and the Nairobi – Nanyuki Railway. All these activities enhanced the AIA generated by the Service that year.
- 184) These activities were disclosed appropriately while preparing the Financial Report as per the IPSAS-1. The entire amount was received in the subsequent year.
- 185) Currently, the Service has developed a credit policy with clauses that are geared towards mitigating default chances and also strengthen the revenue collection.

Committee Observation

The Committee observed that the receivables relating to hire of servicemen and women increased by Ksh.354,515,508, representing a 1,500% rise from Ksh.23,181,208 in the prior year to Ksh.377,696,716. In addition, Inter-units' debtors also rose by 37% from Ksh.284,936,674 to Ksh.391,955,435. The increase in receivables indicates inadequate debt collection measures by the Service.

Committee Recommendation

The Committee recommends that the Accounting Officers should at all times ensure that there are proper and robust debt collection mechanisms and effective debt management policies.

4.0 Long Outstanding Trade and Other Payables

- 186) The Committee heard that the statements of financial position reflect trade and other payables balance of ksh.1,470,636,573 as disclosed in Note 22 to the financial statements. The balances include payables totaling Ksh.740,530,463 which were not supported by a ledger and payment vouchers. Further, pending bills amounting to Ksh.15,883,937,683 which were submitted to the Pending Bills Verification Committee were not included in the financial statements. In addition, the delay in paying these bills has led to legal cases which may result to monetary losses by way of legal fees and penalties.
- 187) In the circumstances, the accuracy and completeness of the trade and other payables balance of ksh.1,470,636,573 could not be confirmed.

Management response

- 188) The management informed the Committee that the Service Financial Statement reflected trade and other payables of Ksh1,470,636,573 as declared in note 22. These trade payables are classified into two categories that is the TVETS and General merchants.
- 189) Within note 22, the Ksh.740,530,463, relate to General Merchants. These were payments that were not paid at the end of the year. In this case at the time of audit, which took place early December 2023. The Service had forwarded these payment vouchers to the verification committee so that they could be rechecked before being considered as the 1st Charge for the year 2023/2024.

- 190) However, the list was forwarded, and the same vouchers were provided in the following year's audit.
- 191) The Service wished to clarify that; there were Historical Pending Bills Worth Ksh.15,883,937,653 which were submitted to the 3rd multi agency verification Committee for deliberation.
- 192) By the time of reporting the Committee was still working on the bills. These made it difficult for the service to recognize them in the financial statements of the year under review hence declaring them on the notes.

Committee Observation

The Committee observed that–

- i) Ledgers amounting to Ksh.740,530,463 that were not provided contrary to Section 62(1) of the Public Audit Act, 2015, CAP 412B which stipulates that no person shall, without justification, fail to provide information within a reasonable time when required under the Act.
- ii) The service did not include pending bills amounting to Ksh.15,883,937,653 in the financial statements.

Committee Recommendation

The Committee reprimands the then Accounting Officer for breach Section 62(1) of the Public Audit Act, 2015, CAP 412B.

4.1 Budgetary Control and Performance

- 193) The Committee heard that, the statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.12,913,132,673 and Kshs.10,540,854,163 respectively, resulting to an underfunding of Kshs.2,372,278,510 or 18% of the budget. Similarly, the Service spent Kshs.10,558,354,163 against an approved budget of Kshs.12,941,677,676 resulting to an under absorption of Ksh.2,383,323,513 of 18% of the budget. However, the underperformance in revenue collection and under-expenditure was not explained by way of notes contrary to the guidelines issued by the Public Sector Accounting Standards Board which provides that material variances of 10% and above be explained in a note.
- 194) The underfunding and under-absorption affected the planned activities and may have impacted negatively on service delivery to the public.

Management response

- 195) The management informed the Committee heard that, the management wish to clarify that the major differences leading to underutilization was due to the inclusion of an amount of Kshs.2,049,356,000 for Historical Pending Bills in the budget which was never funded.
- 196) The management also wish to clarify that the same was disclosed in the note 18 to the financial statements page 5 of the Financial Report.

Committee Observation

The Committee observed that the Service experienced a revenue shortfall of Kshs.2,372,278,510, or 18% of the approved budget. Similarly, the Service under-absorbed Kshs.2,383,323,513, or 18% of the budget. This significant underfunding and under-absorption may have adversely affected the implementation of planned activities and negatively impacted service delivery.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure at all times that the budgets are realistic, achievable, and always adhere to annual work plans, procurement plans, and revenue collection schedules in compliance with Regulation 44(2) of the PFM (National Government) Regulations, 2015.

5.0 Unresolved Prior Year Audit Issues

- 197) The Committee heard that, 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. However, Management has not resolved some of the issues not provided explanations for the failure to resolve the issues.

Management response

- 198) The management informed the Committee that—
- i) Updated Asset register-The management has a duly updated register in place.
 - ii) Encroachment of parcels of land-The service is putting in place home-made solutions such as digging of trenches and planting green fences around the pieces of land as well as soliciting for funds to fence the large tracks of land.
 - iii) Refundable deposits for Cohorts-The management has engaged the governing council for the necessary approvals to surrender the monies to the National Treasury for revoting in the Supplementary budget.
 - iv) Non-compliance with a third rule- the service has so far complied with the requirement.

Committee Observations

The Committee observed that several prior year issues had remained unresolved contrary to 31 sections 31 (1) and 53 (1) of the Public Audit Act. CAP 412B.

Committee Recommendations

The Committee reprimands the then Accounting Officer for dereliction of duties and recommends that the Accounting Officer, as a preliminary step, submit a report to the Parliament and the Auditor-General for review, on how it has addressed the recommendation made in respect of this report within three months upon adoption of this report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

2.0 Human Resource Management

2.1 Over-Establishment of Uniformed Staff

- 199) The Committee heard that Review of staff establishment for uniformed Staff revealed overstaffing in three (3) positions of: Assistant Direct, Senior Superintendent and Superintendent as shown below.

Position	Approved Establishment	In- post	Over- Establishment
Assistant Director	14	30	16
Senior Superintendent	36	52	16
Superintendent	57	62	5

- 200) Management did not provide explanation for the overstaffing in the senior management positions

Management response

- 201) The management informed the Committee that, Since NYS formation, it has shown growth and has expanded appropriately in relation with its core mandate and objectives. Consequently, this calls for growth in staff strength which affects the establishment.
- 202) The then authorized establishment was old and overtaken by events, but it has been countered by Human Resource instruments which have taken care of the NYS establishment and its organizational structure currently.
- 203) The same has been developed professionally with the help of Public Service Personnel and is currently approved and in place.

Committee Observation

The Committee observed that the Service had staffing levels in three organizational cadres that exceeded the approved staff establishment, resulting in over staffing. Management has since developed a new staff establishment to cater for the expanded core mandate, which has been formally approved by the Public Service Commission.

Committee recommendation

The Committee recommends that the Accounting Officer should at all times adhere to the Human Resource Instruments approved by the Public Service Commission.

2.2 Non-Compliance with One-Third of Basic Salary Rule

- 204) The Committee heard that a review of payroll revealed that one hundred and fifty-six (156) employees were paid a net salary of less than a third (1/3) of their basic pay in June, 2023. This was contrary to Section 19(3) of the Employment Act, 2007 which provides that the total amount of deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages. No explanation was provided for the breach of law on payment of salaries and allowances.

Management response

- 205) The management informed the Committee that the high number of non-compliance cases with the onthe issued3) basic rule in the NYS staff payroll during the period ended 30th June 2023 was attributed to various factors during and after the COVID-19 pandemic. These includes,

i. Taxation effects

- 206) Lowered tax rates led to over commitments through borrowing. Reduction in tax reliefs and reinstatement of full taxation affected net incomes of most individuals. These has been cleared through the annual increment in the subsequent years.

ii. Officers on Interdiction

Officers on interdiction are usually put on half-basic salary. In such a scenario, when statutory deductions are done, their earnings go way below the statutory requirement.

iii. Hardship Allowance

Officers in hardship areas have an advantage of earning hardship allowance, in case of transfers from hardship areas to non-hardship areas, the extra earning drops accordingly affecting their gross income. This has since been corrected accordingly by the annual increments and pay rise effected after the adoption of the Maraga commission report.

Committee Observation

The Committee observed that 156 staff were paid net salaries below a third (1/3) of their basic pay contrary to Section 19(3) of the Employment Act, 2007 which provides that the total amount of deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

Committee Recommendation

- i) Non-compliance with the one-third rule also reflects weaknesses in payroll controls, inadequate monitoring of third-party deductions, and failure to enforce statutory limits within the payroll system.

Committee Recommendations

The Committee recommends that–

Within three months of the adoption of this report, the Accounting Officer undertakes a comprehensive payroll review with a view to Identify all instances where employee net pay fell below the one-third statutory threshold, determine the causes of non-compliance and undertake administrative action against the affected staff and submit a detailed report to the National Assembly and to the Auditor-General for review.

Within three months of the adoption of this report, the Accounting Officer should engage affected employees and facilitate restructuring third-party loans and deductions through formal agreements with lenders to align repayments with legal requirements and safeguard staff welfare. Such actions should be within the legal and regulatory frameworks governing individual obligations, rights and fair administration of justice. A report on this engagement and status should be submitted to the National Assembly and to the Auditor-General for review.

2.3 Payment Salaries Outside the Integrated Personnel and Payroll Database (IPPD)

- 207) The Committee heard that the statement of financial performance reflects use of goods and services expenditure of Ksh.8,545,83,364 as disclosed in Note to the financial statements. Included in this amount is training expenses of Ksh.3,552,912,780 out of which Ksh.99,726,902 was paid to trainers and lectures as salaries. However, the payments were processed outside the IPPD Government payroll processing system. Further, the criterial used in hiring the tutors was not provided for verification.
- 208) In the circumstances, the service was in breach of the public Service Policies and Procedures.

Management response

- 209) the Service has training schools that train various programmes under the Ministry of Education TVET programs.
- 210) The Service lacks enough lecturers to undertake these programmes and thus hires part time lectures to complement the permanent and pensionable lecturers.
- 211) The Part-time lecturers do not have personal numbers and are not full-time employees of the Service thus their pay cannot be processed through the IPPD system however their pay is processed through the ERP system.

Committee Observation

The Committee observed that-

Training expenses amounting to Ksh.99,726,902 were paid to trainers and lecturers outside the IPPD Government payroll processing system without disclosing the criteria used in hiring the tutors.

The Service had engaged the part-time lecturers to support training programs under the Ministry of Education's TVET framework due to inadequate permanent staffing. However, the lecturers lacked personal numbers, resulting in their remuneration being processed outside the IPPD Government payroll system and their appointment letters that were not provided during audit contrary to Section 62(1) of the Public Audit Act, 2015, CAP 412B which stipulates that no person shall, without justification, fail to provide information within a reasonable time when required under the Act.

Committee Recommendation

- i) The Committee reprimands the then Accounting Officer for breach of Section 62(1) of the Public Audit Act, 2015, CAP 412B.
- ii) Within three months upon adoption of this report, the inspector General of state corporations to investigate the process of engaging the part-time lectures and their payment outside the IPPD Government payroll system with a view to establishing the legality and regularity of the process and should any breach be established, the inspector general to initiate a surcharge to the then Accounting Officer, the then Head of Human resource, the then Head of finance function and the then Board. A comprehensive report on the finding should be submitted to the National assembly and the Auditor-General for review.

3.0 Stalled Projects

3.1 Stalled Construction of Housing Units at Vocational Training Institute – Industrial Area

- 212) The Committee heard that as previously reported, the Service entered into a contract for the construction of a 12 Units flat at Vocational Training Institute-Industrial Area at a sum of Ksh.49,105,721. However, the contractor abandoned the site after receiving the first payment of Ksh.7,111,432. Management re-advertised the works and awarded the contract for completion of the project at a cost of Ksh.61,098,319 with a timeline of fifty-two (52) weeks commencing on 26th November, 2019. However, physical inspection conducted March month of march, 2014 revealed that the project was incomplete, and the contractor had abandoned the site after receiving payments totaling Ksh.23,000.000.
- 213) In the circumstances, the Service has not realized value for money on the expenditure of Ksh.30,111,432 spent on the project.

Management response

- 214) Management informed the Committee that at the time of audit, the project was not complete, and the contractor was not on site. This was mainly due to non-honoring of the certificates of payments by the service caused by lack of development budgetary allocation
- 215) The management clarifies that the project is ongoing and is 70% complete.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Housing Units at Vocation Training Institute Industrial Area in its report for the financial year 2019/2020, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

3.2 Supply, Delivery and Installation of High- and Low-Level Pressed Steel Water Tanks, Booster Pumps and Tower Works at VTI Industrial Area

- 216) The Committee heard that as Previously reported in the financial year 2020/2021, the Service entered a contract for supply, delivery and installation of high and low-level pressed steel water tanks, booster pumpless and tower works at Vocational Training Institute (VTI) Nairobi industrial area. The contract for a sum of Ksh.11,715,396 was signed on 03 September, 2019 for a period of sixteen (16) weeks ending on 31 October, 2020. However, the contractor abandoned the site on 23rd October, 2020 due to non-payment of certified works valued at Ksh.5,770,669. Site visit carried out in the month of March, 2024, revealed that the works had stalled and efforts between the Service, Nairobi Region Works Office and the contractor revealed that no progress had been made.
- 217) In the circumstances, value for money has not been realized on the project.

Management Response

- 218) The management informed the Committee that delay was occasioned by the lack of funds to honor the issued certificates howeSeptember certificate was paid and the contractor resumed and completed the works

Committee Observations and Recommendations

The Committee had deliberated on the issue on Supply, Delivery and Installation of High-and Low-level Pressed Steel Water Tanks, Booster Pumps and Tower Works (VTI Industrial Area) in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

3.3 Stalled Construction of Four-stored Classrooms Block and Workshop at NYS Engineering Institute – Ruaraka

- 219) The Committee was informed that, the Service entered into a contract for the construction of a four-storey classroom block and workshops at the NYS Engineering Institute in Ruaraka on 13th April, 2011 at a sum of Ksh.88,794,355. The project was to take fifty-two (52) weeks ending on 9th June, 2012 and was later extended by thirty-one (31) weeks to 12th January, 2013. However, as previously reported, the construction stalled in 2017 after payment of Ksh.81,884,550 equivalent to 92% of the contract sum against 95% of the works certified.
- 220) Review of the project in February, 2024, revealed that the project is incomplete and Management did not provide measures being taken to complete the project. The incomplete works include electrical, plumbing and drainage always ensured valued at Ksh.4,778,265 as per the State Department of Public Works appraisal report dated 5th April, 2022.

- 221) In the circumstance, value for money has not been realized twelve (12) years after the construction commenced.

Management response

- 222) The management informed the Committee that, at the time of audit the project was not complete due to delay in making good the certificate of payment which had not been forthcoming due to lack of funds.
- 223) However, the contractor was paid and the project completed currently it is in use.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Four-Storey Classrooms Block and Workshop at NYS Engineering Institute – Ruaraka in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

3.4 Stalled Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute – Ruaraka

- 224) The Committee heard that as previously reported, the Service awarded the contract for the Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute Ruaraka to a construction company in May, 2011 at a sum of Ksh.192,000,000. The project commenced on 13th June, 2011 with a contract duration of eighty (80) weeks. The contractor was granted an extension period up to 13th March, 2017. The contractor, however, abandoned the site after receiving payments totalling Ksh.186,248,573, or 90% of the agreed contract sum. Site visit carried out in the month of March, 2024, revealed that no construction was ongoing and the contractor had abandoned the works. Further, huge visible cracks of the walls and floors were noted which continue to deteriorate. The Management claimed that the delay in completion was mainly due to delayed payments to the main contractor and sub-contractors.
- 225) In addition, Management has not made any efforts to invoke the relevant clauses of the contract to surcharge the contractor for the delayed completion.
- 226) In the circumstances, value for money has not been realized twelve (12) years after the construction commenced.

Management response

- 227) The management informed the Committee that at the time of audit the project was not complete however, the main contractor had finished the main works and only subcontractors had not cleared and he asked for mutual termination. The management took over the project and completed it.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute- Ruaraka in its report for the financial year

2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1.0 Revenue Collection

1.1 Weakness in Revenue Collection

- 228) The Committee heard that, the Statements of Financial performance reflects sale of goods amount of Ksh.473,55,204 as disclosed in Note 8 to the Financial Statements. However, the following observations were noted.

1.2 Failure to Meet Revenue Targets

- 229) The Service collected Ksh.400,627,491 against a budget of Ksh.723,55,00 resulting to an underperformance of Ksh.322,922,509 or 45% of the budget. No explanation was given for the under-collection of revenue. Further, the underperformance affected the planned activities and programmes of the Service.

Management response

- 230) The management informed the Committee that the service usually relies on farming to generate A.I.A. This therefore limits the revenue achievements since the climatic conditions keep varying and beyond our control. Most of the NYS land is found in ASAL areas that are not conducive for rain fed agriculture farming.
- 231) Our second source of A.I.A is revenue from security services offered to government Institutions whose renewal and continuity is not guaranteed. Some institutions have stopped contracting our services while others have reduced the numbers. This leads to reduction of revenue.
- 232) To try and mitigate this the Service has embraced commercial farming and enhanced the farming activities in areas that are fertile. More dams are being built and modern tools to do farming are being embraced. This eroded by the introduction of eight (8) business plan which focus on enhancing the revenue generation thus long-term sustainability.

Committee Observations

The observed that the Service under collected by Kshs. 322,922,509 or 45% of its budgeted revenue. This underperformance might have negatively affected the planned activities and programmes of the service.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure at all times that the budgets are realistic, achievable, and always adhere to annual work plans, procurement plans, and revenue collection schedules in compliance with Regulation 44(2) of the PFM (National Government) Regulations, 2015.

1.2 Failure to Automate Revenue Management

- 233) The Committee heard that Revenue or revenue management revealed that revenue from farming, security services and hire of machinery is manual as it is yet to be digitized. The benefits that would accrue with automation such as invoicing, revenue collections, reconciliations and banking have not been realized as gaps in manual system may lead to undetected loss of revenue.
- 234) In the circumstance, the effectiveness of internal controls on revenue collection could not be confirmed.

Management response

- 235) The Service has adapted the revenue model that is within the ERP system. This has enhanced the invoicing and cost evaluation as well as the collection and reloading aspects.
- 236) The Service has also developed the credit policy that guides and formulates the process and procedure of credit control. This has been enforced by introduction of credit office which is responsible for overseeing, evaluating and recording the credit criteria and application to all the customers.
- 237) In future the debtors will be expected to decline forthwith.

Committee Observation

The revenue management processes for farming, security services, and hire of machinery remain manual and not digitized, exposing the Service to risks of undetected revenue loss.

Committee recommendation

The Committee recommends that-

Within three months upon adoption of this report the Accounting Officer to ensure automation of revenue management system for farming, security services, and hire of machinery.

FINANCIAL YEAR 2023/2024

1.0 Property, Plant and Equipment

1.1 Unsupported Property, Plant and Equipment

- 238) The Committee heard that the statement of financial position reflects Property, Plant and Equipment balance of Kshs.29,539,282,396 as disclosed in Note 21 to the financial statements. However, as previously reported, the Service did not maintain a complete and accurate asset register with information relating to the assets such as type of the asset, date of acquisition, supplier, cost, location, code, current values, remaining useful life, salvage value and the assets have not been tagged for tracking and identification.
- 239) Further, the Service has approximately two thousand two hundred and forty-seven (2,247) hectares of land in Yatta, Mavoloni, Athi River, Mombasa Technical Institute and Mwatate. However, the parcels of land have not been fenced and are encroached. Although Management

has initiated the process of demarcation of the respective parcels of land, the process has not been finalized. Similarly, the NYS Engineering Unit land has been encroached by private developers who have constructed structures on it and therefore, the Service risks losing the land due to encroachment by informal settlers.

- 240) In addition, the service has land which is valued at Kshs.20,204,051,400 comprising of fifty-eight (58) parcels. However, only sixteen (16) parcels ownership documents were provided for audit review while the ownership documents for the other forty-two (42) parcels were not confirmed. In addition, two parcels of land located at Nyaki/laki/Nkabune and South Ugenya/Rangala were not included in the asset register yet the land title deed indicate the parcels belongs to National Youth Service. Also, several parcels of land including the Engineering Unit at NYS headquarter and in Mombasa have been encroached by private developers who have constructed various structures but it was still not clear if proper legal actions have been taken to claim the land back.

Management response

- 241) The Service has updated the assets register as per the prescribed reporting format, the assets are properly identified and tagging was conducted in a process that took place in the course of the year under review. The National Youth Service have ownership documents for 60 parcels of land of which 48 of them have title deeds and 12 have letters of allotment

Committee Observations and Recommendations

The Committee had deliberated on the issue on Property, plant and equipment in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

1.2 Unsupported Adjustment

- 242) The Committee heard that, the statement of financial position reflects property, plant and equipment balance of Kshs.29,539,282,396 as disclosed in Note 21 to the financial statement. Included in the balance schedule is additions of assets for the year valued at Kshs.209,278,559 and Transfer/Adjustments of Kshs.742,692,825. However, these balances were not supported with detailed schedules and support documents for verification.
- 243) In the circumstances, the accuracy, completeness and valuation of the property, plant and equipment balance of Kshs.29,539,282,396 273 as at 30 June, 2024 could not be confirmed.

Management response

- 244) The management wish to clarify that the Service carried out the tagging and identification of movable and immovable assets where all the assets owned by the Service were identified and labelled for easier identification and tracking.
- 245) At the same time the tagging process necessitated the valuation of assets so as to ascertain the correct values of all assets. These two exercises were carried out and completed and the reports used to do the posting and updating of the assets register.

- 246) The resultant effect was that the assets values were reflected at fair values as required for purposes of obtaining the net worth of the Service and have true figures reflected appropriately in the financial statements.
- 247) Since these were not new acquisitions, a Journal Voucher was used to update these items. The Service has since provided the Journal Voucher and evaluation Report in support of this adjustment.
- 248) However, the schedules and details are contained in the Assets register which has been availed in soft copy via email to office of the Auditor General.

Committee Observations

The additions of assets valued at Kshs.209,278,559 and transfers/adjustments of Kshs.742,692,825 included in the property, plant, and equipment were not supported with detailed schedules and proper documentations contrary to section 62(1) of the Public Audit Act, 2015, CAP 412B which stipulates that no person shall, without justification, fail to provide information within a reasonable time when required under the Act.

Committee Recommendation

The Committee reprimands the then Accounting Officer for breach of Section 62(1) of the Public Audit Act, 2015, CAP 412B.

2.0 Unsupported Refundable Deposits and Prepayments from Customers

- 249) The Committee heard that, the statement of financial position reflects refundable deposits and prepayments from customers amounting to Kshs.1,284,663,953 and as disclosed in Note 25 to the financial statement. The amount includes retention monies from contractors of Kshs.49,306,018 and other deposits-cohorts of Kshs.315,434,595. However, the retentions from contractors of Kshs.49,306,018 was not supported with retention money register, ledgers and aging analysis. In addition, as previously reported, the other deposits-cohorts of Kshs.315,434,595 are in respect to cohorts that were engaged in the six (6) months Youth Empowerment Programme between September, 2014 and February, 2015. Management did not provide satisfactory explanation for the delay in paying the cohorts.
- 250) In the circumstances, the accuracy and completeness of the refundable deposits totaling Kshs.364,740,613 could not be confirmed.

Management response

- 251) The Management informed the Committee that, for retention to be refunded the owner has to claim and produce a valid receipt (MR) that was issued for the amounts retained when he/she was paid the certificates of works done in addition a clearance certificate of release signed by the project manager must be availed
- 252) The Service is ready to clear the contractor's amount on demand

- 253) On the issue of delay in paying the cohorts engaged in the six (6) months Youth Empowerment Program between September, 2014 and February, 2015 the Service would wish to clarify that this was caused by delay in disbursement of funds, however most of the cohorts have been reached out and paid.
- 254) However, there were some who were not reachable because many used the identification details of parents or guardians to register mobile lines complicating efforts to trace them.
- 255) The Service has initiated the process of surrendering the monies to the National Treasury for revoting in the supplementary budget the same has been ratified by the NYS council

Committee Observations and Recommendations

The Committee had deliberated on the issue on Refundable Deposit and Prepayments from Customers in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

4.0 Trade and Other Payables

4.1 Undisclosed Trade Payables

- 256) The Committee heard that, the statement of financial position reflects trade and other payables balance of Kshs.2,594,857,598 as disclosed in Note 24 to the financial statements. Review of documents noted that this balance does not include an amount of Kshs.16,390,237,695 that related to historical trade payables. The payables were presented to a multi-agency pending bills committee and Kshs.5,046,693,669 had been authenticated to be settled. However, the remaining balance of Kshs.10,940,887,379 is held by an investigative agency and the outcome could not be confirmed.

Management response

- 257) The management informed the committee that, Ksh.16,390,237,695 which includes historical pending bills under review by various agencies incurred between the year 2013 and 2018 has been properly declared under contingent liabilities as stipulated in the reporting template of Semi-Autonomous Government Agency (SAGAs).

Committee Observations and Recommendations

The Committee had deliberated on the issue on Undisclosed Trade Payables in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

4.2 Understated Trade payables

- 258) The Committee heard that, Note 24 to the financial statements reflects trade and other payables balance of Kshs.2,594,851,414, However the ledger provided for audit reflected a balance of Kshs.2,725,697,406 hence understating the payables balance by Kshs.130,845,992. The variance has not been explained or reconciled.

Management response.

- 259) The management informed the Committee that the discrepancies reported was due to the date of printing of the ledger. The ledger was printed with current date at that time of audit while it would have been printed with specific date of 30th June.
- 260) This allowed inclusion of the preceding year entries that affected the cumulative balances. Otherwise, the reports are fairly presented

Committee Observation

The Committee observed that the trade payables by Kshs.130,845,992 which was neither explained nor reconciled contrary to section 68 (2) of the Public Finance Management Act, CAP.412A which requires Accounting Officers keep financial and accounting records that comply with this Act.

Committee Recommendation

The Accounting Officer should at all times comply with the provisions of section 68 (2) of the Public Finance Management Act, CAP.412A

4.3 Long Outstanding Trade Payables

- 261) The Committee heard that, Note 24 to the financial statements reflects trade and other payables balance of Kshs.2,594,851,414 as at 30 June 2024. The ageing analysis provided shows that out of this balance Kshs.500,000,000, has been outstanding for a duration of more than three (3) years. The current payable balance has increased by Kshs.579,214,841 from Kshs.1,470,636,573 to Kshs.2,594,851,414 signaling increasing financial challenges in the management of these payables. Further, the institution might attract litigations, penalties and withdrawal of services from the dissatisfied suppliers and accumulation of the accounts payables is against the National Treasury Circular No. 10/2020 Reference No. DGIPE/A/1/80 dated 16th June 2020 which directed pending bills be treated as a first charge on the approved budgets.
- 262) In the circumstances, the accuracy and completeness of the trade payables balance of Kshs.2,594,851,414 disclosed in the financial statements could not be confirmed.

Management response

- 263) The Management informed the Committee that the service usually recognizes and clears all the previous year unpaid and unprocessed bills as the first charge in the following year as per the treasury circulars.
- 264) The delay in paying Ksh.500m was occasioned by a delay in availing of the list of approved beneficiaries of the disbursement by the new Task Force which was mandated to verify all the historical pending bills afresh.
- 265) The list was released, and payments were done through the normal process.

Committee Observation

The Committee observed that Kshs.500,000,000 had remained unpaid for more than one year contrary to regulation 42 (a) of the PFM (National Government) Regulations, 2015 that requires pending bills be treated as first charge in the subsequent financial year.

Committee Recommendation

The Accounting Officer should at all times comply with the PFM (National Government) Regulations, 2015.

5.0 Unsupported Inventory Balance

- 266) The Committee heard that, the statement of financial position reflects total current assets of Kshs.3,329,342,043. Included is an inventory balance of Kshs.419,716,455 which has not been supported by any schedule including the board of survey certificates to confirm the accuracy.
- 267) Further, there were discrepancies in the stock ledger and physical count noted during the audit inspection in the month of September, 2024.
- 268) In the circumstances, the accuracy and completeness of the inventory balance of Kshs.419,716,455 as shown in the financial statement could not be confirmed.

Management response

- 269) The Management informed the Committee that, the management availed the stock schedule.

Committee Observations

The Committee observed that, the supporting documents relating to inventories amounting to Kshs.419,716,455 were not availed for review contrary to section 62(1) of the Public Audit Act, 2015, CAP. 412B which stipulates that no person shall, without justification, fail to provide information within a reasonable time when required under the Act. In addition, the management failed to reconcile the discrepancies between the stock ledger and physical verification balances.

Committee recommendations

The Accounting Officer should at all times comply with the provisions of section 62(1) of the Public Audit Act, 2015, CAP. 412B.

5.0 Sustainability of Services

- 270) The Committee heard that, the statement of financial performance reflects a deficit of Kshs.211,675,213 being an increase of Kshs.182,301,542 from Kshs.29,373,671 reported in the previous year 2022/2023. In addition, the total current assets and liabilities as at 30 June, 2024 amounted to Kshs.3,329,342,043 and Kshs.3,879,521,551 respectively resulting to a negative working capital of Kshs.550,179,508. which do not include historical pending bills of Kshs.16,390,237,695.

- 271) The Service is therefore facing liquidity issues and may not be able to meet its short terms obligations as and when they may fall due. The financial statements have been prepared as a going concern assuming continued support from the government.
- 272) In the circumstances, the service's sustainability and meeting short terms obligation is therefore doubtful

Management response

- 273) The Management informed the Committee that, the negative working capital is as a result of increased liabilities including payables to merchants given that working capital for a period is determined by the difference between current assets and current liabilities. These form the 1st charge which was cleared in the subsequent financial year 24/25.
- 274) The Historical Pending Bills which have been accruing from 2014 to 2018, could not be recognized in the period under review until verification committee clears them and their budget is approved.

Committee Observations

The Committee observed that the service recorded a deficit of Kshs.211,675,213 during the year under review. This eroded the retained earnings, resulting in a negative working capital of Kshs.550,179,508 without the inclusion of historical pending bills amounting Kshs.16,390,237,695. This financial position indicates that the service is technically insolvent, and its continued ability to discharge its core mandate is heavily reliant on creditors and government grants.

Committee Recommendations

Within three months upon adoption of the report, the Accounting Officer should develop a comprehensive turn around strategy to improve its financing and budgeting process that will ensure the service operates efficiently.

6.0 Unresolved Prior Year Audit Issues

- 275) The Committee heard that, 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. However, Management has not resolved the issues.

Management Response

- 276) The management informed the Committee that it has resolved the following issues
- i) Updated Asset register-The management has a duly updated register in place.
 - ii) Encroachment of parcels of land-The service is putting in place home-made solutions such as digging of trenches and planting green fences around the pieces of land as well as soliciting for funds to fence the large tracks of land.

- iii) Refundable deposits for Cohorts-The management has engaged the governing council for the necessary approvals to surrender the monies to the National treasury for revoting in the supplementary budget.
- iv) Non-compliance with a third rule- the service has so far complied with the same.

Committee Observation

The Committee observed that several prior year issues had remained unresolved contrary to 31 sections 31 (1) and 53 (1) of the Public Audit Act. CAP 412B.

Committee Recommendation

The Committee reprimands the then Accounting Officer for dereliction of duties and recommends that the Accounting Officer, as a preliminary step, submit a report to the Parliament and the Auditor-General for review, on how it has addressed the recommendation made in respect of this report within three months upon adoption of this report.

6.1 Budgetary Control and Performance

- 277) The Committee heard that, the statement of comparison of budget and actual amounts reflects revenue budget and actual on a comparable basis of Kshs.13,812,312,124 and Kshs.12,039,935,456 resulting to a revenue shortfall of Kshs.1,772,376,668 or 13% of the budget. Similarly, the Service spent Ksh.11,778,035,641 against a total receipt of Kshs.12,039,935,456 resulting in an under absorption of Kshs.261,899,815 or 2% of the actual receipts.
- 278) In the circumstance, the underfunding may have affected the planned activities and may have impacted negatively on service delivery to the public.

Management response

- 279) The management informed the Committee that the same was disclosed as a note in the financial report on page 5 note 18 of the Financial Report

Committee Observations and Recommendations

The Committee had deliberated on the issue on Budgetary Control and Performance issues in its report for the financial year 2022/2023, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

1.0 Under Utilization of Land

- 280) The Committee heard that, the audit inspection revealed that NYS owns approximately 96,124.62 acres of land across the country. However, only 2,456.5 acres or 3% have been put into use. Most of the land has not been put into good use despite having enough man-power wstatement

related to generate income. Further, where part of the land has been utilized as a forest, the Service has not applied for carbon credits to complement its revenue sources.

- 281) In the circumstances, value for money and effective utilization of the available land could not be confirmed.

Management response

- 282) The management informed the Committee that this is determined by the provision of funds and the topography of the area. However, the Service has committed an all-purpose plan where every opportunity and resources will be put into productive activities, including setting schools in remote areas so as to utilize the space and make the station and surrounding busy.

Committee Observation

The Committee observed that-

- i) Out of 96,124.62 acres of the service land, only 2,456.5 acres or (3%) are in productive use. This means approximately 97% of the land remains idle, despite NYS having manpower capacity. This raises concern on the value for money being realized as there is no effective utilization of the land.

Committee Recommendation

Within three months upon adoption of this report, the Accounting Officer to submit to the National Assembly a comprehensive plan demonstrating how the Service will effectively utilize its land to generate additional income and improve liquidity.

2.0 Stalled Projects

2.1 Stalled Construction of Housing Units at Vocational Training Institute - Industrial Area

- 283) The Committee heard that, as previously reported, the Service entered a contract for the construction of a 12-unit flat at the Vocational Training Institute-Industrial Area at a contract sum of Kshs.49,105,721. However, the contractor abandoned the site after receiving the first payment of Kshs.7,111,432. Management re-advertised the works and awarded the contract for the completion at a contract cost of Kshs.61,098,319 for fifty-two (52) weeks commencing on 26 November, 2019. A physical inspection conducted in October 2024 revealed that the project was incomplete and the contractor had abandoned the site after receiving payments totaling Kshs.23,000,000.
- 284) In the circumstances, the Service did not realize value for money on the expenditure of Kshs.30,111,432 spent on the project.

Management response

- 285) The management informed the Committee that, at the time of audit, the project was not complete, and the contractor was not on the site. This was mainly due to non-honouring of the certificates of payments by the service due to lack of funds.

- 286) The management clarifies that the project is ongoing, and it is 70% complete.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Housing Units at Vocation Training Institute – Industrial Area in its report for the financial year 2019/2020, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

2.2 Supply, Delivery and Installation of High-and Low-level Pressed Steel Water Tanks, Booster Pumps and Tower Works (VTI Industrial Area)

- 287) The Committee heard that, as previously reported in the financial year 2022/2023 the Service entered into a contract for the supply, delivery and installation of high-and low-level pressed steel, water tanks, booster pumps and tower works for enough water storage at the National Youth Service Vocational Training Institute (VTI,) located in the Industrial area, Nairobi at a contract sum of Kshs.11,715,396 on 9 July, 2019 and a contract signed on 03 September, 2019 for a period of sixteen (16) weeks ending on 31 October, 2020. The contractor abandoned the site on 23 October, 2020 on the grounds of non-payment of certified works valued at Kshs.5,770,669. Physical inspection in November 2024, revealed that the works had stalled.
- 288) Despite several meetings between the officers from National Youth Service (NYS), Nairobi Region works officers and the contractor to discuss the way forward to complete the project, no progress has been made. In the circumstances, value for money has not been realized for money on the expenditure of Ksh.30,111,432 spent on the project.

Management response

- 289) The management informed the Committee that, the contractor resumed and completed the works and entered on mutual termination on 12/06/2024.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Supply, Delivery and Installation of High-and Low-level Pressed Steel Water Tanks, Booster Pumps and Tower Works (VTI Industrial Area) in its report for financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

2.3 Stalled Construction of Four-Storey Classrooms Block and Workshop at NYS Engineering Institute-Ruaraka

- 290) The Committee heard that, as previously reported, the Service Management entered into a contract for the construction of a four-storey classroom block and workshops at the NYS Engineering Institute in Ruaraka on 13 April, 2011 at a contract sum of Kshs.88,794,355. The project was to take 52 weeks ending on 9 June, 2012. This was later extended by thirty-one (31) weeks to 12 January, 2013. However, as previously reported, the construction stalled in 2017 after the payment of Kshs.81,884,550 equivalent to 92% of the contract sum against 95% of the works certified.

- 291) A review of the project in November 2024, revealed that the project is incomplete and the Management did not provide measures being taken to complete the project. The incomplete works include electrical, plumbing and drainage that were originally valued at Kshs.4,778,265 as per the State Department of Public Work's appraisal report dated 5th April, 2022.
- 292) In the circumstances, value for money has not been realized thirteen (13) years after the construction commenced.

Management response

- 293) The management informed the Committee that, at the time of audit the project was not complete due to delay in making good the certificate of payment which had not been forthcoming due to lack of funds.
- 294) However, the contractor was paid and the project completed currently it is in use.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Four-Storey Classrooms Block and Workshop at NYS Engineering Institute – Ruaraka in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

2.4 Stalled Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute-Ruaraka

- 295) The Committee heard that, as previously reported, the Service awarded the contract for the Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute Ruaraka to a construction company in May, 2011 at a contract sum of Kshs.192,000,000. The project commenced on 13 June, 2011 with a contract duration of eighty (80) weeks.
- 296) The contractor was granted an extension period up to 13 March, 2017. The contractor, however, abandoned the site after receiving payments totaling Kshs.186,248,573, or 90% of the agreed contract sum. A physical inspection of the project in March, 2023, revealed that no construction was ongoing at the site and the contractor had abandoned the site. Further, huge visible cracks on the wall and floor were noted which continue to deteriorate. The Management claimed that the delay in completion was mainly due to delayed payments to the main contractor and sub-contractors. In addition, the Management has not made any efforts to invoke the relevant clause of the contract to surcharge the contractor for the delayed completion.
- 297) In the circumstances, value for money has not been realized, thirteen (13) years after the construction commenced.

Management response

- 298) The management informed the Committee that, at the time of audit the project was not complete however, the project is now complete and in use.
- 299) The management took over the project and completed it.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Stalled Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute- Ruaraka in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

3.0 Non- Compliance with Employment Requirements for Persons with Disabilities (PWD)

- 300) The Committee heard that, review of staff records provided for audit, revealed that thirty-five (35) staff members were in the list of Persons With disabilities (PWD), representing of 1.42% of the total staff members which is less than the required 5%. This is contrary to Section B (23) (2) of the Public Service Commission Human Resource Policies, May 2016 which states that the government shall implement the principle that at least five (5) percent of all appointments shall be for persons with disabilities.
- 301) In the circumstances, the service was in breach of the law.

Management response

- 302) The Management informed the Committee that, National Youth Services (NYS) recognizes the importance of promoting inclusivity and equal opportunity in employment for all Kenyans,
- 303) The National Youth Service (NYS) recognizes the importance of promoting inclusivity and equal opportunity in employment for all Kenyans, including persons with disabilities. However, the Service remains below the legally prescribed threshold due to:

a. Nature of Core Operations

As a disciplined and uniformed service, the NYS is heavily involved in paramilitary training, national building activities, and deployment to remote and high-risk areas that require physical fitness and mobility.

Committee Observation

The Committee observed that–

The service only employed (35) staff members as Persons With disabilities (PWD), representing of 1.42% of the total staff members which is less than the required 5% contrary to Section 21 (2) (a) of the Persons with Disabilities Act, 2025 which requires that at least five percent (5%) of staff be persons with disabilities.

Committee Recommendation

The Accounting Officer should ensure compliance with the provisions of Persons with Disabilities Act, 2025 and the relevant applicable laws and regulations.

4.0 Failure to Enforce Gender Balance in Employment

- 304) The Committee heard that, the bio data and other staff records provided for audit, revealed that the Service had two thousand four hundred and sixty-five (2,465) employees comprising of One thousand seven hundred and one (1701) or 69% male and seven sixty-four (764) or 31% female of the total staff members. In the circumstance management was in breach of section 32 (2) of the Public Service Commission Human Resource Policies, May 2016 that requires the Government to have a gender balanced Civil Service by ensuring that not more than 2 /3 of positions in its establishment are filled by either gender.
- 305) In the circumstances, the service was in breach of the law.
- 306) The audit was conducted in accordance with ISSAL 3000 and ISSAL 4000. The standards require 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 comply 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.

Committee Observation

The service employed One thousand seven hundred and one (1701) or 69% male and and seven sixty-four (764) or 31% female of the total staff members. This is contrary to section 32 (2) of the Public Service Commission Human Resource Policies, May 2016 that requires the Government to have a gender balanced Civil Service by ensuring that not more than 2 /3 of positions in its establishment are filled by either gender.

Committee Recommendation

The Accounting Officer should ensure compliance with section 32 (2) of the Public Service Commission Human Resource Policies, May 2016.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1.0 Hazardous Working Environment

- 307) The Committee heard that, during audit inspection in the month of November 2024, it was revealed that the Service is operating in an unfriendly environment in most of the field units including the Headquarter. The Service continued overreliance on firewood as fuel for cooking which has negative impact on the environment and may affect the health of the users. Further, most regions were found not to have suitable residential facilities for the servicemen. Many structures including at Gilgil and the Headquarter have several buildings with asbestos roofing against the environment conservationist and Ministry of Health guidelines that these materials are hazardous to human beings.
- 308) In addition, the classes at engineering schools are not conducive for learning. Some lack electricity connection, ablution blocks are not functional in a four-story block at headquarter, others are studying under makeshift iron sheet classrooms which are congested and not well

ventilated and some buildings are in bad state of repairs, they either not suitably constructed or not properly maintained or repaired despite the service having a pool of labour who could do maintenance at reasonable costs.

- 309) In the circumstances, the work force is unmotivated and also may be exposed to frequent physical and psychological effects of unfriendly working environment.

Management response

- 310) The management informed the Committee that, the Service in collaboration with Treasury is pursuing allocation of Development Funds that will be used to improve the working and living standards of the officers and Servicemen/women. This has been factored in the budget of fiscal year 2025/2026 for consideration.
- 311) Also, there is an affordable housing projects earmarked at the Service premises. This will improve the welfare.

Committee Observation

The Committee observed that-

- i) The service continued reliance on firewood for cooking which has a negative environmental impact and potential health risks for users.
- ii) Several roofs at Gilgil and the Headquarter had asbestos roofing against the environment conservationist and Ministry of Health guidelines that these materials are hazardous to human beings.
- iii) Learning facilities at the engineering schools were found to be unsuitable for training. Some classrooms lacked electricity connections, ablution blocks were non-functional, and students were forced into congested, poorly ventilated makeshift classrooms. Such conditions expose Slearners to unsafe environments.

Committee Recommendation

Within three months upon adoption of this report, the Accounting Officer to collaborate with State Department for Public Service and Human Capital Development to institute and pursue innovative financing strategies with a view of addressing the inadequacies, including the unfriendly working environment, reliance on firewood and asbestos roofing.

2.0 NYS Council Membership

- 312) The Committee heard that, review of the governance structure of the Service, revealed that some appointed council members do not possess the necessary skills and expertise that matches their oversight responsibilities in the committee they are serving. Further, the council has two vacancies for independent members which aof lossesbe replaced and no justification was provided for not filling them. The composition of the council without the two members may impact negatively the overall performance of the council.

- 313) In the circumstances, the council may not have adequate capacity to formulate policies and over strategic oversight to the Service.

Management response

- 314) The management informed the Committee that, the Service has written several requests to the Principal Secretary to fill the vacant positions and consider the pre-requisite expertise required for the post.

Committee Observation

The Committee observed that the governance structure of the Service is weakened by the appointment of council members who lack the requisite skills and expertise aligned to their oversight responsibilities in the committees they serve.

Committee Recommendation

The Committee recommends that appointing authority should at times consider the technical expertise and skill of the board members as outlined in Mwongozo code of Governance.

FINANCIAL YEAR 2024/2025

1.0 Undisclosed Material Uncertainty Related to Going Concern

- 315) The Committee heard that, the statement of financial performance reflects a deficit of Ksh.2,607,325,287 being an increase of Ksh.2,395,650,074 from a deficit of Ksh.211,675,213 reported in the previous year 2023/2024. In addition, the total current assets and liabilities as at 30 June, 2025 amounted to Ksh.2,035,887,947 and Ksh.5,012,380,369 respectively resulting to a negative working capital of Ksh.1,132,858,818. Further, included in the current liabilities balance of Ksh.5,012,380,369 as trade payables balance of Ksh.3,429,530,527 which excludes historical pending bills of Ksh.15,890,237,695 as disclosed in Note 30 to the financial statements on contingent liabilities.
- 316) The Service therefore facing liquidity issues and may not be able to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis assuming continued support from the Government. In the circumstances the accuracy presentation and disclosure could not be confirmed.

Management response

- 317) The Management informed the Committee that the service is sound and in good financial state. This is proven by the fact that the Service gets its financing from Exchequer and all outstanding debts at the closure of the year are cleared as First Charge in the following Financial Year and the same is factored in the supplementary budget to bridge the deficit that could arise.
- 318) Historical Pending Bills are normally disclosed as prescribed in the reporting format since they are adapted bills which were for a period when the Service was not a parastatal (SAGA).

Committee Observations and Recommendations

The Committee had deliberated on the issue on Undisclosed Material Uncertainty Related to Going Concern under sustainability of services in its report for the financial year 2023/2024, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

2.0 Property Plant and Equipment

- 319) The Committee heard that, the statement of financial position reflects property, plant and equipment balance of Ksh.29,361,523,549 as disclosed in Note 20 to the financial statements. However, the following observations were made:-

i. Lack of Ownership Documents

The Committee heard that, included in this balance is an amount of Ksh.20,204,051,400 for sixty – nine (69) parcels of land owned by the Service. However, ownership documentation was not provided for six (6) parcels of land.

Management response

- 320) The management informed the Committee that the listed parcels of land have several issues that have hindered the processing of ownership documents.
- 321) However, the Service has embarked on the process of acquiring the Title Deeds, first by liaising with Ministry of Lands to provide survey plans of the localities.
- 322) Also, the Service was able to submit and comply with the National Treasury circular that requested all entities to submit ownership documents in order to start immediate follow up on land parcels that have no documents at all.

Committee Observation

The Committee observed that, the Service did not have ownership documents for six parcels due to several issues that had hindered the processing of the title deeds posing the risk of losing public land

Committee Recommendations

- i) Within three (3) months of adoption of this report, the Accounting Officer of NYS should undertake official searches at the Lands registrar's Office to establish the current registered owners of the affected parcels with a comprehensive status report on all lands owned by the service compiled and submitted to the National Assembly and the Auditor-General.
- ii) Within six months upon submission of the report by NYS, the National Assembly Departmental Committee on Lands shall conduct a comprehensive inquiry into the ownership of all parcels of land owned by Ministries, Departments and Agencies. The objective of the inquiry is to ensure that all public land vests in the respective government

entities with legal title and possession. In this respect the Departmental Committee shall propose a Bill for enactment by Parliament that provides for;

- a. Vesting the custody of all public lands title deeds in the National Treasury.
- b. Comprehensive lands register for all public lands that shall always be maintained at the National Treasury with regular updates when necessary.
- c. Protective clauses under the Act and a national anti-corruption framework to enhance safeguards against encroachment on public land.

The National Treasury through the National Assembly shall allocate adequate budget for the Departmental Committee on lands, the Ministry of Lands, Public Works, Housing and Urban Development and the National Land Commission to facilitate the inquiry, compensation and issuance of title deeds.

ii. **Encroachment of Land**

- 323) The Committee heard that review of records revealed that the Service has approximately two thousand two hundred and forty-seven (2,247) hectares of land in Yatta, Mavoloni, and Athi River. However, the parcels of land have not been fenced and have been fenced and have been encroached by private developers. Although Management has initiated the process of demarcation of the respective parcels of land, the process has not been finalized. Similarly, the NYS Engineering Unit land has been encroached by private developers who have constructed structures on it.
- 324) Further, it was noted that there were land disputes in Mwatate Field Unit that has three hundred (300) acres of land which does not have clear boundaries and has been encroached by an informal settler from the local community. In addition, out of ten thousand (10,000) acres of Hindi Field Unit, eight thousand, four hundred and fifty-six (8,456) acres have been encroached by informal settlers.
- 325) In the circumstances, the ownership of land valued at Ksh.20,204,051,400, could not be confirmed.

Management response

- 326) The Management informed the Committee that they tried using the available resources to reclaim the boundary of all the units. This is through digging trenches, planting green fences and marking boundaries with cutlines. However, the normal fencing is very costly to finance.
- 327) On the encroachment at NYS Engineer mustt, the case was determined in the favour of the Respondent who are community and the respondent who is the National Youth Service but the residents appealed and now the Service is waiting for the verdict. The Management also confirm that as per the details available, there is no encroachment in Hindi and Mwatate.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Encroachment of National Youth Service Land in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

3.0 Unsupported Biological Assets

- 328) The Committee heard that, the statement of financial position reflects biological assets balance of Ksh.1,062,039,733 as disclosed in Note 22 to the financial statements. This balance related to animals, breeding stock and timber trees at Service Field Units. However, there was no valuation report to support the balance.
- 329) In the circumstances, the valuation of the biological assets balance of Ksh.1,062,039,733 could not be confirmed.

Management response

- 330) The management informed the Committee that, management has taken action appropriately and this is currently work in progress being done with the assistance of relevant government departments that are mandated to undertake the valuation.

Committee Observations and Recommendations

The Committee had deliberated the issue on Unsupported Biological Assets under Non-Disclosure of Biological Assets in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

4.0 Long Outstanding Receivables from Exchange Transactions

- 331) The Committee heard that, statement of financial position reflects contingent liabilities balance of Ksh.17,569,517,364 as disclosed Note 30 to the financial statements. Included in this balance is an amount of Ksh.15,890,237,695 that relates to contracts (Historical Pending Bills). It was noted that the service requested The National Treasury Letter Ref. NYS/ACCTS/2/3/83 dated 31 July, 2025 for assistance on payment of those pending bills. However, there was no response verified from The National Treasury on the same. In addition, the Service might incur more expenses if lawsuits will be filed against Management.

Management response

- 332) The management informed the Coalways ensure closure under not 30 in the financial statement relates to historical pending bills and ongoing court cases instituted by some merchants who go to Court to enforce for payment this qualifies them to be contingent liabilities as we wait for ruling and funding as well. However, there was no ledger since they are not yet captured in the system, the list and correspondence to treasury were provided for review.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Long Outstanding Receivables from Exchange Transactions in its report for the financial year 2021/2022, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

1.0 Outstanding Contingent Liabilities

- 333) The Committee heard that, the statement of financial position reflects contingent liabilities balance of Ksh.17,569,517,364 as disclosed Note 30 to the financial statements. Included in this balance is an amount of Ksh.15,890,237,695 that relates to contracts (Historical Pending Bills). It was noted that the service requested The National Treasury Letter Ref. NYS/ACCTS/2/3/83 dated 31 July, 2025 for assistance on payment of those pending bills. However, there was no response verified from The National Treasury on the same. In addition, the Service might incur more expenses if lawsuits will be filed against Management

Management response

- 334) The management informed the Committee that the disclosure under not 30 in the finaDecembertement relates to historical pending bills and ongoing court cases instituted by some merchants who go to Court to enforce for payment this qualifies them to be contingent liabilities as we wait for ruling and funding as well.

Committee Observation

The Committee observed that an amount of Ksh.15,890,237,695 included in contingent liabilities relates to historical pending bills. Although the Management had requested National Treasury to assist clear this amount, it had remained unpaid for more than one year contrary to regulation 42 (a) of the PFM (National Government) Regulations, 2015 that requires pending bills be treated as first charge in the subsequent financial year.

Committee recommendations

The Accounting Officer should at all times comply with the PFM (National Government) Regulations, 2015.

2.0 Long Outstanding Refundable Deposits

- 335) The Committee heard that, the statement of financial position reflects refundable deposits balance of Ksh.1,582,849,842 as disclosed in Note 24 to the financial statements as at 30 June 2025. The ageing analysis provided shows that a balance of Ksh.269,899,282 has been outstanding for a duration of more than three (3) years. The amount has been outstanding for more than ten (10) years and relates to money owed to Youths involved in the Youth Empowerment Program. The efforts put in place by the Service to reach the individuals seem futile. My opinion is not modified in respect of these matters.

Management response

- 336) The management informed the Committee that, the refundable deposits relate to all the balances that belongs to 3rd parties either the contractors, service M/W, cohorts and any other persons/clients who can lodge a claim on an amount deposited or not remitted to him /her at the end of the period.
- 337) The three accounts Huduma Sacco, Cohorts and payments are long outstanding since the activities were halted and the amount have since remained unclaimed. The accounts have been activated and are in the process of being surrendered to the National Treasury for revoting in the supplementary budget.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Refundable Deposit and Prepayments from Customers in its report for the financial year 2020/2021, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

3.0 Unresolved Prior Year Matters

- 338) In the prior years audit reports, 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. Review of the status during the audit of the Service in 2024/2025 revealed that the issues remained unresolved as detailed in

Management response

- 339) The management informed the Committee that it has resolved the following issues:-
- i) Updated Asset register-The management has a duly updated register in place.
 - ii) Encroachment of parcels of land-The service is putting in place home-made solutions such as digging of trenches and planting green fences around the pieces of land as well as soliciting for funds to fence the large tracks of land.
 - iii) Refundable deposits for Cohorts-The management has engaged the governing council for the necessary approvals to surrender the monies to the National treasury for revoting in the supplementary budget.
 - iv) Non-compliance with a third rule- the service has so far complied with the same.

Committee Observation

The Committee observed that several prior year issues had remained unresolved contrary to 31 sections 31 (1) and 53 (1) of the Public Audit Act. CAP 412B.

Committee Recommendation

The Committee reprimands the then Accounting Officer for dereliction of duties and recommends that the Accounting Officer, as a preliminary step, submit a report to the Parliament

and the Auditor-General for review, on how it has addressed the recommendation made in respect of this report within three months upon adoption of this report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

1.0 Stalled Construction of Housing Units at Vocational Training Institute

- 340) The Committee heard that as previously reported, the Service entered a contract for the construction of a twelve (12) unit flat at the Vocational Training Institute-Industrial Area, Nairobi at a contract sum of Kshs.49,105,721. However, the contractor abandoned the site after receiving the first payment of Kshs.7,111,432. Management re-advertised the works and awarded the contract for the completion at a contract cost of Kshs.61,098,319 for fifty-two (52) weeks commencing on 26 November, 2019. Physical inspection conducted in October, 2025 revealed that the project was incomplete and the contractor had abandoned the site after receiving payments totalling Kshs.23,000,000.
- 341) In the circumstances, the Service has not realized value for money on the expenditure of Kshs.30,111,432 spent on the project

Management response

- 342) The management informed the Committee that at the time of audit, the project was not complete, and the contractor was not on site. This was mainly due to non-honoring of the certificates of payments by the service caused by lack of development budgetary allocation.
- 343) The management clarifies that the project is ongoing and is 70% complete

Committee's Observations and Recommendations

The Committee had deliberated on the issue of Stalled Construction of Housing Units at Vocation Training Institute – Industrial Area in its report for financial year 2019/2020, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

2.0 Understaffing of the Service

- 344) The Committee heard that review of the Service's approved staff establishment indicated eight thousand, four hundred and seventy-two (8,472) employees as the optimal number for effective functioning of the Service. However, review of records provided for audit, including the staff establishment, personnel files and payroll, revealed that the Service has one thousand, six hundred and seventy-four (1,674) uniformed officers and three hundred and seventy-five (375) non-uniformed officers totaling two thousand and forty- nine (2,049) staff which represents only 24% of the staff establishment, resulting in a deficit of six thousand, four hundred and twenty-three (6,423) employees.
- 345) In the circumstances, the effectiveness of service delivery to the public could not be confirmed.

Management response

- 346) The management informed the Committee that, the Service recruited 181 lectures and technicians and in this financial year the service has sought for authority from the National treasury to recruit additional staff.

Committee Observation

The Committee observed that the service had two thousand and forty- nine (2,049) staff or 24% of the staff establishment resulting to a deficit six thousand, four hundred and twenty-three (6,423) employees. This implies that the service might not effectively perform its core mandate.

Committee Recommendation

The Committee recommends that, the service to liase with National Treasury to fast track the employment of additional staff within the budgetary allocations and in accordance with the PFM CAP 412A provisions on the wage bill restrictions.

3.0 Gaps and Challenges in the Enterprise Resource Planning (ERP) System

- 347) The Committee heard that, the Service uses ERP system as the financial management system. The system was procured at an initial contract price of Kshs.58,913,571. However, it was noted that, the system had some inadequacies that includes inability to generate complete reports, detailed general ledger, detailed cashbook and payment registers. Further the ERP system lacks application interface with other systems such as mobile assets.
- 348) In the circumstances, the value for money for the system could not be ascertained.

Management response

- 349) The management informed the Committee that, the vendor is supporting the system at no additional cost and attending to the user observation and grievances and now the system can generate all the reports required. Thes module application interface has been installed and its now operational.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Gaps and Challenges in the Enterprise Resource Planning (ERP) System under Failure to Automate Revenue Management in its report for financial year 2022/2023, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1.0 Lack of Financial Expertise in the Council

- 350) The Committee heard that audit review of the NYS Council revealed that none of the appointed Council members possess financial expertise as required under Section 1.1(6) of the Mwongozo

Code of Governance for which requires that at least one board member should have necessary qualifications and expertise in financial management and accounting. As such they are limited in their ability to.

- 351) In the circumstances, the Council may not have adequate capacity to carry out some of their responsibilities.

Management response

The Management informed the Committee that the Service has informed the appointing authority appropriately of the gaps and sought intervention. Several correspondences through the parent Ministry to the National Treasury to give the Service a finance expert as its independent member have been made

Committee Observations and Recommendations

The Committee had deliberated on the issue on Lack of Financial Expertise in the Council in its report for the financial year 2023/2024, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

2.0 Lack of An Approved Risk Management Policy

- 352) The Committee heard that, audit of the Service revealed that it is operating using a draft risk management policy that has not been approved contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to develop risk management strategies and a system of risk management and internal control.
- 353) In the circumstances, the existence of effective measures to manage risks incase they crystallize could not be confirmed.

Management response

- 354) The management informed the Committee that, risk management policy of the Service has been approved and it's in order.

Committee Observation

The Committee observed that the service had been relying on unapproved Risk Management Policy.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submit to National Assembly and Auditor-General the approved Risk Management Policy.

3.0 Unsafe Storage of Fuel

- 355) The Committee heard that during physical verification of the Units, it was noted that the Service field units procure fuel and stores it in drums within unsecured storage areas. This storage method presents significant safety risks and possibility of losses due to fuel spillage.
- 356) In the circumstances, effectiveness in management of fuel in the Units could not be confirmed.

Management response

- 357) Management informed the Committee that the fuel is only stored in drums for a specific project due to the bulkiness and sensitivity and hence the same machineries cannot move alone. This is usually done under very close supervision by the project managers.

Committee Observation

The Committee observed that Service field units procure fuel and store it in drums within unsecured areas, exposing the organization to safety hazards and potential losses through spillage and evaporation, consequently, effective management of fuel in the Units could not be assured.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report the Accounting Officer develop and submit a comprehensive documented strategy to the National Assembly and Auditor-General for the management of its inventory, assets and stores for the purpose of preventing wastage and loss, and continuing utilization of supplies.

4.0 Hazardous Working and Living Environment

- 358) The Committee heard that, physical verification conducted in November, 2025, revealed that the Service continued overreliance on firewood as source of fuel for cooking. This may have negative impact on the environment and on health of the users. Further, many structures in some Units and the Headquarters have asbestos roofing which may be hazardous to human beings.
- 359) In addition, some classes at engineering schools lacked electricity connection, ablution blocks were not functional in a four (4)-storey block at Headquarters. Congestion and inadequate ventilation were manifested in some classrooms.
- 360) In the circumstances, the effectiveness in conducive working environment could not be confirmed.

Committee's observations and recommendations

The Committee had deliberated on the issue of Hazardous Working and Living Environment in its report for financial year 2023/2024, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations made therein.

5.0 Lack of Adequate Facilities in the Service

- 361) The Committee heard that, Physical verification of various Units of the Service revealed inadequacies as described below:

a. Rift Valley Region

- 362) The Committee heard that, the paramilitary academy has a total of 16,875 service men and women and recruits that are housed within the academy. It was however noted that the bed capacity in the academy is 15,000 beds leading to deficit in beds of 1,875 beds. This is a clear indication that there is congestion in the accommodation facilities.

Management response

- 363) Management informed the Committee that the service has been trying through budgetary processes to solicit for funding which has been unsuccessful. All these involves funding and once approved, the Service will embark on the interventions appropriately. The affordable housing programme has embarked on construction of barracks in various Field Units which could mitigate the problem.

Committee Observation

The Committee observed a deficit of 1,875 beds at the Paramilitary Academy, indicating congestion in the accommodation facilities that could hamper proper operations of the service.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submit to National Assembly, the Auditor-General and The National Treasury a comprehensive documented strategy to identify and consolidate deficiencies across all Service Units including gaps in accommodation, stalled infrastructure projects, inadequate utilities, limited transport, poor road networks, insufficient health support, and uninstalled equipment and. Upon receipt of the report, the National Treasury prioritize allocation of adequate resources for improvement in the facilities.

b. Eastern Region

- 364) The Committee heard that, the Yatta Field Unit revealed that the Unit has a strength of 2,774 which include 1,735 servicemen and 1,039 servicewomen. It was noted that the Unit is anticipating a total strength of 4,453 servicemen and women come the month of September 2025. However, the Field Unit has 35 barracks, 18 are permanent and 17 are semi-permanent holding 2,552 beds. This is a clear indication that there will be congestion in the accommodation facilities among others.

Management response

- 365) The Management informed the Committee that the service is benefiting from the affordable housing project by the National Government where barracks and staff houses will be built in Yatta and Athi river. The projects are at the tendering stage

Committee Observation

The Committee noted that the Yatta Field Unit anticipates a total strength of 4,453 servicemen and women by September 2025, against an existing bed capacity of 2,552 across 35 barracks. This reflects a deficit of 1,901 beds, indicating impending congestion in the accommodation facilities.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submit to National Assembly, the Auditor-General and The National Treasury a comprehensive documented strategy to identify and consolidate deficiencies across all Service Units including gaps in accommodation, stalled infrastructure projects, inadequate utilities, limited transport, poor road networks, insufficient health support, and uninstalled equipment and. Upon receipt of the report, the National Treasury prioritize allocation of adequate resources for improvement in the facilities.

c. Coast Region

- 366) The Committee heard that, the Mwatate Field Unit has two generators, 1 portable generator single Phase 220-240 W that services the administration block and a generator purchased when the unit started operation that is yet to be installed for usage, the delay in installation has not been justified. There is no sufficient water for usage and they have to procure clean water for drinking and cooking 50KM away from station. There is poor road network and in addition to that unit has only one operational vehicle. Further the nearest health facility is located 20Km away from the station and with a bed capacity of 500 beds, the unit only has 200 mattresses that are usable and rest are in deplorable conditions. The unit has two stalled barracks which have stalled for more than 3 years now.

Management response

- 367) The management informed the Committee that the unit has been connected to the national grid and a borehole sunk to supply clean water.

Committee Observation

The Committee observed that-

- i) The Unit has one portable generator in use and another uninstalled without justification. In addition, there is insufficient water supply, requiring procurement of clean water 50KM away.
- ii) The Unit faces poor road networks and has only one operational vehicle. Further, the nearest health facility is 20KM away, limiting access to medical services.
- iii) Out of 500 beds, only 200 mattresses are usable, with the rest in deplorable condition. Additionally, two barracks have remained stalled for over three years.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submit to National Assembly, the Auditor-General and The National Treasury a comprehensive documented strategy to identify and consolidate deficiencies across all Service Units including gaps in accommodation, stalled infrastructure projects, inadequate utilities, limited transport, poor road networks, insufficient health support, and uninstalled equipment and. Upon receipt of the report, the National Treasury prioritize allocation of adequate resources for improvement in the facilities.

d. Hindi Field Unit

- 368) The committee heard that, Hindi Field Unit has 6 barracks, 5 permanent and 1 temporal with capacity of 305 service men. However, the unit has a total of 403 service men. Further it was noted that (4) of the barracks are in deplorable conditions, due to bad weather conditions the windows are not in habitable conditions and need renovation. The unit lacks electricity, poor network connectivity that they have to make most of their transactions from Mombasa technical college Unit. The unit does not have water, they have to procure water for usage 30km away from station. There is no permanent fencing leading to invasion by wild animals that possess risk to staff and service men.

Management response

- 369) The management informed the Committee that the Service has been trying through budgetary processes to solicit for funding which has been unsuccessful. All these involves funding and once allocated by the National treasury the Service will embark on the necessary interventions accordingly

Committee Observation

The Committee observed that the Hindi Field Unit accommodates 403 servicemen against a barracks capacity of 305, reflecting a deficit of 98 beds and resulting in congestion. In addition, four of the six barracks are in deplorable condition, with windows rendered uninhabitable due to adverse weather, requiring urgent renovation. The Unit further lacks electricity and suffers poor network connectivity, compelling transactions to be conducted from Mombasa Technical College Unit. Moreover, there is no reliable water supply, with procurement of water undertaken 30KM away, and the absence of permanent fencing exposes staff and servicemen to invasion by wild animals, posing significant safety risks.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submit to National Assembly, the Auditor-General and The National Treasury a comprehensive documented strategy to identify and consolidate deficiencies across all Service Units including gaps in accommodation, stalled infrastructure projects, inadequate utilities, limited transport, poor road networks, insufficient health support, and uninstalled equipment and. Upon receipt of the report, the National Treasury prioritize allocation of adequate resources for improvement in the facilities.

e. Mombasa Technical Training College

- 370) The Committee heard that the Mombasa Technical Training College has 5 barracks for women, 4 permanent and 1 temporal. The capacity of the barracks is four hundred and twenty (420) service women, it was however observed that the barracks currently holding a capacity of five hundred and thirty-five (535) service women, overstretching the women barracks by one hundred and fifteen (115) service women.
- 371) In the circumstances, the workforce may be exposed to frequent physical and psychological effects of unfriendly working environment

Management response

- 372) The management informed the Committee that the Service has been trying through budgetary processes to solicit for funding which has been unsuccessful. All these involves funding and once approved, the Service will embark on the interventions appropriately. However, the affordable housing project has embarked on construction of barracks in Units which could mitigate the problem.

Committee Observation

The Committee noted that the women's barracks at Mombasa Technical Training College have a capacity of 420 servicewomen but are currently accommodating 535, overstretching the facilities by 115 occupants. This deficit reflects congestion and exposes the workforce to heightened physical and psychological strain associated with an unfriendly living and working environment.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submit to National Assembly, the Auditor-General and The National Treasury a comprehensive documented strategy to identify and consolidate deficiencies across all Service Units including gaps in accommodation, stalled infrastructure projects, inadequate utilities, limited transport, poor road networks, insufficient health support, and uninstalled equipment and. Upon receipt of the report, the National Treasury prioritize allocation of adequate resources for improvement in the facilities.

EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED ACCOUNTS OF NATIONAL SYNDemic DISEASES CONTROL COUNCIL FOR FINANCIAL YEAR 2024/2025

Mr. Douglas Bosire, Chief Executive Officer of National Syndemic Diseases Control Council was accompanied by Ms. Lydiah Mbai, Director Finance and Accounts, Mr. William Birech, Director Human Resource and Mr. Simon Macharia, Senior Principal Programs appeared before the Committee to adduce evidence on the Audited Accounts of (NSDCC) for the Financial Year 2024/2025.

FINANCIAL YEAR 2024/2025

1.0 Budgetary Control and Performance

- 373) The Committee heard that, the statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs.1,507,837,467 and actual on a comparative basis of Kshs.1,250,244,382 resulting to an under-absorption of Kshs.257,593,085 or 17%.
- 374) The under absorption may affect the Council's mandate of ending new HIV infections, AIDS and related epidemics in Kenya.

Management response

- 375) The Management informed the Committee that, the under-absorption of 17% was due to the following factors:
- 376) The Cabinet Dispatch issued on 21st January 2025 identified the NSDCC among the six (6) proposed for restructuring. Pursuant to this designation and vide a Circular dated 16th May 2025 Ref. No. Circular OP/CAB.9/1, from the Chief of Staff and Head of the Public Service a moratorium on initiating new capital projects, recruitment and renewal of contracts for officers serving in earmarked for reforms, save where authority is granted.

As a result.

- a) i) NSDCC was barred from initiating any capital projects and therefore could not incur capital expenditure.
- ii) The institution was unable to recruit staff in accordance with the work plan. This affected its ability to utilize the allocated staff cost budget.
- b) Additionally, the Council experienced challenges in the timely access to allocated funds. The June 2025 disbursement was received on 17 June 2025, which affected the absorption of funds. Consequently, some programme activities were rescheduled to the first quarter of the 2025/2026 financial year.

Committee Observations

The Committee observed that-

- i) The Council under- absorbed its expenditure by Kshs.257,593,085 or 17% of its budget. This under-absorption may have negatively impacted on the service delivery of the council's core mandate like ending new HIV infections, AIDS and related epidemics in Kenya.
- ii) The Council's under- absorption was as a result of the proposal for its restructuring which led to a moratorium being issued by Chief of Staff and Head of the Public Service on initiation of new projects, recruitment and renewal of contracts for officers serving in the council.
- iii) The Council received late disbursement of exchequer from Treasury which led to suspension of some of the programs during the year.

Committee Recommendations

The Committee recommends that –

The Accounting Officer should ensure at all times that the budgets are realistic, achievable, and always adhere to annual work plans, procurement plans, and revenue collection schedules in compliance with Regulation 44(2) of the PFM (National Government) Regulations, 2015.

2.0 Long Outstanding Doubtful Debts

- 377) The Committee heard that, the statement of financial position as disclosed in Note 21 to the financial statements reflects receivables from non-exchange transactions balance of Kshs.1,675,184. It was noted that the Council advanced employees, units, Committees and Community Based Organizations cash amounting to Kshs.81,560,092. However, the amounts have remained outstanding for a long time without recovery, prompting Management to create provision for doubtful debts of the same amount as disclosed in Note 30 to the financial statements.
- 378) In the circumstances, the effectiveness of internal controls on receivables from non-exchange transactions could not be confirmed.

Management response

- 379) Management informed the Committee that, the long outstanding balance of Ksh 81,560,092., whose recoverability by NSDCC proved doubtful and made a provision for this amount in the financial statement in compliance with International Public Sector Accounting Standard (IPSAS) number 21, which obliges Public organizations to assess whether there is any indication that an asset may be impaired and if there is such an indication then the entity shall estimate the recoverable amount.
- 380) The funds in question were advanced to various offices, community groups and individuals to undertake HIV and AIDS awareness activities from year 2000 to 2005 as per the summary in the table below.

	Recipient	Amount
1	First World AIDS Day Commemoration Advance	2,161,700
2	ACU Advances	3,697,926
3	District Technical Committees	19,613,358
4	Advances to former employees	2,216,487
5	Community Based Organizations	782,283
6	TOWA PSI Advances	53,088,338
	Total	81,560,092

- 381) The NSDCC has undertaken various measures to recover the cited long outstanding advances. The amounts have been assessed and determined to be impaired in accordance with the applicable financial reporting standards. Consequently, the process of writing off these balances has been initiated in line with the provisions of the Public Finance Management (PFM) Act.
- 382) Towards recovery of these funds, the NSDCC has been engaging with the Ministry of Health, National Treasury and other government agencies in following up on recovery of these long outstanding advances. A consultative meeting was held between NSDCC and the National Treasury in financial year 2024/2025 on the matter and demand letters were issued.
- 383) Subsequently NSDCC has received payments from Ministry of Defense and Anglican Church of Kenya- Diocese of Mt Kenya. Further, upon the lapse of the three-month notice period contained in the letters of request, the NSDCC has escalated the matter to the Attorney General for further action and guidance.

Committee Observations

The Committee observed that-

- i) Cash amounting to Kshs.81,560,092 advanced to employees, units, Committees and Community Based Organizations by the Council for AIDS awareness for the period between 2000 to 2005 was still outstanding during the year under review. This had prompted the management to make a provision for doubtful debts and to initiate the process of writing off the amount.
- ii) The management has engaged the office of the Attorney General for further action and guidance on the matter.

Committee Recommendation

The Committee recommended that within three months upon adoption of this report, the Accounting Officer in collaboration with Principal Secretary, Medical Services and the Principal Secretary, the National Treasury to fastrack the process of writing off the irrecoverable debts.

3.0 Unresolved Prior Year Matters

- 384) The Committee heard that, in the prior years' audit report, 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, respectively. Review of the status during audit of the Council in 2024/2025 revealed that the following matters remained unresolved.

Management response

- 385) The management informed the Committee that, following NSDCC's appearance before the Public Investments Committee (PIC) in March 2025, the NSDCC Management is awaiting the release of the Committee's recommendations and remains ready to implement them upon issuance. Please find below the responses to the individual issues that were raised.

No.	Financial Year	Observation	NSDCC Response
1	2023/2024	Budgetary Control and Performance	The NSDCC concurs with this observation and provides the following clarification. To mitigate this, the Council has continued to mobilize resources from various donors and partners like Global Fund, Gates foundation and UNFPA to bridge the shortfall. In addition, follow-up processes with the National Treasury on exchequer releases have been streamlined, and the NSDCC is now up to date with disbursements. As an example, for the financial year 2024-25 NSDCC received all the allocated funds of Ksh 1,171,950,000
2		Long Outstanding Doubtful Debts	NSDCC acknowledges the long outstanding balance of Ksh 81,560,092, whose recoverability has proved doubtful. Consequently, a provision for this amount was made in the financial statements in compliance with International Public Sector Accounting Standard (IPSAS) 21, which requires public organizations to assess whether there is any indication that an asset may be impaired and where such indication exists, to estimate the recoverable amounts and make provisions. The NSDCC continues to engage with the Ministry of Health, National Treasury and other government agencies in following up on recovery of these long outstanding advances. A consultative meeting was held between NSDCC and the National Treasury in financial year 2024/2025 on the matter and demand letters were issued. Further, upon the lapse of the three-month notice period stipulated in the letters of demand, NSDCC escalated the list of individuals who had not responded to the Office of the Attorney General for further action. To fast track the resolution of the matter, a consultative meeting has been requested with the Office of the Attorney General.

No.	Financial Year	Observation	NSDCC Response
3.		Missed Performance Targets	The NSDCC targeted to achieve a 20% reduction in the number of new HIV Infections among adolescents and young people aged 10-24 years from 7,308 to 5,847. New HIV infection among adolescents and young people aged 10-24 yrs reduced from 7,308 to 5,030, translating to a 31% reduction in new infections. Therefore, this target was exceeded. Please refer to the link for the 2023 HIV estimates which had not been validated at the time of audit. https://analytics.nsdcc.go.ke/estimates/#!/siProduct/s/progressreport. The NSDCC acknowledges failure to meet the AGPO target. This was because of revenue shortfall amounting to Ksh 383,238,062 during the financial year. This affected the ability of the council to meet AGPO target. During the year 2024-25 the AGPO targets have been met the NSDCC Awarded contracts totaling to 430,244,633 out of which 129,756,170 were awarded under AGPO. Additionally, in the current 2025–2026 financial year, NSDCC has fully implemented the Electronic Government Procurement (EGP) system, which automates the 30% AGPO requirement and ensures that the AGPO target is met.
4		Understaffing of the Council	Management concurs with the Auditor General’s observation regarding the absence of a substantive Chief Executive Officer and other senior management staff. To address the gap, the National Syndemic Diseases Control Council (NSDCC) sought and obtained approval from the National Treasury to recruit thirty-three (33) priority positions to support effective service delivery (Annex 5). During the year under review the NSDCC successfully transitioned staff from NACC to NSDCC as per the approved instruments. The Cabinet Dispatch issued on 21st January 2025 identified the NSDCC among the six (6) proposed for restructuring. Pursuant to this designation and

No.	Financial Year	Observation	NSDCC Response
			vide a Circular dated 16th May 2025 Ref. No. Circular OP/CAB.9/1, the Chief of Staff and Head of the Public Service imposed a moratorium on, initiating new capital projects, recruitment and renewal of contracts for officers serving in earmarked for reforms, save where authority is granted. (See Annex 1 Circular OP/CAB.9/1) As such, NSDCC was temporarily barred from recruiting new staff, resulting in senior staff serving in acting capacities to ensure service delivery. This also resulted in the underutilization of the budget allocated for staff costs. Currently the Board and Management of NSDCC, through the Parent Ministry, requested exemption from the provisions of the circular to allow renewal of contracts and recruitment for critical positions. Approval was granted to proceed with the recruitment of key personnel. NSDCC has since initiated the recruitment process, and advertisements for the positions have been issued (see Annex 6 advertisement).
5.	2022/2023	Budgetary Control and Performance	Chairman, Hon. Members. The revenue shortfall of Ksh 254,173,313 was because the NSDCC receiving only Ksh 1,529,945,655 instead of the allocated Ksh 1,784,118,968. The under-absorption 898,459,600 resulted from a casting error of Ksh 410,410,808, which led to an overstatement of the budgeted expenditure by the same amount. Further disbursements amounting to Ksh 201,000,000 of the allocated funds were made June 2023 last month of the financial year hindering the ability of NSDCC's to absorb these funds. These funds were appropriately budgeted for and utilized in the subsequent financial year.

No.	Financial Year	Observation	NSDCC Response
			In addition, follow-up processes with the National Treasury on exchequer releases have been streamlined, and the NSDCC is now up to date with disbursements. As an example, for the financial year 2024-25 NSDCC received all the allocated fund of Ksh 1,171,950,000

Committee Observation

The Committee observed that the council had not resolved the prior year issues raised in the report of the Auditor General contrary to section 31 (1) (a) of Public Audit Act, CAP 412B which states that a State Organ or a public entity that had been audited shall, as a preliminary step, submit a report on how it has addressed the recommendations and findings of the previous year's audit.

Committee Recommendation

The Committee reprimands the then Accounting Officer for breach of section 31 (1) (a) of Public Audit Act, CAP 412B.

1.0 Unutilized Deferred Revenue

- 386) The Committee heard that, the statement of financial position and Note 28 to the financial statements reflects deferred revenue balance of Kshs.102,893,910. Included in this amount is Kshs.100,000,000 received on 4 December 2017 for the purpose of acquiring and developing the Maisha Plaza project. However, seven (7) years after the receipt of the funds the construction of the project has not commenced. Further, there was no evidence of availability of land on which the project was intended to be constructed. In addition, there has been no additional budgetary allocation towards the project since 2017.
- 387) In the circumstances, the feasibility of the project and value for money of deferred income of Kshs.100,000,000 could not be confirmed.

Management response

- 388) Management informed the Committee that the delay in implementing the Maisha Plaza Project was primarily due to challenges in securing suitable land for development. Management has engaged Kenyatta National Hospital (KNH), which confirmed land availability and expressed interest in partnering on the project.
- 389) However, the Cabinet Dispatch issued on 21st January 2025 identified the NSDCC among the six (6) proposed for restructuring.

- 390) Pursuant to this designation and vide a Circular dated 16th May 2025 Ref. No. Circular OP/CAB.9/1, from the Chief of Staff and Head of the Public Service a moratorium on initiation new capital project was imposed on state corporation categorized for reform. As a result, NSDCC has not been able to pursue completion of the formal partnership with KNH for the construction of Maisha Plaza. Further NSDCC is making efforts to obtain waiver to allow for initiation of construction.

Committee Observation

The Committee observed that the council received a sum of Kshs.100,000,000 on 4th December, 2017 for the purpose of acquiring and developing the Maisha Plaza project. However, the construction of the plaza had not commenced seven (7) years after receipt of the funds due to the challenge of acquiring land implying lack of feasibility study. The management did not demonstrate how the council received the funds before acquiring the land.

Committee Recommendations

The Committee recommended that –

- i) Within three months upon adoption of this report, the Accounting Officer to submit a certified bank statements to verifying that the amount of Kshs. 100,000,000 disbursed for acquiring and developing the Maisha Plaza project has not been utilized or reallocated for any other purpose.
- ii) The Accounting Officer should at all times ensure that a robust feasibility study is undertaken before a new capital project is budgeted for.

2.0 Officers not Appointed in Substantive Positions

- 391) The Committee heard that, the statement of financial performance and as disclosed in Note 11 to the financial statements reflects employee costs of Kshs.478,188,066. However, it was observed that key management personnel including the Chief Executive Officer, Coordinator Regional Offices, Director Finance and Grants, Deputy Director, Supply Chain Management, Principal Administration Officer, Principal Program Officer, Regional Officers, Deputy Director, Human Resource Management, Deputy Director, Administration, Principal Human Resource Officer, and Principal ICT Officer were all serving in an acting capacity.
- 392) In the circumstances, the effectiveness of internal controls on staff management could not be confirmed and having key staff in acting capacity weakens governance, accountability, and operational efficiency and may lead to leadership instability.

Management response

- 393) Management informed the Committee that to address this gap during financial year 2024/25, the National Syndemic Diseases Control Council (NSDCC) sought and obtained approval from the National Treasury to recruit thirty-three (33) priority positions to support effective service delivery.

- 394) However, before the recruitment would be completed a Cabinet Dispatch issued on 21st January 2025 identified the NSDCC among the six (6) proposed for restructuring.
- 395) Subsequently a moratorium was imposed on NSDCC vide a Circular dated 16th May 2025 Ref. No. Circular OP/CAB.9/1, the Chief of Staff and Head of the Public Service stopping any recruitment and renewal of contract for its staff therefore making the institution unable to proceed with the recruitment. However, in the month of January 2026 approval was granted to recruit and fill 24 senior Management and critical technical vacant positions. The recruitment process is currently ongoing.

Committee Observations

The Committee observed that-

- i) Several officers holding key positions of the council were in acting capacity beyond the stipulated period. This may negatively impact the organization as it weakens governance, accountability, and operational efficiency and may lead to leadership instability.
- ii) The moratorium imposed by the Chief of Staff and Head of the Public Service stopping recruitment and renewal of contract for staff stalled the process of substantively filling in the positions. The approval for recruiting staff was granted in January 2026 and the recruitment process was on going.

Committee Recommendation

The Committee recommends that the Auditor-General to review the matter for reporting in its subsequent audit cycle.

EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED ACCOUNTS OF CHILD WELFARE SOCIETY FOR THE FINANCIAL YEAR 2024/2025

Ms. Irene Mureithi, CEO/Managing Trustee of Child Welfare Society of Kenya accompanied by Mr. Charles Maina, General Manager Finance, Ms. Marcella Obaga, Human Resource Manager and Ms. Floriana M. Maganga, Internal Auditor appeared before the Committee to adduce evidence on the Audited Accounts of (CWSK) for the Financial Year 2024/2025

1.0 Land Without Ownership Documents

- 396) The Committee heard that the statement of financial position and as disclosed in Note 36 to the financial statements reflects property, plant and equipment balance of Kshs.2,974,473,876 which includes land balance of Kshs.1,151,313,276. The balance includes Kshs.390,670,000 in respect of value of twelve (12) parcels of land whose ownership documents were not provided for audit review.
- 397) In the circumstances, the accuracy and ownership of property, plant and equipment balance of Kshs.2,974,473,876 could not be confirmed.

Management response

- 398) The management informed the Committee that, the Shs. 390,670,000 related to 14 parcels of land. The management enclosed a list of parcels of land without ownership documents as per the Auditor and Copies of title deeds for Plot No. Kiambaa/Karuri/T.836; Mombasa Block/IX/238; and Nyahururu Chemichemi Block5/364.
- 399) The management further informed the Committee that the process of acquiring the other 11 title deeds for the parcels of Land owned by CWSK was ongoing and the delay was at the Ministry of Lands, and they were fast tracking the process to get the title deeds.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Land without ownership documents in its Ninth PIC Report, observed and made recommendations. Consequently, the Committee upholds the previous observations and recommendations therein.

2.0 Lack of Ownership Documents under Trustees Account

- 400) The Committee heard that the statement of financial position and as disclosed in Note 38(b) to the financial statements reflects the trustees account balance of Kshs.142,591,540 which includes endowment fund income generating activities of Kshs.34,537,703 relating to purchase of apartments. However, sale agreements for purchase of apartments worth Kshs.28,000,000 were not provided for audit.
- 401) Further trustees account opening balance of Kshs. 136,053,837.00 comprises twelve (12) parcels of land spread across the country out of which five (5) did not have ownership documents and one (1) parcel had ongoing court case.
- 402) In the circumstances, the accuracy and ownership of trustees account balance of Kshs. 142,591,540 could not be confirmed.

Management response

- 403) The management informed the Committee that all the sales agreements were provided for the purchase of apartments worth Kshs.28,000,000. These were sectional properties and title deeds would be out when project is completed. The apartments were for income-generating activities, and they had provided the sales agreements.
- 404) The processing of these 5 land titles was on-going and they had increased efforts to ensure they get the titles. All the transfer documents had been done and lodged in the lands office. The processing of the title deeds at the Land office had been slow and the title deeds processing was ongoing for the following outstanding 5 Land parcels: Konza City Plots 1 and 2; Nyandarua Blocks 1 and 2; and Kitui Kyangwathya/Mulut. The management enclosed transfer documents for these parcels of land.

Committee Observations

The Committee observed that–

- i) The Accounting Officer failed to provide sale agreements for purchase of apartments worth Kshs. 28,000,000 contrary to section 62 (1) (b) of Public Audit Act CAP 412B

which states that a person shall not without justification, fail to provide information required under this Act.

- ii) The Society does not possess title deeds for five (5) parcels of land held under the Trustees account located at Konza City (Plots 1 and 2), Nyandarua (Blocks 1 and 2) and Kitui Kyangwathya/Mulut.
- iii) The Society's had a parcel of land which was subject to a court case therefore exposing the Society to potential loss of assets and legal liabilities.

Committee Recommendations

The Committee recommends that -

- i) The Committee reprimands the Accounting Officer for breach of section 62 (1) (b) of Public Audit Act CAP 412B.
- ii) Within three (3) upon adoption of this report, the Accounting Officer should liaise with the Principal Secretary, State Department Lands and Physical Planning and the National Land Commission to fast-track the process of acquiring title deeds for the five 5 parcels of land.
- iii) The Accounting to fast-track the conclusion pending court case in order to resolve ownership disputes. and ensure legal actions are taken against private individuals who have illegally acquired public land.

4.0 Deposits Held in Collapsed Banks

- 405) The Committee heard that the statements of financial position and as disclosed in Note 38(b) to the financial statement reflects trustee account balance of Kshs. 142,591,540. Included in this balance is Kshs. 349,395 and Kshs.14,025,371 held at a commercial bank Euro account and Kenya Shillings account respectively totaling to Kshs.14,374,766.97. The bank was put under receivership in the year 2015 and despite management follow up with the receiver, minimal progress in recovering the money has been made.
- 406) In the circumstance, the recoverability of this amount remains doubtful.

Management response

- 407) The management informed the Committee that the collapse of Imperial Bank was beyond CWSK's control. However, steps are at advanced stage with The Kenya Deposit Insurance Corporation (KDIC) to recover the Society's funds held at the bank. Claim documents have already been Lodged and were enclosed.

Committee Observations

The Committee observed that–

- i) The recoverability of the Society's deposits amounting to Kshs. 14,374,766.97 held in Imperial Bank that went under receivership in 2015 remains highly doubtful.

- ii) The management had lodged claims with the Kenya Deposit Insurance Corporation (KDIC). However, the progress made to recover the deposits since 2015 has been minimal. Consequently, exposing the Society to a risk of losing public funds.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer should liaise with the Chief Executive Officer KDIC in order to fastrack the recovery of Kshs. 14,374,766.97 held in Imperial Bank.

5.0 Failure to Provide Approved Provision for Doubtful Debts Policy and Rates

- 408) The Committee heard that the statement of financial position and as disclosed in Note 32(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.5,702,261. Further, Note 32(a) reflects gross trade receivables from exchange transactions of Kshs.7,702,261 and provision for doubtful debts of Kshs.2,000,000. However, as previously reported, the approved rate of provision for doubtful debts was not disclosed in Note 32(b) under significant accounting policies.
- 409) In addition, the provision for doubtful debts remained constant at Kshs.2,000,000 in 2024/2025 and 2023/2024 Financial Years despite the increase of Kshs.1,223,364 or 27% in receivables from exchange transactions from Kshs.6,478,897 in 2023/2024 financial year to Kshs.7,702,261 in 2024/2025 financial year.
- 410) In the circumstances the basis for accuracy, completeness and reliability of provision for doubtful debts could not be confirmed.

Management response

- 411) The management informed the Committee that this was a general provision which had been provided at KSHs. 1 Million per year with the exception of FY 2024/25. The increase in receivables by KSHs. 1,223,364 in the current financial year was mostly due to current staff loans, which were being paid through monthly salary deductions, and therefore no need to adjust doubtful debts provision amount. In future, the approved rate of provision for doubtful debts would be disclosed in Note No. 32(b).

Committee Observation

The Committee observed that the Society maintained a constant provision for doubtful debts of Kshs. 2,000,000 despite a 27% increase in receivables, which is inconsistent with International Public Sector Accounting Standards (IPSAS).

Committee Recommendation

The Committee recommends that the Accounting Officer of the Society should at all times ensure that the subsequent financial statements clearly disclose the approved rate and basis for the provision of doubtful debts.

6.0 Unsupported Prior Year Adjustments

- 412) The Committee heard that the statement of changes in net assets reflects prior year adjustment of Kshs.6,537,703 which relates to four deposits related to trustee fund deposit for various apartment units on 3 November, 2023, and 5 and 6 December, 2023 allegedly omitted from 2023/2024 financial statements. However, bank statement and approval minutes supporting the additional investments were not provided for audit verification.
- 413) Further, the prior year adjustment of Kshs.6,537,703 was also included in Note 38(b) on trustee endowment fund as an addition to the fund investment but the relevant bank statements and transaction documents supporting purchase of the additional investments were not provided.
- 414) In the circumstances, the accuracy and completeness of prior year adjustment of Kshs.6,537,703 could not be confirmed.

Management response

- 415) The management informed the Committee that, the CWSK operated a trust fund for the purpose of undertaking income-generating activities to cater for unforeseen circumstances in regard to children's welfare. As per the Trustee Deed, the Trustees of the Society were mandated to maintain a Trustees Endowment Fund of Shs.300 Million. This fund enhances financial stability of the society during periods of funding shortages.
- 416) The Constitution of CWSK also gives powers to the Board of Trustees to establish an Endowment Fund and purchase properties for income generation for self-sustainability. To date, total Kshs 142,591,540 of this fund, in which Kshs. 6,537,703 was part of it, had been utilized to purchase properties for income generating activities of the society.
- 417) The management enclosed the following supporting documents: approved Board of Trustees Minutes for investment in Income-Generating Activities; extract from Trust Deed of CWSK regarding the establishment of The Trustees Endowment Fund; extract from the Constitution of CWSK in respect of powers of Board of Trustees to establish an endowment fund and purchase or dispose movable and immovable properties; and Property Purchase Agreement.

Committee Observations

The Committee observed that –

- i) The prior year adjustments of Kshs.6,537,703 relating to four deposits had been omitted from the 2023/2024 financial statements. Further the bank statements and approved minutes to support the adjustments were not provided for audit review. This was contrary to section 62 (1) (b) of Public Audit Act CAP 412B.
- ii) The bank statements and transaction documents supporting the purchase of prior year adjustments of Kshs.6,537,703 were not provided for audit verification.

Committee Recommendations

The Committee reprimands the then Accounting Officer for breach of section 62 (1) (b) of Public Audit Act CAP 412B.

7.0 Inconsistency Method of Preparing Cash flows and Variances

- 418) The Committee heard that the statement of cash flows reflects cash and cash equivalent balance of Kshs.70,598,200 as at 30 June, 2025. However, the statement of cash flows was prepared using direct and indirect method of statement of cash flows preparation contrary to Paragraph 27 of IPSAS 2 which states that an entity should report cash flows from operating activities using either the direct or indirect method, whereby major classes of gross cash receipts and gross cash payments are disclosed or the indirect method, whereby net surplus or deficit is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.
- 419) In the circumstances, the accuracy and completeness of cash and cash equivalent balance of Kshs.70,598,200 as at 30 June, 2025 could not be confirmed.

Management response

- 420) The management informed the Committee that they had prepared the Statement of Cash Flows (Schedule No. 17) using the direct method as per the directive given by The National Treasury to use IPSAS comprehensive Financial Statements Template package for Financial Year 2024/25, in which Statement of Cash Flows-direct method (Template No.17) is part of it. However, the management erroneously omitted showing the total receipts and total payments in the Statement of Cash Flows. This would be rectified in future financial statements. The management enclosed a Directive by the National Treasury to use the prescribed IPSAS template for Financial year 2024/25 and Statement of Cash Flows as per IPSAS template and corresponding Statement of Cash Flows in the Signed Financial Statements.

Committee Observation

The Committee observed that the Society prepared the Statement of Cash Flows using both direct and indirect methods contrary to Section 81(3) of the Public Financial Management Act 2012 which requires the Accounting Officer to prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time.

Committee Recommendation

The Committee recommends that–

- i) Then Accounting Officer should at all times ensure that the prepared financial statements strictly comply with the relevant accounting standards prescribed by the Public Sector Accounting Standards Board (PSASB) and use only one consistent method for preparing cash flows in line with IPSAS 2 on Statement of Cash Flows.
- ii) The Committee reprimands the then Accounting Officer for breach of Section 81(3) of the Public Financial Management Act, CAP. 412A.

8.0 Non-Preparation of the Statement of Comparison of Budget and Actual Amounts in Accordance with the Stated Accounting Policy

- 421) The Committee heard that the statement of comparison of budget and actual amounts reflect surplus amount of Kshs.11,429,213. However, the statement has not been prepared under the cash basis format as disclosed in note 4(b) to the financial statements on significant accounting policies where the Society has indicated that the statement of comparison of budget and actual amount is prepared on cash basis.
- 422) In the circumstances, the accuracy and completeness of comparison of budget and actual amount reflecting surplus of Kshs.11,429,213 could not be confirmed

Management response

- 423) The management informed the Committee that the Statement of Comparison of Budget and Actual amounts, including the disclosure notes on Note 4(b) had been prepared according to the IPSAS comprehensive template for Financial Year 2024/25, and also as directed by The National Treasury in their directive. The surplus of Kshs. 11,429,213 was maintained to cover for emergency expenses at beginning of financial year 2025/26 while awaiting for the first exchequer funding for financial year 2025/26. The management enclosed Statement of Comparison of Budget and Actual Amounts as per IPSAS template and corresponding Statement of Comparison of Budgets and Actual Amounts in the Signed Financial Statements.

Committee Observations

The Committee observed that–

- i) The Statement of Comparison of Budget and Actual Amounts was not prepared on a cash basis contrary to section 81(3) of the Public Finance Management Act, Cap. 412A which requires the Accounting Officer to prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time.
- ii) The Statement of Comparison of Budget and Actual Amounts had a surplus of by Kshs. of Kshs.11,429,213 resulting in unbalanced budget contrary Regulation 33 (c) of the PFM National Government) Regulations, 2015 which requires that a balanced budget shall be always observed during budget formulation and approval.

Committee Recommendation

The Committee reprimands the then Accounting Officer for violating section 81(3) of the Public Finance Management Act, Cap. 412A and Regulation 33 (c) of the PFM National Government) Regulations, 2015

9.0 Errors, Omissions and Non-Compliance with Public Sector Accounting Standard

- 424) The Committee heard that the audit review revealed the following errors, omissions and lack of adequate disclosure were identified in the financial statements submitted for audit:
- i) The entity's corporate secretary was not disclosed in the financial statements.
 - ii) The statement of performance against predetermined objectives did not comply with Public Sector Accounting Standard Board and did not indicate performance indicators

in measurable and quantifiable parameters. Also, the information was not indicated in the format prescribed by Public Sector Accounting Standard Board and there was no link between the achievement and each program with strategic objectives, outcome and output indicator.

- 425) In the circumstances, the financial statements were not fully compliant with the Annual Financial Reporting Template.

Management response

- 426) The management informed the Committee that the CEO of CWSK is the Trust Secretary as per the Trust Deed and Constitution of the Society. The Trust Secretary was disclosed in the financial statement and on the Trust Deed.
- 427) Further, that the performance indicators were shown in the Statement of Performance against Predetermined Objectives for all CWSK programmes. The predetermined objectives or targets were as per CWSK approved work plan for financial year 2024/25. The management enclosed Statement of Performance against Predetermined Objectives for all CWSK programmes as shown in the Signed Financial Statements.

Committee Observations

The Committee observed that–

- i) The Society did not disclose the Corporate Secretary in its financial statements
- ii) The Society did not indicate performance indicators in measurable and quantifiable parameters in its financial statements contrary to section 81(3) of the Public Finance Management Act, Cap. 412A which requires the Accounting Officer to prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time.

Committee recommendations

The Committee reprimands the then Accounting Officer for violating section 81(3) of the Public Finance Management Act, Cap. 412A.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

1.0 Late Submission of Financial Statements

- 428) The Committee heard that the Child Welfare Society of Kenya submitted its annual reports and financial statements on 29 September 2025, a month after the due date contrary to The National Treasury and Economic Planning Circular Ref No.AG.3/88/VOLVII (4) dated 4/12/2024 which required all Public Sectors entities for both National and County Governments to submit their financial statements by 31 August 2025.

429) In the circumstances, the Society was in breach of the law.

Management response

430) The management informed the Committee that from next financial year, signed financial statement would be submitted to the Auditor General by 31st August. Further, that CWSK had branch offices across the country. Due to logistics, reports from far-off branches could not arrive in Nairobi in good time for early inclusion in the financial report.

Committee Observation

The Committee observed that the Society submitted its financial statements past the timelines prescribed in the National Treasury and Economic Planning Circular Ref No.AG.3/88/VOLVII (4) dated 4/12/2024 which required all Public Sectors entities for both National and County Governments to submit their financial statements by 31st August 2025.

Committee Recommendation

The Committee recommended that –

The Accounting Officer should at all times adhere to the to the National Treasury Circulars prescribed from time to time.

2.0 Long Outstanding Receivables

431) The Committee heard that the statement of financial position and as disclosed in Note 32(a) to the financial statements reflects receivables balance of Kshs.5,702,261. Further, Note 32(a) reflects gross receivable from exchange transaction of Kshs.7,702,261 which includes receivables over 3 years of Kshs.6,142,966 according to Note 32(c). Management did not provide any evidence on efforts made to recover the long outstanding receivables contrary to Regulation 64(1) (2) of the Public Finance Management (National Government) Regulations, 2015 which states that an Accounting Officer and a receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for, all National government revenue and other public moneys relating to their Ministries, Departments or Agencies with adequate measures, including legal action where appropriate, are taken to obtain payment and in case of difficulty in collecting revenues due to the national government shall report the circumstances to the Cabinet Secretary without delay. The recoverability of the receivables is therefore doubtful and Management was in breach of law.

Management response

432) The management informed the Committee that the Long outstanding receivables of Kshs. 6,142,996 related to income generating activities from the sale of plots by the trustees. The title deeds issuance to the plot allottees was currently in process. The outstanding amounts would be recovered at the point of title deeds issuance, as this served as the final step in the transaction.

Committee Observations

The Committee observed that–

- i) The Accounting Officer did not indicate efforts made to recover long outstanding receivables amounting to Kshs. 6,142,966. This was contrary to Regulation 64 (1) of the PFM (National Government) Regulations, 2015 which mandates Accounting Officers to ensure prompt collection of all public moneys.
- ii) The non recovery of the long outstanding receivables were attributed to the delay in the processing title deeds for the plots sold by the trustees.

Committee Recommendations

The Committee recommends that–

- i) Within three months upon adoption of this report the Accounting Officer to expedite the issuance of title deeds to allottees to facilitate the immediate recovery of the outstanding Kshs. 6,142,966.
- ii) The Accounting Officers should ensure that there are proper and robust debt collection mechanisms, effective debt management policies and proper systems for recording the debts.

4.0 Long Outstanding Accounts Payable and Accruals

- 433) The Committee heard that the statement of financial position and as disclosed in Note 40 reflects accounts payable and accruals of Kshs. 14,461,568 which includes trade payables which have been outstanding for more than three years of Kshs. 890,700. This contravenes The National Treasury and Economic Planning Circular No. 10/2020 Reference No. DGIPE/A/1/80 dated 16th June 2020 which directed pending bills be treated as a first charge on the approved budget.
- 434) In the circumstances, Management was in breach of law and risks litigations which can lead to award of damages and interest which is additional cost that can be avoided.

Management response

- 435) The management informed the Committee that Kshs. 890,700 was not amount due to suppliers, that is, it was not trade payable. It related to title deed processing fees paid by plot allottees to CWSK to process their title deeds. The plots were for income generating activities to CWSK. Once the title deeds are processed, the amount would be cleared after payment by CWSK to land office.

Committee Observations

The Committee observed that–

- i) The Society had payables amounting to Kshs. 890,700 that had been outstanding for more than three years contrary to regulation 42 (a) of the PFM (National Government) Regulations, 2015 that requires pending bills be treated as first charge in the subsequent financial year.

- ii) The management claim that the Long Outstanding Accounts Payable and Accruals amounting to Kshs. 890,700 relate to title deed processing fees rather than ordinary suppliers was not supported by any documentary evidence.

Committee Recommendation

The Committee reprimands the then Accounting Officer for breach of regulation 42 (a) of the PFM (National Government) Regulations, 2015

5.0 Dormant and Overdrawn Bank Accounts

- 436) The Committee heard that the statement of financial position and as disclosed in Note 30 to the financial statements reflects cash and cash equivalents balance of Kshs.70,598,200. However, the Society had fourteen (14) bank accounts which remained dormant during the year under review.
- 437) Further one (1) bank account had been overdrawn contrary to Regulation 82(7) which states that no official bank account shall be overdrawn.
- 438) In the circumstances, Management was in breach of the law.

Management response

- 439) The management informed the Committee that the CWSK has branches across the country. These bank accounts had been activated and allocated to the branches. The accounts belong to branches which had temporarily not been operating, but the branches were active at the moment. Further, that in current financial year 2025/26, these bank accounts were having transactions.
- 440) The management further informed the Committee that the overdrawn bank account at Bank of Africa, Nakuru Branch, by KSHs. 8,406 was a facility given by bank in consideration in cases where there are emergencies expenditure in relation to children's care. This was a facility given when the account was opened.

Committee Observation and Recommendation

The Committee had deliberated on the issue Dormant and overdrawn bank accounts in its Ninth PIC report, observed and made recommendations. Consequently, the Committee upholds the previous observations and recommendations therein.

6.0 Non-Compliance with One Third of Basic Salary Rule

- 441) The Committee heard that the statement financial performance and as disclosed in Note 17 to the financial statements reflects compensation to employees of Kshs.373,495,138 which includes consolidated salaries of Kshs.316,518,987. However, analysis of payroll for the year ended 30 June, 2025 revealed that as at 30 June, 2025, 22 members of staff earned net salaries which was less than a third of their basic pay contrary to Section19(3) of Employment Act, 2007 which states that; without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.

- 442) In the circumstances, Management was in breach of the law.

Management response

- 443) The management informed the Committee that, this was as a result of Sacco deductions. CWSK staff are members of Jogoo and Waumini Sacco's, which are independent entities. CWSK had no control over the loans issued to the staff. This occasionally resulted in non-compliance with one third basic salary rule.
- 444) Further CWSK already had this consultation with the staff in order to advise them on the one-third basic salary rule. Having this issue being private and them having to deal with Saccos privately, it was difficult to completely eradicate it.
- 445) Further, in addition, new compulsory levy, i.e. Housing Levy, and new higher NSSF rates have contributed. Additionally, CWSK had also had meetings with staff and Saccos together to address this issue.

Committee Observation and Recommendation

The Committee had deliberated on the issue on non-compliance with one third of basic salary rule in its Ninth PIC-SSAA report, observed and made recommendations. Consequently, the Committee upholds the previous observations and recommendations therein.

7.0 Delayed Project Implementation

- 446) The Committee heard that the projects implementation status report obtained during the audit reflected six (6) projects have been implemented by the Child Welfare Society of Kenya over the years were incomplete. Further, as at 30 June, 2025 Kshs. 1,431,655,679 had been paid and the project were stalled and at various completion levels as detailed below:

	Project Name	Total project Cost	Total paid to date	Project Commencement date	Completion % to date
1.	Joska Care Centre	740,961,255	464,374,183	2014	63%
2.	Isiolo Care Centre	890,537,646	321,565,930	2015	36%
3.	Nanyuki Care Centre	726,064,695	306,951,344	2015	42%
4.	Murang'a Care Centre	571,705,112	233,810,314	2017	41%
5.	Bungoma Care Centre	681,487,423	81,284,271	2013	12%
6.	Mama Ngina Care Centre	323,633,981	23,669,637		7%
		3,934,390,112	1,431,655,679		

- 447) In the circumstances, value for money was not being achieved on the amount incurred of Kshs. 1,431,655,679 and if the projects are not completed it could result to wasteful expenditure.

Management response

- 448) The management informed the Committee that, the above table by the Auditor was based on all the units in a given centre. Some have already started, while others were yet to start. The correct percentages of completion of the ones started and almost completed were as per table below:

N	Project Name	Project Commencement date	Completion % to date
1.	Joska Care Centre	2014	86%
2.	Isiolo Care Centre	2015	87%
3.	Nanyuki Care Centre	2015	87%
4.	Murang'a Care Centre	2017	87%
5.	Bungoma Care Centre	2013	87%
6.	Mama Ngina Care		100%

- 449) The projects were 5 - CWSK Joska, Bungoma, Isiolo, Nanyuki and Murang'a. Mama Ngina was not part of the projects as it was 100% complete on the approved projects of perimeter wall and gate house. These projects were designed as integrated child and family centers comprising perimeter wall, gate house, reception office/health centers, 3 units of foster care houses (bungalows and mansionettes), kitchen and dining, admin unit, laundry, store, school, civil works, landscape works, bio digesters.
- 450) The Board of Trustees (BOT) decided to implement the projects in piece meal as certainty of funds requirement could not be ascertained at onset. Some of the projects had been implemented to 100% completion. These include perimeter walls in all six centres, gate houses, reception offices, health centers and parking bays, in CWSK Mama Ngina, Murang'a, Nanyuki and Isiolo. Other parts of the projects were at various stages of completion.
- 451) All the above were 87% complete on the buildings substructure. The only remaining were mechanical, electrical and finishings, which are expensive.
- 452) The management enclosed the following documents—
- Qs Ministry of Transport, Infrastructure, Public Works, Housing and Urban Development assessment of bill of quantities for the units in the projects
 - Qs Ministry of Transport, Infrastructure, Public Works, Housing and Urban Development assessment of completion level of the units in the projects.
 - The viability of the CWSK projects is based on the great need for provision of shelter to separated and other vulnerable children- Enclosed Concept Paper on the ongoing CWSK projects.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Delayed project implementation in its Ninth PIC-SSAA report, observed and made recommendations. Consequently, the Committee upholds the previous observations and recommendations therein.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1.0 Grounded Motor Vehicles

- 453) The Committee heard that the Motor vehicle inventory list provided for audit review revealed that twenty-three (23) out of sixty-eight (68) motor vehicles with undetermined values were recorded to be grounded. However, Management did not disclose whether there are plans to repair or dispose-off these vehicles contrary to Section 163 (1) and (2) of Public Procurement and Asset Disposal Act, 2015 which states that, an Accounting Officer shall establish a disposal Committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent, or surplus stores, equipment or assets. The disposal Committee shall be responsible for verification and processing of all disposal recommendations in liaison with the head of procurement function as prescribed in Public Procurement and Asset Disposal Act, 2015.
- 454) In the circumstances, Management was in breach of the law and the effectiveness of internal control over management of assets could not be confirmed.

Management response

- 455) The management informed the Committee that, though these vehicles have fully depreciated as per CWSK depreciation policy, the process of repairing them to be used would be initiated once the funds were available, and this would bring value to the Society.

Committee Observations

The Committee observed that the Society recorded twenty-three motor vehicles with undetermined values as grounded with no plans to repair or dispose-off contrary to Section 163 of Public Procurement and Asset Disposal Act, 2015 which states that, an Accounting Officer shall establish a disposal Committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent, or surplus stores, equipment or assets.

Committee Recommendations

The Committee reprimands the then Accounting Officer for breach of section 163 of Public Procurement and Asset Disposal Act, CAP. 412C.

2.0 Incomplete Asset Register

- 456) The Committee heard that the statement of financial position and as disclosed in Note 36 reflects property, plant and equipment balance of Kshs.2,974,473,876. However, the asset register provided for audit was incomplete as it lacked corresponding values and dates of purchase contrary to Regulation 143(1) of Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.
- 457) In the circumstances, Management was in breach of law and the effectiveness of internal control over management of assets could not be confirmed.

Management response

- 458) The management informed the Committee that the asset register was available, and only needs to be updated with re-valuation values once funds were available for re-valuation to be done. Valuation being a heavy expenditure, Trustees were working on getting funds for this activity and it would be undertaken immediately once funds were available.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Incomplete asset register in its Seventh PIC-SSAA report, observed and made recommendations. Consequently, the Committee upholds the previous observations and recommendations therein.

EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED ACCOUNTS OF PUBLIC BENEFIT ORGANIZATIONS REGULATORY AUTHORITY FOR THE FINANCIAL YEAR 2024/2025

Dr. Laxmana Kiptoo PhD, OGW, Chief Executive Officer, Public Benefit Organizations Regulatory Authority accompanied by Mr. David Njane, Finance Officer, Mr. Lindon Nicholas, Legal Manager and Ms. Lony Kirima, Human Resource Officer appeared before the Committee to adduce evidence on the Audited Accounts of (PBORA) for the Financial Year 2024/2025

1.0 Material Uncertainty Related to Going Concern

- 459) The Committee heard that the statement of financial position reflects total current assets of Kshs.4,432,303 against total current liabilities of Kshs.23,496,047, resulting in a negative working capital of Kshs.19,063,744. Further, the Authority recorded a deficit of Kshs.18,266,986 compared to a deficit of Kshs.8,732,306 reported in 2023/2024 financial year, resulting in a decrease of the accumulated surplus from Kshs.35,502,408 to Kshs.17,235,422 as at 30 June, 2024. The Authority is, therefore, technically insolvent and its continued operation as a going concern is dependent upon support from the National Government and its creditors.

Management response

- 460) The management informed the Committee that, it takes note that the issue of the going concern had also been raised in the 2023/2024 financial year audit report by the Office of the Auditor-General. Basically, this was because of underfunding to the authority to enable it undertake its mandate. Following engagement with the Parent Ministry and the National Treasury and Economic Planning, the Authority's budget was increased from Kshs. 309 million in 2024/2025 financial year to Kshs. 434 million in 2025/2026 financial year. This enhanced allocation has enabled the Board to clear outstanding payables and improve the Authority's liquidity position, thereby restoring technical solvency. Printed budget estimates were annexed.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Material uncertainty related to going Concern in its Eighth report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

2.0 Non-Compliance with Climate Change and Financing Laws

- 461) The Committee heard that, the review of the Strategic Plan 2023-2027 revealed that the Authority was yet to formulate policies in line with the national climate change action plan and integrate them into their strategic plan. Further, Management had not established a well-resourced unit, led by a senior officer, to coordinate climate change integration. This was contrary to Section 15(5) of the Climate Change Act, 2016.
- 462) In the circumstances, Management was in breach of the law by not in complying with Section 15(5) of the Climate Change Act, 2016.

Management response

- 463) The management informed the Committee that, it notes that the Strategic Plan 2023–2027 is scheduled for a mid-term review in May 2026, subject to gazettment of the PBO Regulations, during which climate change actions will be integrated in line with the Climate Change Act, 2016 and the National Climate Change Action Plan. In the interim, the Authority is actively implementing the National Tree Growing and Restoration Campaign in line with its Performance Contract targets. Further, Management has established a Climate Change Committee chaired by the Manager, Partnership and Resource Mobilization, who also serves on the Ministerial Climate Change Committee.

Committee Observations

The Committee observed that–

- i) The Authority failed to formulate policies in line with the National Climate Change Action Plan and integrate them into the Strategic Plan 2023–2027, contrary to Section 15(5) of the Climate Change Act, 2016, which obligates public entities to mainstream climate change obligations into their planning frameworks.
- ii) Although Management cited the pending mid-term review of the Strategic Plan as the avenue for integration, no evidence was provided to demonstrate that interim measures, timelines, or budgetary provisions had been put in place to address the breach in the period between the commencement of the Strategic Plan in 2023 and the proposed review in May 2026.

Committee Recommendations

The Committee recommends that–

The Accounting Officer should at all times ensure that the Authority's strategic planning frameworks are formulated and reviewed in full compliance with the Climate Change Act, CAP 387A

3.0 Non- Compliance with Affirmative Action on Persons Living with Disabilities

- 464) The Committee heard that, the analysis of the payroll revealed that the Authority had fifty-eight (58) members of staff as at 30 June, 2025, and none of them was a person with special needs. This was contrary to Section 2.8.6 of the NGOs Co-Ordination Board Human Resource Policies and Procedures Manual, 2020, which requires at least 5% of their staff to be persons with disabilities.
- 465) In the circumstances, Management was in breach of the law.

Management response

- 466) The management informed the Committee that, during the FY 2024/25, the Authority did not undertake any recruitment exercise due to previous recruitment restrictions across the public service. The authority did not undertake recruitment due to budgetary constraints. Whenever there is recruitment, the authority always encourages PWD to apply.
- 467) Management acknowledges the observation and will ensure full compliance with Section B.23(2) of the Human Resource Policies and Procedures Manual for the Public Service, May 2016, regarding affirmative action for persons with disabilities.

Committee Observations

The Committee observed that–

The Authority did not have any member of staff with special needs contrary to Section 21 (2) (a) of the Persons with Disabilities Act, 2025 which requires that at least five percent (5%) of staff be persons with disabilities.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure compliance with the provisions of Persons with Disabilities Act, 2025 and the relevant applicable laws and regulations.

4.0 Under Staffing

- 468) The Committee heard that, the Authority approved staff establishment provides for two hundred and seven (207) substantive posts. Analysis of the payroll revealed that fifty-eight (58) employees were in substantive posts in various departments as at 30 June, 2025, resulting in understaffing by one hundred and forty-nine (149) members.
- 469) In the circumstances, the Authority may not have met its strategic objectives due to understaffing and also may not operate optimally.

Management response

- 470) The management informed the Committee that, despite the challenge of understaffing the authority strived to meet its strategic objectives. The Authority continues to make efforts to have its budget enhanced to realize recruitment of additional staff for optimal operation.

Committee Observations

The Committee observed that–

The Authority had fifty-eight (58) employees out of the required staff establishment of two hundred and seven (207) resulting in to understaffing by one hundred and forty-nine (149) members. This may have hindered the operations and public service delivery.

Committee Recommendations

The Committee recommends that –

The Accounting Officer should institute measures to progressively fill the staffing gaps. This should include seeking additional budgetary allocations from the National Treasury.

5.0 Failure to Implement a Service Level Agreement on Enterprise Resource Planning

- 471) The Committee heard that, the review of the contract, extensions and correspondence on implementation of an Enterprise Resource Planning (ERP) system between the Authority and the vendor revealed that the warranty period lapsed on 24 August, 2023. The Authority did not have in place a Service Level Agreement (SLA) with the vendor of the ERP. Therefore, there is no formal commitment by the vendor to resolve technical issues, provide minimum guarantees and ensure system reliability.
- 472) In the circumstances, without a Service Level Agreement (SLA), the Authority may face challenges in ensuring that the system meets its performance expectations and standards, compromising overall efficiency and effectiveness of its operations.

Management response

- 473) The management informed the Committee that, the ERP system was developed in September 2020, courtesy of a donation from UNDP-Kenya, automating 11 functional processes, including customer-facing services and the back-end workflows such as Finance, Human Resources & Payroll, Asset management, Procurement etc. It was designed under the framework of NGO Act, 1990 and other applicable legal statutes at the time.
- 474) UNDP support expired in August 2023; the Authority is supposed to take over the full cost of maintaining the system at Kshs 6.3 million per year.
- 475) The following reasons led the Authority to temporarily not renew the SLA:
- a) During the Financial year 2023/24 the Authority experienced huge budget cuts when the national budget was reduced by Ksh300 Billion. The implication was insufficient budget to cater for the ERP SLA budget.

- b) Key changes in Government policies and regulations have resulted to parts of the system being inconsistent and incompatible with the law. Some of the new /amended Policies introduced after the system was implemented include:
 - i) Operationalization of PBO Act, 2013 on 14th May, 2024 introduced new services affecting several key work-flows such as. PBO self-regulatory networks. PBO Appeals Tribunal it and establishment of the PBOs umbrella body.
 - ii) Anti-Money Laundering and Countering Financing of Terrorism: The PBOs Act, 2013 was further amended to accommodate AML/CFT provisions.
 - iii) Expected PBO regulations 2025: The new regulations, if passed by the National Assembly introduces several workflows such as; introducing3 new registration regimes: revised registration and compliance timelines, enhanced roles on capacity building, partnerships and collaboration mechanisms.
 - iv) Data protection Act of 2019 and regulations of 2021. Key elements of the DPA such as data hosting sovereignty demands that "Citizen Data" resides within the country for legal protection.
 - v) Electronic Government Procurement-eGP: The government policy requiring all state entities to shift procurement processes to the eGP rendered the procurement module redundant.

476) In view of the above, the management resolved to deferred renewal of the SLA until an assessment is complete to establish:

- i) The envisaged changes in the ERP system scope arising from the new /amended regulatory framework especially PBO regulations, 2025.
- ii) Impact of the expected changes to the SLA; will there be a change to the annual cost?
- iii) The possibility of reengineering the system to make it compliant with the various legal and policy changes vs the cost of developing a new system, assuming the reengineering cost is higher than acquiring a new system.

Committee Observations

The Committee observed that–

The Authority failed to renew a Service Level Agreement with the Enterprise Resource Planning vendor after the expiry of the warranty in August 2023 implying that the entity had weak internal controls contrary Regulation 165 (1) (b) of the PFM (National Government) Regulations, 2015 which requires an Accounting Officer to develop a system of risk management and internal control that builds robust business operations

Committee Recommendations

The Committee recommends that–

The Accounting Officer should at all times comply with the provisions of the PFM (National Government) Regulations, 2015.

EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED ACCOUNTS OF COMMUNICATIONS AUTHORITY OF KENYA (CAK) FOR THE FINANCIAL YEAR 2024/2025

Mr. David Mugonyi, Director General, Communications Authority of Kenya was accompanied by Mr. Dominic Ooko, Ag. Director Finance and Ms. Lydia Chelangat, Legal Officer appeared before the Committee to adduce evidence on the Audited Accounts of (CAK) for the Financial Year 2024/2025

1.0 Property, Plant and Equipment

- 477) The Committee heard that, the statement of financial position reflects property, plant and equipment balance of Kshs.20, 523,442,000 as disclosed in Note 21 to the financial statements. However, the following audit observations were made:

1.1 Overstatement of the Value of Freehold Land

- 478) The property, plant and equipment balance of Kshs.20,523, 442,000 include freehold land of Kshs.15,957,281,000 as reflected in Note 21(a) to the financial statement and contained in the valuation report of 30 June, 2018. The Authority's headquarters in Nairobi has a titled land whose size measures approximately 5.592 hectares. A review of documents revealed that the National Government compulsorily acquired 1.123 hectares of this parcel of land to facilitate the expansion of the James Gichuru –Rironi road. The Authority contracted a private valuer who valued the parcels of land and the property therein at Kshs.642,515, 220. The remaining parcel of land ought to go through vesting and acquiring a new title deed for the remaining 4.469 hectares. However, Management has not adjusted the reported balances to reflect the dispatch of parcel of land that was compulsorily acquired. Further, the Authority has not followed up on a vesting order for necessary changes in the title documents.
- 479) In the circumstances, the accuracy, ownership and completeness of property, plant and equipment balance of Kshs.20, 523,442, 000 could not be confirmed.

Management response

- 480) The management informed the Committee that–

a) On the Engagement of Registered Valuer for Land and Property Valuation

- 481) The Authority contracted M/s Syagga & Associates Limited, to undertake land and property valuation services for accounting, financial reporting, and asset management purposes. M/s Syagga & Associates Limited is a registered with the Valuers Act Cap 532, which regulates all professional valuations and mandates for both public and private practitioners.

482) Under the Land Act Cap 280, a valuer is defined as one who is registered and licensed to practice as a valuer in accordance with the Valuers Act Cap. 532. The Valuers Act Cap 532 defines a registered valuer as a person whose name is for the time being entered on the register of VRB. Therefore, for all intents and purposes, the law only requires valuation of land to be conducted by a registered valuer. There is no statutory or regulatory provision that restricts or prohibits any private valuer from carrying out such a valuation.

b) On Clarification on the Non- Requirement for a Vesting Order

483) A vesting order is a legal instrument or court directive that formally transfers ownership of land from the owner to an acquiring entity without a traditional conveyance process. In the current circumstances, the Authority does not require a vesting order in this case as it is not the acquiring entity. The acquiring entity in this case is Kenya National Highways Authority (KeNHA) which was acquiring the Authority's property to construct the A104 James Gichuru Junction - Rironi Junction Road.

c) On Clarification on the actual size of the land compulsorily acquired by KeNHA

484) Section 107 of the Land Act Cap 280 gives the National Land Commission (NLC) power to compulsorily acquire land for public use. NLC vide a Gazette Notice No. 810 published in the Kenya Gazette Vol.CXVIII-No.12 dated February 12th, 2016 issued a notice of intention to acquire part of the Authority's amalgamated property for use by the Kenya National Highways Authority (KeNHA) for the expansion of A104 James Gichuru Junction - Rironi Junction Road.

485) Upon the dissolution of the defunct Kenya Post and Telecommunications Corporation (KPTC) in 1998, the assets and liabilities of KPTC were vested upon Communications Commission of Kenya (now Communication Authority of Kenya), Postal Corporation of Kenya and Telkom Kenya Limited vide Legal Notice No. 155, 156 and 157 respectively, published as a special issue on 5th November 1999.

486) In the said Legal Notice, Communications Authority of Kenya (the Authority) was vested with parcel numbers L.R. Nos. 4393/16/2, 4393/15/1, 4393/15/2, 4951, 9233, 4393/5, 4393/6 and 209/5883/2 located in Westlands

487) L.R. No. 4393/16/2 (now known as L.R. No. 4393/19) measures approximately 13.82 acres and houses the CA headquarters. L.R. Nos. 4393/15/1, 4393/15/2, 4951, 9233 (then known as 4393/3), 4393/5, 4393/6 and 209/5883/2 vested upon the Authority measure approximately 32.2 acres and hosts AFRALTI.

488) In February 2016, NLC through gazette notice no. 810 dated 12th February 2016 notified the Authority of the intention of the Government of Kenya to acquire L.R. Nos. 4393/16/2, 4393/18 (then known as 4393/15/1 and 4393/15/2) and 4951 for construction of A104 James Gichuru Junction-Rironi Junction Road project.

489) On 16th March 2018, NLC issued an Addendum gazette notice no. 2532 notifying the Authority of the change in acreage to be acquired by the Government as follows: -

S/No.	Parcel name	Acreage acquired under gazette notice no. 810 dated 12 th February 2016	Acreage acquired under gazette notice no. 2532 dated 16 th March 2018
1	L.R. No. 4393/16/2	0.4265	0.5550
2	L.R. No. 4393/18 (then known as 4393/15/1 and 4393/15/2)	0.2209	0.2492
3	L.R. No. 4951	0.2334	0.3189
TOTAL ACREAGE		0.8808	1.1231

d) On Current status on rectification of titles

- 490) The Authority since sought the intervention of the NLC on the survey and rectification of titles for L.R. No. 28644 (now referred to as Nairobi/Block 1/111) and L.R. No. 4393/19 (now referred to as Nairobi/Block 1/2), following the partial acquisition of the parcels for the A104 James Gichuru Junction–Rironi Junction Road project, in accordance with Section 5(1)(e) of the National Land Commission Act, Cap 281.
- 491) The NLC has completed the physical survey of the affected parcels, and processing of the corrected title documentation is currently underway, awaiting uploading of Title on the Ardhi Sasa platform by NLC. Once the Title is uploaded on Ardhi Sasa platform, NLC shall procure the printing of the physical Title Deeds for the Authority. This process has been delayed owing to persistent downtime challenges with the Ardhi Sasa platform. Relevant correspondence and supporting documents were provided to the Committee.

Committee Observation and Recommendation

The Committee had deliberated on the issue on Overstatement of the value of freehold land in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

1.2 Lack of Ownership Documents for Land in Garissa County

- 492) The Committee heard that, as previously reported, the valuation report received on 30 June, 2018 includes a monitoring station in Garissa County with property development which includes two security houses and an old equipment house. However, the land where these developments sit is unregistered and, therefore, lacks evidence to show that the land is owned by the Authority.
- 493) A physical inspection by the audit team conducted in August, 2025 revealed several maintenance and security deficiencies, including a leaking ceiling in the security house, old furniture requiring replacement, worn -outwalls which requires repainting, a low-capacity septic tank, non-

functional Closed-Circuit Television (CCTV) monitoring equipment and screens, a cracked water tank base, and a leaking overhead slab at the sentry post. In addition, the land is unfenced thus allowing unrestricted grazing by residents' livestock.

- 494) Further, as a result of the land being unregistered it was not valued and was excluded in the financial statement for the year under review, leading to understatement of the property, plant and equipment balance of Kshs.20,523,425,000 by unknown amount.
- 495) In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.20, 523, 425,000 could not be confirmed.

Management response

- 496) The management informed the Committee that–

a) On the Unregistered Land in Garissa County

- 497) The “Modika Radio Monitoring Station” was constructed by the defunct Kenya Posts and Telecommunications Corporation (KPTC) in 1976. The asset was however not included in the Vesting Order published in the Legal Notice No. 155 of 1999. As such the property was not vested upon the Authority upon dissolution of the defunct KPTC. The Authority has been in possession of and operates the Modika Radio Monitoring Station since its inception in 1999.
- 498) Since 2014, the Authority has engaged in discussions with the defunct Garissa County Council and later the current Garissa County Government regarding its acquisition. In a meeting between the Authority's representatives and the Deputy Governor of the County Government of Garissa, it was ascertained that the land is not part of community land. As such, the County indicated its willingness to facilitate the Authority in the acquisition of the land at a cost of Kshs. 15,600 per quarter acre. The Authority did not proceed with the discussions noting that the property belonged to KPTC and sought the assistance of National Land Commission (NLC) to ascertain the historical ownership of the property and facilitate its acquisition.

b) On the Current status on acquisition of title

- 499) Vide a letter dated February 21st, 2025, the Authority wrote to NLC requesting the Commission's assistance in facilitating the acquisition of the property and issuance of a title deed for the parcel known as Garissa Township/Block 11/73. NLC responded to the Authority requesting for more documents vide its letter dated March 25th, 2025 to which the Authority responded to vide its letter dated December 16th, 2025.
- 500) To date, the Authority is yet to receive any response from NLC as regards its request despite the Authority sending reminders to NLC resting with the latest reminder dated February 17th, 2026. We are currently awaiting their feedback on the matter. The correspondences to support this were provided.

c) On the Physical condition of buildings

- 501) The Authority acknowledges the audit team's observations from the August 2025 physical inspection at Garissa Station and wishes to provide the following update: Funds for ceiling, roof,

masonry and painting works have been provided for in the FY 2025/2026 budget; new furniture was delivered in February 2026; the full pit latrine was emptied in January 2026; renewal of CCTV monitoring services is in progress through the eGP system.

d) On the Construction of perimeter wall and valuation

- 502) The construction of security structure and perimeter wall construction have been scheduled for FY 2026/2027. In addition, the Authority has initiated the process of securing the requisite land documentation; the property will be fully captured and reported in the Asset Register. The Authority remains committed to addressing the deficiencies noted and ensuring the station meets the required standards for safety, security, and operational efficiency.

Committee Observations and Recommendations

The Committee had deliberated on the issue on Lack of Ownership documents for land in Garissa County in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

2.0 Long Outstanding Accounts Receivables

- 503) The Committee heard that, the statement of financial position reflects receivables from non-exchange transactions balance of Kshs.290, 113, 000 as disclosed in Note 19 to the financial statements. The balance is net of cumulative provisions for bad and doubtful debts (General and Specific), amounting to Kshs.7,116,519,000 which includes Telkom Kenya Ltd debt provision of Kshs.4,921,257,137. The Authority has engaged with The National Treasury since June, 2020, seeking their assistance to allocate resources to Telkom Kenya Limited (TKL) for the settlement of regulatory fees. The National Treasury provided commitments in June, 2020 and October, 2021 but these funds were not disbursed then. At the time of audit in the month of October, 2025 no evidence was provided to confirm that money had been received from The National Treasury.
- 504) Further, review of the ageing analysis schedule disclosed in Note 19 (b) to the financial statement, revealed that a balance of Kshs.5,466,095,000 or 74% of the total receivables from non-exchange transactions which had been outstanding for more than two (2) year as at 30 June, 2025 as summarized below:

Details	Amount (Kshs)	Percentage of Total Receivables from Non-Exchange Transactions
Less than 1 year	866,576,000	12%
Between 1-2 Years	1,073,962,000	14%
Over 2 years	5,466,095,000	74%
Total	7,406,632,000	100%

- 505) In the circumstances, the recoverability of the receivables from the non-exchange transactions balance of Kshs.290, 113,000 could not be confirmed

Management response

- 506) The management informed the Committee that, the Authority acknowledges the aged receivables and outlines the debt recovery efforts. As at June 30th, 2025, the total outstanding amount is Kshs. 7.406 billion with 79% of the outstanding balance relates to public-sector. The outstanding public-sector balances have been reported to The National Treasury, the Parent Ministry, and the Committee on Pending Bills.
- 507) In addition to public-sector recoveries, Management continues to actively pursue private-sector debts. Payment plans have been negotiated with several debtors, and enforcement actions—including demand letters and revocation notices.
- 508) List of key public sector entities with outstanding debts and details relating to the debts were provided as:

Name of Licensee	Amount (Kshs.000)	Remarks
Telkom Kenya Limited	5,461,514	The National Treasury, through its letter dated June 28th, 2020, Ref: TNT/ZZ/331/02, and letter (Ref: TNT/ZZ/331/02) dated October 22nd, 2021, committed to make available to Telkom Kenya Limited the amount of money required to cover the Frequency Spectrum fees for the two (2) Financial Years amounting to Kshs. 2,213,077,093.62 and requested for CA's forbearance to enable Telkom Kenya Limited access regulatory approvals it requires. However, the communication lacked: a. Clear timelines for the release of funds, and b. An established mechanism through which the Authority would access the funds once disbursed to Telkom Kenya In view of the long outstanding debt, the Board approved a debt restructuring framework on 9 May 2025, and implementation is progressing through the Ministry of Information, Communications and Digital Economy (MoICDE)

Name of Licensee	Amount (Kshs.000)	Remarks
		This was followed by a tripartite meeting held on 4 February 2026 between the Communications Authority (CA), the National Treasury (TNT), and MoICDE to accelerate progress.
Signet Signal Distributors Limited	108,391	Management continues to actively follow up on the outstanding debt, although the licensee has reported persistent financial difficulties.
National Intelligence Service	102,970	The Authority has faced consistent challenges in recovering debts from NIS, which claims exemption citing ICT policy 2019. However, the debt accrued prior to that period. Additionally, on September 27th, 2017, the Ministry of ICT informed CA that security agencies (Ministry of Defense, National Police Service and National Intelligence Service) have no budgetary provision for Frequency Spectrum fees. Management has also sought the write-off through the National Treasury, and no response/feedback has been received.
Postal Corporation of Kenya (PCK)	101,244	The Authority has consistently experienced challenges in recovering outstanding debts from PCK, which has repeatedly indicated that it is facing ongoing financial difficulties.

Name of Licensee	Amount (Kshs.000)	Remarks
Kenya Prisons Services	36,181	Kenya Prisons has stated that, as a security agency, it believes it should be exempted from paying frequency fees.
Kenya Broadcasting Corporation (KBC)	13,133	The Authority has consistently experienced challenges in recovering outstanding debts from KBC, which has repeatedly indicated that it is facing ongoing financial difficulties.
Mumias Sugar Company Limited	10,549	Following the Cabinet approval of September 14 th , 2023 of privatizing state-owned sugar companies, CA on February 8 th , 2024, requested The National Treasury that its debt be considered as a priority during the transition process. However, no feedback was received.

- 509) Management remains committed to strengthening debt management through enhanced monitoring, follow-up, and enforcement mechanisms to improve recoverability and minimize future aged receivables.

Committee Observation and Recommendation

The Committee had deliberated on the issue on Long outstanding accounts receivables in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

3.0 Unsupported Loan Receivables from Employees

- 510) The Committee heard that, the statement of financial position reflects non-current receivables from exchange transactions balance of Kshs.628, 886, 000 as disclosed in Notes 20(c) to the financial statements. These relate to staff receivables such as outstanding loan receivables from Authority's car loan and mortgage scheme, outstanding imprest, salary advance and other staff debtors. However, loan principal balance of Kshs.15, 130,080 were not supported by individual loan statements and evidence of loan repayment. Further, the Authority did not provide list of exited staff who have outstanding loan.
- 511) In the circumstances, accuracy, validity and completeness of non-current receivables from exchange transactions balance of Kshs.628, 886, 000 could not be confirmed.

Management response

- 512) The Committee was informed that, the individual loan statements for exited staff supporting the KShs. 15,130,080 under the Car Loan and Mortgage Scheme as was supported by the submitted attachment.
- 513) Additionally, receipts for loan repayments and a complete schedule of exited staff with pending loan recoveries were provided. The Authority remains committed to maintaining accurate and verifiable records.

Committee Observation and Recommendation

The Committee had deliberated on the issue on Unsupported loan receivables from employees in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

4.0 Stalled Information, Communications and Technology Project

- 514) The Committee heard that, the statement of financial position, as disclosed in Note 21(a) to the financial statements, reflects property, plant and equipment with a carrying amount of Kshs.20, 523,442,000. Included in this balance, is work in progress amounting to Kshs.2,663,849,000 relating to ICT projects out of which Kshs.21,739,798 relate to payments towards the design, supply, installation, testing, commissioning and training of the Device Management System solution in August, 2016 with a contractual delivery timeline of twenty (20) weeks. However, the project has stalled and remained unimplemented eight (8) years later due to various court cases.
- 515) In the circumstances, value for money for the project investment of Kshs.21, 739, 798 may not be realized.

Management response

- 516) The management informed the Committee that—

a) On Actual Financial Exposure and Contractual Payments

The Authority clarifies that only 10% of the contract sum Kshs.21, 739,798—was paid, in line with the contractual milestone. No further payments were made because implementation was halted shortly after contract award due to litigation.

b) On the Judicial Proceedings That Halted the Project

Immediately following contract award in 2016, the project became the subject of prolonged and sequential litigation, which legally prevented implementation.

- i) High Court Petition No. 53 of 2017 by Okiya Omtatah v CA & Others
- The High Court nullified the regulatory and policy framework supporting the DMS.
 - The Court held that the framework did not meet constitutional requirements for public participation.
 - Implementation of DMS was stopped through a court injunction, making performance impossible.

- ii) Court of Appeal Judgment (April 24th, 2020)
 - The Court of Appeal set aside the High Court judgment,
 - Directed the Authority to develop technical and consumer guidelines and subject them to public participation,
 - Effectively reinstated the Authority's mandate, but only after fulfilling regulatory steps.
- iii) Supreme Court Proceedings (2023)
 - The Supreme Court upheld the Court of Appeal's decision.
 - This concluded the first phase of litigation but left implementation dependent on completion of the regulatory framework.
- iv) Fresh Litigation in 2024–2025: Petitions E647 and E653 of 2024

The DMS-related IMEI registration notice issued jointly by CA and KRA was again challenged:

- Petition E647 of 2024 – Katiba Institute v CA & Others
- Petition E653 of 2024 – LSK v CA, AG & KRA

517) On July 4th, 2025, the High Court in E647 of 2024 declared the IMEI registration notices unconstitutional on grounds of breach of the right to privacy. With the instant judgment, the DMS project cannot be implemented unless the Court of Appeal overturns the decision of the High Court. The Authority has appealed the judgment of the High Court and awaits a hearing date. These prolonged and protracted court process delayed the implementation process of the project. The Authority intends to proceed with the project implementation upon conclusion of the court cases to realize the investment made.

Committee's Observations

The Committee observed that–

- i) The payment of Kshs.21, 739,798 by the authority towards the design, supply, installation, testing, commissioning and training of the Device Management System solution in August, 2016 was yet to yield any value for money because of the delay in the project's completion.
- ii) Despite the project having a contractual delivery timeline of twenty (20) weeks, eight years later the project stalled and remained unimplemented due to various court cases. The delay poses the risks of escalation of the project's costs.
- iii) On July 4th, 2025, the High Court declared the IMEI registration notices unconstitutional on grounds of breach of the right to privacy which consequently stopped its implementation. The Authority has appealed the judgment of the High Court and awaits a hearing date.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer in collaboration with the Principal Secretary, State Department for

Broadcasting and Telecommunications to ensure compliance with the Supreme Court judgement and to fastrack the conclusion of the Petitions filed in 2024.

1.0 Budgetary Control and Performance

- 518) The Committee heard that, the statement of comparison of budget and actual amounts reflects total revenue final budget and actual on a comparable basis of Kshs.12,992,209,000 and Kshs.13,752,813,000 respectively resulting in an over collection of revenue Kshs.760,604,000 or 6% of the approved budget. Similarly, the Authority spent Kshs.9,138,230,000 against actual receipts of Kshs.13,752,813,000 resulting in under-utilization of Kshs.4,614,583,000 or 34% of actual receipts. The under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

Management response

- 519) The management informed the Committee that, the revenue over-performance was mainly driven by higher than anticipated collections from spectrum fees, licensing activities, and interest income earned from deposits during the period. Against a final approved revenue budget of KSh 12,992,209,000, the Authority realized actual revenue of KSh 13,752,813,000, resulting in an over collection of KSh 760,604,000 (6%). Given that these revenue streams are demand driven and highly dependent on market conditions, precise forecasting remains inherently challenging. The over collection therefore reflects stronger sector performance and prudent cash management, rather than deliberate under budgeting.
- 520) The reported “under-utilization” of Kshs. 4,614,583,000 (34% of actual receipts) does not necessarily translate into non-performance and should be viewed within the context of Regulation 219 (2) where a regulatory authority is required to remit to the National Treasury (90%) of its surplus funds reported by the in the financial statements by the 31st October of each year. In view of this requirement, CA remitted Kshs. 3,219,282,000.
- 521) Additionally, compliance with public procurement laws, inevitably affected absorption rates within the reporting period. Some projects were at various stages of procurement, contract negotiation, or implementation and therefore did not fully crystallize into expenditure within the financial year. The Authority therefore confirms that service delivery to the public was not negatively impacted. The breakdown and reasons for the variances were provided as summarized in the table.

	Approved Budget Kshs. (000)	Actual Budget Kshs. (000)	Variance Kshs. (000)	%	Remarks
Total Revenue	12,992,209	13,752,825	(760,616)	106%	Increased Interest rates, growth within the ICT industry

Expenditure	10,304,401	9,138,230	1,163,898	89%	Core regulatory, licensing, compliance monitoring, consumer protection, and universal service obligations were effectively executed
90% Surplus paid to National Treasury	2,687,808	3,219,282	(1,924,514)		90% Remittance to TNT
Total Expenditure		12,357,512			This amounts to 90% of the Total revenue

Committee Observations

The Committee observed that–

- i) The total actual revenue realized exceeded the projected revenue by KSh 760,616 representing 106% revenue performance.
- ii) The Authority spent Kshs 9,138,230,000 against actual receipts of Kshs.13,752,813,000 resulting in under-utilization of Kshs.4,614,583,000 or 34% of actual receipts. The under-utilization may have negatively impacted on service delivery to the public.
- iii)The Authority relied on unrealistic assumptions as the basis of projections of revenue and expenditures which led to the variances between the actual and budgeted revenue and expenditures.

Committee Recommendations

The Committee recommends that, the Accounting Officer should at all times ensure that the formulated budgets are realistic, achievable and always adhere to annual work plans, procurement plans and revenue collection schedules and based on plausible projection assumptions.

1.0 Unresolved Prior Year Issues

- 522) The Committee heard that, in the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Authority in 2024/2025 revealed that the following five (5) issues remained unresolved:

	Financial Year	Audit Issue
1	2023/2024	Property Plant and Equipment-Overstatement of the Value of Freehold Land (CA HQ Nairobi)
2	2023/2024	Lack of Ownership Documents for Land in Garissa County
3	2023/2024	Existing Charge on Land in Trans-Nzoia County
4	2023/2024	Long Outstanding Accounts Receivables
5	2023/2024	Delay in Implementation of Supply, Delivery, Implementation and Maintenance of a Licensing Management System and the Associated Hardware

Management response

523) The management informed the Committee that–

i) On the Existing Charge on Land in Trans-Nzoia County

- 524) The “Sabwani Farm” farm in Kitale was part of the assets that was vested upon the Communications Commission of Kenya (CCK) at the split of Kenya Posts and Telecommunications Corporation (KPTC) in 1999. At the time, the Sabwani Farm was part of a larger parcel of land (i.e. Land Title No. IR 1156) (“the Mother Title”) owned by the Agricultural Development Corporation (ADC). KPTC and later the CCK set down to acquire part of this land as part of titling for the establishment of a Radio Spectrum Monitoring Station (RSMS).
- 525) The transaction which involved acquisition of 30 acres of land for a sale price of Kshs. 1,023, 154.15, was taken over by CCK as part of the vestment that arose from the split of KPTC. The transaction meant that the Mother Title would be subdivided to result in the portion that KPTC/CCK was interested in being created.
- 526) At the time of the transaction, the Mother Title had a Charge in favour of the Kenya Commercial Bank (KCB) (per Entry Nos. 9 and 10 in the Mother Title). Hence, for the subdivision to take place in favour of CCK, a Partial Discharge had to be issued by KCB to exclude the portion of CCK’s interest from the Charge on the Mother Title (per Entry No. 11 in the Mother Title).
- 527) This Partial Discharge was followed by the creation of Title LR 2993/1 (IR 126183) and transfer of the same 30 acres to CCK on May 31st, 2010. This new title had its separate and distinct Certificate of Title issued to CCK without any encumbrance.
- 528) Upon the successful subdivision and issuance of Certificate for Title LR 2993/1 (IR 126183) as explained above, KCB and ADC reinstated the earlier Charge as between themselves (per Entry No. 13 in the Mother Title).
- 529) We, therefore, wish to confirm that the Charge in issue (i.e Entry No. 13 in the Mother Title) is a Charge on the Mother Title (IR 1156) and not the Authority’s Certificate for Title LR 2993/1 (IR 126183). The Authority’s title for the Sabwani Farm is thus free of any encumbrance as evidenced by an attachment which contains the Lands Registry’s endorsement/certification of February 25, 2025

ii) On the Licensing Management System

- 530) The Communications Authority of Kenya is implementing a Licensing Management System (LMS) with, CopyCat Limited as the vendor, to modernize and digitize licensing operations. The system automates end to end license lifecycle management, integrates with internal and external platforms, supports digitization and data migration, and provides reporting and business intelligence dashboards to improve regulatory oversight and service delivery.
- 531) The project is currently in the operational readiness phase following significant progress in system development, testing and validation. Project governance is provided through the Contract Implementation Team (CIT) and the Steering Committee. Project Implementation capacity for the Project Manager (ICT Department) has been further enhanced by appointment of 23 Functional Users, who are domain experts drawn from the key regulatory departments.
- 532) The User Acceptance Testing (UAT) was conducted in March 2026 across all the functional areas of the LMS Application, with more than 1,100 test cases executed, with an overall pass rate of 98%. Most modules recorded 100% pass rate including licensing workflows, Electronic Data Management System (EDMS), and Business Intelligence (BI) dashboards. Overall, the LMS project has achieved substantial progress and is approaching Go Live following successful completion of System Development UAT and resolution of key system requirements.
- 533) The Management is responsible for the Other Information set out on page iv to xlviii which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Director General/Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.
- 534) In connection with my audit on the Authority's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements, or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this Other Information, and I am required to report that fact. Based on the audit procedures performed and the matters described in my Basis for Qualified Opinion, I confirm that Other Information is not materially inconsistent with the financial statements.

Committee Observations

The Committee observed that –

The Accounting Officer had several unresolved prior year matters which the management has not resolved or given any explanation contrary to section 31 (1) of the Public Audit Act, CAP. 412B which requires that state organ or a public entity that had been audited shall, as a preliminary step, submit a report on how it has addressed the recommendations and findings of the previous year's audit

Committee Recommendations

The Committee recommends that –

The Accounting Officer should always comply with the provisions of section 31 (1) of the Public Audit Act, CAP. 412B.

1.0 Non-Compliance with Kenya Information and Communications Broadcasting Regulations, 2009

- 535) The Committee heard that, the Regulation 10 of the Kenya Information and Communications (Broadcasting) Regulations, 2009 requires that no person shall own directly or indirectly more than one broadcast frequency or channel for radio or television broadcasting in the same coverage area. Audit review of the radio frequency revealed non-compliance with Regulation 10 of the Kenya Information and Communications (Broadcasting) Regulations, 2009.
- 536) Further, audit review conducted a sampled comparative analysis of two (2) leading nationwide radio broadcasters one with thirteen (13) radio stations registered under one company name and another with six (6) radio stations registered with various company names in the Authority's books. It revealed that the broadcaster with six (6) radio stations registered under different company names was billed substantially lower fees due the application of the billing formula which factors in the number of radio stations per coverage area. This resulted in an under-charging the broadcaster by Kshs.12, 350, 000 for sampled locations. The broadcaster thus circumvented the Authority's billing formula resulting in undue advantage compared to other broadcasters who have presented radio stations under one company name.
- 537) In the circumstances, Management was in breach of the law.

Management response

- 538) The management informed the Committee that, in addition, Regulation 46 of the regulation on *Transition of permits to licenses. [No. 1 of 2009]* states as follows: -
- (1) Pursuant to section 46R of the Act, all persons issued with broadcast permits prior to the commencement of the Kenya Communications (Amendment) Act, 2009 shall—
- a. be required to apply for broadcast licence(s) in such a manner as may be prescribed by the Commission.*
 - b. pay such fees as may be prescribed by the Commission for the issuance of the broadcasting licence(s) to replace the permits and frequency licence and usage fees;*
 - c. retain such radio frequency resources already assigned under the same terms and conditions of issuance: Provided that they comply with such new terms and conditions that the Commission may impose; and*
 - d. in the event of failing to apply or qualify for the licence(s), cease to be a broadcaster.*
- 539) In view of the transition clause (Regulation 46), the Authority had to retain the frequencies of the licensed broadcasters in the original state for all the frequencies assigned before the enactment of the regulations in 2009.

- 540) Regulation 10, which seeks to prevent or sanction situations where a broadcaster holds more than one frequency within the same broadcast region. This rule is intended to curb undue market concentration by limiting frequency ownership/assignment—not the carriage of content—within a defined market.
- 541) Additionally, following digital migration, Kenya adopted a Broadcast Signal Distribution (BSD) model in which licensed signal distributors carry multiple broadcasters' content on a shared multiplex frequency in each region. This structure means that a single BSD may transmit numerous channels over one frequency without those content providers themselves holding more than one frequency in the same region.
- 542) Management will enhance regulatory compliance by issuing a guidance note to licensees clarifying frequency assignment limits under Regulation 10 in line with the current Broadcasting Regulations that are under review. The Authority will also update the frequency assignment register to map, by region, the frequencies assigned by each station and ultimate beneficial owner. This will ensure a clear and auditable record.

Committee Observations

The Committee observed that—

- i) By granting some radio stations more than one broadcast frequency or channel for radio or television broadcasting in the same coverage area, the management of the Authority breached the Regulation 10 of the Kenya Information and Communications (Broadcasting) Regulations, 2009 which prohibits the same.
- ii) The broadcaster with six (6) radio stations registered under different company names was billed substantially lower fees due the application of the billing formula which factors in the number of radio stations per coverage area. This resulted in an under-charging the broadcaster by Kshs.12, 350, 000 for sampled locations.

Committee Recommendation

The Committee recommends that within six months upon adoption of this report, the Auditor General should undertake a and a forensic audit on the issuance and management of the radio frequency and spectrum with a view to establish the licensing billing structures compliance with the provisions of the Regulation 10 of the Kenya Information and Communications (Broadcasting) Regulations, 2009.

2. 0 Non-Compliance with Tenure Staggering Requirements

- 543) The Committee heard that, the Gazette Notice No. 15498, Vol. CXXV-No.243 dated 15 November, 2023 indicates that the Council Chairperson and eight (8) other members of the Universal Service Advisory Council (USAC) were all appointed on the same day, for a uniform term of three years effective from 15 November, 2023. This simultaneous appointment means their terms will end concurrently, violating the staggered tenure requirement under the Section 2 of the Fourth Schedule of KICA Act, 1998. In the circumstances, Management was in breach of law.

Management response

- 544) The management informed the Committee that USAC Is Not a Board and Is Governed Separately Under KICA.
- 545) USAC is established under Section 102K and the Fourth Schedule of the Kenya Information and Communications Act (KICA) Cap 411A, which sets out the provision of the Universal Service Advisory Council (USAC). Paragraph 2 of the Fourth schedule on the appointment of the Council, provides that the members of the Council shall be appointed at such times that their respective.

a) Recruitment and Appointment of USAC Members

- 546) Recruitment of Members of USAC is a process undertaken by the Public Service Commission (PSC) as provided for under Section 102K (7), (8), (9), (10) and (11) of KICA. Appointment of members of USAC is equally done by the Cabinet Secretary in charge of ICT in accordance with Section 102K (12), (13) and (14).
- 547) The Authority does not participate in the recruitment and appointment of members of USAC. The Gazette Notice referenced in the audit observation reflects an appointment decision made fully within the mandate of the Cabinet Secretary, and not within the operational or administrative control of the Authority. In so far as the recruitment and appointment of members of USAC is concerned, the Authority is therefore not in breach of any law.
- 548) However, the Authority shall, prior to the lapse of the term of the current USAC members, advice the Cabinet Secretary on the requirement of staggered USAC appointments, in line with the requirements of the Fourth Schedule.

b) Continuity of USAC Functions Is Ensured Through Institutional Mechanisms

- 549) Although members were appointed on the same date, the risk associated with not staggering the Council's appointments is mitigated through: A permanent USF Secretariat supporting USAC, Formal institutional documentation, including Terms of Reference, scheduled quarterly reporting to the CA Board and Retention of USF policies, guidelines, and historical records that preserve institutional memory.
- 550) USAC's advisory role is therefore not dependent solely on staggered member tenure, and continuity is adequately maintained through these mechanisms

Committee Observations

The Committee observed that the appointment of Council Chairperson and Members of the Universal Service Advisory Council (USAC) on the same day, meant that the tenure of the Council will end concurrently. This was in violation of Section 2 of the Fourth Schedule of KICA Act, 1998, which requires the appointment of Council Members to be staggered to ensure a phased transition.

Committee Recommendations

The Committee recommends that the appointing authority should at all times comply with the provisions of the Kenya Information Communication Act, 1998.

3.0 Non-Compliance with the Law on One-Third of Basic Salary Rule

- 551) The Committee heard that, the Review of payroll records for the month of June, 2025 revealed that forty-three (43) employees received less than one-third (1/3) of their basic salary. This is contrary to Section 19(3) of the Employment Act, 2007 which provides that the total amount of all deductions that may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds (2/3) of such wages of his additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employer or employees or any trade or industry. In the circumstance, Management was in breach of the law

Management response

- 552) The management informed the Committee that employees' net pay fell below one-third of their basic salaries. This was mainly attributable to statutory deductions introduced or revised by Government, including the Housing Levy, the increased Social Health Authority deduction, and the NSSF contribution.
- 553) To address this, the Authority has taken corrective measures. Affected staff were formally notified and guided on options to regularize their deductions in line with legal and policy requirements. Continuous monitoring of payroll deductions has also been instituted to ensure sustained compliance.
- 554) As of June 2025, forty-three (43) employees were affected. By August 2025, this number had reduced to twenty-three (23). As of January 2026, all employees met the one-third threshold except one exiting employee who received a prorated salary.

Committee Observations

The Committee observed that Forty-three (43) employees received less than one-third (1/3) of their basic salary in contravention to Section 19(3) of the Employment Act, 2007 which provides that the total amount of all deductions that may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds (2/3) of such wages of his additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employer or employees or any trade or industry.

Committee Recommendations

The Committee recommends that the Accounting Officer should at all times ensure compliance with the provisions of the Employment Act, 2007.

4.0 Non-Compliance with Staffing Requirement of Persons with Disabilities

- 555) The Committee heard that, an analysis of the payroll data for the period under review revealed that the Communications Authority of Kenya had only eight (8) staff members

falling under Persons with disabilities (PWD) category, representing approximately 2.2% of the total workforce of three hundred-eight (358). This was contrary to Section B.23 (1) of Human Resource Policies and Procedures Manual for the Public Service, 2016 and Section 4(f) the Persons with Disabilities Act, 2025 which requires every national government entity to promote the inclusion and integration of persons with disability in the public service and put in place measures to ensure that at least five per centum (5%) of the employment positions are filled by persons with disabilities; In the circumstances, Management was in breach of the law

Management response

- 556) The management informed the Committee that, the Committee was informed that, we acknowledge the audit observation regarding the five percent (5%) target. The Authority continues to make progressive strides toward full compliance. The number of staff with disabilities increased from four (4) at the beginning of FY 2024/2025 to eight (8) by the end of the financial year. As of February 2026, the Authority has an additional two (2) staff members with disabilities, bringing the total to ten (10), which represents three percent (3%) of the workforce. This progress demonstrates our sustained commitment to achieving and ultimately surpassing the statutory requirement.
- 557) Additionally, the Authority has proactively engaged six (6) interns with disabilities as part of its deliberate efforts to strengthen workplace inclusion, promote the integration of persons with disabilities within the Authority, and develop a sustainable talent pipeline. The Authority's advertisement for recruitment is shared with the National Council for Persons with Disability through upload on their FUZU Portal for recruitment. The Authority also has an Approved Diversity and Inclusion policy that guides on Disability Mainstreaming.

Committee Observations

The Committee observed that the Authority had only eight (8) staff members falling under Persons with disabilities (PWD) category, representing approximately 2.2% of the total work force. This was contrary to section 21 (2) (a) of the Persons with Disabilities Act, 2025 which requires that at least five percent (5%) of staff be persons with disabilities.

Committee Recommendations

The Committee recommends that, the Accounting Officer should ensure compliance with the provisions of Persons with Disabilities Act, 2025 and the relevant applicable laws and regulations.

5.0 Idle and Unoccupied Director General's Official Residence

- 558) The Committee heard that, a physical verification of the official residence allocated to the Director General revealed that the house has remained unoccupied for a prolonged period. No official justification or documentation was provided to explain the continued non-occupancy of the residence. In the absence of occupancy and without documented justification; it was not

possible to confirm that the Communications Authority of Kenya is deriving value for money from the investment made in constructing and maintaining this official residence.

- 559) In the circumstances, the efficiency and effectiveness in the utilization of public resources is in doubt.

Management response

- 560) The management informed the Committee that, the Muthangari residence is more than 40years old shows age-related deterioration, hence, not habitable. The Board during its 95th meeting held on 16th April, 2009 directed that the residential property at Muthangari be retained as an institutional house for future occupancy.
- 561) The Authority engaged the State Department for Public Works in the preparation of the architectural designs and bills of quantities for the redevelopment of the property, designs and BoQs for redevelopment were prepared in April 2022 with Kshs 95 million budgeted.
- 562) However, the Board during its Special Staff Committee meeting held on April 28th, 2022, guided Management to consider the Circular issued by The National Treasury dated April 14th, 2022, halting commencement of capital projects within the financial year. Consequently, the redevelopment was kept in abeyance with no allocations from Treasury. Circular No.2 of 2024 suspending all capital project

Committee Observations

The Committee observed that the official residence allocated to the Director General had remained unoccupied for a prolonged period and no official justification or documentation was provided to explain the continued non-occupancy of the residence.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer should undertake a cost benefit analysis to determine whether to construct a new building or rehabilitate the existing structure.

EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED ACCOUNTS OF KENYA MEDICAL SUPPLIES AUTHORITY FOR THE FINANCIAL YEAR 2022/2023

Dr. Waqo Ejersa, Chief Executive Officer, Kenya Medical Supplies Authority was accompanied by Mr. Waiganjo Karanja, Director Finance and Mr. Eliud Murithi, Director Commercial appeared before the Committee to adduce evidence on the Audited Accounts of (KEMSA) for the Financial Year 2022/2023.

FINANCIAL YEAR 2022/2023

1.0 Unsupported Cash and Cash Equivalents

- 563) The Committee heard that the statement of cash flow reflects cash and cash equivalents as at 30 June, 2023 balance of Kshs.4,906,997,098. However, the balance includes prior year adjustment of Kshs.186,947,924 under operating activities which relates to corrections of earlier transactions under assets, work in progress and global fund. However, the corresponding journal vouchers were not provided for audit.
- 564) In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.4,906,997,098 as at 30 June, 2023 could not be confirmed.

Management response

- 565) The management informed the Committee that the prior year adjustments relate to corrections made for Work in Progress related to the New Warehouse Construction, including:
- i. Recognition of retention funds payable to contractors previously unrecognized.
 - ii. Derecognition of VAT amounts recorded in FY 2018/2019 for invoices paid by Global Fund that included VAT.
 - iii. Reclassification of legal fees previously expensed for warehouse construction recorded in FY 2017/2018.
 - iv. Refunded funds returned to Global Fund.
 - v. Adjustment of reconciled opening balances for asset costs.
- 566) These adjustments necessitated prospective corrections to the opening balances, including prior adjustments to the Property, Plant, and Equipment (PPE) movement schedule to accurately restate the Work in Progress for the new warehouse value in accordance with IPSAS

This is tabulated as below;

DESCRIPTION	AMOUNT
Prior year adjustments -This relates to the contractors' retained amounts from payments made.	126,401,776.90
Adjustment of previously expensed payment to Akide and Advocates from legal fees expense account to WIP warehouse construction.	11,575,000.00
Adjustments of Global fund invoices previously captured with VAT. Global fund payments are Tax exempt.	(262,491,713.65)
Refund of disputed funds to the Principal Recipients Global Fund	(63,237,025.90)

Adjustment of opening balances for asset costs for categories Motor vehicle, Furniture and Office Equipment.	804,038.00
Total	(186,947,924.65)

Committee Observations

The Committee observed that –

The Authority failed to avail for audit verification the prior year adjustments relating to the corrections made for work in progress under property plant and equipment amounting to Kshs.186, 947,924 contrary to to Regulation 103 of the PFM (National Government) Regulations, 2015 which requires that journal vouchers to be supported by sufficient explanations, authorisations and documentation to facilitate accounting adjustments to be understood

Committee Recommendations

The Committee recommends that –

The Accounting Officer should at times comply with the provisions of Regulation 103 of the PFM (National Government) Regulations, 2015.

2.0 Property, Plant, and Equipment

- 567) The Committee heard that the statement of financial position reflects property, plant and equipment balance of Kshs.8,690,853,547 as dis in Note 25 (a) to the financial statements. The amount includes land balance of Kshs.1,786,967,270 whose analysis revealed the following unsatisfactory matters;

2.1 Un-Approved Exchange of Parcels of Land

- 568) The Committee heard that as previously reported, the land balance includes a parcel valued at Kshs.151,538,002 situated along commercial street in Nairobi. According to a deed of exchange dated 28 April, 2016 this first parcel of land measuring approximately 0.7676 belongs to a private company while a second parcel of land situated in Nairobi measuring approximately 0.1329 hectares belongs to KEMSA. The parties agreed to exchange these parcels of land without approval from the minister responsible for health and the National Treasury. This was contrary to Section 13 (1) (c) of the Act 2015 which states that 'The assets of a state corporation may be disposed of—by way of sale or otherwise with the approval of the Minister and the Treasury where such disposal has not been taken into account in the estimates.
- 569) In addition, the parcel of land acquired by KEMSA was in relation to a forty-nine (49) year lease from 1 July, 1969. However, as at the time of the audit in the month of December 2023 the lease period had ended but there was no evidence of renewal of the lease agreement by KEMSA.

Management response

- 570) The management informed the Committee that the Act did not apply to Kenya Medical Supplies Agency (Formerly Central Medical Stores) which was a department at the Ministry of Medical Services.
- 571) The land exchange was formalized through a Memorandum of Understanding dated 27th July 2009 between the Ministry of Health and Unilever Kenya Ltd. The process had initially begun in 1987, with the land valued according to a valuation report dated 10th July 1987, which referenced the exchange of parcel of land between the Ministry of Health and East African Ltd (now Unilever Kenya). This was subject to a 'no objection' from the Treasury, as indicated in their letter CONF:47/06/132 dated 21st October 1987 addressed to the Ministry of Health.
- 572) The Proposed exchange of Premises letter dated 13th November 1987; Ref CONF/MED/100 and Memorandum of Understanding dated 27th July, 2009 signed between the Ministry of Medical Services, Kenya Medical Supplies Agency (Formerly Central Medical Stores) and Unilever K Ltd, Unilever's land (L.R. No. 209/7154/2) and Central Medical Store's land (L.R. No. 209/249/R and L.R. No. 209/1387), Deed of Exchange dated 5th of August 2016 were provided for audit review.
- 573) The lease period had lapsed, and the Authority is currently following up on its renewal. The digitization of land registration has required KEMSA to open an ARDHI Sasa account, and the process of acquiring the new lease is ongoing with a target to be completed by end of FY 2024/25.

Committee Observations and Recommendations

The Committee had deliberated on the issue Un-approved exchange of parcels of land in its Ninth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

2.2. Undisclosed Assets

- 574) The Committee heard that the disclosed land balance excludes two parcels of land in Meru and Isiolo and a list of three (3) laboratory equipment of unknown value not utilized due to lack of adequate space. Further, the balance also excludes warehouse buildings in Mombasa used for the storage of medical commodities.

Management response

- 575) The management informed the Committee that Isiolo and Meru Land; The parcels of land in Isiolo and Meru were allocated to KEMSA, however, their title deeds were still being processed at end of the financial year. Subsequently, upon receipt of the title deed in Financial 2023/24, there arose a necessity to value the land for recognition in the financial statements of the Authority. KEMSA engaged the Ministry of Lands, Public Works, Housing, and Urban Development through the Directorate of Surveying and Mapping and the Directorate of Land Valuations to conduct a fixation survey for beaconing the property, a requirement by the Directorate of Land Valuation for determining the land's value. The valuation was completed in December 2023. The same was disclosed in the financial statements Note 37 FY 2022/23. The two parcels of land have since been recognized in financial statements for FY 2023/2024.

a. Exclusion of Laboratory Equipment

The authority notes that the list of the lab items was compiled using the QA serialization used for their internal records at the departmental level. However, the Authority further seek to clarify that all the 45 laboratory items are recognized in the asset register and accounted for in the reported PPE net book value, as presented under equipment in the financial Statements note 25. The fixed asset register for equipment highlighting the list with corresponding asset tags was provided for audit review.

Mombasa Depot was recognized in KEMSA's books of accounts at a value of KES 76,000,000, which included both the land and building components recorded under land since they were not separated at the point of original valuation.

The current valuation conducted in 2023 provided a detailed separation, assigning a market value of KES 110,000,000 to the land and KES 30,000,000 to the buildings. This updated valuation has since been reflected in the financial statements for the year 2023/2024.

2.3 Land without Valuation Reports

- 576) The Committee heard that the dis land balance of Kshs.1,786,967,270 is in relation to fourteen (14) parcels of land which have not been supported by valuation reports. The land balance also includes four (4) parcels of land amounting to Kshs.115,000,000 which have not been surveyed. Management has not explained how the values for un-surveyed land were determined.

Management response

- 577) The management informed the Committee that, the Authority would like to clarify that the Four (4) parcels of land totaling to Kshs. 115 million, include, parcels in Garissa (Ksh. 6.5 million), Kakamega (Ksh. 7.5 million), Kisumu (Ksh. 25 million), and Mombasa (Ksh. 76 million), which had not been surveyed as of the end of the financial year 2022/2023. The Authority confirms that all four pieces of land have since been surveyed, and beacon certificates have been issued in FY 2023/24.
- 578) The original valuation was conducted by a private valuer; however, due diligence in conveyance was not performed at that time. KEMSA has since undertaken a comprehensive land valuation exercise for all its properties in collaboration with the Ministry of Lands and Physical Planning, specifically through the Directorate of Valuation. The report was submitted to KEMSA in 2023, and twelve (12) out of thirteen (13) parcels of land have now been valued. For the Kakamega land, valuation has not been conducted yet since the title was still being processed. The valuation for the Kakamega land will take place in FY 24/25.

2.4 Land without Ownership Documents

- 579) The Committee heard that the dis land balance of Kshs.1,786,967,270 includes Kshs.269,538,002 in relation to six (6) parcels of land. However, original title documents were not provided for audit verification to confirm ownership details. Further, information obtained during the audit revealed that a parcel of land in Kisumu municipality valued at Kshs.25,000,000 has been encroached by a private developer and acquired ownership rights but the matter is under investigation by Directorate of Criminal Investigation pending determination.

580) In addition, a parcel of land in Kakamega municipality measuring 0.9852 hectares valued at Kshs.7,500,000 was exchanged for a parcel of land valued at Kshs.3,000,000. However, details of the exchange were not provided for audit review and both parcels have been dis in the financial statements.

581) The land value also includes two parcels of land in Embakasi valued at Kshs.220,000,000 whose lease title were revoked by the National Land Commission. Although management challenged the decision in court, the matter is pending determination.

582) In the circumstances, the accuracy, completeness, ownership and valuation of land balance of Kshs.1,786,967,270 could not be confirmed.

Management response

583) The management informed the Committee that –

a) The table below highlights the status in relation to the six (6) parcels of land

Land Locality	Details	Valuation	Documentation Available/ Status
Commercial street	LR Number 209/7154/2	151,538,001.98	The lease period had lapsed, and the Authority is currently following up on its renewal.
Eldoret Depot	Block 10/ 156	25,000,000.00	The conveyancing is in progress
Garissa	Surveyed awaiting final technical file from the Ministry of Lands, Public Works, Housing and Urban Development, Survey department	6,500,000.00	Documentation available is a Part development plan dated 2005, 326/2005/58.KEMSA engaged the Ministry of Lands and Physical Planning through the Directorate of Survey on March 2023 to

			conduct a cadastral survey for KEMSA's Garissa land. The survey was done to establish the boundaries and installation of beacons. A beacon certificate was issued upon successful installation of beacon markers. The preparation of the final survey report and technical file is ongoing. The survey report and technical file are requirements for the conveyance of the property that is being handled by KEMSA's counsel KTK Advocates.
Kakamega Green site	Kakamega municipality Blockiv/873	7,500,000.00	This land has been derecognized since it is not Authority's land
Kakamega depot PGH	Kakamega Depot	3,000,000.00	Documentation available is a Lease title registered to Kakamega County.

			This land has been derecognized as part of Authority land in financial statement.
Mombasa	Surveyed awaiting final technical file from the Ministry of Lands, Public Works, Housing and Urban Development, Survey department	76,000,000.00	The Authority conducted a cadastral survey through Survey of Kenya in March 2023 on the Mombasa land with the aim of re-establishing the boundaries and interpretation of the status, interests and restrictions of the parcel of land. The cadastral survey report and preparation of a technical file form part of the requirements by the registrar of lands to complete the conveyance of the land. Beacons were established and installed as part of the survey. The Ministry of Lands and Physical

			Planning through the Directorate of Survey are yet to submit the report. KEMSA had engaged Ong'anda and Co. advocates to follow-up on the conveyance of Mombasa, however, the same is yet to be completed. From the documents available, the original allotment letter was not traced to start off the conveyancing process. Therefore, through the legal representation, the Authority has written to the National Land Commission requesting for an issuance of a new allotment letter to the existing land where the Authority has its premises.
		269,538,001.98	

584) The parcels without titles are ongoing conveyancing through Legal Directorate. A disclosure on this was provided in the financial statements.

- a. The Authority wish to confirm that the matter was resolved and KEMSA is both in possession of the land and the title to the property.
- b. The Authority would like to clarify that the Kakamega green site land valued at Kshs.7,500,000 was not exchanged for a parcel of land valued at Kshs.3,000,000. The County Government of Kakamega allocated KEMSA a parcel of land referred to as Kakamega Green Site for the construction of a warehouse and consequently recognized the same in KEMSA's financial statements at a value of Kshs 7,500,000. However, the land was later re-allocated for other county developments, KEMSA has since de-recognized this parcel of land in its Financial Statements. The County government did allocate KEMSA a different parcel, which has since been registered under its name. The allocated land has a title deed and is awaiting valuation. It was disclosed as a contingent asset in FY 2023/2024 Financial Statement. The parcel of land valued at Kshs.3,000,000 is housing the KEMSA Kakamega depot which is situated within the premises of Kakamega PGH. Since KEMSA does not hold any allotment or ownership rights over the property. This has since been de-recognized and adjusted in the FY 2023/2024 Financial Statements.

585) For the two parcels of land in Embakasi valued at Kshs.220,000,000 whose lease title were revoked by the National Land Commission, KEMSA is pursuing a sub-lease for a period of 99 years from KAA. The KAA Airport planning committee has requested for architectural drawing and proposed development plans from KEMSA in line with their policies on lease and allocation of spaces subject to the JKIA masterplan for review. Recognition of these two parcels in the financial statements was based on the original ownership title document. Upon revocation of title deed, the Authority disclosed the same in the note to the Financial Statements

586) In view of the determination by the National Lands Commission with respect to LR.28464 and LR. 28465 in 2023, KEMSA applied to KAA for issuance of a ninety-nine-year sub-lease and KAA confirmed receipt of KEMSA's application through letter dated 15th December 2023. This followed the revocation of KEMSA's title vide gazette notice No.1547. Approvals by relevant departments at KAA were granted but pending issuance of the sub-lease as per the counsel's updates through a letter dated 3rd September 2024. KAA's Airport Planning Committee have requested for KEMSA's certified copy of title indicating the conditions of use, certified copy of the survey plan and copies of AI architectural drawings for the proposed developments for review against JKIA's masterplan through letter dated 4th September 2024. KEMSA has submitted the title and deed plan to KAA. KEMSA is in the process of acquiring the architectural drawings for proposed developments for submission and have the process of getting a sub-lease concluded.

Committee Observations and Recommendations

The Committee had deliberated on the issues of Undisclosed Assets, Land without valuation reports and land without ownership documents in its Third PIC-SSAA Report

observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

3.0 Inaccuracies in Inventories

- 587) The Committee heard that the statement of financial position reflects an inventory balance of Kshs.12,899,915,421 as disclosed in Note 24 to the financial statements whose analysis revealed the following observations: -

3.1 Misstated Inventory Values

- 588) The Committee heard that the inventories balance includes units received from Global Fund and other program commodities valued at Kshs.303,514,749. However, the commodities were erroneously issued to health facilities at a unit price of one shilling instead of the carrying amount resulting to overstatement of inventory by Kshs.303,509,260. This was contrary to Paragraph 16 of IPSAS 12 which states that where inventories are acquired at a non-exchange transaction, their cost shall be measured at their fair value at the date of acquisition.

Management response

- 589) The management informed the Committee that the error did not affect the valuation. However, the issue report in the system did not reflect the correct value of the issued commodities due to an erroneous calculation of the cost price.

Committee Observations

The Committee observed that –

The Mistatement of the inventory values is an indication that the authority has weak inventory management contrary to Regulation 140 (2) of the Public Finance Management (National Government) Regulations, 2015, which requires the Accounting Officer to be responsible for or the general management of government inventories held within their control.

Committee Recommendations

The Committee recommended that –

The Accounting Officer should at all times comply with the Public Finance Management (National Government) Regulations.2015 and other governing laws and regulations as applicable.

3.2 Overstatement of Stock Balances

- 590) The Committee heard that the inventory balance includes Kshs.6,664,823,360 relating to two hundred and forty-seven (247) medical commodities. However, review of opening inventory,

receipts, issues, expiries and damages from these products indicated a closing balance of Kshs.6,361,251,822 resulting to unreconciled and unexplained variance of Kshs.303,571 538.

Management response

- 591) The management informed the Committee that the amount of Kshs.303,571,538 is as a result of stock adjustments, QA sampling and customer returns which were not considered in the Auditor's reconciliation data as detailed below:-

Details	OAG Reconciliation (Value)	KEMSA Reconciliation Value	Variance OAG VS KEMSA	Comment
Opening Balance 30/06/2022	4,918,902,993	4,918,902,993	-	
Total Receipts	13,721,916,413	13,721,916,413	-	
Qty Issued	11,414,075,863	11,414,075,863	-	
Damages	119,569	119,569	-	
Expiries	865,372,153	865,372,153	-	
Stock Adjustments	Not considered	9,304,976	9,304,976	
QA Sampling	Not considered	(335,073)	(335,073)	
Customer Returns	Not considered	294,423,966	294,423,966	
Physical count variance	-	177,669	177,669	Adjusted as per physical count
Closing Balance 30/06/2023	6,361,251,822	6,664,823,360	303,571,538	

- 592) Upon considering the above in the reconciliation data, the two hundred and forty-seven (247) medical commodities were not overstated.

Committee Observations

The Committee observed that the inventory balance had an unreconciled and unexplained variance of Kshs.303,571,538. Although Management explained that the variance arose from stock adjustments, quality assurance sampling and customer returns which had not been considered in the Auditor's reconciliation, the explanation was not supported by relevant documentation or a detailed reconciliation.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer to provide the National Assembly and the Auditor-General, a comprehensive reconciliation report on the affected items for review and reporting in the subsequent audit cycle.

3.3 Unreconciled Stock Issuance

- 593) The Committee heard that the inventory balance includes one hundred and ninety-one (191) medical commodities whose available stock for issue was 13,988,323 units valued at Kshs.2,228,938,380 but the warehouse issue report indicated issuance of 14,601,300 units valued at Kshs.2,661,049,865 resulting to unexplained and unreconciled variance (over issuance) of 612,977 units valued at Kshs.432,111,485.
- 594) In addition, the over issuance includes 287,284 units for eight three (83) commodities valued at Kshs.264,465,919 whose available stock balance was nil as reflected in warehouse management system

Management response

- 595) The management informed the Committee that, upon analysis of the 191 items in regard to the reported unreconciled variance of Kshs.432,111,485, however it was determined that the actual variance was Kshs. 91,388,633.25 which has since been explained.

Reason for Variance	Sum of Variance Value
Number of units captured wrongly during AST 2022 thereby indicating an opening balance quantity of 312 instead of 39	(8,190,000.00)
Amount was quarantined and hence not counted in AST 2022	122,479,494.59
Covid 19 Response commodities procured retrospectively, received and issued manually. The stocks transactions done during the FY 2022/2023 were to regularize the procurement, receipt and issuance process	(22,900,861.35)
Grand Total	91,388,633.25

- 596) The variance of Kshs.264,465,919 relates to customer returns and Covid 19 HPTs not considered in the reconciliation/comparison. The Authority has therefore done a reconciliation as follows.

- a. An amount of Kshs. 111,905,103.88 is as a result of customer returns which were not considered in the reconciliation.
- b. An amount of Kshs. 152,560,815.01 is as a result as a result of Covid 19 Response commodities which were retrospectively procured, received and issued off the system through S11s.

Details	Value (KES)
Covid 19 Response Commodities procured retrospectively, received and issued manually	152,560,815.01
Customer returns	111,905,103.88
Grand Total	264,465,918.89

597) Upon taking the above into consideration, there is no unreconciled stock over-issuance.

Committee Observations and Recommendations

The Committee had deliberated on the issue of unreconciled stock issuance in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

3.4 Improper Valuation of Inventories

- 598) The Committee heard that the inventories balance includes Kshs.19,524,611 for items valued at cost contrary to Paragraph 15 and 16 of IPSAS 12 which requires inventories to be measured at the lower of cost and net realizable. In addition, re-computation of these inventories using the lower of cost and net realizable value revealed a balance of Kshs.4,483,403 resulting to an overstatement of Kshs.15,041,208.
- 599) Further, the inventory schedule includes 718,097 units of various medical commodities whose fair values as at the date of acquisition was not indicated.

Management response

- 600) The management informed the Committee that, inventories were measured at the lower of cost and net realizable value. The sampled items, valued at Kshs. 19,524,611, included program items whose sale prices were not updated in the system. As these items are not for sale, they did not have a sale price in the shared report. The Authority has since recomputed the schedule and confirms that for KEMSA capital items, were measured at the lower of cost and net realizable value.

On the other hand, the Management recognizes that there was a systems error resulting in erroneous stock valuation of 718,097 units which were undervalued by Ksh. 66,985,045.18. The system has been corrected and now accurately reflect the correct value.

Committee Observations and Recommendations

The Committee had deliberated on the issue of improper valuation of inventories in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

3.5 Improper Stock Adjustments

- 601) The Committee heard that the inventories balance was arrived at after adjusting commodities worth Kshs.81,732,145 explained to have historical issues and batch switch among other reasons. However, these products could not be traced in the warehouse.
- 602) In addition, inventory schedules reflect adjustments for expiries of Kshs. 1,331,441,264 while Note 9 reflects inventory adjustment variance (expiries and damages) amount of Kshs.1,213,715,186 resulting to the unexplained variance of Kshs.117,726,078.
- 603) Further, the stock count sheets of one hundred and twenty-seven (127) commodities reflected a physical stock balance of Kshs.370,859,027 while the system balance was Kshs.518,549,421 resulting to an unaccounted-for variance of Kshs.147,690,394.

Management response

- 604) The management informed the Committee that the Authority has carried out a comprehensive reconciliation and hereby provides all the reasons for variance adjustments. The historical cases arose due to disruptions caused when staff were working from home and untimely staff exits, wherein many instances lacked proper handovers. Consequently, these variances were classified as historical cases requiring progressive rectification. A detailed report providing reasons for adjustment is as below;

Adjustment Reasons	Sum of Total Value	Explanation
Approvals	568,361.81	The unaccounted-for variances were approved for adjustment vide memo dated
Batch Switch	20,152,035.49	No Variance. Appendix 9.5(i)
Damages	7,789,879.54	Approved for adjustment Ksh.7,780,837.54. The difference of Ksh.9,042 is yet to be adjusted.
Double Customer return	28,020.67	Correction of entry which were entered into the system twice

Expiry	103,831.05	This is part of the Approved MEMO for adjustment Amounting to Ksh.926,296,240. Refer to the Expiries memo.
Product switch	368,713.87	No Variance. Appendix 9.5(ii)
Quality Issue	33,784.00	This is part of the Approved MEMO for adjustment Amounting to Ksh.926,296,240. Refer to the Expiries memo.
Receipt Error	44,133,112.04	Correction of receipt entries which were entered into the system twice
Unaccounted Stock	3,522,761.61	This is part of the Approved MEMO for adjustment amounting Ksh.156, 501246. MEMO REF: KEMSA/VT/002/001
Under issue	308.88	Adjustment for stocks which were not physically issued to facilities
Wrong Adjustments	5,031,336.00	Correction of stock adjustments which had errors
Grand Total	81,732,144.96	

605) The authority reported expiries valued at Ksh.1,213,715,186 for Kemsas capital commodities. The adjusted expiries in the WMS were Kshs. 1,331,441,264 which included commodities both for KEMSA Capital and Third-Party stock, as outlined below.

606) The process of adjustment for expiries are effected the following quarter after approval by the CEO. The value of Ksh.1,213,715,186 relates to the FY 2022/2023 while, Ksh. 1,331,441,264 relates to FY 2021/2022 and FY 2022/2023. Hence, there is no variance of Kshs.117,726,078.

607) Further to note; from the expiries recorded in the FY 2022/2023 of Kshs. 1,213,715,186 out of this, Ksh. 475,566,841.98 was adjusted in the system, leaving a balance of Ksh. 738,148,344.02 that was adjusted in FY 2023/2024.

608) The Authority has carried out a comprehensive reconciliation and hereby provides all the reasons for the variance amounting to Kshs. 147,690,394 as shown below;

Adjustment Reasons	Sum of System Amount	Sum of Counted Amount	Sum of Variance Amount	Explanation
Approvals by CEO	7,959,945.26	7,945,791.99	14,153.27	The unaccounted-for variances were approved by CEO for adjustment vide memo dated; 15th Feb 23&12th April 2023
BATCH SWITCH	138,498,462.13	122,723,682.40	15,774,779.73	No Variance. Appendix 9.5(iii)
Double Customer return	127,033.37	11,046.38	115,986.99	Correction of entry which were entered into the system twice
Product Switch	4,264,453.40	3,288,432.48	976,020.92	No Variance.
Receipt Error	297,114,412.87	183,012,128.68	114,102,284.18	Correction of receipt entry which were entered into the system with errors
Replacement of program stocks	3,649,270.00	22,630.00	3,626,640.00	Adjustments to correct program items issued as KEMSA capital items
Short pack from supplier	3,645,645.44	3,637,141.70	8,503.74	Adjustment to cater for supplier short packs
Unaccounted Stock	37,210,127.64	36,485,793.74	724,333.90	The unaccounted-for variances were approved by CEO for adjustment vide memo
Wrong Adjustments	26,080,071.07	13,732,380.01	12,347,691.06	Correction of stock adjustments which had errors

Grand Total	518,549,421.18	370,859,027.38	147,690,393.80	
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Committee Observations and Recommendations

The Committee had deliberated on the issue of improper stock adjustments in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

3.6 Unaccounted for Inventory of Medical Commodities

- 609) The Committee heard that the inventory balance of Kshs.12,899,915,421 includes Kshs.5,294,325,070 in relation to four hundred and forty-two (442) medical commodities. However, review of these four hundred and forty-two (442) medical commodities' opening inventory, receipts, issues, expiries and damages indicated a closing balance of Kshs.8,800,283,288 resulting to unreconciled variance of Kshs.3,505,958,218. These discrepancies represent unaccounted for medical commodities.

Management response

- 610) The management informed the Committee that, the Authority has conducted a thorough reconciliation and identified that the OAG did not account for several critical stock transactions, including customer returns, supplier returns, supplier replacements, QA samples, and stock adjustments. After incorporating these transactions, the variance has been recalculated to Kshs. (14,172,906.42). The explanation of the variance is as detailed below.

Reasons for Variance	Variance Value (Kshs.)
Commodities directly delivered to facilities by suppliers pending system order generation. The orders have now been generated, and the process is complete.	(5,523,752.36)
Customer orders were processed manually, and system generation is pending confirmation of the billing partner	(8,649,154.05)
Grand Total	(14,172,906.42)

Committee Observations and Recommendations

The Committee had deliberated on the issue of Unaccounted for inventory of medical commodities in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

3.7 Retrospective Receipts and Issuance of Commodities

- 611) The Committee heard that the inventory ledger indicates system receipt of medical commodities amounting to Kshs.83,826,000 whose physical delivery were indicated to have been made during the year 2020. However, the inventory ledger did not indicate a corresponding issuance of these commodities despite the items not being included in the inventory closing balance.

Management response

- 612) The management informed the Committee that the receipt recorded in the system for medical commodities totaling Kshs. 83,826,000, are items that were COVID-19 Emergency commodities that were physically delivered during the year 2020 for Covid-19 response. These commodities were procured and received off the system without LPOs in 2020. The procurement process was formalized later, and LPOs were subsequently created. The commodities were entered into the system between 2021 and 2022 to regularize the procurement process for COVID-19 Emergency commodities. This regularization was as a result of retrospective procurement of the COVID-19 emergency commodities via the Direct Procurement (DP) procedure.

Committee Observation

The Committee observed that, Kenya Medical Supplies Authority procured and distributed covid 19 commodities without LPOs and without system recording.

3.8 Incorrect Inventory Transactions due to poor information technology environment

- 613) The Committee heard that Note 24(b) to the financial statements reflects inventory balance of Kshs.12,899,915,421 out of which Kshs.165,212,441 relates to commodities not reflected in the inventory system while two hundred and seventy-nine (279) products with a physical stock balance of Kshs.318,193,727 were reflected in the inventory system at Kshs.213,182,346 resulting to a variance of Kshs.105,011,381. In addition, the system allowed for excess returns of Kshs.59,856,200.
- 614) In the circumstances, the accuracy, validity and completeness of inventory balance of Kshs 12,899,915,421 could not be confirmed.

Management response

- 615) The management informed the Committee that the commodities valued Kshs.165,212,441 and Kshs.105,011,382, the Authority has carried out a comprehensive reconciliation and hereby provides all the reasons for variance adjustments. The variances arose due to disruptions caused when staff were working from home and untimely staff exits, wherein many instances lacked proper handovers. Consequently, these variances were classified as indicated in the report requiring progressive rectification.
- 616) For the amount of Kshs.59,856,200, the Authority has reconciled the issued quantity & value and the returned quantity & value and hereby clarify that there were no excess returns. The summary is shown below;

LPO No.	OAG Value of Qty Issued	OAG Value of Qty Returned	OAG Over return	KEMSA Actual Value of Qty Issued	KEMSA Actual Value of Qty Returned	Actual Over return
831888	43,700	87,400	(43,700)	170,400	37,600	-
832200	16,417,500	28,611,000	(12,193,500)	12,428,000	52,020,000	-
832201	16,417,500	18,661,500	(2,244,000)	70,572,000	33,930,000	-
832202	16,417,500	30,855,000	(14,437,500)	86,100,000	56,100,000	-
832203	16,417,500	30,855,000	(14,437,500)	86,100,000	56,100,000	-
825997	16,500,000	33,000,000	(16,500,000)	138,407,710	90,950,000	-
Total Value	82,213,700	142,069,900	(59,856,200)	493,778,110	289,137,600	-

Committee Observations

The Committee observed that –

The reported variances on inventory transactions is an indication of weak internal controls on inventory management and contrary to Regulation 140 of the PFM (National Government) Regulations, 2015 which states that Accounting Officer shall be responsible for the proper custody, care and use of government inventories under their control.

Committee Recommendations

The Committee recommends that –

The Accounting Officer should at all times comply with the provisions of the PFM (National Government) Regulations, 2015 and other governing laws and regulations as applicable.

4.0 Receivables from Exchange Transactions

- 617) The statement of financial position reflects receivables from exchange transactions balance of Kshs.6,008,541,865 as dis in Note 22(a) to the financial statements. The following observations were made;

4.1 Receivables from Other Government Entities

- 618) The Committee heard that the balance includes trade debtors' receivables of Kshs.5,900,014,323 out of which Kshs.998,988,694 is owed by the Ministry of Health but

has not been disclosed in the ministry books. The trade debtors' receivables also include Kshs.3,079,326,856 due from the County Government balances representing 52%. Confirmations received from the 47 counties reflects pending bills balance of Kshs.1,854,753,676 resulting into a variance of Kshs.1,224,573,179 between the Authority and The County Governments.

Management response

- 619) The management informed the Committee that the Authority acknowledges that Kshs.998,988,694 is owed by the Ministry of Health. However, the Authority has maintained continuous communication between the Authority and the Ministry of Health regarding the outstanding debt.
- 620) The Authority conducted a joint debt validation exercise with the Ministry of Health in July 2022 and the Ministry paid Ksh 802 Million, and in FY 2023/2024 another joint debt validation exercise was conducted in July 2024 and Ksh 1.13 Billion is expected from the Ministry of Health. At the end of the financial year, the Authority sent a debt circularization to the Ministry of Health.
- 621) The Authority takes note that only six (6) counties responded to the debt circularization correspondence resulting to the Audit observation. Management seeks to confirm that the circularization was done in August 2022 and May 2023.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Receivables from other Government entities in its Third PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

4.2 Prepayments

- 622) The Committee heard that the balance includes prepayments of Kshs.108,527,542 out of which Kshs.1,782,853 relates to prepayments paid to suppliers in advance for which goods and services had not been delivered for between six (6) months and five (5) years.

Management response

- 623) The management informed the Committee that, the Authority has analyzed the prepayments of Kshs.1,782,853. These prepayments relate to supplies from supermarket, training institutions (Kenya school of Govt) and motor vehicle repair services. The Authority has since expensed the historical prepaid amounts after receipt of relevant documentation in FY 2023-24.

Committee Observations

The Committee observed that–

The prepayments of Kshs.1,782,853 were outstanding for along period of time contrary to Regulation 42 1 (a) of the PFM (National Government) Regulations which requires debt service payments shall be a first charge on the Consolidated Fund and the Accounting Officer shall ensure this is done to the extent possible that the government does not default on debt obligations.

Committee Recommendations

The Committee recommends that–

The Accounting Officer should at all times adhere to the provisions of Public Finance Management and other governing laws.

4.3 Long Outstanding Receivables

- 624) The Committee heard that the balance includes trade debtors' receivables of Kshs.5,900,014,323 out of which Kshs.1,653,753,790 has been outstanding for more than three hundred and sixty (360) days with no agreed payment plan. In addition, there was no provision for bad and doubtful debts contrary to Paragraph 2.16 of the Kenya Medical Supplies Authority Credit Policy 2014 which requires adequate provision for bad and doubtful debts for any outstanding debt above three hundred and thirty (330) days.

Management response

- 625) The management informed the Committee that the Authority acknowledges that Kshs. 1,653,753,790 in receivables from various customers have been outstanding for over 360 days and were part of the receivables balance at the close of the 2022-23 financial year. However, due to consistent engagement with the respective counties, payments totaling Ksh. 5,219,067,565.94 had been made as of June 2023. Consequently, the debt has not been classified as doubtful, given the significant payments received after the year-end. Additionally, these sales are between government entities, providing further assurance of payment.
- 626) The engagement between the Authority and the counties is ongoing, and there is no doubt regarding the existence of outstanding debts from the counties. As a result, these debts have not been classified as doubtful.

Committee Observations and Recommendations

The Committee had deliberated on the issue of long outstanding receivables in its Third PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

4.4 Inaccuracies in Receivables.

The Committee heard that the balance includes trade debtors' receivables of Kshs.5,900,014,323 out of which Kshs.1,030,430,783 relates to twenty-three customers. However, a review of opening balances, invoices, receipts and credit notes from these customers revealed a closing balance of Kshs.915,151,135 resulting to an unexplained variance of Kshs.115,279,648. In addition, the receivables balance from thirty-four customers was understated by Kshs.104,796,818.

Management response

The management informed the Committee that the authority would like to confirm that movement variances arose from reconciliations of the customer accounts. The closing balances of the customers captured in the financial statement are the correct reconciled balances.

Committee Observations

The Committee observed that–

There was an unexplained variance of Kshs.115,279,648 between the debtor confirmations and the balances reflected in the financial statements. The understatement of receivables balances by Kshs.104,796,818 was an indicative of ineffective debt recovery mechanisms.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer should undertake a comprehensive reconciliation of receivables to resolve variances between debtor confirmations and balances reflected in the financial statements. The reconciliation exercise should be fully documented and formally submitted to the National Assembly and the Auditor-General for review, with corrective actions reported in the subsequent audit cycle to enhance accountability and transparency.

4.5 Non-Adherence to Credit Limits

- 627) The Committee heard that Note 22 (a) to the financial statements reflects receivables from exchange transactions balance of Kshs.6,008,541,865 out of which Kshs.3,079,326,856 relates to county governments while the balance of Kshs.2,892,174,856 relates to other credit customers. However, it was noted that trading with customers beyond the 30 to 45 days credit limit continued contrary to Paragraph 2.7 of the Kenya Medical Supplies Authority Credit Policy 2014.
- 628) In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.6,008,541 865 could not be confirmed.

Management response

- 629) The management informed the Committee that the credit policy was established in 2014 at the onset of devolution. At that time, KEMSA anticipated that counties would operate efficiently within a 30-day credit period. However, it has become evident over time that this timeline is unrealistic, given that counties are reliant on fund disbursements from the National Treasury. These disbursements are frequently subject to uncertainty and delays, resulting in prolonged Counties payment turnaround times that extend well beyond the 30-day credit period.
- 630) In response to these challenges, the credit policy is currently under review to align with the evolving business environment. The revised policy proposes extending the credit period to a more practical 90 days from the date of invoice to reflect the realities of county payment cycles.
- 631) To further enhance financial controls, KEMSA has implemented measures within the LMIS ordering platform. These include automatically deactivating overdue accounts from further transactions unless specific exemptions are granted. Such exemptions require the approval of the CEO or Commercial Director, following a thorough assessment of the customer account's history and the establishment of a payment commitment plan for any outstanding balances. Additionally, the new ERP system will include customer-specific credit limits to strengthen internal controls and ensure greater accountability.

Committee Observations and Recommendations

The Committee had deliberated on the issue of long outstanding receivables in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

5.0 Unallocated Customer Account

- 632) The Committee heard that the statement of financial position reflects the trade and other payables balance of Kshs.8,602,982,309 as disclosed in Note 26 to the financial statements. The balance includes customer unallocated payment of Kshs.35,928,606 received through direct bank deposit. An amount of Kshs.27,861,163 is yet to be identified and allocated while the balance of Kshs.8,067,443 in relation to customers whose details were identified but yet to be allocated to respective customer accounts.
- 633) In the circumstances, the accuracy and completeness of customer unallocated payment balance of Kshs.35,928,606 could not be confirmed.

Management response

- 634) The management informed the Committee that the authority confirms that the unallocated amount of Kshs.35,928,606 has been disclosed as a liability under Note 26 of the reviewed financial statements. This amount relates to both the direct deposits of Ksh. 27,861,163 from unknown customers and prepayments of Ksh. 8,067,443 from various customers. Some of these amounts are receipts from customers whose payment advice had been provided, while others relate to overpayment by customers after allocating all the due invoices. The authority hereby confirms that after year end, some of the customers have been identified and the receipts matched to the respective customer accounts. The reconciliation will be an ongoing exercise and the report to be updated continuously

Committee Observations and Recommendations

The Committee had deliberated on the issue of long outstanding receivables in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

6.0 Sales Revenue

- 635) Note 9 to the financial statements reflects sales revenue totaling Kshs.8,039,143,444, whose analysis revealed the following observations:

6.1 Incorrect Credit Notes

- 636) The Committee heard that, the analysis of sales schedules revealed that the amount was arrived at after deducting credit notes worth Kshs.184,379,680. It was noted that the credit notes include returns from Kenyatta National Hospital of Kshs.142,069,900 while the issued commodities to the Hospital were valued at Kshs.82,213,700 resulting to an unexplained variance of Kshs.59,856,200.
- 637) In addition, the credit notes include Kshs.22,552,384 for commodities returned due to damages, wrong order or quality issues which were reflected in warehouse issue report at Kshs.59,079,436 resulting to unreconciled variance of Kshs.36,527,052.

Management response

- 638) The management informed the Committee that, the authority seeks to clarify that the return quantities from KNH do not amount to Kshs. 142,069,900 and does not exceed the issued value of Kshs. 82,213,700. The earlier issue report used by the auditor had erroneously recorded both the issuances and returns as debit entries, thus resulting in a double recognition of the returns and failure to reflect the corresponding credit entries. The issue report for Kenyatta National Hospital has since been reconciled.
- 639) The difference between the warehouse issue report and the raised credit notes relates to reconciling items caused by timing differences between when returns are made in the Warehouse Management System (WMS) and the issuance of credit notes in the ERP. The Authority acknowledges that the WMS is not designed as a financial accounting system capable of recognizing real-time debit and credit entries in the returns inward ledger. Currently, credit notes are recorded in the ERP system once supporting documentation and approvals are granted. The Authority is in the process of implementing a comprehensive ERP solution in 2025, which will enable real-time posting of returns to the returns inward ledger. In the meantime, dedicated staff have been assigned to monitor returns.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Unsupported sales revenue in its Ninth PIC-SSAA Report which is similar to Incorrect Credit Notes, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

6.2 Medical commodities sold below the set price

- 640) The Committee heard that the Note 9 to the financial statement reflects total sales revenue of Kshs.8,039,143,44 generated from sale of various health products and technologies. The Authority bills customers based on the price list captured in the Logistics Management Information System (LMIS) ordering tool. However, warehouse issue report indicates a list of three hundred and sixty-two (362) medical commodities with a sales revenue of Kshs.3,608,334,804 billed to various customers at Kshs.3,022,990,656 which was below the set selling prices resulting to revenue loss of Kshs.585,344,148.

Management response

- 641) The management informed the Committee that a comprehensive price review was conducted in March 2023, leading to the implementation of a new price list in April 2023. While the Auditor General referenced this updated price list, it was not applicable to the 362 products in question, which were billed between July 2022 and February 2023 at the prevailing prices during that period. Prices for HPTs are reviewed at least twice a year or when a new procurement occurs.

Committee Observations

The Committee observed three hundred and sixty-two (362) medical commodities valued at Kshs. 3,608,334,804 were sold at Kshs.3,022,990,656 leading to a direct and unexplained loss of Kshs.585,344,148. This was a breach of Section 68(1)(b) of the Public Finance Management Act, Cap.412A which requires effective and efficient use of resources.

Committee Recommendations

The Committee recommends that –

The Committee reprimands the then Accounting for breach of Section 68(1)(b) of the Public Finance Management Act, Cap.412A.

6.3 Medical Commodities to Undisclosed Health Facilities

- 642) The Committee heard that the Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,44 out of which Kshs.321,171 362 relates to medical supplies procured by the Ministry of Health and issued to twenty-three (23) county headquarters without providing details of the beneficiary health facilities. In addition, donated medical supplies of Kshs.572,492,393 were issued to non-existing two hundred and seventy-five (275) sub counties which have been created in the system as health facilities but do not exist physically.
- 643) In the circumstances, the accuracy and completeness of the sales revenue value of Kshs.8,039,143,444 could not be confirmed.

Management response

- 644) The management informed the Committee that KEMSA delivers Ministry of Health program and donated items as per the distribution list given by the respective program. The 23 counties and 275 sub counties in question have centralized stores where KEMSA delivered the program/donated HPTs as specified in the distribution lists. This therefore created a need for KEMSA to create those centralized stores as delivery points even though they are not actual health facilities. Many of these were created during the Covid-19 pandemic when counties wanted to consolidate HPTs from various sources and donors for further distribution to the facilities under their jurisdiction.

Committee Observations

The Committee observed that–

Medical commodities procured by the Ministry of Health valued at Kshs.321,171 362 and donations valued at Kshs.572,492,393 were issued to twenty-three (23) counties and and twenty-three (275) sub counties whose physical existence was in doubt. This is an indication of weak internal controls in the management of inventories.

Committee Recommendations

The Committee recommends that–

Within three months upon adoption of this report, the Accounting Officer should submit to the Auditor-General a comprehensive report names and details of the beneficiary health facilities, accountable documents and other inventory records to account for the Undisclosed health facilities. The Auditor-General should review and report in the subsequent audit cycle.

7.0 Impairment Loss on Covid-19 Commodities

- 645) The Committee heard that the statement of financial performance reflects an impairment loss of Kshs.756,710,171 as disclosed in Note 20 to the financial statements. The loss relates to Covid-19 commodities purchased at a cost of Kshs.1,086,736,552 and valued at Kshs.330,026,381

resulting into a loss of Kshs.756,710,171 but were not supported by market survey reports. Further, there was no justification for bulky purchases at high prices resulting into losses.

In the circumstances, the impairment loss of Kshs.756,710,171 could not be confirmed.

Management response

- 646) The management informed the Committee that the Authority confirms that a market survey was conducted through the Commercial Services Directorate, which informed the determination of the lower of cost or net realizable value, resulting in the impairment loss computation. This impairment loss is consistent with IPSAS 12, which requires inventories to be measured at the lower of cost and net realizable value.
- 647) The sale of certain COVID-19 commodities below cost price was approved by the Board, as indicated in an internal memo from the Acting CEO dated 24th November 2021. Further approval for selling the commodities below cost was granted, and the market price survey dated 25th October 2021, covering the following COVID-19 commodities:
- KN95 masks
 - PPE kits
 - 3-ply surgical masks
 - Infrared thermometers
 - Eye protection goggles
 - Instant hand sanitizers
- 648) As a result, effective 25th October 2021, orders for these COVID-19 commodities were sold at the approved prevailing market prices, leading to the incurred loss.

Committee Observations

The Committee observed that –

The Committee observed that Covid -19 commodities valued at Kshs. Kshs.1,086,736,552 were sold for Kshs.330,026,381 leading to a direct and unexplained loss of Kshs. 756,710,171. This was a breach of Section 68(1)(b) of the Public Finance Management Act, Cap.412A which requires effective and efficient use of resources.

The claim by the management that it conducted market survey before the commencement of the procurement was not supported by any documentary evidence.

Committee Recommendations

The Committee recommends that –

The Committee reprimands the then Accounting for breach of Section 68(1)(b) of the Public Finance Management Act, Cap.412A.

8.0 Lack of Fuel Register

- 649) The Committee heard that the statement of financial performance reflects the use of goods and services amounting to Kshs.2,003,659,568 which as disclosed in Note 12(b) to the financial statements includes Kshs.47,030,205 in respect of fuel and oil. However, management did not maintain a fuel register and no reconciliation was performed for the expenditure reflected in the supplier fuel statement.
- 650) In the circumstances, the accuracy and completeness of expenditure on fuel and oil amounting to Kshs.47,030,205 could not be confirmed.

Management response

- 651) The management informed the Committee that, the Authority did not maintain a fuel register during the financial year under review. However, as a process improvement in FY 2023/2024, a monthly Fuel and Oil expenditure Register was implemented.
- 652) For the FY period under review, we wish to confirm that the make-up of the expenditure on fuel and oils to the tune of Ksh. 47,030,205 was as detailed below:
1. RH Devani 46,724,872.71
 2. National Oil Corporation – Ksh. 106,202
 3. Chloride Exide – Ksh. 44,080
 4. Staff reimbursements on Fuel – Ksh 155,050
- 653) This is appropriately supported by supplier summary and fuel payment vouchers and invoices and the resultant reconciliation. The monthly reconciliation reports; payments to National Oil, Chloride Exide and Reimbursement Vouchers for Staff for the period 2022/2023 was provided for audit review.
- 654) The Authority has in the subsequent year introduced hard copy fuel registers for each vehicle in FY 2023/2024, which are filled out and signed at each refill.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Lack of fuel register in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

1.0 Emphasis of Matter

1.1 Poor Financial Performance

- 655) The Committee heard that the statement for financial performance reflects a deficit of Kshs.3,897,349,097 being an increase of Kshs.905,623,666 from a deficit of Kshs.2,991,725,431 reported in the previous year leading to a decrease in the accumulated reserves from Kshs.6,117,175,429 in the previous year (2021-2022) to Kshs.2,219,826,332. If the authority does not put strategies in place to reverse the trend, the authority may experience financial challenges in the future.

Management response

- 656) The management informed the Committee that the Board and management of KEMSA have adopted a turnaround strategy to address the financial limitation that the Authority is currently

facing. The Board and Management have instituted robust credit controls, debt management, and collection strategies and are very committed to regaining donor support to improve its cash flow through the provision of agency services. Equally, the Board and management is undertaking rigorous and robust resource mobilization strategies and pursuing the government to recapitalize the Authority.

Committee Observations

The Committee observed that –

Kenya Medical Supplies Authority financial deficit increased from Kshs.2,991,725,431 (FY 2021/2022) to Kshs.3,897,349,097 (FY 2022/2023). The revenue shortfall may have impacted negatively on the service delivery to the public.

Committee Recommendations

The Committee recommended that –

The Committee recommends that KEMSA diversifies its revenue base to reduce over reliance on Government support.

2.0 Long Outstanding Trade Payables

- 657) The Committee heard that the Note 26 to the financial statements reflects trade and other payables balance of Kshs.8,602,982,309 out of which Kshs.3,989,600,611 had been outstanding for a duration of more than one (1) year without a plan to clear the outstanding amounts. The nonpayment may lead to litigations and withdrawal of services by the suppliers affecting the operations of the Authority.
- 658) Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Management response

- 659) The management informed the Committee that the delay in payment is due to cash constraints that the Authority is currently facing. The Board and management of KEMSA have adopted a turnaround strategy to address the financial limitation that the Authority is currently facing. The Board and Management have instituted robust credit controls, debt management and collection strategies and are very committed to regaining donor support to improve its cashflow.

Committee Observations

The Committee observed that –

Trade payables amounting to Kshs.3,989,600,611 were outstanding for a long period of time contrary to Regulation 42 1 (a) of the PFM (National Government) Regulations which requires debt service payments shall be a first charge on the Consolidated Fund and the Accounting Officer shall ensure this is done to the extent possible that the government does not default on debt obligations.

Committee Recommendations

The Committee recommends that–

The Accounting Officer should at all times adhere to the provisions of Public Finance Management and other governing laws.

3.0 Budgetary Control and Performance

- 660) The Committee heard that the statement of comparison of budget and actual amounts reflects revenue budget of Kshs.4,768,862,843 and actual revenue on comparable basis of Kshs.1,664,636,619 resulting to an under-funding of Kshs.3,104,226,224 or 65% of the budget.
- 661) Similarly, the Authority spent Kshs.4,309,702,667 against approved budget of Kshs.3,558,586,587 resulting to an unapproved over expenditure of Kshs.751,116,080 or 21% of the budget.
- 662) The under-funding affected the planned activities and may have impacted negatively on service delivery to the public whereas the over expenditure means there may have been expenditure on unbudgeted items.

Management response

- 663) The management informed the Committee that, the Authority's revenue for the financial year 2022/2023, amounted to Kshs 1.66 billion, which when compared to the budget, the revenue performance was 65% below the forecasted budget of Kshs 4.769 billion. This deviation is attributed to write-off for expired and damaged HPTs amounting to Kshs 1.21 billion (as noted in Note 9), which increased the cost of sales, subsequently reducing the net sales revenue.
- 664) Additionally, the Authority had anticipated a return from USAID within FY 22/23, which did not materialize, leading to the Authority's failure to meet its revenue target in the supply chain. The excess expenditure pertains to forex exchange losses and non-cash items such as impairment losses and accruals that have been recognized:
- Tax arrears amounted to Kshs 1.316 billion incurred during the year out of which the Authority paid Ksh 550 million and accrued Ksh 765.63 million.
 - Impairment Loss of Kshs 756.71 million.
 - Forex Exchange Loss of Kshs 495.57 million

Committee Observations

The Committee observed that –

The authority was underfunded by Kshs.3, 104,226,224 or 65% of the budget and had an over expenditure of Kshs.751,116,080 or 21% of the budget. The underfunding may have impacted negatively on service delivery to the public.

Committee Recommendations

The Committee recommends that –

The Accounting Officer should ensure at all times ensure that the budgets are realistic, achievable, and always adhere to annual work plans, procurement plans, and revenue collection schedules in compliance with Regulation 44(2) of the PFM (National Government) Regulations, 2015.

1.0 Delayed Implementation of Proposed KEMSA Reforms

- 665) The Committee heard that the Chairperson's statement in the financial statements indicates 85% completion of the Kenya Medical Supplies Authority reforms as at 30 June, 2023. However, the implementation matrix indicated 73% completion with a total of fifty-eight (58) activities still in progress despite the Authority having received Kshs.300,000,000 from the Ministry of Health to undertake reforms which remained unutilized as at 30 June, 2023.
- 666) In the circumstances, it has not been possible to confirm the completion period of the outstanding activities since no minutes of the reform committee on progress of implementation were provided for audit.

Management response

- 667) The management informed the Committee that the KRIC reforms which had outlined the reform activities was transitioned into a 1-year KEMSA turnaround strategy.
- 668) The Authority would like to clarify that Kshs.300,000,000 from the Ministry of Health was ringfenced for procurement of a new ERP.
- 669) The current Board has undertaken the following reforms;
- i. Implementation of a new ERP set to go live on 18th December 2024
 - ii. Human Resource reforms through the development of HR instruments.
 - iii. Mobilization of support for operationalization of the National Commodities' Supply Chain Centre.
 - iv. Commissioning of regional supply centre at Kisumu and ongoing elevation of Mombasa depot.

Committee Observations

The Committee observed that despite the Authority having received Kshs. 300,000,000 from the parent ministry to fully implement the proposed reforms has lagged without any documented evidence of having achieved all the milestones envisioned in the reforms and may therefore not have gotten the value for money.

Committee Recommendations

The Committee recommends that –

Within three months upon adoption of this report, the Accounting Officer to submit a comprehensive documented status report detailing the milestones achieved, capital outlay, the challenges experienced, procurement processes, consultants engaged and expected completion timelines to the National Assembly and the Auditor General for review and reporting in the subsequent audit cycle.

2.0. Inefficiencies in KEMSA Operations

- 670) The Committee heard that the Note 24 (b) to the financial statements reflects the inventory balance of Kshs.12,899,91 5,421. However, the following unsatisfactory matters were noted;

No	Issue	Amount Kshs.	Section Breached	Observation	Management takes note of the Auditor's observations and responds as follows:
1	Distribution of Noncompliant Health Products	10,139,335	Paragraph 8.2 of the KEMSA Standard Operating procedures for Quality Assurance	Products which did not meet therequired health standards but were distributed to various health facilities	1. The following actions were taken regarding Health Products with Quality Assurance issues; a) Condoms; the condom batch no. X48011 was tested as part of pre-shipment testing by KEBS and the batch complied with the requirements for KS ISO 4074: 2015 standard. KEBS is the national body that oversees the Pre-Export Verification of Conformity (PVOC) Program which is a conformity assessment program applied to products at the respective exporting countries, to ensure their compliance with the applicable Kenyan Technical Regulations and Mandatory Standards or approved specifications. Based on the pre-shipment test results from KEBS, the batch was released to the warehouse for distribution. In addition to the pre-shipment testing, KEMSA conducts routine random sampling and testing of products in line with the QA sampling SOP. The testing is conducted either in the internal or external laboratories. For Condoms, the Partner (GF) requires that testing is done in a WHO prequalified and, in this case, the National Quality Control Laboratory

				(NQCL). In view of this requirement, random sampling of the condoms was done and submitted to NQCL in August 2022. The results were obtained in October 2022. These results indicated that one (Batch X48011) out of the 3 batches that had randomly been sampled did not comply with the freedom of holes test. However, this batch had been distributed based on the pre-shipment test results from KEBs. Since the results from the two labs were contradictory, it was necessary to withdraw the product from the market in the interest of public safety. A recall was therefore promptly initiated and the supplier collected the quantities that were still at the facilities and issued a credit note. b) Albendazole; This product had some tablets that were showing signs of discoloring. A comprehensive sampling and verification of all the batches for this product was done and the batches that had discolored tablets were returned to the supplier for replacement. The supplier provided a CAPA report on the root cause and the action plan which included recall and replacement of the affected batches. c) Clofazimine; During routine inspection of products in the warehouse,
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					it was noted that Clofazimine was clumping. The quantities in the warehouse were quarantined and the program was informed to follow up on what had been distributed (Clofazimine is a program item). Unfortunately, what was distributed had been consumed but what was in the warehouse was listed for disposal. However, from the communication received from the program, there is no health risk posed by the product since it was clinically bioavailable for use. d) Cotrimoxazole tablets; Cotrimoxazole was analyzed in Sept 2022 and failed the disintegration test. An out of specification (OOS) investigation was conducted and results attributed to an analyst error (Disc was not used in the disintegration test). A repeat analysis was done in October 2022 and the product, complied with specifications. e) Methylated spirit; The pre-delivery sample for Methylated spirit was report as failing because the calculation did not factor relative density. Upon factoring the relative density, the batch complied and was accepted.
2	Delays in testing medical products	979,492,850	Paragraph 8.2 of the Kenya Medical Supplies Authority	Delays ranging from six (6) to nine	Delayed Release of Tested and untested Laboratory Results

			Standard Operating procedures for Quality Assurance	hundred and eighty-six (986) days from the product delivery date to the date the laboratory tests were released.	Third party testing turnaround time for NQCL is long due to the workload at the National Quality Laboratory. Considering that the GF commodities are procured from WHO-prequalified sites, the commodities are released based on the preliminary tests conducted by the KEMSA internal lab whose testing TAT is shorter for the preliminary results. NQCL testing TAT in 2022 and 2023 was: Min days:16days Max days:244 KEMSA lab testing TAT IN 2022 and 2023 was: Min days: 0day Max days:16 The Authority would like clarify that the product testing turnaround time is between the date the sample is received in the lab and the date the certificate of analysis is issued and not the date the health products are received in the warehouse and the date the certificate of analysis is issued. Additionally, no commodities were issued to health facilities before the laboratory tests were concluded as all products received go through physical/ visual inspection and/or testing in the Lab depending on the nature of the product. The Quality Assurance department carries out a routine sampling of health products in the warehouse and Post
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					Market surveillance from Health Facilities.
3	Untested Products	639,663,163	Paragraph 8.2 of the Kenya Medical Supplies Authority Standard Operating procedures for Quality Assurance	Health products were issued to health facilities before the laboratory tests were concluded	Delayed Release of Tested and untested Laboratory Results Third party testing turnaround time for NQCL is long due to the workload at the National Quality Laboratory. Considering that the GF commodities are procured from WHO-prequalified sites, the commodities are released based on the preliminary tests conducted by the KEMSA internal lab whose testing TAT is shorter for the preliminary results. NQCL testing TAT in 2022 and 2023 was: Min days:16days Max days:244 KEMSA lab testing TAT IN 2022 and 2023 was: Min days: 0day Max days:16 The Authority would like clarify that the product testing turnaround time is between the date the sample is received in the lab and the date the certificate of analysis is issued and not the date the health products are received in the warehouse and the date the certificate of analysis is issued. Additionally, no commodities were issued to health facilities before the laboratory tests were concluded as all products received go through physical/ visual inspection and/or testing in the Lab depending on the nature of the product.

					The Quality Assurance department carries out a routine sampling of health products in the warehouse and Post Market surveillance from Health Facilities.
4	Unconfirmed Testing of Health Products	12,667,785,690	Paragraph 1 and 2 of the KEMSA Standard Operating Procedures for Quality Assurance	Commodities distributed without evidence of testing	Unconfirmed Testing of Health Products All products procured by KEMSA are sampled and inspected and/or tested as per the Quality Assurance sampling procedures. The testing criteria depend on the nature product with some products requiring Pharmacopeia analysis, while others may require visual inspection.
5	Lack of Capacity to Test Products		Paragraph 1 and 2 of the Kenya Medical Supplies Authority Standard Operating Procedures for Quality Assurance	Laboratory used to test health products is under staffed with only four employees and three (3) Laboratory equipment have not been put into use since they were purchased in the year 2021 due to lack of	Lack of Capacity to Test Products The Authority would like to confirm that plans are underway to renovate the lab and create a spacious laboratory and equip it with more equipment necessary to ensure that all commodities that are procured by KEMSA are tested. Global Fund will fund this renovation and has since approved the C19RM Wave 2 funding for temperature mapping and monitoring devices and HPTs Laboratory Testing Lab amounting to Ksh. 53 Million. The laboratory equipment (Balances) that were not in use are spare balances that are used when the others are taken to KEBS

				adequate space. In addition, the laboratory does Not have equipment for testing non-pharmaceutical products	for calibration. The current staffing is adequate however additional staff will be required when the expansion of the laboratory is completed.
6	Universal Health Coverage (UHC) Products Issued at a Loss	98,866,817	Paragraph 17.5.1 of the KEMSA Standard Operating Procedures 2018	Distribution of UHC products of Kshs.149,215,539 which were procured at Ksh 248,082,356 resulting to a loss of Kshs.98,866,817	The Authority would like to clarify that no medical commodities were sold at a loss. The ERP system picks in error, the highest cost price for any commodity and applies it to all the batched in stock including the ones procured at a lower cost price. E.g Surgical Gloves procured for Covid-19 at a cost price of Kshs. 2,100 vs those procured before Covid-19 at a cost of Kshs. 850 and sold at Kshs. 980. The system pick Kshs. 2,100 even for the stock procured at a cost price of Kshs. 850
7	Underutilization of Regional Warehouses	8,021,304	Section 2 of the Public Finance Management Act 2012	Regional warehouses in Mombasa, Nakuru, Nyeri and Uasin Gishu counties were underutilized receiving only	The operationalization of depots has begun with Kisumu and Mombasa, while other depots are currently serving as holding warehouses. Full operationalization of these depots will be phased in gradually, depending on the availability of funds, to ensure optimal utilization and effective coverage across all regions

				Medical commodities worthy Kshs.8,021,304	
8	Medical Commodities for Maritime Personnel	308,084,587	Authority to Incur Expenditure	Relates to medical medical commodities meant for maritime personnel but they were distributed to six thousand eight hundred and thirty-four (6,834) health facilities across the country	The Ministry of Health Instruction, referenced as MOH/FIN/1/A VOL III (734) under AIE No. A738037, allocated funds amounting to Ksh. 560 million for the procurement of ARVs and Reagents designated for public facilities. Additionally, funds totaling Ksh. 74 million were earmarked solely for the procurement of vaccines for Maritime Personnel (Seafarers). In addition; i) The AIE in question No. A738037 was provided for the procurement of ARVs, Lab reagents and vaccines worth Kes 634M. The MOH via letter, MOH/NASCOP/CLM/1/A vol.1 (08) dated 26th July 2022, revised the HIV commodity list to ARVs and RTKs totaling Kshs 560M inclusive of PSM costs and taxes. The HIV commodities are meant for the general population of patients and clients distributed countrywide. ii) The balance of Kshs 74M was earmarked for procurement of 7 vaccines meant for Seafarers (maritime personnel). Of the 7 vaccines only 3 were delivered

					i.e. Hepatitis A, Hepatitis B and MMR vaccines. iii) The 1,500 vials of Hepatitis B vaccine were distributed in October 2023 based on a distribution list from the NASCOP Program. The vaccines were distributed to 219 facilities (see Condom and STI distribution DICES October 2023) iv) Hepatitis A vaccine -2990 vials and Measles Mumps and Rubella vaccine - 3,500 vials are still in stock in the warehouse (see stock reports) v) From the Foregoing it is noted that Kes 74 M was set aside for procurement and supply chain costs for vaccines for Maritime personnel (Seafarers). Hepatitis B vaccines worth Kes 433,054 were distributed to 219 facilities based on an allocation/ distribution list from MOH NASCOP. vi) The 6,834 health facilities are inclusive of facilities that received HIV commodities that were meant for those relevant facilities serving HIV patients and clients around the country and not seafarers.
			Authority to Incur Expenditure	Relates to medical medical commodities meant for	The Ministry of Health Instruction, referenced as MOH/FIN/1/A VOL III (734) under AIE No. A738037, allocated funds amounting to Ksh. 560 million for the procurement of ARVs and Reagents

				maritime personnel but they were distributed to six thousand eight hundred and thirty-four (6,834) health facilities across the country	designated for public facilities. Additionally, funds totaling Ksh. 74 million were earmarked solely for the procurement of vaccines for Maritime Personnel (Seafarers). In addition; i) The AIE in question No. A738037 was provided for the procurement of ARVs, Lab reagents and vaccines worth Kes 634M. The MOH via letter, MOH/NASCOP/CLM/1/A vol.1 (08) dated 26th July 2022, revised the HIV commodity list to ARVs and RTKs totaling Kshs 560M inclusive of PSM costs and taxes. The HIV commodities are meant for the general population of patients and clients distributed countrywide. ii) The balance of Kshs 74M was earmarked for procurement of 7 vaccines meant for Seafarers (maritime personnel). Of the 7 vaccines only 3 were delivered i.e. Hepatitis A, Hepatitis B and MMR vaccines. iii) The 1,500 vials of Hepatitis B vaccine were distributed in October 2023 based on a distribution list from the NASCOP Program. The vaccines were distributed to 219 facilities (see Condom and STI distribution DICES October 2023) iv) Hepatitis A vaccine -2990 vials and Measles Mumps and Rubella vaccine -
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					3,500 vials are still in stock in the warehouse (see stock reports) v) From the Foregoing it is noted that Kes 74 M was set aside for procurement and supply chain costs for vaccines for Maritime personnel (Seafarers). Hepatitis B vaccines worth Kes 433,054 were distributed to 219 facilities based on an allocation/ distribution list from MOH NASCOP. vi) The 6,834 health facilities are inclusive of facilities that received HIV commodities that were meant for those relevant facilities serving HIV patients and clients around the country and not seafarers.
9	Issuance of Universal Health Coverage (UHC) Products to Private Hospitals	107,327,346	Contrary to a letter from the Principal Secretary Ministry of Health Ref: M0H/ADM/1/2/16 V01-1 (70) dated 24 January, 2020	Universal Health Coverage (UHC) distribution schedule indicated products were issued to three hundred and twenty-five (325) private health facilities	Under the UHC program, counties were allocated drawing rights, which they used to place orders with KEMSA. Some counties have arrangements to support faith-based healthcare facilities, and any orders for these facilities under UHC were placed through the respective counties. Only the county's authorized officer has the authority to determine which facilities, including faith-based ones, can submit orders on the county's behalf through the KEMSA LMIS ordering platform for processing.

- 671) In view of the observations made above, the Authority may not optimally achieve the mandate of procurement, warehousing and distribution of drugs and medical supplies for the prescribed public health programs, the national strategic stock reserve, prescribed essential health packages and national referral hospitals.

Committee Observations

Committee observed that –

- i) The Authority distributed UHC Commodities worth Kshs. 107,327,346 to private hospitals. Another consignment worth Kshs.308,084,587 relating to medical commodities meant for maritime personnel but they were distributed to six thousand eight hundred and thirty- four (6,834) health facilities across the country. The distribution of public resources to private hospitals and unidentified health facilities under the maritime personnel consignment were irregular since there are no regulations, policy or any legal framework that guide KEMSA to distribute public resources to private institutions.
- ii) The Committee observed with serious concern issues regarding deficiencies in staffing capacity, adherence to good practices for medical product Standards control, and the overall quality assurance of health products distributed to health facilities and institutions. These shortcomings poses potential hazards to public health, as outlined below:
 - a) **Distribution of Substandard Products-** The Authority distributed Health products valued at Kshs.10,139,335 to various health facilities despite failing to meet the required health standards.
 - b) **Delays in Laboratory Testing-** The Authority distributed Commodities worth Kshs. 979,492,850 after prolonged delays in testing, ranging from six (6) days to nine Hundred and eightysix (986) days between product delivery and the release of laboratory results.
 - c) **Untested Products Issued-** The Authority distributed products valued at Kshs. 639,663,163 to health facilities before laboratory tests were concluded and an additional consignment worth Kshs.12,667,785,690 was issued without any evidence of testing.
 - d) **Staffing and Equipment Constraints-**The Authority's laboratory was critically understaffed, operating with only four employees. It was noted that three laboratory machines procured in 2021 remain unused due to inadequate space and the laboratory lacked equipment necessary for testing non-pharmaceutical products, further limiting its capacity to ensure product safety.
- iii) The Committee noted operational inefficiencies that resulted in a financial loss of Kshs. 98,866,817 from the disposal of commodities under the Universal Health Coverage (UHC) program, while regional warehouses in Mombasa, Nakuru, Nyeri, and Uasin Gishu counties remained underutilized, receiving medical commodities valued at only

Kshs. 8,021,304, thereby operating below optimal capacity and limiting revenue maximization.

Committee recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer of the Authority to submit to the National Assembly and Auditor-General documented evidence of approved comprehensive reform strategy anchored on a clear legal and policy framework to regulate distribution of public health commodities, strengthen laboratory capacity through adequate staffing and full utilization of equipment, enforce mandatory pre-distribution quality assurance protocols, optimize warehouse operations to minimize wastage and maximize revenue, and establish robust oversight mechanisms to ensure transparency, efficiency, and adherence to best practices in the management of health resources.

3.0 Unresolved Prior Year Matters

- 672) The Committee heard that, in the audit report of the previous year, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public resources. However, the implementation status of the Auditor General's recommendations on page 62 to 205 of financial statements indicates prior year issues have not been resolved.

Management response

- 673) The management did not respond to the audit issue.

Committee Observations

The Committee observed that –

The Accounting Officer had several unresolved prior year matters which the management has not resolved or given any explanation contrary to section 31 (1) of the Public Audit Act, CAP. 412B which requires that state organ or a public entity that had been audited shall, as a preliminary step, submit a report on how it has addressed the recommendations and findings of the previous year's audit

Committee Recommendations

The Committee recommends that –

The Accounting Officer should always comply with the provisions of section 31 (1) of the Public Audit Act, CAP. 412B.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

1.0 Budget Imbalance

- 674) The Committee heard that the statement of comparison of budget and actual amounts reflects final revenue budget of Kshs.4,768,862,843 and final expenses budget of Kshs.3,558,586,587 resulting to unbalanced budget by Kshs.1,210,276,256. This was contrary to Regulation 33(c) of the Public

Finance Management (National Government) Regulations, 2015 which states that budget shall be balanced.

- 675) In the circumstances, Management was in breach of the law.

Management response

- 676) The management informed the Committee that the Authority's revenue for the financial year 2022/2023, amounted to Kshs 1.66 billion, which when compared to the budget, the revenue performance was 65% below the forecasted budget of Kshs 4.769 billion. This deviation is attributed to write-off for expired and damaged HPTs amounting to Kshs 1.21 billion (as noted in Note 9), which increased the cost of sales, subsequently reducing the net sales revenue. Additionally, the Authority had anticipated a return from USAID within FY 22/23, which did not materialize, leading to the Authority's failure to meet its revenue.

Committee Observations and Recommendations

The Committee had deliberated on the issue Budget Imbalance in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

2.0 Cancellation of tender resulting to loss of revenue

- 677) The Committee heard that the Note 8 to the financial statements reflects income from rendering of services amount of Kshs.1,357,355,506 out of which Kshs.668,795,462 was income earned from Global Fund. It was noted that in November, 2022, The National Treasury gave authority to procure long-lasting Insecticidal nets (LLINs) for the mass net campaign targeting twenty-two (22) counties using the Global Fund Malaria Grant at an amount of Kshs.3,545,103,120 inclusive of rendering fee of Kshs.168,813,868.
- 678) Review of procurement records revealed five (5) suppliers were qualified and proceeded to the technical evaluation stage. However, Global Fund review revealed that the two bids assessed as responsive for polyethylene nets and for polyester nets failed to meet the mandatory documentation requirements in the preliminary phase, and should not have proceeded to the technical, financial and post-qualification phase. Therefore, the evaluation was done contrary to Sections 80 and 86 of the Public Procurement and Asset Disposal Act, 2015 which states that; (1) The evaluation committee appointed by the Accounting Officer pursuant to section 46 of this Act, shall evaluate and compare the responsive tenders other than tenders rejected under section 82(3). Subsequently Global Fund decided to move the procurement to wambo.org resulting to KEMSA losing rendering of services fee of Kshs.168,813,868.

Management response

- 679) The management informed the Committee that in relation to the procurement of LLINs the management agrees with the auditor's observation and strive to ensure future engagements is compliant.

Committee Observations

The Committee observed that–

The decision by the evaluation committee to allow bids that failed mandatory preliminary requirements to proceed to the technical and financial evaluation stages resulted in the loss of rendering of services fee amounting to Kshs.168,813,868.

The then Accounting Officer was in breach of section 80 (1) of the Public Procurement and Asset Disposal Act, 2015 which states that the evaluation committee appointed by the Accounting Officer pursuant to section 46 of this Act, shall evaluate and compare the responsive tenders.

Committee Recommendations

The Committee recommends that –

The Accounting Officer should at all times comply with the Public Procurement and Asset Disposal Act, 2015 and other governing laws and regulations as applicable.

3.0 Irregular Procurement of Commodities

- 680) The Committee heard that the review of procurement processes revealed the following irregularities.

No.	Issue	Amount Kshs.	Law breached	Observation
1.	Irregular Extension of Contracts	330,094,358	Section 88(2) and (3) of PRAD 2015	Management engaged suppliers for a fixed contract period but later extended their contracts and continued to trade with them without competitive bidding
2	Irregular Use of Framework Contracting	13,909,558,48888	Section 114 (3)(b) of PPAD, 2015	There was no list of vendors undertaking these contracts neither was there evidence of mini competition among suppliers
3	Framework Contracting		Section 114 (2) of PPAD, 2015	There was no evidence of conducting a value for money assessment to determine whether

				the terms designated in the framework agreement were still competitive
4	Use of direct procurement and restricted tendering methods	1,133,867,796	Section 114 (1) and (2) of PPAD, 2015	Suppliers engaged through direct procurement of Kshs988,022,916 and restricted tendering method of Kshs.145,844,880 were irregularly engaged for a continuous period of two (2) years under framework Agreements
5	Commodities received after the scheduled delivery dates	1,074,450,699	Section 114 (4) of PPAD, 2015	Commodities of Kshs.657,169,529 were received after the scheduled delivery dates while the balance of Kshs417,281,170 had not been received as at 30 June 2023 over three months after the call off orders were made
6	Expired Framework Contracts	119,204,300	Section 114 (4) of PPAD, 2015	Commodities procured through call off orders include Kshs. 119,204,300 whose framework contracts had expired at the time the call off orders were made
7	Unlawful use of Direct Procurement	3,505,492,525	Section 114 (4) of PPAD, 2015 and Regulation 90 of PPADR, 2020	Direct procurements of goods and services and there was no evidence whether the prices were fair and reasonable and compares well with known prices. Also, no evidence of reporting to the Public Procurement Regulatory Authority within

				fourteen days after the notification of the award
9	Irregular Use of Restricted Tendering	851,902,455	Section 102 of PPI\N, 2015	There was no evidence that the commodities were only available from few known suppliers neither was there evidence of at least ten persons invited from an approved list of prequalified restricted tenderers.
10	Uncapped Contract for Consultancy Services	594,489,223	Section 129 (2) of PPAD, 2015	The consultancy contract did not indicate the amount payable or the maximum amount of time that can be the contract.
11	Failure to Use e-procurement	13,909,558,488	Executive order No. 2 of 2018	There was no evidence to show that e-procurement platform was used to procure these commodities
12	Pricing	6,953,003,588	Section 54 (2) of PPAD, 2015	There was no mechanism of verifying the reasonability of the prices quoted by suppliers, neither were there price benchmarks, price estimates or at least a list of prevailing local and international prices for medical supplies
13	Over Procurement	3,535,003,667	Regulation 140(1) of PFM(NG) Regulations, 2015	Four hundred and forty-three (443) medical commodities were procured against the approximate annual demand of Kshs.3,469,735,864 resulting to over procurement of Kshs.3,535,003,667

14	Irregular Procurement of Assorted blood Bags	47,850,000	Section 75 (3) of PPAD, 2015	Failure by winning bidders to adhere to the technical specifications
15	Delay in processing Orders	5,540,145,763	Section 72(1) of the Public Management Finance Act 2012	Delay in process for an average of 270 days from the date requests were made to the date the goods were ordered. For instance, it took 266 days to approve the procurement request of HIV test kits and a further 112 days for the contract to be signed.

Management response

- 681) The management informed the Committee that the evidence to support the audit issue has been provided for review.

Committee Observations and Recommendations

- 682) The Committee had deliberated on the issues relating to irregular procurement of commodities in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

4.0 Delayed Deliveries

- 683) The Committee heard that the Note 9 to the financial statements reflects cost of sales (Non-pharms) amount of Kshs.2,248,013,590. An analysis of items procured under this expenditure item revealed frequent delays in delivery of items costing Kshs.145,209,398 ranging from 53 to 247 days. This was contrary to Section 140 of Public procurement and Disposal Act, 2015 which stipulates that "The contractor shall be liable to liquidation damages for delayed performance and Section 142(2) which states that "in case the contract is not fully or well executed, the performance security shall unconditionally be fully seized by the procuring entity as compensation without prejudice to other penalties provided by the Act."
- 684) In the circumstances, Management was in breach of the law.

Management response

- 685) The management informed the Committee that liquidated damages clause could not be applied due to cash flow challenges affecting supplier payments. Liquidated damages apply both to the

procuring entity and the supplier in the event of delayed payments or delayed contract performance respectively.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Delayed deliveries in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

5.0 Late Delivery of Commodities

- 686) The Committee heard that the Note 30 to the financial statements reflects Medical Commodity Fund amounting to Kshs.9,134,630,398 which includes a total of Kshs.375,591,320 used to procure Global Fund medical commodities from five different suppliers. However, the commodities were delivered three (3) months to nine (9) months later after the delivery date stipulated in the contract. This was contrary to Section 140 of Public Procurement and Asset Disposal Act, 2015 which stipulates that "The contractor shall be liable to liquidation damages for delayed performance." And Section 72(1) of the Public Management Finance Act, 2012 which states that, 'The Accounting Officer for a National Government entity shall— (a) be responsible for the management of the entity's assets and liabilities; and (b) manage those assets in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets.'

Management response

- 687) The management informed the Committee that Liquidated damages clause could not be applied due to cash flow challenges affecting supplier payments. Liquidated damages apply both to the procuring entity and the supplier in the event of delayed payments or delayed contract performance respectively.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Late delivery of commodities in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

6.0 Donated Cancer Drugs

- 688) Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,91 5,421. A Memorandum of Understanding between the Ministry of Health and donor was entered on June, 2021 to provide free cancer drugs through KEMSA for a period of five (5) years. It was noted that drugs worthy Kshs.13,427,611 ,538 had been received and drugs worth Kshs.10,870,377,799 had been issued to five (5) hospitals. However, the following observations were made.

6.1 Donated Cancer Drugs Issued to a Private Hospital

- 689) The Committee heard that, included in the issued cancer drugs of Kshs.10,870,377,799 is Kshs.8,906,757,973 issued to a private hospital while the balance of Kshs.1,963,619,826 was issued to four (4) public hospitals. There was no justification of issuing Kshs.8,906,757,973 or 82% of cancer drugs to one private hospital despite there being a national cancer treatment centre at Kenyatta National Hospital which was earmarked to receive these drugs. In addition, it has not been possible to confirm whether the drugs issued to the private hospital were dispensed to patients for free.

Management response

- 690) The management informed the Committee that the donation of the anticancer drug from Glivec, began at Nairobi Hospital in 2003 through a partnership between the MAX Foundation, doctors, and hospital management to ensure that patients with Chronic Myeloid Leukemia (CML), among other cancers, could receive the drug free of charge.
- 691) Oncologists at Nairobi Hospital, along with those from public hospitals, have played a key role in diagnosing and treating these patients, referring suspected CML cases from across the country to scheduled clinics at Nairobi Hospital. Over the past 20 years, many patients nationwide have benefitted from this free treatment. The donor has established systems to ensure that recipient hospitals do not charge for the drug.
- 692) In 2021, the MAX Foundation agreed to decentralize the service to four public facilities: Moi Teaching and Referral Hospital (Eldoret), Coast General Hospital, Nakuru Provincial Hospital, and Jaramogi Oginga Odinga Hospital (Kisumu). The Ministry of Health, through the National Cancer Program, identified these centers as the most suitable due to their available human resources, systems, and regional distribution, enabling patients to access treatment closer to home and avoid long travel distances. Patients were informed of the decentralization, and those willing were transferred from Nairobi Hospital to these four centers.
- 693) The centers received training on diagnosis, patient enrollment, and proper drug management. While most patients chose to remain at Nairobi Hospital, approximately 150 patients were transferred and enrolled at the public centers. It is important to note that Nairobi West Hospital is not part of this program, and an erroneous issue to Nairobi West was reversed back to the warehouse.

Committee Observations

The Committee observed that–

Kenya Medical supplies Authority issued 82% of donated cancer drugs worth Kshs.8,906,757,973 to a single private hospital instead of being equitably distributed to public hospitals. The authority did not provide documentary evidence to confirm the drugs issued to private hospital were dispensed to patients free of charge and as per the donor requirements.

Committee Recommendations

The Committee recommends that –

Within three months upon adoption of this report, the Accounting Officer should submit to the National Assembly and Auditor-General a comprehensive report detailing the criteria used to allocate drugs between the private hospital and the four public cancer treatment centres. The Auditor-General to review and report in the subsequent audit cycle.

6.2 Failure to factor KEMSA costs in the free cancer drugs distribution program

- 694) The Committee heard that the included in the issued cancer drugs of Kshs.10,870,377,799 is Kshs.8,906,757,973 issued to a private hospital. Under article 4.5 of the Memorandum, KEMSA

is responsible for facilitating importation of the drugs out of which Kshs.11,560,599 was incurred as clearing charges. However, KEMSA has not been included as a party to the Memorandum of Understanding between the donor and the Ministry of Health. In addition, the Ministry of Health through a letter Ref: MOH/DNCD/CC/GEN/VOL.II (29) dated 23 June, 2021 was to provide a dedicated annual budget to cater for the clearing charges but this item was not included in the approved budget resulting to the Authority incurring unbudgeted costs.

- 695) In addition, the Program indicated a total of 1,597 cancer patients enrolled in the program out of which 1,443 or 90% are from one private hospital while the balance of 154 or 10% are from four public hospitals. However, details on how the patients were identified and enrolled into the program were not provided since there was no evidence of any sensitization
- 696) In the circumstances, the value for money on cancer drugs totaling Kshs.8,906,757,973 issued to a private hospital could not be confirmed.

Management response

- 697) The management informed the Committee that the said oncology medicines donated under the Glivec® International Patient Assistance Program (GIPAP) to the country by the MAX Foundation were high value, low volume items. The medicines to be delivered every six months were estimated to be worth Kshs. 6.32B.
- 698) The PS-MOH via a letter (Ref MOH/DNCD/CC/GEN/VOL.II (29) dated 23rd June 2021) requested KEMSA to consider a review of the supply chain fees downwards to be based on the estimated costs of managing the six pallets of medicines rather than on the value of the consignment. A supply chain fee that covers warehousing and distributing the medicines at 8% would be Kshs. 505.6M which would have been extremely expensive, yet these were donations benefiting the country. KEMSA has invoiced the Ministry of Health an amount of Kes. 295,436,630 for supply chain services offered in relation to the commodities, from MAX Foundation. In light of this, the Ministry of Health (MOH) and KEMSA negotiated a management fee of 1.6% of the total value, which was agreed upon by both parties, as referenced in KEMSA/CEO/FM/21/22/05/20 (1) dated 16th November 2022.

Committee Observations

The Committee observed that–

Kenya Medical Supplies Authority incurred clearing charges of Kshs.11,560,599 due to failure to include in their budget costs related to the free cancer drugs distribution program. The Authority has not presented before the Committee any documentary evidence requesting reimbursement from the Ministry of Health.

Committee Recommendations

The Committee recommends that –

Within three months upon adoption of this report, the Accounting Officer should submit to the National Assembly and Auditor-General a comprehensive report on the steps taken to recover the outstanding clearing charges amounting Kshs.11,560,599 from the Ministry of Health. The Auditor-General to review and report in the subsequent audit cycle.

7.0 Work in Progress - Irregular Sub-Contracting

- 699) The Committee heard that the Note 25 (a) reflects capital work in progress balance of Kshs.5,497,816,075 in respect to construction of the modern warehouse and office block which included a provision for sub-contracting. Kenya Medical Supplies Authority awarded the subcontracted works to five (5) firms on 22 December, 2017 and directed the main contractor to enter into subcontract with the firms. However, there was no evidence that the main contractor entered into subcontracts despite Kenya Medical Supplies Authority having awarded the subcontracts and paid Kshs.919,416,885. In addition, the contract was for a duration of one hundred and eight two weeks (182) ending 25 September, 2020 but as at December, 2023 about thirty-nine (39) months later the project was incomplete. Further, the amount paid of Kshs.3,799,274,276 exceeded the sum of Kshs.3,079,998,860 resulting to a price variation of Kshs.719,275,419 or 23.35% with a likelihood of increasing since the project is still incomplete.
- 700) In the circumstances, Management was in breach of the law and the Authority did not get value for money.

Management response

- 701) The management informed the Committee that this was a complex project that required KEMSA to ascertain that subcontractor had the technical and financial capability to execute the project. It was therefore prudent for KEMSA to advertise tenders for all subcontract works spelling out requirements that had to be met before award of tenders. The awarded subcontractors were then required to enter into sub-contracts with the main contractor.
- 702) The requirement that the subcontractors would enter into contracts with the main contractor was embedded in the tender document and therefore all the parties were aware of the requirement before award of contracts.
- 703) The contracts between the main contractor and sub-contractor were entered into after KEMSA signed a contract with the main contractor. The contracts between the main contractor and the subcontractors are available for review by the audit team.
- 704) The delay in completing the construction of the new warehouse emanated from challenges in the acquisition of the Tax waiver to the project on the Global Fund component. It should be noted that the Tax Waiver was to be issued at the onset of the project, before contract signing, but the general waiver was released on 28th March 2019 (1 year after the commencement of the project). The project initially experienced delays beyond the timelines stipulated in the contract due to ground Conditions like an increased quantum of sub-structure works which was significantly more than the initial estimated works like high water table in the area. The Main Contractor experienced flooding between the months of April – June 2019, requiring excessive pumping to the existing foundation pits.
- 705) The Authority would like to confirm that the amount of Kshs. 5,422,461,628.07 comprised of payments for Phase I & II for the construction of the main warehouse, Racking and Operationalization of the Warehouse for activities funded by Global Fund as follows;

Classification	Amount (Ksh)
Phase I & II Main Warehouse	3,427,317,935.65

Project Management Fees	970,864,022.22
Warehouse Racking	815,842,476.76
Warehouse Operationalization	208,437,193.44
Total	5,422,461,628.07

706) Further, KEMSA would like to confirm that the contract sums of the Main Warehouse amounting to Kshs.3,079,998,860 was varied by Kshs. 719,275,416 to Ksh 3,799,274,276. This variation was to cater for priority items, changes in scope of works and price fluctuations

707) The management would like to thus confirm that the cumulative value of all contract variations has not exceeded the total contract value by 25% of the original contract price as stipulated in the PPAD ACT 2015 section 139(4.e). This threshold has not been surpassed. The contracts between the main contractor and the subcontractors are available for review by the audit team.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Work in progress - irregular sub-contracting in its Third PIC-SSAA Report observations and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

8.0 Payment of Provisional Sums

708) The Committee heard that included in the capital work in progress under Note 25 (a) is a provisional sum of Kshs.18,084,000 for profit and attendance paid to the contractor without evidence of the actual cost incurred. In addition, general preliminaries also include insurance of Kshs.20,000,000 for materials and people on site which was also paid but not supported by insurance policies. This was contrary to Clause 30.3 of the general conditions to the contract which requires insurance covers be taken in the joint names of Kenya Medical Supplies Authority and the contractor. Further, particular preliminaries to the bill of quantities provided for liquidated damages of Kshs.20,000,000 which was also paid by KEMSA. However, the amount was meant to be provided by the contractor where Kenya Medical Supplies Authority was to deduct liquidated damages from payment due to the contractor for delayed project completion.

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

Management response

710) The management informed the Committee that as per the contract the insurance is the responsibility of the contractor. This remains the case until a certificate of practical completion is issued to the client, KEMSA.

711) The amounts were paid to Main Contractor was to provide for profit and attendance to racking contractor as provided in the racking contract and work site engagement agreement.

Committee Observations

The Committee observed that–

Kenya Medical Supplies Authority made irregular payment for Provisional Sums of Kshs.18,084,000 to a contractor for profit and attendance without evidence of the actual cost incurred and contrary to standard construction contract requirements. The payment of

Kshs.20,000,000 incurred on insurance for materials and people on site was not supported by insurance policies and was contrary to Clause 30.3 of the general conditions to the contract which requires insurance covers be taken in the joint names of Kenya Medical Supplies Authority and the contractor

Committee Recommendations

The Committee recommends that –

Within three months upon adoption of this report, the Accounting Officer should submit to the National Assembly and Auditor-General the schedules and the payment vouchers to support the payment of provisional sums amounting to Kshs.18,084,000. The Auditor-General to review and report in the subsequent audit cycle.

9.0 Unapproved fees for services rendered

- 712) The Committee heard that the Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,444 generated from sale of various health products and technologies. However, the products were priced and reviewed by a pricing committee appointed by the chief executive officer but were not presented to the board for approval before implementation. This was contrary to Section 6 (2) (d) of the Kenya Medical Supplies Authority Act, 2013 which gives the board powers to levy fees rendered by the Authority. In addition, sales revenue includes Kshs.184,786,272 for various health products and technologies whose prices were not contained in the price list contrary to paragraph 17.5.1 of the KEMSA Standard Operating Procedures 2018 which requires the sales price list be uploaded in the ERP for implementation.
- 713) In the circumstances, Management was in breach of the law.

Management response

- 714) The management informed the Committee that the Pricing Committee determines the pricing of commodities for sale in accordance with the approved Pricing Policy, which has been formally approved by the Board. The policy outlines the entire pricing procedure, with the final step being the submission of proposed prices by the Chair of the Pricing Committee to the CEO for approval. Once approved, the prices are uploaded into the Ordering Tool, Price List, and ERP system for customer use. The Pricing Committee has fully adhered to the procedures outlined in the Pricing Policy, as approved by the Board.

Committee Observations and Recommendations

The Committee had deliberated on the issue Unapproved fees for services rendered in its Ninth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

10.0 Unapproved Review of Fees

- 715) The Committee heard that the Note 24 (b) to the financial statements reflects inventory balance of Kshs. 12,899,915,421 Warehouse issue report indicated distributed cancer drugs of

Kshs.10,870,377,799. The Authority charges warehousing and distribution fee of 8% for donated cancer commodities but the fees were reviewed downwards to 1.6% due to the high value low volume nature of the commodities. However, this review was not approved by the board contrary to Section 6 (2) (d) of the Kenya Medical Supplies Authority Act, 2013 which gives the board powers to levy fees rendered.

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

Management response

717) The management informed the Committee that the oncology medicines donated under the Glivec® International Patient Assistance Program (GIPAP) to the country by the MAX Foundation were high value, low volume items. The medicines to be delivered every six months were estimated to be worth Kshs. 6.32B.

The PS-MOH via a letter (Ref MOH/DNCD/CC/GEN/VOL.II (29) dated 23rd June 2021) requested KEMSA to consider a review of the supply chain fees downwards to be based on the estimated costs of managing the six pallets of medicines rather than on the value of the consignment. A supply chain fee of 8%, amounting to Kshs. 505.6 million, would have been prohibitively expensive, especially given that these were donations benefiting the country. In light of this, the Ministry of Health (MOH) and KEMSA negotiated a management fee of 1.6% of the total value, which was agreed upon by both parties, as referenced in KEMSA/CEO/FM/21/22/05/20 (1) dated 16th November 2022.

KEMSA has invoiced the Ministry of Health an amount of Kes. 295,436,630 for supply chain services offered in relation to the commodities from MAX Foundation.

Committee Observations and Recommendations

The Committee had deliberated on the issue touching on Unapproved fees for services rendered (to which the issue of Unapproved review of fees relate) in its Ninth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

11.0 Receipts of medical commodities beyond the accepted shelf life

718) The Committee heard that the Note 24 (b) to the financial statements reflects inventory balance of Kshs.1 2,899,915,421. Warehouse management system indicated that health products and technologies of Kshs.6,249,151 ,129 were received during the year with a short shelf life of less than 75%. This was contrary to Paragraph 40 of the Kenya Medical Supplies Authority Standard Operating Procedures for Quality Assurance 2020 which requires medical products to have a shelf life of at least 75% at the time of receipt. The commodities include ARVs of Kshs.1,275,914 delivered with only a shelf-life of 21%.

719) In the circumstances, the receipt of medical commodities below the shelf life increases the rate of expiries leading to loss of public funds and is contrary to established policy.

Management response

720) The management informed the Committee that the current Standard Operating Procedures on receipt (KEMSA/SOP/QA/1002/08, clause 8.2.6) state that; Vital and Tracer A or B commodities that are out of stock can be consumed before their short expiry period (within 6 months of expiry). Commodities with a remaining shelf life of above 66% is acceptable. For commodities with a

total shelf life of less than one year, a minimum remaining shelf life of 50% is required. Any deviations from this must be approved by the Quality Assurance Manager (QAM) and user departments, based on an undertaking from the supplier.

- 721) Based on this clause, commodities valued at Ksh. 1,058,822,260 were received with a shelf life of at least 66% due to stockouts. Commodities valued at Ksh. 48,265,073, which had a remaining shelf life below 66%, were accepted with a letter of undertaking because they were also out of stock. Program items valued at Ksh. 54,817,563 with less than 66% shelf life were approved by the user department. The Authority would like to confirm that, no items were received with a shelf life as low as 21%. Items valued at Ksh. 198,717,335 are equipment, which do not expire, and donations valued at Ksh. 4,888,528,862 are also included.

Committee Observations and Recommendations

The Committee had deliberated on the issue Receipts of medical commodities beyond the accepted shelf life in its Ninth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

12.0 Irregular donations of medical commodities

- 722) The Committee heard that the Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,444. The amount excludes donations of Kshs.177,266,033 made to seventy-four (74) health facilities which has been disclosed as advertising cost.
- 723) Further, the donations include commodities of Kshs.45,300,969 with a shelf life of more than six months contrary to Section 8.2 of the Kenya Medical Supplies Authority Standard Operating Procedures which requires medical commodities to have a shelf life of less than six months to qualify for donations.
- 724) In the circumstances, Management was in breach of established Policy.

Management response

- 725) The management informed the Committee that the Commodities that were issued as donations were used for promotion and marketing activities and part of KEMSA's Corporate Social Responsibility purposes. They were expensed and recognized as advertising and publicity expenditure as per the matching principle.
- 726) The issuance of short, dated commodities is as per the Standard operating procedures for the Warehouse department section 8.2. Additionally, KEMSA has developed a Stock holding policy as in January in issuance of donations which is awaiting board approval.

Committee Observations and Recommendations

The Committee had deliberated on the Irregular donations of medical commodities in its Ninth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

13.0 Unaccounted for Universal Health Coverage (UHC) Funds

- 727) The Committee heard that the Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. The following observations were made;

- i) The Authority received Kshs.12,817,762,552 to procure, warehouse and distribute UHC products out of which products with a value of Kshs11,046,916,309 had been distributed as at 30 June, 2023 since the inception of the program in the year 2018 resulting to a balance of Kshs.1,770,846,243. However, the available UHC cash and inventory balance is Kshs.914,587,365 resulting to unaccounted for balance of Kshs.856,258,878.
- ii) Further, the distributed health products include Kshs.85,874,122 in respect of donations and products from other sources of funds which were reported under Universal Health Care programme instead of the respective programmes. This also represents unaccounted for UHC funds since the products had already been funded from other sources.
- iii) Included in the refundable deposit under Note 27 to the financial statements is Kshs.460,742,116 in respect of UHC against a cash and cash equivalent balance of Kshs.880,707,808 resulting to unreconciled and undisclosed amount of Kshs.419,965,692.
- iv) In addition, the UHC funds were comingled in the Authority's other operational bank accounts without depositing them in a separate bank account exposing them to unintended use. This is contrary to Regulation 76 (1) of the Public Finance (National Government) Regulations, 2015 which requires each project to have a separate bank account at the Central Bank of Kenya into which all funds shall be kept.

728) In the circumstances, management was in breach of the law.

Management response

729) The management informed the Committee that –

- i) The Authority would like to confirm that the UHC program had two components;
 - a) KEMSA Capital commodities draw down component.
 - b) Procurement of Program HPTs component.

730) The draw down component was riding on existing KEMSA-Capital stocks and each county was to draw down at sale price. This means that the balance of cash would be utilized after the counties made orders from KEMSA. The balance of stocks therefore cannot be limited to the UHC program procurements only. Authority confirms that Kshs.12,817,762,552 was received and out of this Ksh 11,995,330,699.33 was issued out leaving an amount of Ksh 822,431,852.57 being unutilized funds. The unutilized UHC balances have been recognized in the customer prepayment and Trade creditor Development partner's grant liability accounts.

731) For procurement components, KEMSA was to procure and distribute at cost price and thereby earn a 10% management fee which explains the difference in cash balance since the Authority had to consume the earned fee. There was no requirement by MOH for KEMSA to open a separate bank account for UHC. UHC commodities were procured against existing KEMSA capital framework contracts.

- ii) The distributed HPTs valued at Kshs.85,874,122 were KEMSA Capital funded items. These items were capitalized when KEMSA became an Authority.

- iii) The Authority would like to confirm that the under UHC, the unutilized funds amount to Kshs.880,707,808.
- iv) UHC was riding on KEMSA systems. Supplies under UHC were done using the existing contracts. UHC was not a project but an integrated program.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Unaccounted for Universal Health Coverage (UHC) Funds in its Ninth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

14.0 Delays in Delivery of Medical Commodities

- 732) The Committee heard that the Note 24(b) to the financial statements reflects the inventories balance of Kshs.12,899,915,421 out of which Kshs.8,851,881,756 relates to medical commodities received beyond the scheduled delivery timelines. Further, commodities of Kshs.2,403,972,246 had not been received by 30 June, 2023 for over three (3) months after ordering. In addition, suppliers were not held accountable for delayed deliveries neither was performance rating used when selecting suppliers for repeat orders resulting to frequent stock outs. This was contrary to Regulation 53(1) Public Finance Management (National Government) Regulations, 2015 which states that a local purchase order or local service order shall be valid for a period of thirty days from the date of issue. (2) Any public officer who receives goods or services beyond the stipulated period specified in paragraph (1) commits an offence under the Act.
- 733) In the circumstances, Management was in breach of the law.

Management response

- 734) The management informed the Committee that the directorate will closely monitor the performance of suppliers and liquidate performance securities as necessary. The supplier performance measurement tool was introduced in the FY 2022/2023 and penalties were to be applicable in the subsequent years.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Delay in Deliveries of Medical Commodities in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

15.0 Medical Supplies Made to Customers with Overdue Balances

- 735) The Committee heard that the Note 22 (a) to the financial statements reflects receivables from exchange transactions balance of Kshs.6,008,541,865 out of which Kshs.166,541,204 relates to one hundred and fourteen (114) customers who had been denied services due to overdue balances. However, these customers made orders through their respective counties which were processed, approved and medical supplies of Kshs.666,584,203 delivered to them before clearing the previous debts. This was contrary to Paragraph 2.7 of the Kenya Medical Supplies Authority Credit Policy 2014 which gives a credit period of 30 and 45 days for public and non-public health

facilities respectively after which services shall be denied until when the customer pays the overdue balances.

- 736) In the circumstances, Management was in breach of the law.

Management response

- 737) The management informed the Committee that KEMSA maintains (i) County Accounts and (ii) Direct County Hospital Accounts. These are considered as two separate customer accounts. County procurements for supply to their hospitals is treated independently from a Direct hospital account. If a County decides to procure for their hospitals, the orders will be processed and supplied as long as the County account has passed credit terms checks. Denying hospital supplies being procured by the County would not be procedural as the two accounts are distinctively separate.
- 738) Management will revise the credit policy to accommodate the business model.

Committee Observations and Recommendation

The Committee had deliberated on the issue of medical supplies made to customers with overdue balances in its Third PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

16.0 Supply and Installation of Medical Oxygen System

- 739) The Committee heard that the Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. Management procured a medical oxygen system through direct procurement due to urgency at a contract sum of Kshs.366,737,111. However, the contract was signed on 21 January, 2022 about five (5) months after tender opening which took place on 20 August, 2021. In addition, as at 30 June, 2023 Kshs.75,199,989 or 20.51% of the contract had not been executed twenty-two (22) months after tender opening. The use of direct procurement based on urgency was not justified.
- 740) In addition, the contract sum of Kshs.366,737,111 exceeded the approved budget estimate of Kshs.119,010,000 by Kshs.247,727,111 contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which states that " an Accounting Officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.
- 741) In the circumstances, Management was in breach of the law.

Management response

- 742) The management informed the Committee that the procurement was funded by the World Bank. After tender evaluation, the realized price exceeded the budget. KEMSA therefore sought additional funding from Ministry of Health to offset the difference. There was a delay in getting Ministry approval occasioning the delay in signing the contract.
- 743) The contract was for Covid emergency supply of medical oxygen to various facilities in different counties. The supply was based on consumption at each of the facilities and delivery was therefore staggered. The demand for oxygen began to decline after the contract was signed as the spread of the pandemic reduced slowing down execution of the contract. Despite the pandemic having come to an end, the supply has continued for other medical use.

- 744) In addition to this being an emergency procurement, the supplier BOC Kenya were the only ones with the Oxygen that met our specifications. The price realized exceeded the initial budget. However, the Bank approved the excess budget before contracting.

Committee Observations

The Committee observed that–

Kenya Medical Supplies Authority used direct procurement to procure medical oxygen system at a contract sum of Kshs.366,737,111. However, the contract was signed five (5) months after tender opening implying that there was no urgency in the use of direct procurement.

The contract for the supply and installation of medical oxygen system exceeded the approved budget estimate of Kshs.119,010,000 by Kshs.247,727,111 contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which states that " an Accounting Officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.

Committee Recommendations

The Committee recommended that –

The Committee reprimands the then Accounting for breach of Section 53 (8) and Section 103(2) (c) Public Procurement and Asset Disposal Act 2015.

17.0 Supply, Installation and Commissioning of Racking System

- 745) The Committee heard that Note 25 (a) to the financial statements reflects capital work in progress balance of Kshs.5,497,816,075 out of which Kshs.78,100,000 relates to provisional sums to be executed by a nominated subcontractor. This was contrary to the guidelines provided by Public Procurement Oversight for 07 which provide under Section VII Bills of Quantities Paragraph 3.0(d)(ii) that 'Provisional Sums to cover specialized works normally carried out by Nominated Subcontractors should be avoided and instead Bills of Quantities of the specialized Works should be included as a section of the main Bill of Quantities to be priced by the main contractor.
- 746) In the circumstances, Management was in breach of the law.

Management response

- 747) The management informed the Committee that in addition to the Government's statutes and regulations, preparation of Bills of Quantities is guided by the Standard Method of Measurement of Building and Associated Civil Works for Eastern Africa, Second Edition (June 2008), Published by The Architectural Association of Kenya, Quantity Surveyors Chapter. It provides guidelines on the items to be considered for preliminaries and pricing.
- 748) In addition, this amount was omitted from the Final Account due to the bidders' amounts not being within the budgeted amount provided. Prime Cost sums enable clients to select options based on their budget and preferences without needing to amend the entire contract. They provide a clear estimate of costs for specific items, helping clients manage their budget effectively while allowing for variations in pricing as actual selections are made.

Committee Observations

The Committee observed that–

The Committee observed that the inclusion of Kshs.78,100,000 as provisional sums for specialized works was contrary to the Public Procurement Oversight Authority Guidelines, 2007. However, the Management's explanation that they were guided by the Standard Method of Measurement of Building and Associated Civil Works for Eastern Africa, did not satisfactorily address the non-compliance, and no evidence was provided to show that the use of provisional sums had been justified, approved or regularized.

Committee Recommendations

The Committee reprimands the then Accounting Officer, the then head of the procurement unit, the then head of finance for breach of the Public Procurement Oversight Authority Guidelines, 2007.

The committee recommended that within three months upon adoption of this report, the Public Procurement Oversight Authority to investigate the then Accounting Officer, the then head of the procurement unit, the then head of finance on the actions of leading to the breach and invoke the General penalty and sanctions provided for under Section 177 of the Public Procurement and Assets Disposal Act CAP 412 B.

18.0 Payment of Intangible Preliminaries

- 749) The Committee heard that the Note 25 (a) to the financial statements reflects capital work in progress balance of Kshs.5,497,816,074.89 out of which Kshs.14,500,000 is intangible preliminaries items in the bill of quantities in relation to security and sanitation of works. These preliminaries are part of the contractor's obligations and should not have been priced separately.
- 750) This is contrary to the guidelines provided by Public Procurement Oversight Authority, 2007 which provide under Section VII Bills of Quantities Paragraph 30(a) that the number of preliminary items to be priced by the tenderer be limited to tangible items such as site office and other temporary works, otherwise items such as security for the works which are primarily part of the contractor's obligations should be included in the contractor's rates.
- 751) In the circumstances, Management was in breach of the law.

Management response

- 752) The management informed the Committee that the Preparation of Bills of Quantities is not guided only by the provisions by Public Procurement Oversight Authority. In addition to the Government's statutes and regulations, preparation of Bills of Quantities is guided by the Standard Method of Measurement of Building and Associated Civil Works for Eastern Africa, Second Edition (June 2008), Published by The Architectural Association of Kenya, Quantity Surveyors Chapter.
- 753) It provides guidelines on the items to be considered for preliminaries and pricing (Section A (General rules) and B (Preliminaries) . Disclaimer is also indicated under our preliminaries that should the contractor not price any of the items, it is assumed he is providing it for free. It is standard practice to consider these items for convenience of pricing.

Committee Observations

The Committee observed that–

The separate payment of of intangible preliminaries items amounting to Kshs.14,500,000 which was part of the contractor's obligations was contrary to the guidelines provided by Public Procurement Oversight Authority, 2007 under Section VII Bills of Quantities Paragraph 30 (a) which states that the number of preliminary items to be priced by the tenderer be limited to tangible items such as site office and other temporary works, otherwise items such as security for the works which are primarily part of the contractor's obligations should be included in the contractor's rates.

Committee Recommendations

The Committee recommended that –

The Committee reprimands the then Accounting Officer, the then head of the procurement unit, the then head of finance for breach of the Public Procurement Oversight Authority Guidelines,

The committee recommended that within three months upon adoption of this report, the Public Procurement Oversight Authority to investigate the then Accounting Officer, the then head of the procurement unit, the then head of finance on the actions of leading to the breach and invoke the General penalty and sanctions provided for under Section 177 of the Public Procurement and Assets Disposal Act CAP 412 B.

19.0 Comingling and Under-Withholding of Supplier Retention Funds

- 754) The Committee heard that the Note 26 to the financial statements reflects trade and other payables from exchange balance of Kshs.8,602,982,309 which includes customer retention money of Kshs.144,319,956. However, these funds were comingled in the Authority's other operational bank accounts without depositing them in a separate bank account exposing them to unintended use.
- 755) This was contrary to Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015 which states that "An Accounting Officer shall ensure that public funds entrusted to their Coverage (UHC) are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.
- 756) In addition, the retention amount includes Kshs.126,401,777 for the construction of the modern warehouse and office block against Kshs.230,800,508 being 10% of the work in progress value of Kshs.2,308,005,083, less advance payments and consultancy fees which are not subject to retention, resulting to an amount of Kshs.104,398,731 not withheld. The retention amount not withheld is contrary to clause (f) of the contract agreement and may lead to management incurring expenses in the event defects occur during the defect liability period.
- 757) In the circumstances, Management was in breach of the law.

Management response

- 758) The management informed the Committee that the Authority's operates on a revolving fund hence its receivables due from Ministry of Health, Development Partners and Counties has taken longer to be paid. On this regard, the cash flow could not allow for depositing the retained

amounts to a separate bank account. However, the Authority commits that the liability will be settled once they fall due.

- 759) In addition, as per the contract agreement for the construction of the modern warehouse and office block, retention is calculated at a rate of 10% of works done quantified by the quantity surveyor. However, this retention monies can be held up to a maximum of 5% of the contract sum after which no further amounts can be held as retention in the subsequent payments.

Committee Observations and Recommendation

The Committee had deliberated on the issue of failure to open a retention bank account in its Ninth PIC-SSAA Report which is similar to Comingling and under-withholding of supplier retention funds observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

20.0 Delay of Metal Storage Racks Contract in Kisumu Warehouse

- 760) The Committee heard that the Note 16 to the financial statements reflects repairs and maintenance expenses of Kshs.20,719,350 out of which Kshs.902,025 was payment for labour on assembling and fixing of metal storage racks in Kisumu warehouse. The contract was awarded on 7 July, 2020 and scheduled to be completed by 10 August, 2020 but the final certificate for completion was issued and signed on 27 March, 2023 which is more than two (2) years after the scheduled date. However, KEMSA did not take any action against this contractor. This is contrary to Section 140 of public procurement and Asset Disposal Act, 2015 stipulates that -the contractor shall be liable to liquidation damages for delayed performance.
- 761) In the circumstances, value for money obtained from the expenditure could not be confirmed.

Management response

- 762) The management informed the Committee that the contract for installation of racks at Kisumu depot was entered into with Tashmi International Ltd. After the contractor moved to site, it was established that the warehouse layout design was not done in a manner that would maximize storage space. The contractor was then stopped from undertaking the works pending re-design of the layout which took too long occasioning the delay in completion. This has since been redesigned and racks installed to completion.
- 763) The Committee had deliberated on the issue of Work in Progress in its Eighth PIC-SSAA Report which is similar to Delay of metal storage racks contract in Kisumu warehouse observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

21.0 Employee Costs

21.1 Bloated Staff Establishment

- 764) The Committee heard that the review of human resource records indicated the authority has an approved staff establishment of three hundred and forty-one (341) staff but review of the human resource staff register indicated seven hundred and forty-eight (748) employees as at 30 June, 2023. This exceeds the approved number of employees in the staff establishment by 407. In the circumstances, Management was in breach of Kenya Medical Supplies Authority Human Resource Manual.

Management response

- 765) The management informed the Committee that the Authority did not surpass its approved establishment. As indicated in your observation above, the staff establishment of 341 was approved by the Board of Directors 37th meeting held on the 8th May 2014 and has not been surpassed.
- 766) Despite the massive changes within the organization due to adoption of the new business model which was implemented to support the devolved healthcare system, the management has adhered to the approved establishment by limiting the recruitment of new staff to be within the approved establishment of 341.
- 767) The following factors have contributed towards the increase in the number of staff:
- i) Implementation of the new business model to support the devolved county health facilities which necessitated that KEMSA comes up with a new business architecture and organizational structure that supports devolved healthcare system.
 - ii) Implementation of the Government's Big Four Agenda – specifically the Universal Health Coverage (UHC), where KEMSA was a key implementing partner. UHC demands that all Kenyans have access to quality and affordable medical health care.
- 768) The above two factors necessitated the engagement of short-term staff on contract basis to enable KEMSA effectively respond to the county demands/workload, appropriate UHC implementation, while at the same time offering supply chain services to KEMSA's various strategic partners; who have variable and unpredictable workload.
- 769) The above reasons necessitated the engagement of short-term contract staff, who however do not form part of the approved staff in the establishment since they are required for specific period of time. The 407 employees fall in this category.
- 770) This initial decision to start engaging staff on contractual basis was arrived at by the KEMSA Board during its 35th meeting held on 15th October 2013 – where it granted the approval for engagement of short-term contractual employees due to the increased and unpredictable workload.

Corrective action and way forward

- 771) In order to address the staff establishment issue, the Board has taken the following measures:
- i) Conduct a staff review and rationalization exercise. Arising from the rationalization exercise, a total of 170 employment contracts which lapsed on 30th June 2023 were not renewed. This decision was arrived at by the Board during its 97th Special Board meeting held on 5th June 2023. Currently, the Authority has a total 562 employees, being a reduction from the previous 748 staff.
 - ii) Review of KEMSA's Human Resource Instruments. The Board initiated a review of KEMSA's Human Resource Instruments which include the Organization Structure,

Staff Establishment, Career Progression Guidelines and the Human Resource Policies and Procedures Manual. Completion of this process will be within the FY 2024-25.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Bloated staff establishment in its Third PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

21.2 Non-Compliance with the One —Third of Basic Salary Rule

- 772) The Committee heard that the analysis of the payroll data revealed that eighty-one (81) employees earned a net salary less than a third ($\frac{1}{3}$) of their basic salary. This was contrary to Section 19(3) of employment Act, 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.
- 773) In the circumstances, Management was in breach of the law.

Management response

- 774) The management informed the Committee that the Authority has put in place controls in the system that locks the net pay to a minimum of a third of the basic pay. However, during the FY-2020/2021, the Government reviewed Pay-As You Earn (PAYE) rate from 30% to 25%. The tax relief measures were extended to cushion households and businesses from the adverse impact of Covid-19. As a result, most staff committed their salaries to loan repayments. The tax relief was later lifted by the government in December 2020 and reverted back to the 30% bracket.
- 775) In order to comply with the one-third requirement on basic pay, the Authority wrote to all the affected staff to liaise with their banks and SACCOS to have their loans restructured.
- 776) In early 2023, NSSF vide a memo dated 15th February 2023 notified employers to comply with the Court of Appeal ruling on the NSSF Act 2013 regarding the new rates. This also affected the net pay of most employees. In order to comply with one-third rule on salary, the management communicated to all employees who have existing loan facilities with various banks and SACCOS to liaise with them so that their existing loans are re-structured accordingly
- 777) The above matter has now been fully resolved and the Authority is in compliance with the law.

Committee Observations

The Committee observed that–

The Committee observed that eighty-one (81) employees earned a net salary of less than a third ($\frac{1}{3}$) of the basic salary contrary to section 19 (3) of the Employment Act, 2007 which requires that the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.

Committee Recommendations

The Committee recommended that –

The Committee recommends that the Accounting Officer should at all times comply with Section 19 (3) Employment Act, 2007.

22.0 Failure to Hedge Against Foreign Exchange Losses

- 778) The Committee heard that the Note 19 to the financial statements reflects loss on foreign exchange transactions of Kshs.501,301,134. Review of procurement records indicated contracts were entered into using foreign currency while payments were made using the Kenyan currency but there was no evidence of hedging strategies to safeguard against foreign exchange unfavorable transactions. In addition, a five-year trend analysis from 2018/2019 financial year indicated an accumulated loss of Kshs.982,056,643 and the authority is likely to incur additional losses due to absence of hedging strategies.
- 779) In the circumstances, and in view foreign exchange loss of Kshs.501,301,134, the value for money on annual procurements could not be confirmed.

Management response

- 780) The management informed the Committee that the Authority has made strides to cushion itself against the fluctuation of exchange rates using the following measures;
- i) Strategic currency payment utilization; where dollar earnings are used for Supplier Payments.
 - ii) The Authority has made it a requirement for local Bidders to submit bids in Kenya shillings

With these measures, the Authority will significantly reduce the exposure to foreign exchange currency risk.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Failure to hedge against foreign exchange losses under Realized exchange loss in its Eighth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

23.0 Unrecovered Advance Payment

- 781) The Committee heard that Note 25 (a) reflects capital work in progress balance of Kshs.5,497,816,075. Included in this balance is an advance payment of Kshs.339,653,954 for preferential commencement of the works to be recovered through subsequent valuations. However, only Kshs.198,092,520 had been recovered as at 30 June, 2023 resulting to unrecovered amount of Kshs.141,561,434 which has not been disclosed as receivables in the financial statements.

782) This was contrary to Section 148 of the Public Procurement and Asset Disposal Act, 2015 states that the successful tenderer shall use the advance paid only in activities related to the tender. If the successful tenderer uses the entire advance or part of it in other activities that are unrelated to the tender, the advance shall immediately be considered as a debt which shall be paid by seizing the entire security or part of it.

783) In the circumstances, Management was in breach of law and may not have received value for money for the unrecovered amount.

Management response

784) The management informed the Committee that a comprehensive reconciliation was undertaken, and recognition made in the financial year 2023/2024. The Authority would like to confirm that full recovery from most contractor has been effected, as highlighted below;

ITEM	DESCRIPTION	Advance Granted	Percentage recovery	Advance recovered
Phase 1				
a)	Vaghjiyani Enterprises	209,457,364.61	100%	209,457,364.61
b)	Master Power Systems	30,358,274.00	100%	30,358,274.00
c)	Seven Fourteen Ltd.	3,584,410.00	77%	2,766,508.02
d)	Volcanic Plumbers	27,548,129.31	100%	27,548,129.31
e)	Ever Fortunes	20,453,120.00	100%	20,453,120.00
f)	Top Choice Surveillance Ltd	19,826,927.00	100%	19,826,927.00
Phase 2				
a)	Vaghjiyani Enterprises	175,122,407.51	100%	175,122,407.51
b)	Volcanic Plumbers	5,509,158.00	100%	5,509,158.00
c)	Master Power Systems	14,902,321.00	100%	14,902,321.00
d)	Top Choice Surveillance Ltd - Lift	5,582,030.00	0%	-
e)	Top Choice Surveillance Ltd - ICT	16,938,383.00	100%	16,938,383.00

Committee Observations

The Committee observed that–

- 785) The Authority has failed to recover an advance Payment made to a contractor amounting to Kshs.141 ,561 ,434 contrary to Section 148 of the Public Procurement and Asset Disposal Act, 2015 states that the successful tenderer shall use the advance paid only in activities related to the tender. If the successful tenderer uses the entire advance or part of it in other activities that are unrelated to the tender, the advance shall immediately be considered as a debt which shall be paid by seizing the entire security or part of it.

The claim by the management that it has recovered the total outstanding amount from the contractor was not supported by any documentary evidence.

Committee Recommendations

The Committee recommended that–

Within three months upon adoption of this report, the Accounting Officer- KEMSA should submit to the Auditor-General for audit review and reporting in the subsequent audit cycle the evidence of bank transactions to support the recovery of the advance payment amounting to Kshs.141 ,561 ,434.

24.0 Private Health Facilities Supplies Billed to Government Entities

- 786) The Committee heard that the Note 9 to the financialFebruaryts reflects total sales revenue amount of Kshs.8,039,143,444. The amount includes health products of Kshs.56,597,926 issued to 22 private, faith based and non-governmental health facilities but billed to various county governments while Kshs.1,115,000 was billed to the Ministry of Health. However, there was no approval to supply these products to private hospitals and thereafter bill the county governments and the Ministry of Health.
- 787) In the circumstances, the value for money on distribution of health products to private facilities could not be confirmed.

Management response

- 788) The management informed the Committee that –

- i) **Commodities billed to Counties.** Counties have made a deliberate decision to support some Faith-Based facilities especially those located in very remote areas where there are no public health facilities to achieve service delivery to communities in those remote areas.
- ii) **Commodities billed to MOH;** The Division of National Cancer Control Program supports various health facilities with the supply of chemotherapy drugs, including hospices listed as private, that provide palliative and chemotherapy services to Cancer patients. Some of the facilities are Hospices such as Meru Hospice, and Nyeri Hospice.

Committee Observations and Recommendation

The Committee had deliberated on the matter on Issues under Universal Health Coverage (UHC) in its Ninth PIC-SSAA Report which is similar to Private health facilities supplies billed to government entities observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

25.0 Failure to Maintain Floating Deposits Funds for Credit Customers

- 789) The Committee heard that Note 22 (a) to the financial statements reflects receivables from exchange transactions balance of Kshs.6,008,541,865 out of which Kshs.5,900,014,323 is in respect to credit customers. According to paragraph 2.8 of the Kenya Medical Supplies Authority Credit Policy 2014, customers are required to make advance payments to be maintained in floating deposits in the KEMSA trading account where invoices will be drawn from and which is to be replenished on reaching the limit. However, no floating deposit funds were maintained for advance receipts from credit customers thus exposing the Authority to debtor's risk due to non-payment.

In the circumstances, Management was in breach of the credit policy.

Management response

- 790) The management informed the Committee that KEMSA's current business model has been operating under a credit policy developed in FY 2013/2014, which required customers to make advance payments maintained as floating deposits in KEMSA's trading account. Invoices were to be drawn against these deposits, which were to be replenished once they reached a specified limit. However, this model became impractical as KEMSA's principal clients, the county governments, were restricted by the Public Finance Management (PFM) Act of 2012 and its 2015 regulations, which prohibit advance payments. The Authority is currently in the process of reviewing the Credit Policy to better align with the evolving business environment.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Failure to maintain floating deposits funds for credit customers under non-adherence to credit limits in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

26.0 Refund of Ineligible Expenditure

- 791) The Committee heard that Note 26 to the financial statements reflects trade creditors from development partners of Kshs.2,894,257,131. The Authority refunded Kshs.49,478,880 to World Bank as ineligible expenditure under transforming health systems program. In addition, the Authority previously refunded Kshs.320,000,000 to the same institution in the 2021/2022 financial year resulting from failure to carry out due diligence on proper procurement process bringing the total ineligible expenditure to Kshs.369,478,880. However, no efforts have been made to recover the amount from the responsible officers.
- 792) In the circumstances, the value for money on management and accountability of donor funds could not be confirmed.

Management response

- 793) The management informed the Committee that the ineligible expenditure of KES 49,478,880 and KES 320,000,000 was in respect of Covid Emergency procurements. The procurement was undertaken in line with Section 69 (2) of PPADA 2015 (Revised) 2022 that allowed retrospective approval. However, the Bank declined to recognize the operation of this provision of the PPADA declaring the expenditure ineligible and demanding a refund.
- 794) KEMSA was implementing the project on behalf of The Ministry of Health and the project was World Bank funded. The demand for refund was due to used was due to application of retrospective covid-19 procurements which was against the World Bank funding agreement. KEMSA received funds from The Ministry of Health to settle the demand for refund.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Refund of ineligible expenditure in its Ninth PIC-SSAA Report observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

27.0 Expiry and Incineration Cost for Third-Party Commodities

- 795) The Committee heard that Note 30 to the financial statements discloses medical commodity fund, an amount of Kshs.9,134,630,398 being third party commodities under the custody of KEMSA. However, medical commodities amounting to Kshs.1,204,567,244 had expired in the warehouse and facilities since they were received with less than 75% shelf life. Therefore, the entity has to incur an extra-cost of disposing these commodities since donor agreements do not cover the cost of incineration.
- 796) In the circumstances, the value for money on expired medical commodities amounting to Kshs.1,204,567,244 and the likely additional cost of incineration by the Authority could not be confirmed.

Management response

- 797) The management informed the Committee that the medical commodities, totaling Ksh. 1,204,567,244, were not received with a short shelf life. The dates recorded in the report refer to the transfer of products between warehouses, known as inter-warehouse transfer dates. For instance, the audit report lists the receipt date for LEV/ETHINYL TABLETS (COC) - 0.15MG/30MCG as December 2022, while this item was actually received at KEMSA in July 2019. Consequently, the audit inaccurately recorded the receipt date, leading to the conclusion that the products were received with a short shelf life.
- 798) The cost for incineration of expiries was not envisioned in the contracts with third parties because most of the commodities are procured based on quantified quantities and a distribution list is provided ensuring that all the products were issued promptly. The risk of expiries was therefore minimal. However, with the change of regimen for some of these commodities, the risk of expiries has increased in the recent past. As a result, KEMSA will have a discussion with the partners and ensure that the cost of incineration is including the in the agreements.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Expiry and incineration cost for third-party commodities under Expired/Damaged Drugs in the Third PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1.0 Unfulfilled Customer Orders

- 799) The Committee heard that Note 9 to the financial statements reflects total sales revenue of Kshs.8,039,143,444 generated from sale of health products and technologies. The Authority received customer quantity orders of 106,924,857 units from various health facilities out of which orders of 54,216,651 units or 51% were processed and distributed resulting to unfulfilled customer orders of 52,708,206 or 49% valued at Kshs.5,057,212,632. In addition, the processing and distribution of orders took an average of seventeen (17) days against a target of ten (10) days.
- 800) In the circumstances, the effectiveness of internal controls on the processing and distribution of orders could not be confirmed.

Management response

- 801) The management informed the Committee that the Unfulfilled customer orders are as a result of unavailability of some HPTs at the time of order processing after submission of orders by customers. The experienced disruptions in the supply chain cycle is caused by delayed payment of supplies made to Counties from KEMSA, which in turn delays KEMSA payments to suppliers, ultimately affecting the order fill rate.

Measures taken to address the low order fill rate are;

- i) Continuous stakeholder engagement with COG and the Counties Health Management teams to prioritize payments to KEMSA, including County visits, Debt outstanding reminder letters and payment plan arrangements.
- ii) Lobbying for recapitalization of KEMSA from the Government and Development partners e.g World bank.
- iii) There is ongoing engagement with COG and regular monthly routine engagements with the County Health and Finance Management teams.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Unfulfilled customer orders in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

2.0 Loss on Sale of Medical Commodities Below the Purchase Price

- 802) The Committee heard that Note 9 to the financial statements reflects sales revenue of Kshs.8,039,143,444 generated from sale of various health products and technologies. Included in this amount is Kshs.44,386,081 from sale of various health products which were purchased at Kshs.52,947,568 resulting to a loss of Kshs.8,561 487. This was due to management delays in conducting price reviews for products after new procurements.

In the circumstances, the effectiveness of internal controls on price reviews could not be confirmed.

Management response

803) The management informed the Committee that there was a delay in reviewing selling prices based on realized tender prices, which led to the sale of some commodities at a loss. This delay occurred when members of the previous Pricing Committee, part of the management team, were instructed to work from home in February 2022. As a result, there was a gap in pricing activities until a new Pricing Committee was appointed on 24th February 2023. A comprehensive pricing review, addressing the sale of commodities below purchase price was conducted in March 2023.

There is a pricing policy in place and prices are reviewed twice a year or when new procurements have been completed.

804) To prevent such occurrences in the future, the following measures have been implemented:

- i) The Pricing Committee has established a system for revising selling prices immediately after each tender cycle.
- ii) Once the new ERP system is implemented, pricing for HPTs will be automated, ensuring that no products are issued at below cost price.
- iii) KEMSA has put in place a price market survey unit under the Procurement Directorate. The section is mandated to guide current and future procurement prices by conducting pricing and marketing surveys on a quarterly basis.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Loss on sale of medical commodities below the purchase price under Loss of Revenue in the Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

3.0 Expiries of Medical Commodities

3.1 Expired Medical Commodities

805) The Committee heard that Note 9 to the financial statements reflects cost of sales of Kshs.8,332,577,827 out of which Kshs. 1,213,715,186 relates to expired medical commodities.

806) In addition, warehouse management system indicated global fund and other donated medical commodities of Kshs.1,204,567,244 also expired during the year but have not been disclosed in the financial statements. This is contrary to paragraph 44 of IPSAs 12 which requires any loss of inventory be recognized as an expense in the period it occurs.

807) Further distribution schedule indicated commodities were issued with short shelf life out of which program commodities of Kshs.2,491,766 expired while on transit and could not be used by the recipient health facilities, making total expiries add up to Kshs.2,420,774,196.

808) In the circumstances, the effectiveness of the Authority's internal controls in place for managing and monitoring medical commodities could not be confirmed.

Management response

809) The management informed the Committee that the commodities highlighted in the distribution schedules related to orders whose delivery notes were misplaced by the courier transporter.

Delivery was done earlier but duplicate delivery notes were issued later. These duplicate delivery notes pick the new printed date and not the initial PoD issue date. Receipt date has been extracted from distribution metric report. Acknowledgement on the E-pod app was done in October after issuing duplicate delivery notes

- 810) Third party commodities closing balance recognized in the financial statements in the medical commodity fund ledger is net of expired commodities.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Expired medical commodities under Expired/Damaged Drug in the Third PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

3.2 Delayed Disposal of Expired Covid-19 Medical Commodities

- 811) The Committee heard that Note 9 to the financial statements reflects cost of sales of Kshs.8,332,577,827 out of which Kshs.1,213,715,186 relates to expiries of medical commodities. The expiries include Covid-19 items of Kshs.334,388,156 in relation to 2020/2021 and 2021/2022 Financial Years lying undisclosed posed waiting clearance from ethic and anti - corruption commission.
- 812) In the circumstances, the delayed disposal increases the risk of unintentional usage and incurring of avoidable inventory carrying cost.

Management response

- 813) The management informed the Committee that the expired items are quarantined in a different warehouse hence no risk of unintentional usage. All the boarded expired items for the 2021/2022 financial year were disposed off except for COVID-19 commodities which were waiting for EACC clearance. In the current FY 2023/2024, all the expiries are being disposed and the disposal process will be completed by end of April 2024.

Committee Observations

The Committee observed that–

The delayed disposal of expired Covid-19 medical commodities poses a risk of unintentional usage and may lead to misrepresentation of the inventory balance

Committee Recommendations

The Committee recommended that–

Within three months upon adoption of this report, the Accounting – KEMSA should liaise with the Chief Executive Officer, Ethics and Anti-Corruption Commission in order to fastrack the disposal process of the expired Covid-19 medical commodities. The disposal report should be submitted to the Auditor -General for review and reporting in the next audit cycle.

3.3 Slow Moving Inventory of Medical Commodities

- 814) The Committee heard that Note 24(b) to the financial statements reflects inventory balance of Kshs.12,899,915,421 out of which Kshs.838,560,820 relates to slow moving commodities received between January, 2011 and December, 2020. The amount also includes commodities of Kshs.133,722,925 which did not move for the last two Financial Years while items of Kshs.120,330,714 had expired as at the time of audit in December, 2023 having been held for a period of between three and thirteen years. This implies the level of buffer stock maintained is not properly forecasted based on target customers, rate of consumption and lead times.
- 815) In the circumstances, the effectiveness of internal controls on inventory management and issuance could not be confirmed.

Management response

- 816) The management informed the Committee that Slow-moving stock, including COVID-19 products, are monitored on a monthly and quarterly basis, and no procurement is initiated for items with stock levels exceeding the stock holding policy. The sales and marketing team is focused on direct marketing to county health facilities and maintaining active engagement throughout the ordering process, resulting in improved uptake of slow-moving stock.
- 817) Moving forward, KEMSA will continue to prioritize the procurement of Vital, Tracer, and Class A Health Products and Technologies (HPTs).

Committee observations

The Committee observed that–

The slow moving inventory is as result of over procurement of medical commodities due to lack of market survey on target customers contrary to section 160 of the Public Procurement and Assets Disposal Act, CAP 412C which requires an Accounting Officer to manage its inventory, assets and stores for the purpose of preventing wastage and loss, and continuing utilization of supplies and to avoid unprofitable lock up of funds, stocks shall be kept to the minimum necessary for the efficient conduct of the procuring entities

Committee recommendations

The Committee recommends that –

The Committee reprimands the then Accounting Officer and the then head of procurement for violating Section 160 of the Public Procurement and Asset Disposal Act, CAP.412.

4.0 Delays and Weak Proof of Commodity Delivery System

- 818) The Committee heard that Note 12(a) to the financial statements reflects outsourced distribution of Kshs.789,493,976 out of which commodities amounting to Kshs.81,753,426 were delivered after the due dates. These delays ranged between eight (8) days to three hundred and forty-four days (344) days.

- 819) In addition, warehouse management system issue report indicated commodities worth Kshs.35,228,836 were dispatched to various facilities and hospitals but could not be confirmed as having been received.
- 820) Further medical commodities of Kshs.60,789.098 were confirmed to have been received in various health facilities before they were issued from the warehouse. Inefficiencies in order processing where commodities stayed in rack for a duration ranging from four (4) days to one hundred and seventy-four (174) days were noted.
- 821) In the circumstances, the effectiveness of the Authority's internal controls in respect to distribution could not be confirmed and the Authority did not get value for money.

Management response

- 822) The management informed the Committee that KEMSA follows a Service Level Agreement (SLA) with its outsourced transporters and conducts quarterly review meetings to address any non-compliance issues. There have been instances where deliveries took from eight (8) days to as long as three hundred forty-four (344) days.
- 823) The delays were due to the following reasons:
- i) **KEMSA Vehicle Deliveries:** Deliveries made by KEMSA vehicles to various facilities had delays due to the delayed updating of proof of delivery in the system.
 - ii) **M/s Sai Cargo:** KEMSA contracted M/s Sai Cargo for courier services across the country. The transporter faced several challenges, including delays in returning proof of delivery to KEMSA, which resulted in extended delivery times. The contract was eventually terminated by the transporter.
 - iii) **Transporter Misplacement:** Occasionally, transporters misplaced delivery notes and requested duplicates. Facility in-charges would sign these duplicates, which were then used to update the system.

Unconfirmed Receipts:

- 824) Medical supplies are dispatched with a delivery note and waybill, each consisting of three and two copies, respectively. Upon receipt, the recipient must sign and provide their personal details, including their number and phone number. The facility retains one copy of the delivery note and one copy of the waybill, while two copies of each are returned to KEMSA.
- 825) The "Unconfirmed" column in the Warehouse Management System (WMS) is updated manually. Instances of blank "unconfirmed receipt dates" occurred due to returns not being updated in the system, such as returns of RTKs from non-operational facilities. Additionally, a technical ICT issue during the year contributed to inaccuracies in the "Unconfirmed" receipt column.

Receipt Before Dispatch:

- 826) Goods totaling Kshs. 60,789,098 were confirmed as received at various health facilities before being officially issued from the warehouse. This discrepancy occurred due to technical issues with the POD App, which failed to update proof of deliveries with the actual dates. This issue has now been resolved.
- 827) Additionally, some orders, such as those under the DDA category, were generated in the Warehouse Management System (WMS) but were not dispatched immediately. This delay was

due to waiting for collection by pharmacists (e.g., Plan 1030795) and the need for order integration.

- 828) Longer rack times were also attributed to challenges such as hard-to-reach areas, cold chain requirements for single orders, and emergency orders.

Committee Observations and Recommendation

The Committee had deliberated on the issue under Weaknesses in delivery system in its Ninth PIC-SSAA Report which is similar to Delays and weak proof of commodity delivery system observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

5.0 Inefficiencies in Collection of Receivables

- 829) The Committee heard that Note 22(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.6,008,541,865 (2022- Kshs.5,803,811,189). However, it was noted that the turnover ratio was 1.36. This resulted into a receivable turnover of 268 days. This indicates inefficiencies in collection of receivables implying that the average time taken to collect receivables from a customer was 268 days contrary to Paragraph 2.7 of the Kenya Medical Supplies Authority Credit Policy 2014 which set a credit limit of 30 and 45 days for public and non-public health facilities respectively.
- 830) In the circumstances, the effectiveness of internal controls in respect to debt management and revenue collection could not be confirmed.

Management response

- 831) The management informed the Committee that KEMSA has been aggressively making physical follow ups through meetings with the customers, payment demand letters and payment plan agreements are issued regularly. There is continuous debt collection follow up with the Counties including engagement with COG. Most of the Counties cite delayed disbursement of funds from national treasury and despite delay in remitting their payments they do eventually pay their debts. There is also continuous engagement with defaulting counties for acceptable payment plans. We have signed MOUs with Counties outlining the Counties' payment obligations.
- 832) All outstanding debt is followed up aggressively until repayment of the same is made by the customers. The Authority would like to confirm that out of Kshs. 3,079,326,855.69 outstanding from the Counties, Ksh 4,205,852,048.64 has been collected.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Receivables from Exchange Transactions in its Third PIC-SSAA Report which is similar to Inefficiencies in Collection of receivables observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

6.0 Inventory

6.1 Non - compliance to First Expiry First Out Method of Issuing Inventory

- 833) The Committee heard that Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421 out of which commodities with long shelf life valued at Kshs. 18,982,522 were issued first at the expense of commodities with short shelf life. This was contrary to the Kenya Medical Supplies Authority Stock Holding Policy 2017 which requires the use of First Expiry First Out inventory control method to be anchored in the Enterprise Resource Planning system.
- 834) In the circumstances, the effectiveness of internal controls in respect to inventory management and issuance could not be confirmed.

Management response

- 835) The management informed the Committee that, the principle of First Expiry First Out (FEFO) is fully complied with electronically. However, there are instances where picking of same product from different sources of funds does not allow for FEFO.

Committee Observations and Recommendation

The Committee had deliberated on the issue under Duplicate inventory records in its Ninth PIC-SSAA Report which is similar to Non-compliance to First Expiry First Out Method of issuing inventory observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

6.2 Stock out of Medical Commodities

- 836) The Committee heard that Note 24 (b) to the financial statements reflects inventory balance of Kshs. 12,899,915,421. Inventory records indicated fifty-two (52) commodities were stocked out for the entire financial year while five hundred and eighteen (518) commodities were below the minimum required stock levels resulting to lost sales of Kshs.6,331,893,398.
- 837) In the circumstances, the effectiveness of internal controls in respect to inventory management could not be confirmed.

Management response

- 838) The management informed the Committee that the Unfulfilled customer orders are as a result of the unavailability of some HPTs at the time of order processing after submission of orders by customers, shortage of raw materials occasioned by the global market dynamics and global supply chain disruption by the COVID-19 pandemic. The supply chain cycle is broken due to delayed payment of supplies from Counties to KEMSA which in turn delays payment to suppliers by KEMSA, ultimately affecting the order fill rate.
- 839) The measures taken to address the low order fill rate are;
- i) Continuous stakeholder engagement with COG and the Counties to prioritize payments to KEMSA.

- ii) Lobbying for recapitalization of KEMSA from the Government and Development partners e.g World bank.
- iii) Implementation of the supplier performance measurement tool introduced in the FY 2022/2023 and penalties were to be applicable in the subsequent Financial Years.

Committee Observations and Recommendation

The Committee had deliberated on the issue of Stock out of medical commodities in its Ninth PIC-SSAA Report, observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

6.3 Overstocking of Slow-Moving Commodities

- 840) The Committee heard that Note 24 (b) to the financial statements reflects inventories of Kshs.12,899,915,421 from Kshs.13,962,897,325 in the previous year. Computations indicated inventory turnover ratio of 2.03 resulting into an inventory turnover of 180 days (being 365 days divided by the inventory turnover ratio) which is the average number of days for which commodities were in the warehouse this was attributed to over procurement of slow-moving commodities.
- 841) In the circumstances, the effectiveness of internal controls in respect to inventory management could not be confirmed.

Management response

- 842) The management informed the Committee that the Authority would like to highlight that there are erratic ordering patterns from counties that often result in unpredictable demand and inaccuracies in forecasting and quantification of Health Products and Technologies (HPTs). Additionally, unforeseen occurrences such as disease outbreaks can significantly disrupt supply chain planning, further complicating demand forecasting. To mitigate these challenges, we have implemented continuous weekly stock status monitoring, with procurement initiated only for products within reorder levels. Special attention is given to slow-moving stock to prevent overstocking. Furthermore, bi-annual demand reviews have been enforced, with the most recent review conducted in March 2024.

Committee Observations and Recommendation

The Committee had deliberated on the issue under Over Procurements in its Ninth PIC-SSAA Report which is similar to Overstocking of slow-moving commodities observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

7.0 Lack of an Offsite Backup Plan

- 843) The Committee heard that Note 24 (b) to the financial statements reflects inventory balance of Kshs. 12,899,915,421. However, there was no evidence of an backup plan offsite as backups

were not stored in an offsite location which hinders the continuity of operations in the event of a disaster.

- 844) In the circumstances, the continuity of operations in the event of a disaster could not be confirmed.

Management response

- 845) The management informed the Committee that the Authority confirms that all data backups are up to date. The ICT department currently uses external storage drives, with one set stored at Commercial Street and another at the Embakasi warehouse.
- 846) To enhance data storage, KEMSA is procuring Network Attached Storage (NAS) servers, which will be installed at the Kisumu and Nairobi-Embakasi warehouses. These NAS servers, each with 50TB of storage, will provide automated external backups in two separate locations, ensuring data redundancy away from the primary site in a cost-effective manner.

Committee Observations

The Committee observed that–

The Committee observed that –the Authority had not put in place a comprehensive data offsite back up plans which may hinder data recovery and continuity of operations in the event of a disaster contrary to Regulation 110(1) of the Public Finance Management (National Government) Regulations, 2015, which requires the Accounting Officer of a national government entity to institute appropriate access controls to minimize breaches of information confidentiality, ensure data integrity, and safeguard business continuity.

Committee Recommendations

The Committee recommends that–

Within three months upon the adoption of this report, the Accounting Officer–KEMSA should ensure the development, approval, and implementation of an appropriate data recovery mechanisms for business continuity together with robust backup procedures. A copy of the approved instruments, together with evidence of implementation and testing, should be submitted to the National Assembly.

7.1 Unapproved Supplies Made to Private and Faith Based Facilities

- 847) The Committee heard that Note 24(b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. Warehouse issue report indicated distributed health products of Kshs.867,376,945 for global fund and other donated medical products issued to one thousand six hundred and fifty-one (1,651) private, faith based and non-governmental health facilities. However, the issuance to these facilities was not supported by an approved distribution list and a commitment by the facilities to dispense the products for free as per the various donor agreements.

- 848) In the circumstances, the effectiveness of internal controls on distribution of health products to private facilities could not be confirmed.

Management response

- 849) The management informed the Committee that the Authority would like to clarify that all the 1,651 facilities are on the approved list of Anti-Retroviral Therapy sites to receive commodities and have the Ministry of Health 730B dataset in the Kenya Health Information System. The distribution memos are sent electronically to KEMSA for processing.

Committee Observations and Recommendation

The Committee had deliberated on the matter on Issues under Universal Health Coverage (UHC) in its Ninth PIC-SSAA Report which is similar to Unapproved supplies made to Private and Faith Based facilities observed and made recommendations. Consequently, the Committee upholds the observations and recommendations therein.

8.0 Supplies Made to Drop-in Centers

- 850) The Committee heard that Note 24 (b) to the financial statements reflects inventory balance of Kshs.12,899,915,421. Warehouse issued report indicated medical commodities of Kshs.33,013,575 were issued to twenty (20) drop in centers operating as service delivery points which cater for key population clients. Physical verification indicated two (2) centres in Embu and Kitui counties are located in the respective county referral hospitals but operate privately as level two facilities owned by Undisclosed non-governmental organizations. In addition, the operations of the other eighteen (18) Centers' across the country and their ownership could not be confirmed.
- 851) In the circumstances, the effectiveness of internal controls on distributions to drop-in centers operating as service delivery points could not be confirmed.

Management response

- 852) The management informed the Committee that the Drop-in centers are service delivery points that cater for Key population clients either within existing health facilities or as standalone facilities. KEMSA process the orders based on approved allocations (on system orders or memos). The Drop-in centers (DICEs) are approved by the respective counties and reporting for commodities happens through the regular reporting of the hosting health facility and also through the subcounty.

Committee Observations

The Committee observed that–

Kenya Medical Supplies Authority issued medical commodities worth Kshs.33,013,575 to eighteen (18) Drop-In Centers spread across the country whose existence and physical address could not be confirmed.

Committee Recommendations

The Committee recommends that–

Within three months upon the adoption of this report, the Accounting Officer to submit to the National Assembly and Auditor-General for review and reporting in the subsequent audit cycle a comprehensive report on the existence and the physical location of the eighteen (18) Drop-In Centers that received medical commodities including the value of medical items received by each centre.

EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE AUDITED ACCOUNTS OF AGRICULTURAL FINANCE CORPORATION FOR THE FINANCIAL YEARS 2012/2013 - 2018/2019

Mr. George Kubai, Ag. Managing Director, Agricultural Finance Corporation was accompanied by Mr. Cornelius Onsongo (Ag. Head of Finance) appeared before the Committee to adduce evidence on the Audited Accounts of (AFC) for the Financial Years 2012/2013 – 2018/2019.

FINANCIAL YEAR 2012/2013

1.0 Property and Equipment

1.1 Land and Buildings

- 853) The Committee heard that as disclosed in note 2 to the financial statements, and as similarly reported in the previous year, land and buildings balance of Kshs. 1,036,507,000 as at 30 June 2013 includes twenty developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and nine undeveloped plots measuring 1.5383 hectares worth Kshs.795,443, against which the respective ownership documents were not availed for audit review. In addition, the value of land and buildings as now reported excludes various parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute.
- 854) In the absence of the documents, it has not been possible to confirm the ownership of the land and buildings and the accuracy of the balance of Kshs.1,036,507,000 as at 30 June 2013.

Management response

- 855) The management informed the Committee that, included in the disclosed values of land and buildings, are 20 plots collectively measuring 5.3324 hectares and valued at KSHS. 191,627,798. A detailed breakdown of these properties, indicating their respective status, were provided for review and information.
- 856) In regard to the nine undeveloped plots, measuring 1.5383 hectares and valued at Kshs. . 795,443, for which the respective ownership documents were initially unavailable, the Corporation has actively pursued the acquisition of these documents and successfully secured five title deeds for the parcels located in Iten, Bungoma, Kisumu, Molo and Bomet.
- 857) In addition, two other parcels located in Kimilili and Busia are at advanced stages of title registration. Both have been surveyed, with new grants issued and updated registry index maps prepared in 2025, as detailed below:

S/No	Location	Reference	Size	Status
1.	Iten	BM/Iten Township/176	0.2788 Ha	Titled
2.	Bungoma	Bungoma Municipality/804	0.1443 Ha	Titled
3.	Kisumu	Kisumu Municipality/Block 6/391	0.4299 Ha	Titled
4.	Molo	Molo Township/Block 2/84	0.145 Ha	Titled
5.	Bomet	LR No.8939/32	0.1999 Acres	Lease Hold
6.	Kimilili	LR No. 42171/11/66 & 67		Plot surveyed, New Grant issued with an updated registry Index map on 25 th July 2025. Title deed pending registration
7.	Busia	LR 110348/3	0.0622 Ha	Plot surveyed, New Grant issued with an updated registry Index map in March 2025. Title deed pending registration
8.	Nanyuki	Nanyuki/Block/8/877	0.1837 Ha	Reposessed and reallotted to Daniel Mbogo Gathiga
9.	Kerugoya	116700/2		Reposessed and

				reallotted to Judiciary
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- 858) The plots in Nanyuki and Kerugoya were repossessed by the respective County Governments due to the Corporation's failure to develop them within the stipulated timelines. The Kerugoya plot was re-allotted and has since been developed by the Judiciary. The Nanyuki plot was repossessed and re-allotted to Daniel Mbogo Gathiga, a private developer. Consequently, these two properties could not be recognized in the Corporation's financial statements. The Various correspondences on this matter were provided for review and information.
- 859) It's the Corporation policy to revalue its assets after every five years. In the last valuation undertaken in 2019, these properties could not be valued as the Corporation lacked the necessary title deeds to confirm ownership. In line with IAS 16, all assets under recognized classifications must be revalued for updated values to be reflected in the financial statements. Accordingly, once the pending title registrations are finalized, the Corporation will proceed with the revaluation of the respective properties. An excerpt of the policy was for review and information. A comprehensive report on all the 41 Corporation properties, highlighting 25 titled parcels and 16 without titles, was provided for review and information.

Committee Observations

The Committee Observed that–

- i) The reported balance of land and Buildings excluded parcels of land located in Busia, Nanyuki and Kerugoya, whose ownership was disputed or unresolved exposing the public assets to risk of loss through repossession by the respective County Governments, Legal disputes and misstatement of assets in the financial statements.
- ii) The repossession of land in Nanyuki and Kerugoya is an indication of weak monitoring of development conditions, exposing the Corporation to avoidable loss of public assets.
- iii) The delayed titling affects valuation and financial reporting. The failure to secure ownership documents in a timely manner prevented inclusion of the assets in revaluations, potentially understating asset values and weakening the reliability of financial statements. Further, the risk of continued non-compliance with 16 parcels still untitled, the Corporation remains exposed to future disputes, repossession and audit queries if corrective action is not finalized.

Committee Recommendations

The Committee recommended that within six months upon adoption of this report, the National Assembly Departmental Committee on Lands should conduct a comprehensive inquiry into the ownership of all parcels of land owned by Ministries, Departments and Agencies. The objective of the inquiry is to ensure that all public land vests in the respective government entities with legal title and possession. In this respect the Departmental Committee shall propose a Bill for enactment by the National Assembly that provides for:

- a) Vesting the custody of all public lands title deeds in the National Treasury.

- b) Comprehensive lands register for all public lands that shall always be maintained at the National Treasury with regular updates when necessary.
 - c) Protective clauses under the Act and a national anti-corruption framework to enhance safeguards against encroachment on public land.
- i) The National Treasury through the National Assembly shall allocate adequate budget for the Departmental Committee on lands, the Ministry of Lands, Public Works, Housing and Urban Development and the National Land Commission to facilitate the inquiry, compensation and issuance of title deeds.
 - ii) Within three (3) months of adoption of this report, the Accounting Officer, AFC should develop and implement a Land Management and Security Framework designed to prevent future encroachments. This framework should include measures such as perimeter demarcation, structured monitoring mechanisms, and periodic reporting to the Board and oversight institutions.
 - iii) Within three (3) upon adoption of this report, the Accounting Officer AFC should liaise with the Principal Secretaries for the respective State Departments in the line Ministries and the National Land Commission to fast-track the process of acquiring title deeds to resolve ownership disputes and ensure legal actions are taken against private individuals who have illegally acquired public land.
 - iv) Within three months upon the adoption of this report, the inspector general for the inspectorate of and the Attorney General should compile a report of all the public lands in respect of MDAs with ownership disputes and submit to the National Assembly to be used as a basis of initiating inquiries on ownership status of the public lands and repossession where applicable. Also put caveats on all the parcels of land owned by various MDAs.

1.0 Loss of Cash

- 860) The Committee heard that as previously reported, an examination of records for the period between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. According to information available, the cheques were cashed by an accountant in charge of cash office, who also doubled as the Corporation's bank agent.
- 861) Initial investigations revealed that the fraud was perpetrated by recycling and falsifying documents for re-imbursement claims. Further, information indicates that although the Corporation operated several bank accounts, the fraud was perpetrated mainly at the National Bank of Kenya Branch along Harambee Avenue, Nairobi. The case is in court and until it is fully determined, it is not possible to confirm whether the amount will be recovered

Management response

- 862) The management informed the Committee that this is a criminal case file no 113/19/2012 court file 1311/2012 Republic of Kenya vs. Lawrence M. Bokoro & Another that is ongoing at the Milimani Law Court. The status of the case is as indicated below: -This case came up for hearing on 13th February, 2020 when the prosecution was expected to close their case.

- 863) However, upon stepping down the final witness, the defense made an application which application was allowed to recall two prosecution witnesses for further cross examination. It was stated that some of the documents supplied by the prosecution required more clarification from the two witnesses. Consequently, the case was slated for further hearing on 11th and 13th March 2020. On the said dates the court was not sitting, and a fresh hearing date was slated for 24th March, 2020. The case could not proceed as slated due to the breakout of Covid-19 pandemic.
- 864) The accused was on 25th May 2023 put on his defense. Thereafter, matter has been in court on several occasions for hearing. The accused has been putting in several applications to recall witnesses and availing of certain documents to aide his case. The ruling on his application was dismissed on 16th February, 2024.
- 865) The matter has been adjourned several times however, the defense hearing was scheduled on 9th October 2025. Since the recoverability of the amounts misappropriated was doubtful, the loss was provided for fully in the Financial Years 2010/2011 as per the requirements of IAS 39/IFRS 9. This may can be ascertained from the copies of the said financial statements were provided for review and information.

Committee Observations

The Committee Observed that–

- i) The Corporation suffered a material loss of Kshs.35,840,714 arising from the fraudulent encashment of 196 cheques over the period January 2005 to November 2010, indicative of sustained weaknesses in the control environment, particularly a fundamental breakdown in segregation of duties due to excessive concentration of responsibilities in a single officer.
- ii) The fraud was facilitated by recycled and falsified reimbursement documents, reflecting inadequate verification, approval, and supervisory review within the claims-to-payment process, compounded by ineffective bank monitoring and reconciliation arrangements despite the concentration of transactions at NBK, Harambee Avenue Branch; in these circumstances, the effectiveness and responsiveness of the internal audit function was questionable.
- iii) The matter remained pending before court and that recovery of the lost funds was therefore uncertain.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submits to the National assembly and the Auditor-General a report on the measures put in place by the Management to ensure improved control environment, segregation of duties, approval, and supervisory and effective and responsive internal audit function for review.

1.0 Staff Loans

- 866) The Committee heard that as similarly reported in the previous year, included in the gross loans to staff balance of Kshs.237,566,000 and as disclosed in Note 5 (c) to the accounts is an amount of Kshs.22,647,334.50 owed by ex-staff in respect of house loans, car loans and staff advances. Although the Corporation has made a provision of Kshs.20,387,000 for doubtful debts, it has not,

however, been clarified why the amounts could not be offset against the final dues of the affected staff.

- 867) In the circumstances, it has not been possible to confirm whether staff loans balance of Kshs.237,566,000 as at 30 June 2013 is fairly stated.

Management response

- 868) The management informed the Committee that out of the KSHS. 22,647,334.50 owed by former staff, the amounts comprise KSHS. 19,164,007 for house loans, KSHS. 2,867,658 for car loans, KSHS. 739,000 for staff advances, KSHS. 615,668 for personal loans, as detailed below. The Corporation has continued to pursue recovery of these amounts through various measures, including direct follow-up with former staff, enforcement of underlying loan securities (such as title deeds and logbooks) and conclusion of pending legal proceedings where applicable.
- 869) The outstanding balances have since reduced to KSHS. 10,425,814 from the reported KSHS. 22,647,334.50.

Loan Product	30th June 2013	8th August 2025
House Loans	19,164,007	8,697,567
Car Loans	2,867,658	972,289
Staff Advance	615,668	755,958
Total	22,647,334.50.	10,425,814

- 870) The respective schedules referenced above to support the balances and sampled account statements for the fully repaid accounts were provided for review and information.
- 871) Regarding recoveries from final dues, the Corporation has faced certain limitations. Notably, pension benefits are protected under the Retirement Benefits Authority (RBA) Act and cannot be attached or offset against outstanding loan balances without the explicit written consent of the member. As a result, recoveries from pension benefits have only been effected in instances where such authorization was duly granted by the former employee.
- 872) To mitigate this challenge, the Corporation has since revised its policy, requiring that such facilities be secured with tangible collateral to facilitate prompt recovery in the event of default.

Committee Observations

The Committee Observed that—

- i) The gross staff loans balance as at 30 June 2013 included KSHS. 22,647,334.50 owed by former employees in respect of house loans, car loans, staff advances, and personal loans, against which Management had raised a provision of KSHS. 20,387,000 for doubtful debts. However, no sufficient evidence was provided to demonstrate the existence and consistent application of effective exit clearance procedures, enforceable set-off arrangements against terminal dues (where legally permissible), and clearly defined recovery timelines for separated staff. This weakened assurance on the integrity and recoverability of the staff loans balance as reported.
- ii) The recovery through pension benefits is constrained under the Retirement Benefits Authority (RBA) framework, and that any offset could only be effected where former employees provided explicit written consent. However, while the Committee

acknowledges these legal limitations, it remained concerned that these constraints were not adequately anticipated and mitigated at loan origination and documentation stage, thereby limiting the Corporation's ability to enforce recovery promptly upon staff separation particularly in cases where facilities were unsecured or inadequately secured, or where loan agreements did not sufficiently protect the Corporation's recovery position.

- iii) The Management's asserted that the outstanding ex-staff balances reduced from Kshs.22,647,334.50 to KSHS. 10,425,814 as at 8 August 2025 being attributed to follow-ups, enforcement of securities (including title deeds and logbooks), and conclusion of legal processes. However, there was no documentary evidence to substantiate the reported status (including reconciled schedules, updated account statements, security realization status, and progression of legal actions), and therefore the accuracy of the reported reduction and the current recoverability position could not be independently verifiable.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submits to the National Assembly and the Auditor-General evidence of recovery of Kshs.12,221,520 and a report on the measures put in place by Management to ensure effective recovery and accurate reporting of staff loans, particularly amounts owed by former employees. The report should include:

- i) Strengthened exit clearance procedures and enforceable recovery/settlement arrangements at separation;
- ii) Enhanced loan origination controls requiring adequate collateral/security and complete documentation to mitigate limitations on set-off against protected pension benefits;
- iii) Timely, independently reviewed reconciliations of staff loan subsidiary records and improved impairment/provisioning methodology; and
- iv) A structured recovery action plan with progress evidence (updated schedules, statements, collateral status, and legal case updates) for review.

1.0 Loans to Farmers

- 873) The Committee heard that as similarly reported in the previous year, the short-term loans to farmers balance of Kshs.2,063, 150,000 as disclosed in Note 5 (b) includes an amount of Kshs.22,661,100 advanced to thirteen (13) farmers in Kapsabet. According to information available, the Corporation advanced the amount against various collaterals in form of title deeds which appeared to be fraudulent. In the circumstances, it has not been possible to ascertain the recoverability of the amount of Kshs.22,661,100 advanced to the farmers

Management response

- 874) The management informed the Committee that in 2007, the Corporation advanced agricultural loans to 13 farmers in Kapsabet for sugarcane development, in line with its mandate to support agriculture and related enterprises across the country as detailed below.

S/No.	Rim No.	Customer Name	Outstanding Balances (KSHS.)
1	15501	Wilson Kipngetich Cheruiyot	4,078,003.08
2	15575	Calvine Ochieng Ogum	1,056,338.71
3	15576	John Kipkosgei Mutai	1,299,516.12
4	15578	Julius Kiprotich Chumba	1,832,105.34
5	21267	Emmanuel Kiprono Cheruiyot	1,350,575.86
6	22496	Samson Kibiwott Kirwa	1,287,217.30
7	22946	Lilan Kipchumba Robert	2,170,589.75
8	25067	Evans Kiprop Busieney	3,215,956.53
9	26110	Arusei Ben Kipchumba	1,176,992.32
10	26552	David Kirwa	2,678,425.04
11	27762	Joshua Kirwa Korir	767,885.83
12	27764	Ernest Kiprotich Kimitei	830,494.75
13	27765	Henry Kipkirong Lelei	917,000.00
			22,661,100.63

- 875) Unbeknownst to the Corporation, the loans were issued against title deeds that turned out to be for fictitious parcels of land. This occurred despite the Corporation exercising due diligence in perfecting the securities through the Lands Office.
- 876) The process of accepting a title deed as collateral at the Corporation involves conducting an official land search to verify ownership, followed by a valuation conducted by prequalified professional valuers. Only after these steps is a first-ranking charge registered over the property. This due process is intended to ensure the legitimacy of the security provided.
- 877) Following default by the loan beneficiaries, the Corporation initiated the process of disposing of the securities in accordance with its statutory power of sale. It was at this stage that it was discovered that the title deeds were defective. Investigations revealed that the fraud was perpetrated by the borrowers in collusion with officials at the Kapsabet Lands Office, resulting in significant financial loss to the Corporation.
- 878) As a result, the Corporation filed six civil suits against the fraudsters under Eldoret High Court Civil Cases Nos. 100, 102, 103, 104, 105 and 106 of 2011. Judgments were delivered in favor of the Corporation and corresponding decrees were issued. Warrants of attachment were similarly issued and the process of execution initiated.
- 879) Full provisions for these non-performing loans have been made in the Corporation's accounts, as evidenced in the system report extracts. To aid enforcement of the judgments, the Corporation sought the intervention of the Directorate of Criminal Investigations (DCI), given their capacity

to pursue and apprehend suspects. However, progress has been slow, hampered by delays on the part of the DCI in effecting arrests. Nevertheless, the Corporation remains committed to the recovery process and continues to follow up the matter.

Committee Observations

The Committee observed that–

- i) The short-term loans to farmers balance included KSHS. 22,661,100 advanced to thirteen (13) farmers in Kapsabet for sugarcane development. However, the facilities were reportedly secured using title deeds later found to relate to fictitious parcels of land, thereby rendering the collateral defective and potentially unenforceable.
- ii) Although the Management indicated that the Corporation undertook due diligence including official searches at the Lands Office, valuations by prequalified valuers, and registration of first-ranking charges the fraudulent securities were detected only at the point of attempting to exercise the statutory power of sale following default. This indicates vulnerabilities in the security perfection and verification processes, including reliance on external registries without adequate independent safeguards, and suggests that the loan approval and collateral acceptance framework may not have been sufficiently robust to mitigate risks of title fraud and collusion at registry level.
- iii) According to the Management, the investigations implicated collusion between the borrowers and officials at the Kapsabet Lands Office, and that the Corporation pursued recovery through six civil suits (Eldoret High Court Civil Cases Nos. 100–106 of 2011), obtaining judgments and decrees, with warrants of attachment issued and execution initiated. However, the recovery progress has been slow, reportedly due to delays in arrests and follow-up by law enforcement agencies, and no conclusive evidence was provided to demonstrate the amounts recovered to date, the status of execution proceedings, or the existence of attachable assets sufficient to settle the decrees.
- iv) Despite, Management making full provisions for these non-performing loans, the delayed recovery actions and weak collateral recourse continue to expose the Corporation to prolonged credit risk and potential loss.

Committee Recommendation

The Committee recommends that–

- i) Within three months upon adoption of this report, the Accounting Officer submits to the National Assembly and the Auditor-General a report on the measures put in place by Management to ensure effective management, recovery, and prevention of losses arising from agricultural loans secured by fraudulent or defective collateral.
- ii) Within three months upon adoption of this report, the Accounting Officer submits to the National Assembly and the Auditor-General evidence of execution and enforcement of judgments and decrees, with warrants of attachment issued to demonstrate the amounts recovered to date, the status of execution proceedings, or the existence of attachable assets sufficient to settle the decrees.
- iii) Within three months upon adoption of this report, the EACC to follow-up on the enforcement of judgments and decrees, with warrants of attachment issued to

demonstrate the amounts recovered to date, the status of execution proceedings, or the existence of attachable assets sufficient to settle the decrees.

FINANCIAL YEAR 2013/2014

1.0 Land and Buildings

- 880) The Committee heard that as disclosed in note 8(a) to the accounts and as previously reported in 2012/2013, land and buildings balance of KSHS.1,014,478,000 as at 30 June 2014 includes twenty nine (29) developed plots measuring 5.3324 hectares valued at Kshs.191 ,627,798 and seven undeveloped plots measuring 1.5383 hectares worth Kshs. 914,255, against which respective ownership documents were not availed for audit review. In addition, the value of land and buildings as now reported excludes various parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. In the circumstances, it has not been possible to confirm whether land and buildings balance of Kshs.1,014,478,000 as at 30 June 2014 is fairly stated.

Management response

- 881) The management informed the Committee that in included in the disclosed values of land and buildings, are 20 plots collectively measuring 5.3324 hectares and valued at KSHS. 191,627,798. A detailed breakdown of these properties, indicating their respective status, were provided for review to the committee.
- 882) In regard to the seven undeveloped plots, measuring 1.5383 hectares and valued at KSHS. 795,443, for which the respective ownership documents were initially unavailable, the Corporation has actively pursued the acquisition of these documents and successfully secured five title deeds for the parcels located in Iten, Bungoma, Kisumu, Molo and Bomet.
- 883) In addition, two other parcels located in Kimilili and Busia are at advanced stages of title registration. Both have been surveyed, with new grants issued and updated registry index maps prepared in 2025, as detailed below:

S/No	Location	Reference	Size	Status
1.	Iten	BM/Iten Township/176	0.2788 Ha	Titled
2.	Bungoma	Bungoma Municipality/804	0.1443 Ha	Titled
3.	Kisumu	Kisumu Municipality/Block 6/391	0.4299 Ha	Titled
4.	Molo	Molo Township/Block 2/84	0.145 Ha	Titled
5.	Bomet	LR No.8939/32	0.1999 Acres	Lease Hold

6.	Kimilili	LR No. 42171/11/66 & 67		Plot surveyed, New Grant issued with an updated registry Index map on 25 th July 2025. Title deed pending registration
7.	Busia	LR 110348/3	0.0622 Ha	Plot surveyed, New Grant issued with an updated registry Index map in March 2025. Title deed pending registration
8.	Nanyuki	Nanyuki/Block/8/877	0.1837 Ha	Reposessed and reallotted to Daniel Mbogo Gathiga
9.	Kerugoya	116700/2		Reposessed and reallotted to Judiciary

889) The plots in Nanyuki and Kerugoya were reposessed by the respective County Governments due to the Corporation's failure to develop them within the stipulated timelines. The Kerugoya plot was re-allotted and has since been developed by the Judiciary. The Nanyuki plot was reposessed and re-allotted to Daniel Mbogo Gathiga, a private developer. Consequently, these two properties could not be recognized in the Corporation's financial statements. The Various correspondences on this matter were provided for review to the committee.

890) It's the Corporation policy to revalue its assets after every five years. In the last valuation undertaken in 2019, these properties could not be valued as the Corporation lacked the necessary title deeds to confirm ownership. In line with IAS 16, all assets under recognized classifications must be revalued for updated values to be reflected in the financial statements. Accordingly, once the pending title registrations are finalized, the Corporation will proceed with the revaluation of the respective properties. An excerpt of the policy was provided for review to the committee.

- 891) We have also provided a comprehensive report on all the 41 Corporation properties, highlighting 25 titled parcels and 16 without titles, were provided for review to the committee.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Land and Buildings in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Loss of Cash

- 892) The Committee heard that as previously reported, an examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. According to information available, the cheques were cashed by an accountant in charge of cash office, who also doubled as the Corporation's bank agent.
- 893) Initial investigations revealed that the fraud was perpetrated by recycling and falsifying documents for re-imbursement claims. Further, information indicates that although the Corporation operated several bank accounts, the fraud was perpetrated mainly at the National Bank of Kenya Branch along Harambee Avenue, Nairobi. The case is in court and until it is fully determined, it is not possible to confirm whether the amount will be recovered.

Management response

- 894) The management informed the Committee that in This is a criminal case file no 113/19/2012 court file 1311/2012 Republic of Kenya vs. Lawrence M. Bokoro & Another that is ongoing at the Milimani Law Court. The status of the case is as indicated below: -This case came up for hearing on 13th February, 2020 when the prosecution was expected to close their case.
- 895) However, upon stepping down the final witness, the defense made an application which application was allowed to recall two prosecution witnesses for further cross examination. It was stated that some of the documents supplied by the prosecution required more clarification from the two witnesses. Consequently, the case was slated for further hearing on 11th and 13th March 2020. On the said dates the court was not sitting and a fresh hearing date was slated for 24th March, 2020. The case could not proceed as slated due to the breakout of Covid-19 pandemic.
- 896) The accused was on 25th May 2023 put on his defense. Thereafter, matter has been in court on several occasions for hearing. The accused has been putting in several applications to recall witnesses and availing of certain documents to aide his case. The ruling on his application was dismissed on 16th February, 2024.
- 897) The matter has been adjourned several times however, the defense hearing is scheduled on 9th October 2025 as per the Judiciary Public Information on cases Portal. Since the recoverability of the amounts misappropriated was doubtful, the loss was provided for fully in the Financial Years 2010/2011 as per the requirements of IAS 39/IFRS 9.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Loss of Cash in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Provision for Doubtful Debts

Management response

- 898) The management informed the Committee that, correspondence from the Ministry of Agriculture and The National Treasury approving granting of interest concession and write off were provided for review by the committee. The later spirit of interest concession was to relieve the farmers of burden of the outstanding loan balances through payment of the concessionary sum based on the approved criteria.
- 899) It was worth noting that the Permanent Secretary, Treasury guided in a letter ref CONF.89/01N dated 1st November 2004 that the Board had Authority to implement interest concession fully. Any amount above interest concession sum are therefore to be waived.

Committee Observations

The Committee Observed that–

The Statement of Comprehensive Income included Kshs.38,423,000 disclosed as a charge for doubtful debts. However, the amount related to bad debts already written off, rather than an impairment/provision charge, without the requisite Board of Directors and National Treasury approvals authorizing the write-off thus obscuring the true nature of the transaction and weakens transparency and accountability.

The Management's explanation that authority had been granted by the National Treasury; however, the evidence availed to audit indicated that the approval referenced was in respect of an interest concession formula, not an explicit authorization to write off principal balances. In the absence of clear and specific Treasury authorization for a write-off, the action to write off the debts was procedurally improper and inconsistent with governance requirements for disposal of public receivables.

While Management cited guidance that the Board had authority to implement the interest concession and that amounts above the concessionary sum "are to be waived," the Committee noted that waivers/write-offs of debts must be supported by unambiguous approvals, properly documented Board resolutions, and explicit Treasury concurrence where required, to avoid misinterpretation of policy intent and to ensure auditability.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submits to the National Assembly and the Auditor-General a report on the status of the debts initially written off with justification for the write-off including measures put in place by Management to ensure that all write-offs, waivers, and interest concessions are properly authorized, accurately accounted for, and fully supported by verifiable documentation, including:

- i) Certified Board resolutions and explicit National Treasury approvals authorizing the specific write-off(s) where applicable;
- ii) A clear reconciliation distinguishing impairment/provision charges from actual write-offs, supported by schedules of accounts affected and corresponding approvals;
- iii) A reviewed and enforced policy framework on debt concession, waiver, provisioning and write-off approvals (with thresholds, responsible officers, and documentation standards); and
- iv) Corrective accounting actions undertaken to regularize the treatment and disclosure of the KSHS. 38,423,000 in the financial statements, including any necessary adjustments and enhanced audit trail for review.

1.0 Board Expenses

- 900) The Committee heard that Section 6(1) of the Act, Cap 446, of the Laws of Kenya states that unless the written law by or under which a state corporation is established or the articles of association of the state corporation otherwise require, a Board shall consist of a Chairman, the Chief Executive, the Permanent Secretary of the parent Ministry, the Permanent Secretary to the Treasury and not more than seven (7) other members not being employees of the state corporation appointed by the Minister.' Section 10(1) of the Act allows the chairman and the board members to be paid sitting allowance out of the funds of the corporation on attendance of board/committee meetings. However, records examined indicated that the Corporation paid a total of Kshs.592,000 as sitting allowance to non-directors in attendance during board/committee meetings. The Corporation was therefore in breach of the law.

Management response

- 901) The management informed the Committee that in the payments were made in accordance with the Statute Law (Miscellaneous Amendments) Act, 2002, which authorized public officers attending board meetings to receive sitting allowances and other remuneration.

Committee Observations

The Committee observed that the Corporation paid a total of Kshs.592,000 as sitting allowance to non-director's contrary to Section 10(1) of the Act, that allows the chairman and the board members to be paid sitting allowance out of the funds of the corporation on attendance of board/committee meetings.

Committee Recommendations

The Committee recommends that–

Within three months upon adoption of this report, the Inspector General of State Corporations to investigate the irregular payments of Kshs.592,000 in accordance with section 19 of the State Corporations Act, CAP 446 and surcharge or recover from the then Accounting Officer (s) and the Board members the monies irregularly paid to the members.

1.0 Net Loans to customers

902) The Committee heard that–

- i) As previously reported, short term loans to customers balance of Kshs.2,054,467,000 as disclosed in note 12 (b) includes an amount of Kshs.22,661,100 advanced to 13 farmers in Kapsabet. According to information available, the Corporation advanced the amount against various collaterals in form of title deeds which appeared to be fraudulent. In the circumstances, it has not been possible to ascertain the recoverability of the amount of Kshs.22,661,100 advanced to the farmers.
- ii) Similarly, loans to staff of Kshs.253,367,000 as disclosed in note 12(c) to the accounts includes an amount of Kshs.19,922,472.65 owed by ex-staff in respect of house loans, personal advance and car loans. Although the Corporation has made a provision of Kshs.20,387,000 for doubtful debts, it has not, however, been clarified why the amounts could not be offset against the final dues of the affected former employees.

Management response

903) The management informed the Committee that in In 2007, the Corporation advanced agricultural loans to 13 farmers in Kapsabet for sugarcane development, in line with its mandate to support agriculture and related enterprises across the country as detailed below.

S/No.	Rim No.	Customer Name	Outstanding Balances (KSHS.)
1	15501	Wilson Kipnetich Cheruiyot	4,078,003.08
2	15575	Calvine Ochieng Ogum	1,056,338.71
3	15576	John Kipkosgei Mutai	1,299,516.12
4	15578	Julius Kiprotich Chumba	1,832,105.34
5	21267	Emmanuel Kiprono Cheruiyot	1,350,575.86
6	22496	Samson Kibiwott Kirwa	1,287,217.30
7	22946	Lilan Kipchumba Robert	2,170,589.75
8	25067	Evans Kiprop Busieney	3,215,956.53
9	26110	Arusei Ben Kipchumba	1,176,992.32
10	26552	David Kirwa	2,678,425.04
11	27762	Joshua Kirwa Korir	767,885.83
12	27764	Ernest Kiprotich Kimitei	830,494.75
13	27765	Henry Kipkirong Lelei	917,000.00

			22,661,100.63
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- 904) Unbeknownst to the Corporation, the loans were issued against title deeds that turned out to be for fictitious parcels of land. This occurred despite the Corporation exercising due diligence in perfecting the securities through the Lands Office.
- 905) The process of accepting a title deed as collateral at the Corporation involves conducting an official land search to verify ownership, followed by a valuation conducted by prequalified professional valuers. Only after these steps is a first-ranking charge registered over the property. This due process is intended to ensure the legitimacy of the security provided.
- 906) Following default by the loan beneficiaries, the Corporation initiated the process of disposing of the securities in accordance with its statutory power of sale. It was at this stage that it was discovered that the title deeds were defective. Investigations revealed that the fraud was perpetrated by the borrowers in collusion with officials at the Kapsabet Lands Office, resulting in significant financial loss to the Corporation.
- 907) As a result, the Corporation filed six civil suits against the fraudsters under Eldoret High Court Civil Cases Nos. 100, 102, 103, 104, 105 and 106 of 2011. Judgments were delivered in favor of the Corporation and corresponding decrees were issued. Warrants of attachment were similarly issued and the process of execution initiated.
- 908) Full provisions for these non-performing loans have been made in the Corporation's accounts, as evidenced in the system report extracts labeled. To aid enforcement of the judgments, the Corporation sought the intervention of the Directorate of Criminal Investigations (DCI), given their capacity to pursue and apprehend suspects. However, progress has been slow, hampered by delays on the part of the DCI in effecting arrests. Nevertheless, the Corporation remains committed to the recovery process and continues to follow up the matter.
- 909) Out of the KSHS. 19,922,472.65 owed by former staff, the amounts comprise KSHS. 18,129,226.93 for house loans, KSHS. 1,177,577.62 for car loans and KSHS. 615,668.10 for personal loans, as detailed below. The Corporation has continued to pursue recovery of these amounts through various measures, including direct follow-up with former staff, enforcement of underlying loan securities (such as title deeds and logbooks) and conclusion of pending legal proceedings where applicable.
- 910) The outstanding balances have since reduced to KSHS. 10,425,814 from the reported KSHS. 19,922,472.65

Loan Product	30th June 2013	8th August 2025
House Loans	18,129,226.93	8,697,567.48
Car Loans	1,177,577.62	972,289.26
Staff Advance	615,668.10	755,958.25
Total	22,647,334.50.	10,425,814.99

- 911) Regarding recoveries from final dues, the Corporation has faced limitations. Notably, pension benefits are protected under the Retirement Benefits Authority (RBA) Act and cannot be attached or offset against outstanding loan balances without the explicit written consent of the member. As a result, recoveries from pension benefits have only been effected in instances where such authorization was duly granted by the former employee.

- 912) To mitigate this challenge, the Corporation has since revised its policy, requiring that such facilities be secured with tangible collateral to facilitate prompt recovery in the event of default.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Net Loans to customers in its report for the Financial Year 2012/2013, under staff loans and loans to farmers, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Administration Costs

- 913) The Committee heard that, included in the administration costs figure of Kshs.850,007.000 as disclosed under note 7 to the accounts is Kshs.647,575,000 in respect of staff costs. However, audit verifications revealed that this figure includes Kshs.1,523,859.10 paid as acting allowances to staff for more than six months, contrary to the provisions of paragraph 6.10.2 (g) of staff policy and manual which states that no acting appointment on a substantive vacant position shall be made in excess of six (6) months. The payment is therefore irregular.

Management response

- 914) The management informed the Committee that in Acting allowances were paid to various officers who served in an acting capacity during the year. The Corporation had faced persistent challenges in recruiting and retaining staff at the Head of Department level, as shortlisted candidates had often declined the appointments, citing low remuneration.

To address this, the Board resolved to re-advertise the positions internally with the aim of substantively filling them and bringing the matter of prolonged acting appointments to a close.

Interviews for these positions were conducted between 4th March 2015 and 18th March 2015. The positions were substantively filled upon conclusion of the interviews and selection process within the 2014/15 financial year.

Committee Observations

Committee observed that thirty (30) officers were in acting capacity for more than six (6) months and had received acting allowance amounting to Kshs.1,523,859 contrary to section 34 (3) of the Public Service Commission Act, CAP 185, which requires that an officer may be appointed in an acting capacity for a period not exceeding six months.

Committee Recommendations

The Committee recommended that within three months upon adoption of this report, the Inspector General of State Corporations to surcharge and recover from the then Accounting Officer (s) and Board members, the Kshs. Kshs.1,523,859 and any other monies paid as acting allowances beyond the stipulated period of six months.

1.0 Budgetary control

- 915) The Committee heard that, the Corporation overspent by Kshs.2,006,000 and Kshs.5,869,000 on medical expenses and purchase of motor vehicles respectively during the year under audit. However, there was no evidence for audit verification showing that the over-expenditure was

approved by the parent Ministry and Treasury as provided for under Section 12 of the State Corporations Act, Cap 446 of the Laws of Kenya. The Corporation was therefore in breach of law.

Management response

- 916) The management informed the Committee that in As regards the over expenditure, the management affirms that the expenditures arose from operational exigencies consistent with the Corporation's mandate and remained within the permissible 10% threshold of the approved budget, as illustrated below. To address this gap and ensure full compliance going forward, the Corporation has strengthened internal budgetary controls to prevent commitments in excess of approved budget lines without requisite authority.

Budget Item	Actual Expenditure	Approved Budget	Variance	%
Medical Expenses	45,898,000	44,500,000	1,398,000	3.14
Motor Vehicle	38,369,000	35,000,000	3,369,000	9.63

Committee Observations

The Committee observed that–

The Corporation overspent by Kshs.2,006,000 and Kshs.5,869,000 on medical expenses and purchase of motor vehicles respectively. However, there was no evidence that the over-expenditure was approved by the parent Ministry and Treasury as provided for under Section 12 of the State Corporations Act, Cap 446 of the Laws of Kenya.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure at all times that the budgets are realistic, achievable, and always adhere to annual work plans, procurement plans, and revenue collection schedules in compliance with Regulation 44(2) of the PFM (National Government) Regulations, 2015.

FINANCIAL YEAR 2014/2015

1.0 Land and Buildings

- 917) The Committee heard that, as previously reported in 20for reviewd prior years, property and equipment net book value of Kshs.1, 135,700,000 as at 30 June 2015 includes twenty-nine (29) developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring 1.5383 hectares also valued at Kshs.914,255, with no ownership documents. In addition, the value of land and buildings as disclosed in note 8(a) to the financial statements with net book value of 993,363,000 excludes various non valued parcels of land located in Busia, Nanyuki and Kerugoya and whose ownership is in dispute.

- 918) Consequently, it is not possible to confirm whether the carrying values as stated in the statement of financial position as at 30 June 2015 reflect the fair values of property and equipment.

Management response

- 919) The management informed the Committee that included in the disclosed values of land and buildings, are 20 plots collectively measuring 5.3324 hectares and valued at KSHS. 191,627,798. A detailed breakdown of these properties, indicating their respective status, was provided for review to the committee.
- 920) In regard to the nine undeveloped plots, measuring 1.5383 hectares and valued at KSHS. 795,443, for which the respective ownership documents were initially unavailable, the Corporation has actively pursued the acquisition of these documents and successfully secured five title deeds for the parcels located in Iten, Bungoma, Kisumu, Molo and Bomet.
- 921) In addition, two other parcels located in Kimilili and Busia are at advanced stages of title registration. Both have been surveyed, with new grants issued and updated registry index maps prepared in 2025, as detailed below:

S/N o	Location	Reference	Size	Status
1.	Iten	BM/Iten Township/176	0.278 8 Ha	Titled
2.	Bungoma	Bungoma Municipality/804	0.144 3 Ha	Titled
3.	Kisumu	Kisumu Municipality/Block 6/391	0.429 9 Ha	Titled
4.	Molo	Molo Township/Block 2/84	0.145 Ha	Titled
5.	Bomet	LR No.8939/32	0.199 9 Acres	Lease Hold
6.	Kimilili	LR No. 42171/11/66 & 67		Plot surveyed, New Grant issued with an updated registry Index map on 25 th July 2025. Title deed pending registration
7.	Busia	LR 110348/3	0.062 2 Ha	Plot surveyed,

				New Grant issued with an updated registry Index map in March 2025. Title deed pending registration
8.	Nanyuki	Nanyuki/Block/8/877	0.1837 Ha	Repossessioned and re-allotted to Daniel Mbogo Gathiga
9.	Kerugoya	116700/2		Repossessioned and re-allotted to Judiciary

- 922) The plots in Nanyuki and Kerugoya were repossessed by the respective County Governments due to the Corporation's failure to develop them within the stipulated timelines. The Kerugoya plot was re-allotted and has since been developed by the Judiciary. The Nanyuki plot was repossessed and re-allotted to Daniel Mbogo Gathiga, a private developer. Consequently, these two properties could not be recognized in the Corporation's financial statements. The Various correspondences on this matter were provided for review to the committee.
- 923) It's the Corporation policy to revalue its assets after every five years. In the last valuation undertaken in 2019, these properties could not be valued as the Corporation lacked the necessary title deeds to confirm ownership. In line with IAS 16, all assets under recognized classifications must be revalued for updated values to be reflected in the financial statements. Accordingly, once the pending title registrations are finalized, the Corporation will proceed with the revaluation of the respective properties. An excerpt of the policy was provided for review to the committee. They also provided a comprehensive report on all the 41 Corporation properties, highlighting 25 titled parcels and 16 without titles.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Land and Buildings in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Loss of Cash

- 924) The Committee heard that, as previously reported, an examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members.

Information available indicates that the cheques were cashed by an accountant in charge of cash office, who also doubled as the Corporation's bank agent. Initial investigations revealed that the fraud was perpetrated by recycling and falsifying documents for re-imbursement claims. Further, information indicates that although the Corporation operated several bank accounts, the fraud was perpetrated mainly at the National Bank of Kenya Branch along Harambee Avenue, Nairobi. The case is still in court and any provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements.

Management response

- 925) The management informed the Committee that in This is a criminal case file no 113/19/2012 court file 1311/2012 Republic of Kenya vs. Lawrence M. Bokoro & Another that is ongoing at the Milimani Law Court. The status of the case is as indicated below: -This case came up for hearing on 13th February, 2020 when the prosecution was expected to close their case.
- 926) However, upon stepping down the final witness, the defense made an application which application was allowed to recall two prosecution witnesses for further cross examination. It was stated that some of the documents supplied by the prosecution required more clarification from the two witnesses. Consequently, the case was slated for further hearing on 11th and 13th March 2020. On the said dates the court was not sitting and a fresh hearing date was slated for 24th March, 2020. The case could not proceed as slated due to the breakout of Covid-19 pandemic.
- 927) The accused was on 25th May 2023 put on his defense. Thereafter, matter has been in court on several occasions for hearing. The accused has been putting in several applications to recall witnesses and availing of certain documents to aide his case. The ruling on his application was dismissed on 16th February, 2024.
- 928) The matter has been adjourned several times however, the defense hearing is scheduled on 9th October 2025 as per the Judiciary Public Information on cases Portal. Since the recoverability of the amounts misappropriated was doubtful, the loss was provided for fully in the Financial Years 2010/2011 as per the requirements of IAS 39/IFRS 9.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Loss of Cash in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Repossessed Farm Properties

- 929) The Committee heard that, the repossessed farm properties figure of Kshs.169,053,000 as disclosed under note 11 to the accounts excludes Kshs.85,834,000 being accumulated provision for the period under review. Although management has explained that the amount represents a general provision of 50% of the outstanding loan balance values at the time of auction, land experiences significant and volatile changes in value over time hence depreciating land is not advisable. Under the circumstances, it is not possible to ascertain the accuracy of repossessed farm properties figure of Kshs.169,053,000 as at 30 June 2015.

Management response

- 930) The management informed the Committee that in The Corporation recognizes the outstanding loan balance at the point of auction as the value of the Farm Property in Possession (FPIP). However,

in several instances, the loan balances exceed the realizable value of the underlying securities. This shortfall is largely attributable to the accumulation of default charges and penalties over time. Furthermore, some properties have been encroached upon by squatters, which has significantly reduced their marketability, restricted the legal use of portions of the land, created disputes or litigation risks that deter potential buyers and ultimately delayed disposal efforts.

Given these challenges, the likelihood of fully recovering the loan amounts associated with these FPIPs is low. In accordance with the requirements of International Accounting Standards, specifically IAS 36.12(d) on impairment, the Corporation assessed the recoverability of these assets and determined it prudent to recognize a general provision of KSHS. 85,834,000 against the carrying value of the FPIP portfolio. This provision reflects the inherent risk of loss and ensures that the financial statements present a true and fair view of the Corporation's financial position.

Committee Observations

The Committee Observed that–

- i) The repossessed farm properties balance excluded an accumulated provision of KShs. 85,834,000. Although Management explained that the provision represents a general 50% adjustment based on outstanding loan balances at the time of auction, land does not ordinarily depreciate and, therefore, the basis and presentation of the provision did not have clear valuation/impairment framework and disclosures.
- ii) There were impairment risk where loan balances exceed realizable values due to accumulated default charges and penalties, as well as challenges such as encroachment by squatters, restrictions on land use, disputes, litigation risks, and delayed disposals, all of which reduce marketability and recovery prospects. However, while these factors can reasonably affect recoverability and justify impairment, adequate evidence inform of independent valuations, asset-by-asset impairment assessments, and a documented methodology supporting the KShs. 85,834,000 provision was not provided, limiting assurance over the reported carrying values.

Committee Recommendations

The Committee recommended that within three months of adopting the report, the Accounting Officer submits to the National Assembly and the Auditor-General a report detailing measures instituted to ensure accurate valuation, impairment assessment, and transparent reporting of repossessed farm properties, including a documented measurement policy aligned to applicable standards, an asset-by-asset reconciliation of balances and provisions supported by valuations/impairment evidence, a time-bound disposal and recovery plan addressing encumbrances, and strengthened oversight through periodic reviews and internal audit verification.

1.0 Net Loans to Customers

931) The Committee heard that–

- i) As previously reported and as disclosed in note 12 (b) to the financial statements, the customers balance of Kshs.4,313,848,000 includes an amount of Kshs.22,661,100 advanced to 13 farmers in Kapsabet. Information available indicates the Corporation

advanced the amount against various collaterals in form of title deeds which were fraudulent. In the circumstances the recoverability of Kshs.22,661,100 is doubtful.

- ii) Similarly, included in the customers balance are loans to directors and staff totaling Kshs.263,636,000 that includes an amount of Kshs.25,807,998.85 owed by ex-staff in respect of house loans, personal advance and car loans.
- iii) Although the Corporation has made a provision of Kshs.20,387,000 and stated that out of the 14 ex-staff loan balances, 2 are in court, 2 scheduled for write off, 7 being pursued normally and 3 cases are being serviced normally, available information however indicates that only one (1) case is in court. In the circumstances, it is not possible to ascertain the recoverability of Kshs.25,807,998.85 debt owed by the ex-staff.

Management response

- 932) The management informed the Committee that in 2007, the Corporation advanced agricultural loans to 13 farmers in Kapsabet for sugarcane development, in line with its mandate to support agriculture and related enterprises across the country as detailed below.

S/No.	Rim No.	Customer Name	Outstanding Balances (KSHS.)
1	15501	Wilson Kipnetich Cheruiyot	4,078,003.08
2	15575	Calvine Ochieng Ogum	1,056,338.71
3	15576	John Kipkosgei Mutai	1,299,516.12
4	15578	Julius Kiprotich Chumba	1,832,105.34
5	21267	Emmanuel Kiprono Cheruiyot	1,350,575.86
6	22496	Samson Kibiwott Kirwa	1,287,217.30
7	22946	Lilan Kipchumba Robert	2,170,589.75
8	25067	Evans Kiprop Busieney	3,215,956.53
9	26110	Arusei Ben Kipchumba	1,176,992.32
10	26552	David Kirwa	2,678,425.04
11	27762	Joshua Kirwa Korir	767,885.83
12	27764	Ernest Kiprotich Kimitei	830,494.75
13	27765	Henry Kipkirong Lelei	917,000.00
			22,661,100.63

- 933) Unbeknownst to the Corporation, the loans were issued against title deeds that turned out to be for fictitious parcels of land. This occurred despite the Corporation exercising due diligence in perfecting the securities through the Lands Office.
- 934) The process of accepting a title deed as collateral at the Corporation involves conducting an official land search to verify ownership, followed by a valuation conducted by prequalified professional valuers. Only after these steps is a first-ranking charge registered over the property. This due process is intended to ensure the legitimacy of the security provided.
- 935) Following default by the loan beneficiaries, the Corporation initiated the process of disposing of the securities in accordance with its statutory power of sale. It was at this stage that it was discovered that the title deeds were defective.
- 936) Investigations revealed that the fraud was perpetrated by the borrowers in collusion with officials at the Kapsabet Lands Office, resulting in significant financial loss to the Corporation.
- 937) As a result, the Corporation filed six civil suits against the fraudsters under Eldoret High Court Civil Cases Nos. 100, 102, 103, 104, 105 and 106 of 2011. Judgments were delivered in favor of the Corporation and corresponding decrees were issued. Warrants of attachment were similarly issued and the process of execution initiated.
- 938) Full provisions for these non-performing loans have been made in the Corporation's accounts, as evidenced in the system report extracts labeled. To aid enforcement of the judgments, the Corporation sought the intervention of the Directorate of Criminal Investigations (DCI), given their capacity to pursue and apprehend suspects. However, progress has been slow, hampered by delays on the part of the DCI in effecting arrests. Nevertheless, the Corporation remains committed to the recovery process and continues to follow up the matter. In support of the above actions, the following documents were provided to the committee for review;
- a) Correspondence with DCI
 - b) Title deeds provided as collateral
 - c) Certificates of official searches
 - d) Notifications of Charge
 - e) Court decrees
 - f) Evidence of full provisions on the affected loan accounts
 - g) Detailed status report of the 13 listed accounts.
- 939) Out of the KSHS. 25,807,998.85 owed by former staff, the amounts comprise KSHS. 16,991,458.50 for house loans, KSHS. 1,664,770.77 for car loans and KSHS. 7,151,769.58 for personal loans, as detailed below. The Corporation has continued to pursue recovery of these amounts through various measures, including direct follow-up with former staff, enforcement of underlying loan securities (such as title deeds and logbooks) and conclusion of pending legal proceedings where applicable.
- 940) The outstanding balances have since reduced to KSHS. 10,425,814.99 from the reported KSHS. 25,807,998.85

Loan Product	30 th June 2013	8 th August 2025
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House Loans	16,991,458.50	8,697,567.48
Car Loans	1,664,770.77	972,289.26
Staff Advance	7,151,769.58	2,374,145.62
Total	25,807,998.85	10,425,814.99

- 941) Regarding the identified 14 ex-staff loan accounts, 7 accounts have since been repaid in full while the Corporation continues to pursue the other 7 ex-staff. The detailed status report on each of the accounts was provided for review to the committee.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Net Loans to customers in its report for the Financial Year 2012/2013, under staff loans and loans to farmers, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

FINANCIAL YEAR 2015/2016

1.0 Land and Buildings

- 942) The Committee heard that, as previously reported in 2013/2014, and prior years, property and equipment net book value of Kshs.1, 135,700,000 as at 30 June 2015 includes twenty-nine (29) developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring 1.5383 hectares also valued at Kshs.914,255, with no ownership documents. In addition, the value of land and buildings as disclosed in note 8(a) to the financial statements with net book value of 993,363,000 excludes various non valued parcels of land located in Busia, Nanyuki and Kerugoya and whose ownership is in dispute.
- 943) Consequently, it is not possible to confirm whether the carrying values as stated in the statement of financial position as at 30 June 2015 reflect the fair values of property and equipment.

Management response

- 944) The management informed the Committee that in Included in the disclosed values of land and buildings, are 20 plots collectively measuring 5.3324 hectares and valued at KSHS. 191,627,798. A detailed breakdown of these properties, indicating their respective status, was provided for review to the committee.
- 945) In regard to the seven undeveloped plots valued at KSHS. 795,443, for which the respective ownership documents were initially unavailable, the Corporation has actively pursued the acquisition of these documents and successfully secured five title deeds for the parcels located in Iten, Bungoma, Kisumu, Molo and Bomet.
- 946) In addition, two other parcels located in Kimilili and Busia are at advanced stages of title registration. Both have been surveyed, with new grants issued and updated registry index maps prepared in 2025, as detailed below:

S/No	Location	Reference	Size	Status
1.	Iten	BM/Iten Township/176	0.2788 Ha	Titled
2.	Bungoma	Bungoma Municipality/804	0.1443 Ha	Titled
3.	Kisumu	Kisumu Municipality/Block 6/391	0.4299 Ha	Titled
4.	Molo	Molo Township/Block 2/84	0.145 Ha	Titled
5.	Bomet	LR No.8939/32	0.1999 Acres	Lease Hold
6.	Kimilili	LR No. 42171/11/66 & 67		Plot surveyed, New Grant issued with an updated registry Index map on 25 th July 2025. Title deed pending registration
7.	Busia	LR 110348/3	0.0622 Ha	Plot surveyed, New Grant issued with an updated registry Index map in March 2025. Title deed pending registration
8.	Nanyuki	Nanyuki/Block/8/877	0.1837 Ha	Reposessed and re-allotted to Daniel Mbogo Gathiga
9.	Kerugoya	116700/2		Reposessed and re-

				allotted to Judiciary
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- 947) The plots in Nanyuki and Kerugoya were repossessed by the respective County Governments due to the Corporation's failure to develop them within the stipulated timelines. The Kerugoya plot was re-allotted and has since been developed by the Judiciary. The Nanyuki plot was repossessed and re-allotted to Daniel Mbogo Gathiga, a private developer. Consequently, these two properties could not be recognized in the Corporation's financial statements. The Various correspondences on this matter was provided for review to the committee.
- 948) It's the Corporation policy to revalue its assets after every five years. In the last valuation undertaken in 2019, these properties could not be valued as the Corporation lacked the necessary title deeds to confirm ownership. In line with IAS 16, all assets under recognized classifications must be revalued for updated values to be reflected in the financial statements. Accordingly, once the pending title registrations are finalized, the Corporation will proceed with the revaluation of the respective properties. An excerpt of the policy was provided for review to the committee.
- 949) We have also provided a comprehensive report on all the 41 Corporation properties, highlighting 25 titled parcels and 16 without titles, were provided for review to the committee.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Land and Buildings in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Additions to Property and Equipment

- 950) The Committee heard that, Note 8 (a) to the financial statements reflects an addition to furniture and equipment of Kshs.11,967,000 during the year. However, included in the additions figure is an expenditure of Kshs.3,447,335 that was incurred on renovations of buildings in Eldama Ravine and Kerugoya branches. Although the management has explained that the renovations were of a capital nature which increased the economic value of the respective branch buildings, the rationale for debiting the amount to furniture and equipment instead of land and buildings has not been clarified. Further, the Corporation does not have a capitalization policy.

Management response

- 951) The management informed the Committee that in During the year, the Corporation incurred an additional expenditure of KSHS. 3,447,335.50. The installed partitions at AFC Eldama Ravine Branch enhanced the value of the building by creating additional leasable office space, thereby increasing potential rental income. Similarly, partitioning works were undertaken at the AFC Kerugoya Branch, a newly leased office space, to establish functional office units for staff operations.
- 952) As disclosed under Note 8(a), the partitions were classified under Office Equipment, Furniture and Fittings in accordance with the applicable depreciation rates. They were treated as fixtures or fittings, as they do not fall under Buildings' but rather under Furniture and Fittings. This

classification is appropriate because partitions attract a depreciation rate 12.5% compared to buildings, which are depreciated at 2%.

- 953) The Corporation also confirms the existence of a Non-Current Assets Policy and Procedure Manual, which sets out the capitalization policy.

Committee Observations

The Committee Observed that–

The expenditure of Kshs. 3,447,335 incurred on renovations/partitioning works at the Corporation's Eldama Ravine and Kerugoya branches which were of a capital nature and increased the economic value of the premises by creating additional functional/leasable office space, the rationale for charging the expenditure to furniture and equipment instead of land and buildings was not sufficiently clarified thus the appropriateness of classification and the accuracy of asset reporting could not be justified and was in breach of Section 81(3) of the PFM Act CAP 412A.

Committee Recommendation

The Committee recommends that, the Accounting Officer to always ensure that the corporation prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time as prescribed in Section 81(3) of the PFM Act CAP 412A.

1.2 Work-In-Progress

- 954) The Committee heard that note 8 (a) to the financial statements also reflects a figure of KSHS. 67,320,000 on additions to work-in-progress, which differs with the figure of KSHS.61,097,000 supported with documentary evidence by KSHS. 6,223,000 that has not been supported or explained.
- 955) In addition, the Work-In-Progress figure reflects an amount of KSHS.6,565,000 indicated as transfers. However, it is not shown where the amount was being transferred to, neither has the amount been supported with any documentary evidence. Consequently, the validity of the figure of KSHS.6,565,000 indicated as transfers could not be confirmed.

Management response:

- 956) The management informed the Committee that in During the year under review, the Corporation incurred a total of KSHS. 67,320,000 on asset acquisitions, as detailed in the schedule provided for review to the committee and as disclosed in Note 8(a) to the audited financial statements. The variance of KSHS. 6,223,000 relates to nine assets acquired during the year that were not included in the initial schedule amounting to KSHS. 61,097,000. A breakdown of these unsupported amounts was provided for review to the committee.
- 957) The Corporation maintains a Work-In-Progress (WIP) account to track asset costs during acquisition or construction until they are put into use. As disclosed under Note 8(a) of the audited financial statements, transfers totalling KSHS. 6,565,000 were made from WIP for completed

works on partitions at AFC Kerugoya and AFC Eldama Ravine, valued at KSHS. 2,283,630 and KSHS. 4,281,913 respectively.

- 958) These works were awarded and commenced in the 2014/15 financial year, with the final payment of KSHS. 3,447,335.50 made in the 2015/16 financial year. Upon completion, the costs were transferred from WIP to the partitions account to capitalize the expenditure.

Committee Observation

The Committee observed that the financial statements balance of Kshs. 6,223,000 in respect of work-in-progress, though shown as transfer to completed assets, it was not supported with documentary evidence and was in breach of Section 81(3) of the PFM Act CAP 412A.

Committee Recommendation

The Committee recommends that, the Accounting Officer to always ensure that the corporation prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time as prescribed in Section 81(3) of the PFM Act CAP 412A.

1.0 Loss of Cash

- 959) The Committee heard that as previously reported in 2014/2015 and earlier years, examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. The case is still in court and any provision for the loss and disclosures that would have been necessary in relation to this uncertainty have not been incorporated in these financial statements.

Management response

- 960) The management informed the Committee that in This is a criminal case file no 113/19/2012 court file 1311/2012 Republic of Kenya vs. Lawrence M. Bokoro & Another that is ongoing at the Milimani Law Court. The status of the case is as indicated below: -This case came up for hearing on 13th February, 2020 when the prosecution was expected to close their case.
- 961) However, upon stepping down the final witness, the defense made an application which application was allowed to recall two prosecution witnesses for further cross examination. It was stated that some of the documents supplied by the prosecution required more clarification from the two witnesses. Consequently, the case was slated for further hearing on 11th and 13th March 2020.
- 962) On the said dates the court was not sitting and a fresh hearing date was slated for 24th March, 2020. The case could not proceed as slated due to the breakout of Covid-19 pandemic.
- 963) The accused was on 25th May 2023 put on his defense. Thereafter, matter has been in court on several occasions for hearing. The accused has been putting in several applications to recall witnesses and availing of certain documents to aide his case. The ruling on his application was dismissed on 16th February, 2024.

- 964) The matter has been adjourned several times however, the defense hearing is scheduled on 9th October 2025 as per the Judiciary Public Information on cases Portal.
- 965) Since the recoverability of the amounts misappropriated was doubtful, the loss was provided for fully in the Financial Years 2010/2011 as per the requirements of IAS 39/IFRS 9.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Loss of Cash in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

2.0 Net Loans to Customers

- 966) The Committee heard that the financial statements on provisions for doubtful debts indicates that loans have been classified into five categories as follows: normal, watch, sub- standard, doubtful and loss, which was adopted from the Central Bank of Kenya prudential guidelines with modifications to reflect the risks and uncertainties specific to the agricultural sector. However, a review of the Corporation's records did not reveal actual classification of the loans as indicated in the Note.
- i) As reported in the previous years and as disclosed in Note 12 to the financial statements, loans to customers balance of KSHS. 4,294,811,000 as at 30th June 2016 includes an amount of Kshs.22,661,100 advanced to thirteen (13) farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent. In the circumstances, the recoverability of the Kshs.22,661,000 is doubtful.
 - ii) Similarly, and as previously reported, included in the loans to customers balance are loans to staff totalling Kshs.286,496,000 relating to personal advances, house and car loans. Although the Corporation has made a provision of Kshs.20,387,000 similar to 2014/2015, the provision is inadequate as available information reflects non-performing accounts that have not been provided for. In addition, management has not provided an analysis of the loan balance showing the portions that relates to staff and directors separately.
 - iii) Included under Note 9(b) to the financial statements in relation to accumulated specific provisions are adjustments and write back figures of Kshs.122,984,000 and Kshs.60,845,000. These amounts are however, not supported with documentary evidence.

Management response

- 967) The management informed the Committee that
- i) The actual classification of the portfolio grading loans into various risk grades was provided for review to the committee.
 - ii) In the year 2007, Corporation advanced agricultural loans to 13 farmers in Kapsabet for sugarcane development, in line with its mandate to support agriculture and related enterprises across the country as detailed below.

No.	omer Name	standing Balances (KSHS.)
1	on Kipngetich Cheruiyot	4,078,003.08
5	ine Ochieng Ogum	6,338.71
3	15576 John Kipkosgei Mutai	1,299,516.12
4	15578 Julius Kiprotich Chumba	1,832,105.34
5	21267 Emmanuel Kiprono Cheruiyot	1,350,575.86
6	22496 Samson Kibiwott Kirwa	1,287,217.30
7	22946 Lilan Kipchumba Robert	2,170,589.75
8	25067 Evans Kiprop Busieney	3,215,956.53
9	26110 Arusei Ben Kipchumba	1,176,992.32
10	26552 David Kirwa	2,678,425.04
11	27762 Joshua Kirwa Korir	767,885.83
12	27764 Ernest Kiprotich Kimitei	830,494.75
13	27765 Henry Kipkirong Lelei	917,000.00
		22,661,100.63

- 968) Unbeknownst to the Corporation, the loans were issued against title deeds that turned out to be for fictitious parcels of land. This occurred despite the Corporation exercising due diligence in perfecting the securities through the Lands Office.
- 969) The process of accepting a title deed as collateral at the Corporation involves conducting an official land search to verify ownership, followed by a valuation conducted by prequalified professional valuers. Only after these steps is a first-ranking charge registered over the property. This due process is intended to ensure the legitimacy of the security provided.
- 970) Following default by the loan beneficiaries, the Corporation initiated the process of disposing of the securities in accordance with its statutory power of sale.
- 971) It was at this stage that it was discovered that the title deeds were defective. Investigations revealed that the fraud was perpetrated by the borrowers in collusion with officials at the Kapsabet Lands Office, resulting in significant financial loss to the Corporation.
- 972) As a result, the Corporation filed six civil suits against the fraudsters under Eldoret High Court Civil Cases Nos. 100, 102, 103, 104, 105 and 106 of 2011. Judgments were delivered in favor of the Corporation and corresponding decrees were issued. Warrants of attachment were similarly issued and the process of execution initiated.
- 973) Full provisions for these non-performing loans have been made in the Corporation's accounts, as evidenced in the system report extracts labeled. To aid enforcement of the judgments, the Corporation sought the intervention of the Directorate of Criminal Investigations (DCI), given their capacity to pursue and apprehend suspects. However, progress has been slow, hampered by delays on the part of the DCI in effecting arrests. Nevertheless, the Corporation remains committed to the recovery process and continues to follow up the matter. The total provision of KSHS. 20,387,000 comprises a specific provision of KSHS. 17,782,000 for ex-staff loans, representing a 100% provision on all ex-staff accounts and a general provision of KSHS. 2,605,000 for current staff, calculated at 0.97% of the current staff loan portfolio. The provisions

were assessed and deemed adequate. A detailed analysis of the loan balances, distinguishing amounts attributable to staff and directors, and the breakdown of the staff loan provision were provided for review to the committee.

- 974) The amount of KSHS. 60,845,000 represents recoveries from previously provided-for loans that were collected during the financial year under review.
- 975) The KSHS. 122,984,000 relates to waivers of outstanding loan balances following repayments made through interest concessions.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Net Loans to customers in its report for the Financial Year 2012/2013, under staff loans and loans to farmers, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

2.0 Trade and Other Receivables

- 976) The Committee heard that the statement of financial position's trade and other receivables balance of Kshs.61,611,000 is net of a provision of Kshs.22,527,000 for bad debts. A review of available records revealed that the provision for bad debts remained constant at Kshs.22,527,000 like in the year 2014/2015. However, trade and other receivables changed significantly during the year from the gross amount of Kshs.129,797,000 as at 1st July 2015 to Kshs.84,138,000 as at 30th June 2016. No explanation has been provided for this anomaly.

Management response

- 977) The management informed the Committee that Following a review of outstanding debtors as at 30th June 2016, management was satisfied that the debts were recoverable; therefore, no additional provision was made. From the opening balance of KSHS. 107,270,000 (excluding the specific provision of Kshs.22,527,000 relating to Judiciary rent receivable representing 100% provision on the outstanding amounts from the Judiciary), it is evident that the Corporation successfully collected a substantial portion, leaving a balance of Kshs. 61,611,000.
- 978) Regarding the significant reduction in other accounts receivables, as disclosed in Note 15 to the audited financial statements, the movement was driven by various transactions, including:
- i) **Rent receivable** – During the period, the Corporation received a payment of KSHS. 7.16 million from Development House as part of the outstanding balance.
 - ii) **Prepaid expenses** – Included in trade and other accounts receivable, as presented in Note 15, were prepaid expenses, which increased by KSHS. 2.86 million. This increase arose from prepayments for staff medical expenses, rent deposits for leased premises, and other utilities.
 - iii) **Other receivables** – This category decreased by KSHS. 40,672,000, mainly due to the recovery of auctioneers' fees, valuation fees, payments for Farm Properties, and receipt of Mpesa commissions from Safaricom, among others.

Committee Observation

The Committee observed that the trade and other receivables changed significantly during the year to Kshs.84,138,000 as at 30th June 2016 in that no additional provision was made. However, the management submission that the Judiciary rent receivable of Kshs. 107,270,000 whose specific provision of Kshs.22,527,000 representing 100% provision on the outstanding was successfully collected leaving a balance of Kshs.61,611,000 was not supported with any documentary evidence.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submits to the National Assembly and the Auditor-General a report on the measures put in place by Management to ensure accurate and supportable valuation and impairment of trade and other receivables, including:

- i) Supporting schedules and evidence for major changes (collections, reclassifications, write-offs, and other adjustments);
- ii) An updated receivables ageing analysis and impairment assessment demonstrating the basis for the provision.
- iii) Strengthened internal controls for periodic debtor review, impairment provisioning, approval, and supervisory oversight including internal audit verification to ensure consistent, timely, and transparent reporting for review.

2.0 Payables

- 979) The Committee heard that the statement of financial position reflects a balance of Kshs.389,221,000 under payables. The payables relates to amounts owing to customers in form of credit balances, unprocessed loan receipts and loan deposits as at 30th June 2016. A review of records revealed that an amount of Kshs.32,219,000 relating to unprocessed loan receipts although received through the bank had not been credited to the respective customers' as at that date because the customers were yet to be identified. In addition, customers' loans deposits amounting to Kshs.107,040,000 which were indicated to belong to various savings groups and dormant accounts cannot be verified due to lack of documentation. Under the circumstance, the validity, completeness and accuracy of the payables balance of Kshs.389,221,000 cannot be confirmed.

Management response

- 980) The management informed the Committee that Out of the total Customer's Loan deposit of Kshs. 107,040,000, an amount of KSHS. 59,346,000 is attributable to balances in the customer's individual, groups and corporate clients' relationship accounts. These accounts were established internally to enable the clients access their loan disbursements immediately without being channeled to their bank accounts. On the other hand, KSHS. 4,996,000 relate to staff relationship accounts for processing staff loan disbursements, imprest and per diems. The balance of KSHS. 42,698,000 is attributable to dormant individual, staff, group, FPIP deposits accounts. Where an account remains without any transaction for a period of one year, the status changes to dormant. However, these accounts are re-activated whenever a client wants to transact business. Relevant

schedules making up the figure of KSHS. 107,040,000 labelled PC 005 have been provided for audit verification, including a detailed soft copy of the individual accounts.

Committee Observations

The Committee Observed that–

- i) Payables amounting to Kshs. 32,219,000 relating to unprocessed loan receipts had been received through the bank but had not been credited to the respective customers' accounts by the reporting date because the customers were yet to be identified.
- ii) The Committee observed that the maintenance of unidentified receipts at period end points to weaknesses in receipt identification, allocation, and timely posting controls, and increases the risk of misstatement, misallocation, or misappropriation.
- iii) The customers' loan deposits amounting to Kshs. 107,040,000 relating to various savings groups, relationship accounts, and dormant accounts that could not be verified due to lack of supporting documentation. The absence of complete documentation and independent verification evidence limited assurance on the validity, completeness, accuracy, ownership, and aging of these balances.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the Accounting Officer submits to the National Assembly and the Auditor-General a comprehensive report on the long outstanding payables balances including the measures put in place by Management for ensuring that:

- i) All unprocessed loan receipts are documented with a time-bound framework for identification and allocation supported by bank-to-ledger reconciliations and evidence of postings to rightful customer accounts;
- ii) A comprehensive verification and reconciliation of customer loan deposits to individual customer/group/staff/dormant account records supported by adequate documentation, account opening/KYC records, and detailed schedules;
- iii) An approved policy governing relationship accounts and dormant accounts, including authorization, monitoring, periodic review, dormancy management, and reactivation procedures; and
- iv) Strengthened internal controls and supervisory oversight supported by internal audit reviews over receipt management, suspense/unallocated receipts, and customer deposit administration to prevent recurrence and enhance auditability for review.

2.0 Trade and Other Payables

- 981) The Committee heard that the statement of financial position reflects a balance of Kshs.185,918,000 under trade and other payables. As disclosed in note 21 (b) to the financial statements, included in trade and other payables is an amount of Kshs.113,340,000 described as other payables. A review of records available revealed that the other payables balance was arrived at after netting-off other creditors in debit balances amounting to Kshs.5,359,902,176. No

supporting documentation has been provided for the debit balances in creditors or explanation given for the net-off. Consequently, the validity of the figure of Kshs.185,918,000 on trade and other payables cannot be confirmed.

Management response

- 982) The management informed the Committee that the balance of of Kshs.185,918,000 under trade and other payables as disclosed under note 21 (b) to the financial statements comprises of the following payables.

Item	2016 'KSHS. 000'
Sundry creditors	8,836
Cash Security Deposits	16,104
Insurance receipts	14,583
Audit Fees	1,531
Gratuities	12,209
Accrued Pension contributions	12,500
Employee Other deductions	934
Accrued Leave days	5,881
Other Payables	113,340
Total	185,918

- 983) During the review period, the Corporation settled a significant portion of the above payables, mainly comprising statutory obligations, leading to a substantial reduction in the balances compared to the previous period. For ease of reference, a detailed breakdown of these was provided for review to the committee.

Committee Observation

The Committee observed that trade and other payables included Kshs.113,340,000 classified as "other payables," reportedly determined after netting-off creditor accounts with debit balances of Kshs.5,359,902,176. However, no supporting documentation or satisfactory explanation was provided for the debit balances or the netting-off treatment, to confirm the validity, completeness, and accuracy of the reported payables balance. Therefore, the Corporation was in breach of Section 81(3) of the PFM Act CAP 412A.

Committee Recommendation

The Committee recommends that, the Accounting Officer to always ensure that the corporation prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time as prescribed in Section 81(3) of the PFM Act CAP 412A.

2.0 Current Tax Payable

- 984) The Committee heard that the statement of financial position also reflects current tax payable of Kshs.109,014,000, which is an increase of Kshs.38,532,000 over the previous year's balance of Kshs.70,482,000. However, no tax computations have been provided to show how the corporation tax for the year of Kshs.38,532,000 was arrived at. Consequently, the accuracy of the corporate tax payable of Kshs.109,014,000 cannot be confirmed.

Management response

- 985) The management informed the Committee that the tax expense for the period as per the audited financial statements is KSHS. 67,932,897.00. Since the Corporation was stilyear's balancesses from previous years, no tax liability was due then. Consequently, the tax component was offset against the deferred tax asset balance. A schedule detailing the computation of the tax expense figure amounting to KSHS. 67,932,897.00 was provided for review to the committee.

Customers invations

- 986) The Committee observed that the Corporation did not provide tax computations to show how the corporation tax for the year of Kshs.38,532,000 arrived. However, the explanation by the management that the tax component was offset against the deferred tax asset balance was misleading.

Committee Recommendations

The Committee recommends that within three months upon adoption of this report, the Accounting Officer should provide a comprehensive report on the current status of the tax obligations due to Kenya Revenue Authority and should be supported with a valid Tax Compliance certificate for all categories of tax to which the corporation is liable.

1.0 Income from Operating Activities

- 987) The Committee heard that the statement of comprehensive income reflects other operating income amounting to Kshs.277,852,000 during the year, an increase of Kshs.163,353,000 or 143% from the previous year income of Kshs.114,499,000. The increase has been attributed to profit on disposal of assets of Kshs.62,374,000 and sundries income of Kshs.142,770,000. Out of the sundry's income, an amount of Kshs.133,878,000 is shown as miscellaneous income. The nature and description of the miscellaneous income has however not been explained. As a result, the validity, completeness and accuracy of the operating income of Kshs.277,852,000 cannot be ascertained.

Management response

- 988) The management informed the Committee that In the Financial year 2013/2014, the Corporation made a provision for KSHS. 100,000,000 to cater for staff rationalization which was envisaged. However, the exercise was not implemented hence informing the write back of the provision in the subsequent year. It is this write back of KSHS. 100,000,000 that resulted in the substantial increase in sundry income reported under operating activities. This was done in line with the requirements of **Paragraph 59 of IAS 37**. States'

"Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed."

- 989) Likewise, KSHS. 10,893,000 of unidentified loan receipts that had remained in the unreceipted for a period of over three years were transferred to miscellaneous income and KSHS. 22,985,000 are miscellaneous collection as per the internal policy requirements. Included in this figure is

KSHS. 7,574,000 received from the Liquidated Trust Bank and KSHS. 12,046,000 being administration costs recovered from the sale of Kilombe Farm.

Committee Observations

The Committee observed that In the Financial year 2013/2014, the Corporation made a provision for KSHS. 100,000,000 to cater for staff rationalization which was envisaged. However, the exercise was not implemented hence informing the write back of the provision in the subsequent year. This does not meet the criteria for recognition of a provision set out in IPSAS 19 and was in breach of Section 81(3) of the PFM Act CAP 412A.

Committee Recommendation

The Committee recommends that, the Accounting Officer to always ensure that the corporation prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time as prescribed in Section 81(3) of the PFM Act CAP 412A.

FINANCIAL YEAR 2016/2017

1.0 Land and Buildings

- 990) The Committee heard that as previously reported in 2015/2016, the property and equipment balance of Kshs.1,079,401,000 as at 30 June 2017 includes twenty-nine developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring 1.5383 hectares valued at Kshs.927,245,000 with no ownership documents. In addition, the value of land and buildings with a net book value of Kshs.949,666,000 as disclosed in Note 8 (a) to the financial statements, excludes unvalued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. In the circumstances, it has not been possible to confirm whether the property and equipment balance of Kshs.1, 079,401,000 reflected in the statement of financial position as at 30 June 2017 is fairly stated.

Management response

- 991) The management informed the Committee that The Corporation has been in pursuit of the ownership documents and managed to secure several title deeds. The status of the seven undeveloped plots, totaling 1.5383 hectares and valued at Kshs.191,627,798, for which the respective ownership documents were not provided, is outlined below.

S/No	Location	Reference	Status
1.	Iten	BM/Iten Township/176	Title Secured
2.	Bungoma	Bungoma Municipality/804	Title Secured
3.	Kisumu	Kisumu Municipality/Block 6/391	Title Secured
4.	Molo	Molo Township/Block 2/84	Title Secured

5.	Bomet	LR No.8939/32	Lease Extended
6.	Kimilili	LR No. 42171/11/66 & 67	Plot surveyed, New Grant issued with an updated registry Index map. Title deed pending registration
7.	Busia	LR 110348/3	Plot surveyed, New Grant issued with an updated registry Index map. Title deed pending registration

- 992) The requisite supporting documents of the above ownership documents were provided for review to the committee.
- 993) As previously explained, the Nanyuki and Kerugoya plots were repossessed by the respective County Governments due to failure by the Corporation to develop them within the stipulated time. The Kerugoya Plot has since been developed by the Judiciary.
- 994) In pursuit of the title deed for the Busia property, the Corporation has obtained the R.I.M amendment and a new grant for the plot, which was approved on 16th April 2025 and is currently awaiting title registration. Consequently, the Corporation could not recognize these properties in its financial statements. Upon obtaining the title deed, valuation will be done for purposes of fair disclosure.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Land and Buildings in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.3 Fixed Assets Transfer Account

- 995) The Committee heard that Note 8 (a) to the financial statepayable incts an amount of Kshs.180,371,000 disclosed as fixed assets transfer account, and which relates to assets transferred during the year. However, the management has not disclosed the nature of this class of property and equipment in the financial statements. In addition, no evidence has been provided to support the transfer and the corresponding entries to the transfer have not been explained. In the circumstances, it has not been possible to confirm the validity and completeness of the amount of Kshs.180,371,000.

Management response

- 996) The management informed the Committee that The Corporation maintains a Work-In-Progress (WIP) account to track asset costs during acquisition or construction until they are put into use. As regards the reported transfers, a detailed schedule for the transfers from WIP of KSHS.

180,371,000 clearly indicating to which classes of assets the respective amounts were transferred to during the year were provided for review.

Committee Observations

The Committee observed that Work-In-Progress (WIP) of Kshs.180,371,000 relating to assets transferred during the year whose nature and class in the property and equipment in the financial statements was not disclosed thus breaching Section 81(3) of the PFM Act CAP 412A.

Committee Recommendation

The Committee recommends that, the Accounting Officer to always ensure that the corporation prepare the financial statements in a form that complies with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time as prescribed in Section 81(3) of the PFM Act CAP 412A.

1.4 Budgetary Control – Staff insurance

- 997) The statement of comprehensive income reflects an amount of Kshs.737,510,000 under staff cost, which includes an amount of Kshs.61,301,000 paid on staff medical insurance. This payment exceeded the budgeted and approved amount of Kshs.53,000,000 by Kshs.8,301,000. The excess expenditure was more than 15% of the budget of staff medical and insurance during the year 2016/2017 contrary to Section 12 of the State Corporation Act, Cap 446, which states that no State Corporation shall without the prior approval in writing of the Minister and Treasury incur any expenditure for which has not been made in annual estimate prepared and approved in accordance with Section 11 of the same Act. The Corporation was therefore in breach of the Law

Management response

- 998) The management informed the Committee that the expense relates to accrued medical expense that the Corporation incurred but were not yet paid. During the period under review, the Corporation accrued medical and staff insurance expenses amounting to KSHS. 11,546,165.44 being ex-gratia support to meet a medical bill incurred by a staff member who is now deceased. The accrued expenses exceeded the approved budget limits by KSHS. 8,301,000.00. Accordingly, the Corporation sought The National Treasury approval to incur the above expenses following the Board of Directors' approval in its meeting of 29th June, 2017. The approval was granted by The National Treasury on 20th June, 2018 vide their letter ref no. TNT/HRM/24/08/'C'(24).

Committee Observations

The Committee observed that–

The Corporation overspent by Kshs.8,301,000 on staff medical insurance. However, although the Management indicated that the expense related to accrued medical expense that the Corporation incurred but were not yet paid being ex-gratia support to meet a medical bill incurred by a staff member who is now deceased, there was no evidence that the over-expenditure was approved by the parent Ministry and Treasury as provided for under Section 12 of the State Corporations Act, Cap 446 of the Laws of Kenya at the time of incurring the expenditure.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure at all times that the budgets are realistic, achievable, and always adhere to annual work plans, procurement plans, and revenue collection schedules in compliance with Regulation 44(2) of the PFM (National Government) Regulations, 2015.

5.0 Trade and Other Receivables

- 999) The statement of financial position reflects a balance of Kshs.600,215,000 (2015/2016 – Kshs.61,611,000) under trade and other receivables and as disclosed in Note 15 to the financial statements, which is an increase of Kshs.538,604,000 or 800% over the previous year. Note 1 (f) to the financial statements indicates that trade and other receivables are recognized at fair value less allowances for uncollectible amounts which are assessed for impairment loss and neither has management provided documentary evidence showing how the specific provision for bad debts figure of Kshs.23,174,000 in respect to trade and other receivables was determined. Consequently, the accuracy of the trade and other receivables balance and charge for doubtful debts cannot be confirmed.

Management response

- 1000) The management informed the Committee that the notable increase in trade and other receivables in recent years was driven by higher recoverable fees for CRB checks, loan application charges, and overdrawn deposit accounts arising from unpaid auctioneers' and valuers' fees.
- 1001) The amount of KSHS. 23,174,000 relates to accumulated provisions for doubtful accounts receivable. This includes KSHS. 22,526,882.80 for uncollectable rent owed by the Judiciary and KSHS. 646,889.51 arising from funds receivable in a staff-related litigation matter. These receivables have been fully provided for, as the likelihood of recovery is considered remote. A schedule was provided for review to the committee detailing the computation of the total KSHS. 23,174,000.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Trade and Other Receivables in its report for the Financial Year 2015/2016 on impairments, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Loss of Cash

- 1002) As previously reported in 2015/2016 and earlier years, examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members.
- 1003) The case is still in court and any provisions for the loss and disclosures that would have been necessary in relation to this uncertainty have not been incorporated in these financial statements.

Management response

- 1004) The management informed the Committee that The misappropriated amount of was fully recognized and provided for in the financial statements for the financial year 2010/2011. This treatment was in accordance with applicable accounting standards at the time, following confirmation of the fraudulent transactions.
- 1005) For ease of reference, copies of the relevant financial statements, which clearly reflect the recognition of the loss and the corresponding provision was provided for review to the committee..
- 1006) The matter remains under active court proceedings and management continues to monitor the case to ensure that any future recoveries, if realized, are appropriately recognized in subsequent financial periods in line with applicable financial reporting requirements.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Loss of Cash in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

2.0 Net Loans to Customers

1007) The Committee heard that -

- i) As reported in the previous year, Note 1 (m) to the financial statements on provision for doubtful debts indicates that loans have been classified into five categories as follows: normal, watch, sub-standard, doubtful and loss, as adopted from the Central Bank of Kenya prudential guidelines with modifications to reflect the risk and uncertainties specific to agriculture sector. However, a review of the Corporation records did not reveal the actual classification of the loans as indicated in the Note.
- ii) As reported in 2015/2016 and in previous years and as disclosed in Note 9 (a) to the financial statements, net loans to customers of Kshs.4,896,537,000 as at 30 June 2017 includes an amount of Kshs.22,661,000 advanced to thirteen farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent. In the circumstances, the recoverability of the amount of Kshs.22,661,000 is doubtful.
- iii) Similarly, and as previously reported, included in the loans to customers balance are loans to staff totaling KSHS.299,306,000 relating to personal advances, house and car loans. Although the Corporation has made a provision of KSHS.27,369,000 (2016-KSHS.20,387,000), the provision is inadequate as available information reflects non-performing accounts that have not been provided for. In addition, management has not provided an analysis of the loan balance showing the portion that relates to staff and directors separately.
- iv) As previously reported, included under Note 12 (b) to the financial statements in relation to accumulated provision for doubtful debts are specific provisions-adjustments and write back figures of KSHS. 223,618,000 and KSHS.607,443,000 respectively. Further,

the general provision includes a write back of KSHS.80,166,000 described as interest concession-farm loans while the staff loans specific provisions include a write back of KSHS.4,205,000 described as interest concession-ex staff. The analyses of these figures have however not been provided for audit verification. Consequently, their validity and completeness cannot be confirmed.

Management response

1008) The management informed the Committee that

- i) The Corporation grades all loan accounts in accordance with the classification stated depending on the level of risk and uncertainties involved. The classification of the portfolio into various risk grades and the policy as well was provided for review to the committee.
- ii) In year 2007, the Corporation advanced agricultural loans to farmers in Kapsabet for sugarcane development, in line with its mandate to support agriculture and related enterprises across the country.

1009) Unbeknownst to the Corporation, the loans were issued against title deeds that turned out to be for fictitious parcels of land. This occurred despite the Corporation exercising due diligence in perfecting the securities through the Lands Office.

1010) The process of accepting a title deed as collateral at the Corporation involves conducting an official land search to verify ownership, followed by a valuation conducted by prequalified professional valuers. Only after these steps is a first-ranking charge registered over the property. This due process is intended to ensure the legitimacy of the security provided.

1011) Following default by the loan beneficiaries, the Corporation initiated the process of disposing of the securities in accordance with its statutory power of sale. It was at this stage that it was discovered that the title deeds were defective. Investigations revealed that the fraud was perpetrated by the borrowers in collusion with officials at the Kapsabet Lands Office, resulting in significant financial loss to the Corporation. As a result, the Corporation filed civil suits against the fraudsters under Eldoret High Court Civil Cases Nos. 100, 102, 103, 104, 105 and 106 of 2011. Judgments were delivered in favor of the Corporation, and corresponding decrees were issued. Warrants of attachment have since been issued and the process of execution initiated.

1012) The Corporation is actively pursuing the properties of the individuals involved with the aim of attachment and recovery.

1013) Full provisions for these non-performing loans have been made in the Corporation's accounts, was provided for review to the committee. To aid enforcement of the judgments, the Corporation has sought the intervention of the Directorate of Criminal Investigations (DCI), given their capacity to pursue and apprehend suspects. However, progress has been slow, hampered by delays and inaction on the part of the DCI in effecting arrests. Nevertheless, the Corporation remains committed to the recovery process and continues to follow up the matter with the DCI.

- iii) The total provision of KSHS. 27,369,000 comprises a specific provision of KSHS. 24,638,000 for ex-staff loans whose entire portfolio was KSHS. 26,007,047.36, as at

30th June 2017 representing a 96% provision on all ex-staff accounts and a general provision of KSHS. 2,731,466 for current staff, calculated at 1% of the current staff loan portfolio of KSHS. 273,146,682. The provisions were assessed and deemed adequate. A detailed analysis of the loan balances, distinguishing amounts attributable to staff and directors, and the breakdown of the staff loan provision were provided for review to the committee.

- iv) The adjustment of KSHS. 223,613,000 pertains to loan provisions for accounts that were written off during the year in line with a government directive. A supporting analysis for this amount was provided for review to the committee.

1014) The adjustments amounting to KSHS. 80,166,000 relate to accounts settled through interest concessions, with the outstanding loan balances subsequently waived. A detailed listing of these accounts was provided for review to the committee.

1015) Additionally, the adjustments of KSHS. 4,205,000 pertains to ex-staff loans that were repaid through interest concessions and written off during the year. A corresponding schedule of these accounts was provided for review to the committee.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Net Loans to customers **in** its report for the Financial Year 2012/2013, under staff loans and loans to farmers, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Current Tax Payables

As previously reported, the statement of financial position reflects current tax payable of KSHS.170,732,000 which is an increase of KSHS.100,250,000 over the previous year's balance of KSHS.70,482,000. However, no tax computations have been provided to show how the current tax payable figure of KSHS.170,732,000 and the corporation tax for the year of KSHS.143,721,000 respectively were determined. Consequently, the accuracy of the current tax payable of KSHS.170,732,000 cannot be confirmed.

Management response

1016) The management informed the Committee that the detailed tax computation schedule for the year, which sets out the basis for determining the current tax payable of KSHS. 170,732,000 and the corporation tax expense for the year of KSHS. 143,721,000 was provided for review to the committee. Also provided was GJV No. 144843, which reflects the adjustments incorporated in the amended financial statements to ensure accurate recognition of the tax liability. These documents provide the supporting workings and evidence required to verify the figures reported in the financial statements.

Committee Observations and Recommendations

The Committee had deliberated on the issue of current tax payable **in** its report for the Financial Year 2015/2016, under current tax payable, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

4.0 Income from Doubtful Debts

1017) The statement of comprehensive income reflects an amount of KSHS.607,443,000 (2015/2016 – KSHS.60,845,000) under income from doubtful debts. Note 6 to the financial statements states that all loans prior to January 2003 had been fully provided for as doubtful debts as at 30 June 2005 and for review accruals on such loans suspended and recoveries from the portfolio have been recognized as income. However, no documentary evidence has been produced by management showing the loan portfolio prior to January 2003 and the provision for the same as at 30 June 2005. Under the circumstances, it is not possible to confirm whether income from doubtful debts figure of KSHS.607,443,000 as at 30 June 2017 is fairly stated.

Management response

- 1018) The management informed the Committee that the documentary evidence detailing the loan portfolio outstanding prior to January 2003 and the corresponding provisions made as at 30 June 2005, was provided for review to the committee. This evidence confirms that the loans in question had been fully provided for and interest accruals suspended in accordance with the Corporation's accounting policies at the time.
- 1019) The reported income from doubtful debts amounting to KSHS. 607,443,000 for the year ended 30 June 2017 represents actual recoveries from these non-performing loans. Detailed schedules and receipts supporting these collections was also provided for review to the committee. These records substantiate the recognition of the amount as income in line with applicable financial reporting standards.

Committee Observation

The Committee Observed that–

The income from doubtful debts amounting to KShs. 607,443,000 was recognized in the statement of comprehensive income as income. However, the management indicated that the amount relates to recoveries from loans for periods prior to January 2003 fully provided for, no supporting documentation evidencing the loan portfolio and corresponding provisions made in 30 June 2005.

The Management did not provide evidence of how the recoveries were done in spite of them being previously considered as irrecoverable and treated as impaired loans.

Committee Recommendation

The Committee recommends that within three months upon adoption of this report, the EACC should investigate all the impaired loans that have been deemed irrecoverable with a view to establishing how they were issued to the beneficiaries, the collateral issued, recoveries made and whether due diligence was conducted before issuance of such loans. Should there be any irregularities noted the DPP should initiate a legal action against any culpable officers and the loan beneficiaries.

FINANCIAL YEAR 2017/2018

1.0 Property and Equipment

1020) The property and equipment balance of Kshs.1,142,668,000 as at 30th June 2018 still include as previously reported, twenty-nine developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring 1.5383 hectares with no ownership documents. In addition, the value of land and buildings with a net book value of Kshs.940,698,000 as disclosed under Note 8 (a) to the financial statements, excludes unvalued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. Although the management has explained that it has continued with the pursuit of title documents for all its properties through the Ministry of Lands and the National Land Commission, no tangible results had been achieved as at the date of this report. In the circumstances, it has not been possible to confirm whether the property and equipment balance of Kshs.1,142,668,000 reflected in the statement of financial position as at 30th June 2018 is fairly stated.

Management response

1021) The management informed the Committee that the Corporation has been in pursuit of the ownership documents and managed to secure several title deeds. The status of the seven undeveloped plots, totaling 1.5383 hectares and valued at KSHS.191,627,798, for which the respective ownership documents were not provided, is outlined below.

S/No	Location	Reference	Status
1.	Iten	BM/Iten Township/176	Title Secured
2.	Bungoma	Bungoma Municipality/804	Title Secured
3.	Kisumu	Kisumu Municipality/Block 6/391	Title Secured
4.	Molo	Molo Township/Block 2/84	Title Secured
5.	Bomet	LR No.8939/32	Lease Extended
6.	Kimilili	LR No. 42171/11/66 & 67	Plot surveyed, New Grant issued with an updated registry Index map. Title deed pending registration
7.	Busia	LR 110348/3	Plot surveyed, New Grant issued with an updated registry Index map. Title deed pending registration

1022) The requisite supporting documents of the above ownership documents was provided for review to the committee.

- 1023)As previously explained, the Nanyuki and Kerugoya plots were repossessed by the respective County Governments due to failure by the Corporation to develop them within the stipulated time. The Kerugoya Plot has since been developed by the Judiciary.
- 1024)In pursuit of the title deed for the Busia property, the Corporation has obtained the R.I.M amendment and a new grant for the plot, which was approved on 16th April 2025 and is currently awaiting title registration. Consequently, the Corporation could not recognize these properties in its financial statements. Upon obtaining the title deed, valuation will be done for purposes of fair disclosure. The relevant correspondences on the matter, were provided for review to the committee.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Land and Buildings in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

2.0 Net Medium-Term Loans to Customers

- 1025)As reported in the previous years and as Marchsed under Note 9 (a) to the financial statements, net medium-term loans to customers of Kshs.5,602,718,000 as at 30th June 2018 includes an amount of Kshs.22,661,000 advanced to thirteen farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent. Although the management has explained that the Corporation filed six cases in court against the fraudsters under Eldoret HCC No.1 00, 1 02,103,104,105 and 106 of 2011 and judgement entered in favor of the Corporation, however as at the date of this report, execution of the warrants issued had not been effected. In the circumstances, the recoverability of the amount of Kshs.22,661,000 is doubtful.

Management response

- 1026)The management informed the Committee that in year 2007, the Corporation advanced agricultural loans to farmers in Kapsabet for sugarcane development, in line with its mandate to support agriculture and related enterprises across the country.
- 1027)Unbeknownst to the Corporation, the loans were issued against title deeds that turned out to be for fictitious parcels of land. This occurred despite the Corporation exercising due diligence in perfecting the securities through the Lands Office.
- 1028)The process of accepting a title deed as collateral at the Corporation involves conducting an official land search to verify ownership, followed by a valuation conducted by prequalified professional valuers. Only after these steps is a first-ranking charge registered over the property. This due process is intended to ensure the legitimacy of the security provided.
- 1029)Following default by the loan beneficiaries, the Corporation initiated the process of disposing of the securities in accordance with its statutory power of sale. It was at this stage that it was discovered that the title deeds were defective. Investigations revealed that the fraud was perpetrated by the borrowers in collusion with officials at the Kapsabet Lands Office, resulting in significant financial loss to the Corporation.

- 1030) As a result, the Corporation filed civil suits against the fraudsters under Eldoret High Court Civil Cases Nos. 100, 102, 103, 104, 105 and 106 of 2011. Judgments were delivered in favor of the Corporation, and corresponding decrees were issued. Warrants of attachment have since been issued and the process of execution initiated. The Corporation is actively pursuing the properties of the individuals involved with the aim of attachment and recovery.
- 1031) Full provisions for these non-performing loans have been made in the Corporation's accounts, as provided for review to the committee. To aid enforcement of the judgments, the Corporation has sought the intervention of the Directorate of Criminal Investigations (DCI), given their capacity to pursue and apprehend suspects. However, progress has been slow, hampered by delays and inaction on the part of the DCI in effecting arrests. Nevertheless, the Corporation remains committed to the recovery process and continues to follow up the matter with the DCI.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Net Medium-Term Loans to Customers in its report for the Financial Year 2012/2013, under loans to farmers, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

1.0 Current Tax Payable

- 1032) The statement of financial position as at 30 June 2018 reflects current tax payable of Kshs.328,017,000 which is an increase of Kshs.157,285,000 over the previous year's balance of Kshs.170,732,000. Although the management has explained that the taxable profit was ascertained in accordance with paragraphs 15 & 16 of the Income Tax Act, Cap 470 of the Laws of Kenya, no sufficient evidence has been provided to show how the current tax figure of Kshs.328,017,000 and the corporation tax for the year of Kshs.157,285,000, respectively were determined. In addition, the report provided by the Corporation from a consultant hired to determine the current tax liability and corporation tax for the year during the year does not confirm both the current tax figure of Kshs.328,017,000 and the corporation tax for the year of Kshs.157,285,000 as reported. Consequently, the accuracy of the current tax payable of Kshs.327,240,000 cannot be confirmed.

Management response

- 1033) The management informed the Committee that the Corporation's taxable profit was determined in accordance with the Income Tax Act, Chapter 470 of the Laws of Kenya, specifically Paragraphs 15 and 16, which guide the ascertainment of total business income.
- 1034) The Act outlines allowable wear and tear rates on capital expenditure and, under Paragraph 15, Sub-paragraph 6, limits the deductible cost of non-commercial vehicles to a maximum of KSHS. 2 million, effective from 1st January 2006.
- 1035) Following amendments to the financial statements, the current year's tax liability has been revised to KSHS. 157,285,350, computed in line with the above provisions. A detailed tax computation was provided for review to the committee.
- 1036) Additionally, the Corporation engaged a tax consultant to review its corporate tax obligations for the period covering Financial Years 2003 to 2017. The consultant's draft report and

recommendations for implementation arising from this assignment was provided for review to the committee.

Committee Observations and Recommendations

The Committee had deliberated on the issue of current tax payable in its report for the Financial Year 2015/2016, under staff loans and loans to farmers, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

2.0 Loss of Cash

- 1037) As previously reported in 2015/2016 and earlier years, examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. The case is still in court and any provisions for the loss that would have been necessary in relation to this uncertainty have not been incorporated in these financial statements.

Management response

- 1038) The management informed the Committee that the misappropriated amounts were fully provided for in the financial year 2010/2011, as provided for review to the committee.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Loss of Cash in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

FINANCIAL YEAR 2018/2019

1.0 Land Without Ownership Documents

- 1039) The Committee heard that, as previously reported, property and equipment balance of Kshs.1,122,232,000 as at 30 June, 2019 includes twenty-nine (29) developed plots measuring a total of 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring a total of 1.5383 hectares with no ownership documents. Although Management explained that it continued with the pursuit of the ownership documents through the Ministry of Lands and the National Land Commission, the documents had not been obtained as at the time of audit. In addition, the value of land and buildings with a net book value of Kshs.907,335,000 excludes unvalued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute.
- 1040) In the circumstances, it has not been possible to confirm whether the property and equipment balance of Kshs.1,122,232,000 reflected in the statement of financial position as at 30 June, 2019 is fairly stated.

Management response

- 1041) The management informed the Committee that The Corporation has been in pursuit of the ownership documents and managed to secure several title deeds. The status of the seven

undeveloped plots, totaling 1.5383 hectares and valued at KSHS.191,627,798, for which the respective ownership documents were not provided, is outlined below.

S/No	Location	Reference	Status
1.	Iten	BM/Iten Township/176	Title Secured
2.	Bungoma	Bungoma Municipality/804	Title Secured
3.	Kisumu	Kisumu Municipality/Block 6/391	Title Secured
4.	Molo	Molo Township/Block 2/84	Title Secured
5.	Bomet	LR No.8939/32	Lease Extended
6.	Kimilili	LR No. 42171/11/66 & 67	Plot surveyed, New Grant issued with an updated registry Index map. Title deed pending registration
7.	Busia	LR 110348/3	Plot surveyed, New Grant issued with an updated registry Index map. Title deed pending registration

1042)The requisite supporting documents of the above ownership documents were provided for review to the committee.

1043)As previously explained, the Nanyuki and Kerugoya plots were repossessed by the respective County Governments due to failure by the Corporation to develop them within the stipulated time. The Kerugoya Plot has since been developed by the Judiciary.

1044)In pursuit of the title deed for the Busia property, the Corporation has obtained the R.I.M amendment and a new grant for the plot, which was approved on 16th April 2025 and is currently awaiting title registration. Consequently, the Corporation could not recognize these properties in its financial statements. Upon obtaining the title deed, valuation will be done for purposes of fair disclosure. The relevant correspondences on the matter, was provided for review to the committee.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Land and Buildings in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

6.0 Doubtful Recoverability of Loans to Customers

- 1045) The Committee heard that as reported in the previous years and as disclosed in Note 9(a) to the financial statements, the net medium-term loans to customers of Kshs.6,238,828,000 as at 30 June, 2019 includes an amount of Kshs.22,661,000 advanced to thirteen (13) farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent. Management explained that the Corporation filed six cases in court against the fraudsters under Eldoret HCC No.100, 102,103,104,105 and 106 of 2011 and judgement entered in favor of the Corporation. However, as at the date of this report, execution of the warrants issued had not been effected. Recoverability of the amount of Kshs.22,661,000 is therefore, doubtful.
- 1046) Further, the net medium-term loans to customers of Kshs.6,238,828,000 include directors' loans of Kshs.32,774,000 as at 30 June, 2019. The latter balance includes loan arrears of Kshs.6,196,000 due from two (2) former Directors of the Corporation. Although Management explained that they had engaged an advocate to charge the securities that guaranteed these loans, the charge had not been executed as at the time of the audit.

Management response

- 1047) The management informed the Committee that in year 2007, the Corporation advanced agricultural loans to farmers in Kapsabet for sugarcane development, in line with its mandate to support agriculture and related enterprises across the country.
- 1048) Unbeknownst to the Corporation, the loans were issued against title deeds that turned out to be for fictitious parcels of land. This occurred despite the Corporation exercising due diligence in perfecting the securities through the Lands Office.
- The process of accepting a title deed as collateral at the Corporation involves conducting an official land search to verify ownership, followed by a valuation conducted by prequalified professional valuers. Only after these steps is a first-ranking charge registered over the property. This due process is intended to ensure the legitimacy of the security provided.
- 1049) Following default by the loan beneficiaries, the Corporation initiated the process of disposing of the securities in accordance with its statutory power of sale. It was at this stage that it was discovered that the title deeds were defective. Investigations revealed that the fraud was perpetrated by the borrowers in collusion with officials at the Kapsabet Lands Office, resulting in significant financial loss to the Corporation.
- 1050) As a result, the Corporation filed civil suits against the fraudsters under Eldoret High Court Civil Cases Nos. 100, 102, 103, 104, 105 and 106 of 2011. Judgments were delivered in favor of the Corporation, and corresponding decrees were issued. Warrants of attachment have since been issued and the process of execution initiated. The Corporation is actively pursuing the properties of the individuals involved with the aim of attachment and recovery.
- 1051) Full provisions for these non-performing loans have been made in the Corporation's accounts, as provided for review to the committee. To aid enforcement of the judgments, the Corporation has sought the intervention of the Directorate of Criminal Investigations (DCI), given their capacity to pursue and apprehend suspects. However, progress has been slow, hampered by delays and

inaction on the part of the DCI in effecting arrests. Nevertheless, the Corporation remains committed to the recovery process and continues to follow up the matter with the DCI.

- 1052) In regard to charging of securities for the directors' loans, it is the Corporation policy requirement that the securities are charged at the point of loan making. The securities were therefore charged on 17th February 2010 and 29th June 2015 respectively as can be ascertained from the documentation provided for review to the committee.

(i) Roselyn Adede Ng'inja

The former director was granted a loan of Kshs.4,600,000.00 for the purpose of land purchase on 2nd June 2015 at the rate of 10% payable in 60 months and secured by first ranking charge on LR No KAJIADO/LORNGOSUA/4728. The charge was placed on 29th June 2015. Subsequently, she was granted a development loan of Kshs.3,000,000.00 for the purpose of poultry keeping for a period of 60 months.

The client signed a monthly banker's order of Kshs.112,000.00 w.e.f 20th September 2015 and Kshs.66,000.00 w.e.f 20th January 2017 to service the two loans respectively. The director vide a letter dated 1st March 2018, requested for amalgamation of the two loans into one and an addendum was drawn on 21st March 2018 for a new loan of Kshs.6,919,078 payable in 60 months. To date, Kshs.2,537,300 has been paid towards settlement of the account as provided for review to the committee.

The client faced further repayment challenges, and she requested the Corporation to allow her to subdivide the land and have it disposed. The authority was granted, and subdivision process was done and concluded resulting in 10 title deeds measuring about 2.0HA valued at Kshs.2,500,000.00 each.

The file was forwarded to Loan Recovery Department on for graduated recovery efforts. The client has been marketing the properties and she has two potential buyers currently. The Corporation has issued a letter of undertaking on the two at Kshs.2,500,000 each and the balance of 8 more parcels are still being marketed. On 30th June 2025, the client made a further payment of 6.0M as may be confirmed from the copy of receipt provided for review to the committee.

(ii) Duncan Githiga

The former director was granted two loans in 2010 and 2011. The first loan of Kshs.2,000,000.00 was granted in February 2010 payable in a period of 3 years at the rate of 10% p.a. The loan was secured by first ranking charge on LR NO KWALE/SHIMON ADJ/322 and same charged on 4th February 2010. The second loan of Kshs.2,000,000.00 was granted in August 2011 payable in 3 years at interest rate of 10% p.a.

The first loan was repaid and closed on 14th August 2017 as may be ascertained from the documentation provided for review to the committee. In spite of the project experiencing difficulties in the month of May 2019 that resulted into the account falling in arrears.

The case was slotted for auction on 10th March, 2023 and the client approached the Corporation with the below proposal for consideration.

- i) To forward an undertaking from KCB of Kshs.1.5m by 7th March 2023 which was as a result of sale of land in his rural home. The payment was honored in full.

- ii) The balance of about Kshs.3.5 million to be paid monthly for a period 3 years with a monthly repayment of Kshs.100,000.00.

The above proposal was accepted. Whereas we confirm receipt of Kshs.1,500,000.00 from the undertaking, the monthly installment has never been honored. Subsequently he has given different proposals during the period, and none has been honored. The security is scheduled for auction and is at the marketing stage within our pre-qualified auctioneers.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Net Loans to customers in its report for the Financial Year 2012/2013, under staff loans and loans to farmers, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

2.0 Loss of Cash

- 1053)As previously reported in 2015/2016 and earlier years, examination of records between January, 2005 and November, 2010 revealed that the Corporation lost a sum of Kshs.35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. The case is still in court and provisions for the loss that would have been necessary in relation to this uncertainty have not been incorporated in the financial statements.
- 1054)Further, during the year under review, the Corporation fraudulently lost cash at AFC Eldoret Branch through unremitted transfers and collections amounting to Kshs.4, 142,450 and Kshs.4,947,950, respectively.

Management response

- 1055)The management informed the Committee that the amounts misappropriated were fully provided for in the Financial Years 2010/2011.
- 1056)As regards the fraudulent transactions in AFC Eldoret branch, an internal investigation was promptly initiated, leading to the identification and apprehension of the staff involved in the fraudulent activities.
- 1057)The matter was subsequently referred to the Magistrate's Court of Kenya at Uasin Gishu, where it was prosecuted under Criminal Case No. MCCR/4377/2018. The court has since delivered its judgment, convicting the accused of theft by public servants under the relevant provisions of the Kenyan law.
- 1058)Given that this was a criminal matter between the Republic of Kenya and the accused persons, the likelihood of recovering the lost funds remains highly remote. As a prudent financial measure, the Corporation had already made the necessary provisions for the loss in its books, pending approval for write off from the National Treasury. The court judgement was provided to the committee for review.

Committee Observations and Recommendations

The Committee had deliberated on the issue of Loss of Cash in its report for the Financial Year 2012/2013, observed and made recommendations. Consequently, the committee upholds the observations and recommendations therein.

Sign.....

[Handwritten Signature]

Date :

01/07/2026

HON. EMMANUEL WANGWE CBS, MP

CHAIRPERSON – PUBLIC INVESTMENTS COMMITTEE ON SOCIAL SERVICES,
ADMINISTRATION AND AGRICULTURE

 THE NATIONAL ASSEMBLY PAPERS LAID			
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