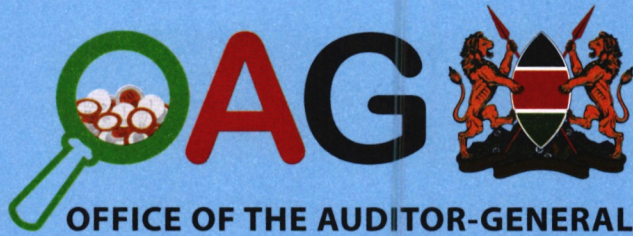


REPUBLIC OF KENYA



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^{19th Oct, 2023}
THE AUDITOR-GENERAL

Hon Owen Baya, MP
Deputy Leader, majority party
A. Shuburo

ON

**PROGRAMME FOR RURAL OUTREACH OF
FINANCIAL INNOVATIONS AND
TECHNOLOGIES (PROFIT)
(IFAD LOAN NO.814-KE
AND GRANT NO.1218-KE)**

**FOR THE NINE (9) MONTHS' PERIOD
ENDED 31 MARCH, 2023**

THE NATIONAL TREASURY



**PROGRAMME FOR RURAL OUTREACH OF FINANCIAL INNOVATION AND TECHNOLOGIES
(PROFIT)**

**Implemented by
Directorate of Budget, Fiscal and Economic affairs
The National Treasury
Republic of Kenya**

IFAD LOAN NO. 814; IFAD GRANT NO. 1218-KE

REPORT AND FINANCIAL STATEMENTS

**FOR THE NINE MONTH PERIOD ENDED
31 MARCH 2023**

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

Programme for Rural Outreach of Financial Innovation and Technologies
Report and Financial Statements
For the Nine Month Period ended 31 March 2023

Programme for Rural Outreach of Financial Innovation and Technologies
Report and Financial Statements
For the Nine Month Period Ended 31 March 2023

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I. ACRONYMS

| | |
|----------|--|
| A/C | Account |
| AWPB | Annual Work Plan and Budget |
| CF | Credit Facility |
| CGS | Credit Guarantee Scheme |
| DTM | Deposit Taking Microfinance Institutions |
| FG | Financial Graduation |
| GDP | Gross Domestic Product |
| GFF | Green Financing Facility |
| GOK | Government of Kenya |
| IF | Innovation Facility |
| IFAD | International Fund for Agricultural Development |
| IPSAS | International Public Sector Accounting Standards |
| KSh | Kenya Shilling |
| MSMEs | Micro, Small and Medium Enterprises |
| NT | National Treasury |
| PBAS | Performance Based Allocation System |
| PCU | Programme Coordinating Unit |
| PROFIT | Programme for Rural Outreach of Financial Innovations and Technologies |
| PSC | Programme Steering Committee |
| R-CGS | Rural Credit Guarantee Scheme |
| RK-FINFA | Rural Kenya Financial Inclusion Facility |
| RSF | Risk Sharing Facility |
| SACCO | Savings and Credit Cooperative Organizations |
| USD | United States, Dollar |

*Programme for Rural Outreach of Financial Innovation and Technologies
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2. PROGRAMME INFORMATION AND OVERALL PERFORMANCE

**2.1 Name and registered office
Name**

Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT).

Objective

The key objective of the programme was to increase incomes for the target group as a result of improved production, productivity and marketing in the various rural enterprise sectors. The Programme aimed to achieve this through enhanced and systematically sustained access to poor rural households to a broad range of financial services, coupled with the necessary capacity building and partnerships. PROFIT also aimed to contribute to policy development in the financial sector. These objectives have been scaled up under the phase II of the programme – The Rural Kenya Financial Inclusion Facility.

Address

The Programme Coordinating Unit, PROFIT
Directorate of Budget, Fiscal and Economic Affairs
The National Treasury,
P.O Box 30007 00100,
Nairobi- Kenya.

Contacts

Telephone: (254) 20 2252299

Programme Information

The Programme Started on 22 December 2010 with the implementation of the first phase ending on 31 December 2019. The second phase of the Programme has been successfully designed and concluded. The second phase entered into force on 02 June, 2022.

2.2 Programme Overview

**Line Ministry/State
Department of the
Programme**

The Programme is under the supervision of the Directorate for the Budget, Fiscal & Economic Affairs, under the National Treasury.

Programme Number

IFAD Loan No. 814-KE; IFAD Grant No.1218-KE

Goal

The overall goal of the of the Programme was to contribute to the reduction of poverty in the rural areas of Kenya.

Programme for Rural Outreach of Financial Innovation and Technologies

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Objectives

The objective of the Programme was to increase incomes of the target group because of improved production, productivity and marketing in the various rural enterprise sectors. The Programme aimed to achieve this through an enhanced and systematically sustained access of poor rural households to a broad range of financial services, coupled with the necessary capacity building and partnerships. PROFIT also aimed to contribute to policy development in the financial sector. These objectives have been scaled up under the phase II of the programme – The Rural Kenya Financial Inclusion Facility.

Other important background information of the Programme

The Programme consisted of the following three Components and their associated sub-components:

A) Rural Outreach Innovation Component

Finance and

i) The Risk Sharing Facility (RSF) sub-component was designed to enhance the risk appetite of commercial banks for rural agricultural lending. It aimed to leverage substantial commercial funds;

ii) The Credit Facility (CF) sub-component was for Deposit Taking Microfinance Institutions (DTMs) that needed immediate access to funds for expansion of their rural and agricultural portfolios;

iii) The Innovation facility (IF) sub-component was designed to develop and pilot-test innovations and the use of technology in the financial sector. The sub-component was mainstreamed within the other sub-components.

B) Technical Support Services

i) The Business Support Service sub-component was aimed at the Programme's target group at the rural level with limited business experience. The sub-component also aimed to strengthen the management and governance of selected rural SACCOs to enhance their efficiency;

ii) The Financial graduation (FG) sub-component aimed to facilitate the vulnerable women and youth acquire financial graduation through skills training and asset creation. It was expected to eventually help GOK substantially reduce its social transfer payment liabilities.

C) Programme Management

The component aimed at ensuring an efficient and cost-effective use of Programme and complementary donor resources to achieve the development objective.

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Situation that the Programme was formed to intervene

PROFIT aimed to benefit at least 683,000 smallholder farmers, small pastoralists, artisanal fishermen, women, landless labourers and the youth in rural areas of Kenya. The Programme had national coverage but designed only for rural areas of the country. Special focus was given to areas with agricultural potential, areas of high poverty incidence, the Arid and Semi-Arid Lands region. In addition, synergies were sought with other IFAD Programmes.

Under the Phase II that is slated to utilise funds under PBAS 11 and phase I reflows, the programme is projected to benefit 190,000 rural Kenyan households, including both direct and indirect clients. This includes direct financial and technical services to 68,000 households/MSMEs, covering: (i) an estimated 66,000 economically active smallholder households; and (ii) 2,000 rural MSMEs engaged in smallholder-inclusive value chains. Indirect outreach of the project includes: (i) estimated 32,000 persons through employment in the Phase II supported agribusinesses and farms; and (ii) 90,000 smallholder households through participation in the value chain strengthened by the supported agribusinesses. The targeting focus is on low-income, economically active rural households, with specific targets on 50 per cent of women and 30 per cent of youth participation in both capacity building and financing activities. The Phase II design provides comprehensive strategies/guidelines for poverty, gender and youth targeting.

Programme duration

The Programme Started on 22 December 2010 with the implementation of the first phase ending on 31 December 2019. The second phase of the Programme has been successfully designed and concluded. The second phase entered into force on 02 June, 2022. The second phase under the Rural Kenya Financial Inclusion Facility is expected to complete on 30 June, 2028 and the financing closing date shall be 31 December, 2028. The second phase is financed under the IFAD Performance Based Allocation System (PBAS) 11 with an additional allocation of USD 28 million expected from PBAS 12. The second six-year phase was originally planned to commence in September 2020 but owing to covid-19 restrictions that delayed the design logistics, the effective commencement date is now 01 July 2022. The first set of the financial report and statement for the Rural Kenya Financial Inclusion Facility will be the year ending 30 June 2023.

2.3 Bankers

Central Bank of Kenya

I & M Bank – U.S Dollar Designated Account No.00100575961211

I & M Bank House

2nd Ngong Avenue

P.O. Box 30238 00100

Nairobi - Kenya

The Co-operative Bank of Kenya – Programme Account No.01141419559400

Co-operative House Branch

Haile Selassie Avenue

P.O. Box 48231 00100

Nairobi – Kenya

Tel: +254 20 3276000

2.4 Auditors

Auditor-General

Anniversary Towers, University Way

P.O. Box 30084 00100

Nairobi – Kenya

Tel: +254 20342330

2.5 The Programme Coordinating Unit

The Programme Coordinating Unit (PCU) was housed at the National Treasury within the Directorate of Budget, Fiscal and Economic Affairs. PCU was responsible for the day-to-day running of the Programme and was also directly accountable to the Director, Financial and Sectorial Affairs. Its specific roles include:

- i) Secretariat to the Programme Steering Committee;
- ii) Day-to-day operational responsibility for PROFIT implementation;
- iii) Inter-linkage between different arms of government, IFAD, development partners, and private sector organizations involved in rural finance activities;
- iv) Compilation of PROFIT Annual Work plan and Budget;
- v) Prepare and submit comprehensive and informative programme implementation progress and financial reports to GOK and IFAD;
- vi) Work with on-going IFAD initiatives in the country to establish relevant linkages and synergies;
- vii) Disburse and control the flow of funds, under various contractual and partnership agreements;
- viii) Manage programme finances prudently and consistent with the GOK and IFAD requirements and internationally acceptable practices;
- ix) Monitor and evaluate all activities under the Programme;
- x) Ensure that all subsidiary agreements with the participating financial institutions and technical providers are performance-based contracts and that they are regularly monitored;

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The PCU team is based in Nairobi and is responsible for the Programme management and coordination functions. The following were the key Staff of the PCU during the reporting period.

| Name | Designation | Responsibilities |
|--------------|---------------------|--|
| John Kabutha | Program Coordinator | Coordination of the day-to-day activities including overall in-charge of the Programme and Design & Effectiveness of Phase II. |
| Obango Billy | Accountant | Logistical support of the finance function, Co-design and effectiveness of Phase II, and Post monitoring of the RSF and CF facilities. |

2.6 Funding Summary and Conversion to Phase II

Funding Summary: Considering the amount allocations for the grant and loan facilities, the initial facility closed at an average absorption of 95.5% as per the table below. The major components of Risk Sharing Facility and Credit Facility were 100% disbursed in accordance to the subsidiary agreements as at the initial facility closure period.

| Source of funds | Loan Commitment- | Amount Drawn | Amount Applied (Programme Financing) | Undrawn closing balance | Percent Absorption |
|-----------------|------------------|---------------|---|----------------------------|-----------------------|
| | USD | USD | USD | USD | % |
| | | GRANT SUMMARY | | | |
| IFAD Grant | 608,000 | 581,000 | 581,000 | 27,000 | 96% |
| Total Grants | 608,000 | 581,000 | 581,000 | 27,000 | 96% |
| | | LOAN SUMMARY | | | |
| IFAD Loan | 29,722,000 | 28,025,000 | 28,025,000 | 1,697,000 | 95% |
| Total Loans | 29,722,000 | 28,025,000 | 28,025,000 | 1,697,000 | 95% |
| Total Facility | 30,330,000 | 28,606,000 | 28,606,000 | 1,724,000 | 95.5% |

Conversion under Phase II: As of the Grant and Loan facility closure period, the Government had begun discussions with IFAD to upscale the pilot programme for the main components of Risk Sharing and Credit Facilities. Consequently, IFAD and the Government concluded a joint¹

¹ IFAD and GOK

Programme Design Report and the new phase of the Programme was jointly affirmed to commence on 01, July 2022. The original joint commencement date of September 2020 was revised owing to the onset of Covid-19 pandemic. During the design mission, it was jointly agreed that Phase I residual re-flows under the Risk Sharing and Credit Facilities will be availed for re-investment under Phase II (RKFINFA).

2.7 Application of Funds

The Programme applied 10% of the receipts in the period under review to support the approved 2022/23 AWPB activities. The main activities during the year were in relation to RKFINFA effectiveness. RKFINFA start up was projected for July 01, 2022 but was pushed to March 2023 in line with 2022/23 Budget Supplementary 1 approval. The detailed AWPB activities achievement is given in paragraph 1.9.

2.8 Summary of Programme Compliance

The Programme has ensured that all its activities carried out during the reporting period are within the enabling legal framework and that relevant procedures have been followed.

2.9 Governance, Roles and Responsibilities

Governance relates to the way power and authority is exercised and distributed within the Programme. PROFIT's policy of good governance is about making sure that this power and authority is not concentrated in the hands of a single individual or group. Therefore, checks and balances have been put in place within the Programme to separate and balance the power between the Programme Coordinating Unit, the Lead Agency (NT) and the Programme Steering Committee, with clear lines of accountability between them. PROFIT recognizes that sound governance arrangements are necessary to support effective financial management and to ensure proper accountability over the use of Programme funds and effective implementation.

PROFIT's governance structure is as follows:

2.10 The Programme Steering Committee

The programme steering committee was composed as follows:

- i) Cabinet Secretary, the National Treasury – Chair;
- ii) The Principal Secretary, the National Treasury – Alternate Chair;
- iii) Principal Secretary, State Department of Agriculture – Member;
- iv) Principal Secretary, Ministry of Industrialization and Enterprise – Member;
- v) Governor, Central Bank of Kenya - Member

PSC had oversight responsibility for the Programme and its role included the following:

- i. Advise the Programme and the other PROFIT implementing partners on policy issues to ensure that activities undertaken are in line with national policies and procedures;

Programme for Rural Outreach of Financial Innovation and Technologies
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- ii. Encourage coordination with other rural financial sector partners and programmes to build synergies and avoid duplication;
- iii. Approve Programme Annual Work Plans and Budget;
- iv. Receive and review all Programme progress reports.

2.11 Statement of Performance Against Predetermined Objectives

The key development objectives of PROFIT was to increase incomes of the target group as a result of improved production, productivity and marketing in the various rural enterprise sectors. The Programme aimed to achieve this through an enhanced and systematically sustained access of poor rural households to a broad range of financial services, coupled with the necessary capacity building, partnerships and policy contribution. During the year under review, the Programme continued to pursue the development objective by ensuring that the programme interventions are sustainably entrenched through permanent instruments.

2.12 Progress on attainment of Strategic development objectives

As part of the Government Exit Strategy for the rural finance interventions under the initial phase of PROFIT, the rural finance strategic objectives will continue being pursued through the new rural finance facility. The design of the new rural finance facility was informed by lessons learnt in the initial phase of PROFIT and the need to sustainably pursue the programme objective. The focus on the attainment of the programme strategic development objective during the year was to mainstream sustainable rural finance mechanisms as outlined in the table below;

Strategic Key Deliverables During the Year

| Project | Objective | Outcome | Indicator | Performance |
|--|---|---|--|--|
| Effectiveness of a new rural finance facility | (i) Establishment of the RKFINFA PCU (ii) Upscale lessons learnt under phase I of rural finance intervention and offer permanent facility for the rural agriculture finance. | RKFINFA PCU established. Relevant Subsidiary Agreements are drafted together with the Implementing Partners. | IFAD no objection for Key personnel obtained. Draft Subsidiary Agreements Submitted for Legal Review by the National Treasury Legal Unit by March 15, 2023. | Key RKFINFA personnel in place Draft Subsidiary Agreements for AFC, FSD, CORDAID and AGRA undergoing National Treasury legal review as at March 09, 2023. |
| Rural Kenya Financial Inclusion factored in the 2023/24 Budget Policy Statement (BPS). | Mainstream Phase II of PROFIT as an agenda BETA programme in order to direct adequate financial resources to the Rural Kenya. | RKFINFA adopted as an agenda BETA programme. | A relevant paragraph is provided in the 2023/24 Budget Policy Statement. | Rural Kenya Financial Inclusion onboarded as an agenda BETA in the paragraph 53 of the 2023/24 BPS. |
| Mainstream PROFIT 1 reflows into the new rural finance facility | Ensure sustainability of phase 1 interventions. | Final AFC fiduciary review conducted. | 1 AFC fiduciary review report. | AFC fiduciary review conducted in October 2022 and report |

Programme for Rural Outreach of Financial Innovation and Technologies
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| | | | | |
|---|--|---|--|--|
| | | | | shared with AFC on November 14, 2022. |
| Support for the establishment of the Credit Guarantee Scheme Rural Finance window | Sustainably mainstream Risk Sharing Facility component for the Rural Agriculture and support value chains. | Credit Guarantee Scheme Rural Finance initiatives support | -Rural Window under CGS approved by the CGS Administrator. | R-CGS approved by the CGS Administrator on 2 February 2023 |

2.13 Challenges

The table below summarises the key challenges encountered during the programme implementation and intervention during the year.

Challenges

Intervention

Sustainability of the Programme initiatives post PROFIT

De-risking of real and perceived risk of the Rural Agriculture Sector in order to access formal financial services remain a key government policy and Programme challenge. In the year 2022/23 PROFIT continued to pursue its sustainability strategy of mainstreaming the agriculture formal financial interventions through conduct of legal and institution review of Green Financing Facility and the Rural Credit Guarantee Scheme. The objective is to sustainably address inherent legal and institutional challenges in a manner that ensures self-continuity of the Rural Financial Inclusion post government interventions. This was conducted in partnership with the Credit Guarantee Scheme (CGS) and relevant sector players.

CGS was established with the support of the PROFIT programme and draws from pilot lessons under the phase I of the Programme. The Scheme continues to receive technical support from PROFIT. Under the Phase II of the Programme, a Rural Finance window has been negotiated with the CGS that will ensure perpetual sustainability of the Rural Agriculture financial de-risking in enhancement of rural financial inclusion. CGS is envisaged to become a business enterprise with the private ownership of the participating financial institutions and the Government of Kenya.

2.14 Corporate Social Responsibility Statement/Sustainability Reporting

The Programme continue to pursue social objective in line with the Government Development Plans, and is focused to build on sustainable instruments in mainstreaming rural agriculture finance. Using the statistics during the design of the second phase of a new rural facility (RKFINFA), the current formal financial flow in the agriculture predominant rural Kenya is about 4% against the Government target of 10% in the medium term. This is against the backdrop that the agriculture sector contributes about 30% of Kenya GDP. This asymmetry intervention is factored in the draft MTP IV. It is against this background that phase II of PROFIT was designed as Rural Kenya Financial Inclusion Facility.

Programme for Rural Outreach of Financial Innovation and Technologies
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3. STATEMENT OF PROGRAMME MANAGEMENT RESPONSIBILITIES

The Principal Secretary, the National Treasury and the Programme Coordinator for the Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) are responsible for the preparation and presentation of the Programme's financial statements, which give a true and fair view of the state of affairs of the Programme for and as at the end of the financial period ended on March 31, 2023. This responsibility includes (i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the programme; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the programme; (v) Selecting and applying appropriate accounting policies; and (v) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary, the National Treasury and the Programme Coordinator for PROFIT accept responsibility for the Programme's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary, the National Treasury and the Programme Coordinator for PROFIT are of the opinion that the Programme's financial statements give a true and fair view of the state of Programme's transactions during the financial year ended March 31, 2023 and of the Programme's financial position as at that date. The Principal Secretary, the National Treasury and the Programme Coordinator for PROFIT further confirm the completeness of the accounting records maintained for the Programme, which have been relied upon in the preparation of the Programme financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary, the National Treasury and the Programme Coordinator for PROFIT confirm that the Programme has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Programme funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Programme financial statements

The Programme financial statements were approved by the Principal Secretary, the National Treasury and the Programme Coordinator for PROFIT on March 31, 2023 and signed by them.



Dr. Chris Kiptoo, CBS
Principal Secretary/ NT



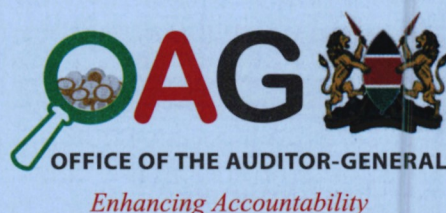
John Kabutha
Programme Coordinator



CPA Billy Obango
Programme Accountant
ICPAK Member No. 17253

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON PROGRAMME FOR RURAL OUTREACH OF FINANCIAL INNOVATIONS AND TECHNOLOGIES (PROFIT) (IFAD LOAN NO.814-KE AND GRANT NO.1218-KE) FOR THE NINE (9) MONTHS' PERIOD ENDED 31 MARCH, 2023 - THE NATIONAL TREASURY

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) (IFAD Loan No.814-KE and Grant

Report of the Auditor-General on Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) (IFAD Loan No.814-KE and Grant No.1218-KE) for the nine (9) months' period ended 31 March, 2023 - The National Treasury

No.1218-KE) set out on pages 1 to 15, which comprise of the statement of financial assets as at 31 March, 2023, and the statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts for the period then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) as at 31 March, 2023, and of its financial performance and its cash flows for the period then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Loan and Grant Financing Agreements No.814-KE and No.1218-KE respectively between the International Fund for Agricultural Development (IFAD) and the Republic of Kenya dated 22 December, 2010 and the Public Finance Management Act, 2012.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the period under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the

financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Financing Agreements No. IFAD Loan No.814-KE and Grant No.1218-KE, I report based on my audit, that: -

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Programme, so far as appears from the examination of those records; and,
- iii. The Programme's financial statements are in agreement with the accounting records and returns

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in

amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


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

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

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

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

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


CPA Nancy Gatungu, CBS
AUDITOR-GENERAL

Nairobi

13 October, 2023

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5. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE NINE MONTH PERIOD ENDED 31 MARCH 2023

| Note | Receipts and payments controlled by the entity | 2022-2023 | | 2021-2022 | | Cumulative to-date (From inception) |
|-------------------------------------|--|--------------------|--------------------|-------------------|-------------------|-------------------------------------|
| | | Ksh. | Ksh. | Ksh. | Ksh. | |
| | | | | | | |
| RECEIPTS | | | | | | |
| Transfer from Government entities | 37,500,000 | - | 37,500,000 | 50,000,000 | - | 345,815,314 |
| Grant Revenue | - | - | 0 | - | - | 326,521,212 |
| Loan Revenue | - | - | 0 | - | - | 2,571,015,136 |
| Other receipts | 158,029,514 | - | 158,029,514 | 31,090,730 | - | 199,227,055 |
| TOTAL RECEIPTS | 195,529,514 | 0 | 195,529,514 | 81,090,730 | - | 3,442,578,717 |
| PAYMENTS | | | | | | |
| Compensation to employees | 8,365,666 | - | 8,365,666 | 22,675,228 | - | 196,110,107 |
| Purchase of goods and services | 11,420,255 | - | 11,420,255 | 44,034,252 | - | 444,734,153 |
| Acquisition of non-financial assets | - | - | 0 | - | - | 24,716,233 |
| Transfers to Implementing Partners | - | - | 0 | - | - | 2,571,015,136 |
| Transfer to RK-FINFA | 206,003,088 | 206,003,088 | - | - | - | 206,003,088 |
| TOTAL PAYMENTS | 225,789,009 | - | 225,789,009 | 66,709,480 | - | 3,442,578,717 |
| SURPLUS/(DEFICIT) | -30,259,495 | -30,259,495 | -30,259,495 | 14,381,250 | 14,381,250 | 0 |

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The financial statements were approved on 31 March 2023 and signed by:



Dr. Chris Ntsoho, CBS
Principal Secretary/ NT



John Kabutha
Programme Coordinator



CPA Billy Obango
Programme Accountant
ICPAK Member No. 17253

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6. STATEMENT OF FINANCIAL ASSETS AS AT 31 MARCH 2023

| | Note | 2022-2023 | 2021-2022 |
|--|--------|-------------|-------------------|
| | | Ksh | Ksh |
| FINANCIAL ASSETS | | | |
| Cash and Cash equivalents | | | |
| Bank Balances | 10.10 | 0 | 30,259,495 |
| Cash Balances | | 0 | 0 |
| Cash equivalents (short-term deposits) | | 0 | 0 |
| Total Cash and Cash equivalents | | 0 | 30,259,495 |
| Imprests and Advances | | 0 | 0 |
| Total Financial Assets | | 0 | 30,259,495 |
| Financial Liabilities | | | |
| Third Party deposits and retention | | 0 | 0 |
| NET ASSETS | | 0 | 30,259,495 |
| REPRESENTED BY | | | |
| Fund Balance B/fwd. | 10.10c | 30,259,495 | 15,878,245 |
| Prior year Adjustments | | 0 | 0 |
| Surplus/(Deficit) for the Year | | -30,259,495 | 14,381,250 |
| NET FINANCIAL POSITION | | 0 | 30,259,495 |


The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 31 March 2023 and signed by:



 Dr. Chris Kiptoo, CBS
 Principal Secretary/ NT



 John Kabutha
 Programme Coordinator



 CPA Billy Obango
 Programme Accountant
 ICPAK Member No. 17253

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7. STATEMENT OF CASHFLOW FOR THE NINE MONTH PERIOD ENDED 31 MARCH 2023

| | Notes | 2022-2023 | 2021-2022 |
|--|-------|--------------------|-------------------|
| | | Ksh | Ksh |
| CASHFLOW FROM OPERATING ACTIVITIES | | | |
| Receipts | | | |
| Transfer from government entities | 10.1 | 37,500,000 | 50,000,000 |
| Proceeds from domestic and foreign grants | | - | - |
| Miscellaneous receipts | 10.4 | 158,029,514 | 31,090,730 |
| Total receipts | | 195,529,513 | 81,090,730 |
| Payments | | | |
| Compensation of employees | 10.5 | 8,365,666 | 22,675,228 |
| Purchase of goods and services | 10.6 | 11,420,254 | 44,034,252 |
| Social Security benefits | | - | - |
| Transfers to other government entities | 10.9 | 206,003,088 | - |
| Other grants and Transfers | | - | - |
| Total Payments | | 225,789,008 | 66,709,480 |
| Net receipts/(payments) | | -30,259,495 | 14,381,250 |
| Net increase in cash and cash equivalents | | -30,259,495 | 14,381,250 |
| Cash and cash equivalent at BEGINNING of the year | 10.10 | 30,259,495 | 15,878,245 |
| Cash and cash equivalent at END of the year | 10.10 | 0 | 30,259,495 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial Statements. The entity financial statements were approved on 31 March 2023 and signed by:



 Dr. Chris Kiptoo, CBS
 Principal Secretary/ NT



 John Kabutha
 Programme Coordinator



 CPA Billy Obango
 Programme Accountant
 ICPAK Member No. 17253

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8. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 31 MARCH 2023

| Receipts/Payments Item | Note | Original Budget | Adjustments | Final Budget | Actual on Comparable Basis | Budget Utilization Difference | % of Utilization |
|-------------------------------------|------|-----------------|-------------|--------------|----------------------------|-------------------------------|------------------|
| | | a | b | c=a+b | d | e=c-d | f=d/c % |
| | | Ksh | Ksh | Ksh | Ksh | Ksh | |
| Receipts | | | | | | | |
| Transfer from Government entities | 10.1 | 50,000,000 | -3,500,000 | 37,500,000 | 37,500,000 | 0 | 100% |
| Proceeds from Borrowings | | - | - | - | - | - | - |
| Other receipts | 10.4 | - | - | - | 158,029,514 | 158,029,514 | 100% |
| Total Receipts | | 50,000,000 | -12,500,000 | 37,500,000 | 195,529,514 | - | |
| Payments | | | | | | | |
| Compensation to employees | 10.5 | 9,936,000 | 0 | 9,936,000 | 8,356,666 | 1,579,336 | 87% |
| Purchase of goods and services | | 40,064,000 | -12,500,000 | 27,564,000 | 11,420,254 | 16,134,744 | 41% |
| Social security benefits | 10.6 | - | - | - | - | - | - |
| Acquisition of non-financial assets | | - | - | - | - | - | - |
| Transfer to RK-FINFA | 10.9 | 0 | 0 | 0 | 206,003,088 | -206,003,088 | |
| Total Payments | | 50,000,000 | -12,500,000 | 37,500,000 | 225,789,008 | | |

** The Programme 2022/23 AWPB provided a reflow receipt of Ksh. 158,000,000 factored under counterpart contribution in respect of PROFIT II (RKFINFA). The transfer of Kes 206,003,088 has been duly remitted as per cash and cash Equivalent on page 17.



Dr. Chris Kiptoo, CBS
Principal Secretary/ NT



John Kabutha
Programme Coordinator



CPA Billy Obango
Programme Accountant
ICPAK Member No. 17253

9. SIGNIFICANT ACCOUNTING POLICIES

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

9.1 Basis of Preparation

9.2 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

9.3 Reporting entity

The financial statements are for the PROFIT programme under National Treasury.

9.3.1 Reporting currency

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

9.4 Recognition of Revenue

a) Recognition of receipts

The Programme recognises all receipts from the various sources when the event occurs, and the programme has actually received the related cash.

i) Transfers from the National Treasury

Transfer from the National Treasury is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is reflected in the Bank Statement.

ii) Other receipts

These include project reflows from the active Rural Finance Outreach Programme component. These are recognized in the financial statements the time associated cash is received.

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b) Donations and grants

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

c) Undrawn external assistance

An analysis of the Programme's undrawn external assistance is shown in the funding summary.

d) Recognition of payments

The Programme recognises all payments when the event occurs, and the Programme has actually paid out the related cash.

i) Compensation of employees

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

ii) Use of goods and services

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

iii) Acquisition of fixed assets

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

iv. In-kind donations

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

e) Cash and cash equivalents

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

f) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorized officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables.

g) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, The Programme does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. The programme did not have any contingent liabilities in the year.

h) Contingent Assets

The Programme does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Programme in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

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i) Pending bills

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

j) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis where applicable, and for the same period as the financial statements. The Programme's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. A high-level assessment of the Programme's actual performance against the comparable Annual Work Plan and budget for the financial year/period under review has been included in an annex to these financial statements.

k) Exchange rate differences

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

l) Comparative figures

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

m) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the period ended October 31, 2022.

n) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented, in the period under review no restatement has been made to account for errors or revisions to the financial statement.

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10. NOTES TO THE FINANCIAL STATEMENTS

10.1 RECEIPTS FROM GOVERNMENT OF KENYA

These represent counterpart funding from government as follows:

| Description | KSh | KSh | Cumulative to-date |
|--|-------------------|-------------------|--------------------|
| | 2022-2023 | 2021-2022 | |
| <i>Counterpart funding through National Treasury</i> | | | |
| Counterpart funds Quarter 1 | 37,500,000 | 12,500,000 | |
| Counterpart funds Quarter 2 | - | 12,500,000 | |
| Counterpart funds Quarter 3 | - | - | |
| Counterpart funds Quarter 4 | - | 25,000,000 | 345,815,314 |
| Total | 37,500,000 | 50,000,000 | 345,815,314 |

10.2 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 9 months to 31 March 2023 there were no proceeds from either domestic or foreign grants. The table below gives the comparative for the prior year.

| Name of Donor | Date received | Amount received in donor currency | Grants received in cash | Grants received as direct payment | Grants received in kind | Total amount in KShs | |
|---------------|---------------|-----------------------------------|-------------------------|-----------------------------------|-------------------------|----------------------|---------|
| | | | | | | 2022/23 | 2021/22 |
| | | | KSh | KSh | KSh | KSh | KSh |
| - | | - | - | - | - | - | - |

10.3 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 9 months to 31 March 2023 there was no additional Loan receipts. The table below gives the comparative for the prior year.

| Name of Donor | Date received | Amount received in donor currency | Grants received in cash | Grants received as direct payment* | Grants received in kind | Total amount in KShs | |
|---------------|---------------|-----------------------------------|-------------------------|------------------------------------|-------------------------|----------------------|---------|
| | | | | | | 2022/23 | 2021/22 |
| | | | KShs | KShs | KShs | KShs | KShs |
| - | | - | - | - | - | - | - |

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10.4 Other Receipts

| Name of Donor | 2022-2023 | 2021-2022 | Cumulative to date |
|----------------|--------------------|-------------------|--------------------|
| | kshs | kshs | Kshs |
| Reflows | 156,153,703 | 31,090,730 | 197,351,693 |
| Other Receipts | 1,875,811 | | |
| Total | 158,029,514 | 31,090,730 | 199,227,504 |

10.5 COMPENSATION OF EMPLOYEES

| | 2022-2023 | | | 2021-2022 | |
|--|-------------------------------------|--------------------------------|------------------|-------------------|---------------------|
| | Payments made by the Entity in Cash | Payments made by third parties | Total payments | Total payments | Cumulative to- date |
| - | Ksh | Ksh | Ksh | Ksh | Ksh |
| Basic wages of temporary employees | - | - | - | 17,297,028 | 127,676,169 |
| Personal allowances paid as part of salary | - | - | - | - | 26,977,812 |
| Personal allowances paid as reimbursements | - | - | - | - | 5,453,208 |
| Compulsory national social security schemes | - | - | - | 9,600 | 101,600 |
| Compulsory national health insurance schemes | - | - | - | - | 136,800 |
| Other personnel payments | 8,365,666 | - | 8,365,666 | 5,368,600 | 35,764,518 |
| Total | 8,365,666 | - | 8,365,666 | 22,675,228 | 196,110,107 |

10.6 PURCHASE OF GOODS AND SERVICES

| | 2022-2023 | | | 2021-2022 | |
|---|-----------------------|--------------------------------|----------------|----------------|---------------------|
| | Payments made in Cash | Payments made by third parties | Total payments | Total payments | Cumulative to- date |
| | Kshs | Kshs | Kshs | Kshs | Kshs |
| Utilities, supplies and services | 610,721 | - | 610,721 | 2,069,115 | 9,349,890 |
| Communication, supplies and services | - | - | - | - | 28,611,491 |
| Domestic travel and subsistence | 37,232,907 | - | 37,232,907 | 27,124,858 | 161,979,360 |
| Foreign travel and subsistence | - | - | - | - | 11,264,777 |
| Printing, advertising, and information supplies | - | - | - | 3,142,451 | 15,479,038 |

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| | | | | | |
|--|-------------------|----------|-------------------|-------------------|--------------------|
| Training payments | - | - | - | 247,200 | 25,831,724 |
| Hospitality supplies and services | 1,366,830 | | 1,504,055 | 7,131,414 | 47,134,713 |
| Insurance costs | - | - | - | 2,089,558 | 9,980,419 |
| Specialized materials and services | - | - | - | - | 2,389,932 |
| Other operating payments | 63,082 | - | 63,082 | 250,637 | 10,338,187 |
| Routine maintenance – vehicles and other transport equipment | 314,208 | - | 314,208 | 1,979,019 | 10,804,070 |
| Consultancy services -technical & professional services | 435,000 | - | 435,000 | - | 111,570,552 |
| Total | 40,022,748 | 0 | 40,159,973 | 44,034,252 | 444,734,153 |

10.7 ACQUISITION OF NON-FINANCIAL ASSETS

The programme did not acquire additional assets in the period under review. Below is the cumulative non-financial assets to-date.

| | 2022/23 | | | 2021/22 | Cumulative to-date |
|--|-------------------------------------|--------------------------------|----------------|----------------|--------------------|
| | Payments made by the Entity in Cash | Payments made by third parties | Total Payments | Total Payments | |
| | KSh | KSh | KSh | KSh | KSh |
| Purchase of vehicles & other transport equipment | - | - | - | - | 10,891,819 |
| Office Equipment & Computers | - | - | - | - | 13,824,414 |
| Total | - | - | - | - | 24,716,233 |

10.8 TRANSFERS TO IMPLEMENTING PARTNERS

There were no transfers to the implementing partners during the period under review. Transfers to AGRA, BOMA, BRAC USA and CARE Kenya were payments in relation to loan and grant subsidiary agreements ending June 2019 with the four technical service providers. These were fully discharged in line with the subsidiary agreements.

Transfers to KWFT, FAULU Kenya, SMEP and Rafiki Micro-Finance Banks are in relation to subsidiary agreements ended July 2022 for the implementation of the Programmes Credit Facility Component. The four Micro-Finance Banks were duly discharged on March 2, 2023 upon full repayment of the Credit Facility.

Transfers to AFC and Barclays Bank (ABSA) are in relation to the subsidiary agreements ending in April 2023 and November 2024 for the implementation of the Programmes Risk Sharing Facility. Programme fiduciary review has been concluded for the AFC and ABSA and proper transition

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procedure agreed upon, whereby reflows under ABSA and AFC constitute Government Contribution for Phase II (RKFINFA).

| | 2022/23 | | | 2021/22 | Cumulative to-date |
|---------------|-------------------------------------|--------------------------------|----------------|----------------|----------------------|
| | Payments made by the Entity in Cash | Payments made by third parties | Total Payments | Total Payments | |
| | KSh | KSh | KSh | KSh | |
| KWFT Ltd | - | - | - | - | 205,100,000 |
| Faulu Kenya | - | - | - | - | 200,200,000 |
| SMEP Ltd | - | - | - | - | 100,400,000 |
| Rafiki Ltd | - | - | - | - | 94,300,000 |
| AGRA | - | - | - | - | 120,467,808 |
| BOMA | - | - | - | - | 232,126,120 |
| BRAC USA | - | - | - | - | 130,889,138 |
| CARE Kenya | - | - | - | - | 254,900,270 |
| AGRA | - | - | - | - | 542,631,800 |
| AFC | - | - | - | - | 370,000,000 |
| Barclays Bank | - | - | - | - | 320,000,000 |
| TOTAL | - | - | - | - | 2,571,015,136 |

10.9 AWPB Transfers to RKFINFA

| Description | 2022/2023 |
|-------------------------|-------------|
| | Kshs |
| Total Receipts (12a) | 195,529,513 |
| Total Payments | 19,785,920 |
| Net RKFINFA Transfers | 175,743,593 |
| Opening Cash Balances | 30,259,495 |
| Total RKFINFA Transfers | 206,003,088 |

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10.10 CASH AND CASH EQUIVALENTS

| | 2022/23 | 2021/22 |
|----------------------------|----------|-------------------|
| | KSh | KSh |
| Bank accounts (Note 9.9A)7 | 0 | 30,259,494 |
| Total | <u>0</u> | <u>30,259,494</u> |

The programme has one operational bank account and one foreign currency designated account managed by the National Treasury as listed below. The bank accounts are accounted at zero balances at the Programme closure date of March 31, 2023.

10.10. A Bank Accounts

Programme Bank Accounts

| | 2022/23 | 2021/22 |
|--|---------|------------|
| | KSh | KSh |
| Foreign Currency Accounts | | |
| Central Bank of Kenya – I&M Mirror A/C | - | - |
| Total Foreign Currency balances | - | = |
| Local Currency Accounts | | |
| Co-operative Bank of Kenya | 0 | 30,259,494 |
| Total local currency balances | 0 | 30,259,494 |
| Total bank account balances | 0 | 30,259,494 |

10.10.B Special Deposit Accounts

The balances in the Programme's Special Deposit Account if any at the end of Programme reporting period are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision. There were no changes in the special deposit account during the financial year. The programme has fully justified the loan and grant accounts with IFAD and the Special Deposit Account reconciliation statement fully accounted for in the June 2020 audited financial statements.

Special Deposit Accounts Movement Schedule

| | 2022/23 | 2021/22 |
|--|---------|---------|
| | KSh | KSh |
| Central Bank of Kenya – I&M Mirror A/C | | |
| Opening balance | - | - |
| Total amount deposited in the account | - | - |
| Total amount withdrawn (as per Statement of Receipts & Payments) | - | - |
| Closing balance | - | - |

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10.10C FUND BALANCE BROUGHT FORWARD

The following are the comparative fund balances for the prior two years.

| | 2021/22 | 2020/21 |
|---------------|------------|------------|
| | KSh | KSh |
| Bank accounts | 30,259,494 | 22,809,118 |
| Cash in hand | - | - |
| Total | 30,259,494 | 22,809,118 |

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11. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

During the financial year ended 30th June 2022 the programme had an Unqualified audit opinion. The programme did not have any pending issues remaining unresolved from the previous period audits.


| Reference No. on the external audit Report | Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe for Resolving |
|--|---------------------------|---------------------|--------------------------------------|-------------------------|
| | | | | |
| | | | | |
| | | | | |



 Dr. Chris Kiptoo, CBS
 Principal Secretary/ NT



 John Kabulha
 Programme Coordinator



 CPA Billy Obango
 Programme Accountant
 ICPAK Member No. 17253

12. ANNEXES

ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

| Receipts/Payments Item | Final Budget a | Actual on Comparable Basis b | Budget Utilization Difference c=a-b | % of Utilization f=d/c % | Comments on Variance (below 90% and over 100%) |
|---|-------------------|---------------------------------|--|-----------------------------|---|
| Receipts | Ksh | Ksh | Ksh | | |
| Transfer from Government entities | 37,500,00 | 37,500,000 | - | 100% | This is explained by the 2022/23 budget lapse as a result of Programme closure and transition to RKFINFA in March 2023. |
| Proceeds from domestic and foreign grants | 0 | 0 | 0 | 0 | |
| Miscellaneous receipts | 0 | 158,029,514 | 158,029,514 | 100% | 2022/23 PROFIT reflows have been provided for under PROFIT II (RKFINFA) approved cost tables and accordingly aligned to RKFINFA approved 2022/23 AWPB. |
| Payments | | | | | |
| Compensation to employees | 9,936,000 | 8,365,666 | 1,570,334 | 87% | This is explained by cutoff date transition to RKFINFA. Startup activities under this line will continue being implemented under RKFINFA Approved AWPB. |
| Purchase of goods and services | 27,564,000 | 11,420,254 | 16,143,746 | 40% | This is explained by cutoff date transition to RKFINFA. Startup activities under this line will continue being implemented under RKFINFA Approved AWPB. |
| Social security benefits | - | - | - | | This is explained by cutoff date transition to RKFINFA. Startup activities under this line will continue being implemented under RKFINFA Approved AWPB. |
| Acquisition of non-financial assets | 0 | 0 | 0 | 0 | |
| Transfer to RK-FINFA | 0 | 206,003,088 | -206,003,088 | | Note 11b below |

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ANNEX 3 - ANALYSIS OF PENDING BILLS

There were no pending bills incurred during the financial year under review.

ANNEX 4 – SUMMARY OF FIXED ASSETS REGISTER

| Asset class | Opening Cost (KSh) 2022/23 | Donations in form of assets (KSh) 2021/22 | *Purchases/ Additions in the Year (KSh) 2022/23 | **Disposals in the Year (KSh) 2022/23 | Transfers in/(out) Kshs 2022/23 | Closing Cost (KSh) 2022/23 |
|--|----------------------------------|--|--|---|---------------------------------------|----------------------------------|
| | (a) | (b) | (c) | (d) | (d) | (e)= (a)+ (b)+c)- (d)+(-)d |
| Office equipment, furniture and fittings | 13,824,414 | - | - | - | - | 13,824,414 |
| Motor Vehicles | 10,891,819 | - | - | - | - | 10,891,819 |
| Total | 24,716,233 | - | - | - | - | 24,716,233 |

The summary of the fixed asset register includes all assets acquired from the commencement of the Programme. The assets are stated at original cost. The relevant schedules for the assets are contained in a separate asset register maintained by the Programme.

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ANNEX 5 – CONTINGENT LIABILITIES REGISTER

The programme did not incur contingent liabilities in the period under review.

Annex 6- GOVERNMENT COMMITMENTS UNDER RKFINKA

In line with the GOK:IFAD Commitment at 52:48 at Design the following reflows will be availed to RKFINKA by the end of November 2024 when all the facilities mature .

| | Ksh |
|---------------|-----------------------------|
| Absa | 166,281,784 |
| Faulu | 274,830,112 |
| SMEP | 138,561,072 |
| Rafiki | 129,447,378 |
| KWFT | 280,551,164 |
| AFC | 377,215,000 |
| Totals | <u>1,366,886,510</u> |