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REPORT

OF

THE AUDITOR-GENERAL

ON

MINISTRY OF DEFENCE

FOR THE YEAR ENDED 30 JUNE, 2022

OFFICE OF THE AUDITOR GENERAL
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MINISTRY OF DEFENCE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2022

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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) BACKGROUND

The Ministry continued to execute its mandate as provided for in Article 241 of the Constitution and Executive Order No. 2 of May 2013. To this end the ministry was able to perform its core mandate and address emerging security challenges. The emerging security threats included terrorism, cattle rustling, human and drug trafficking, proliferation of small arms and piracy.

The Ministry is headed by the Cabinet Secretary, Eugene Ludovic Wamalwa who is responsible for the Policy and the General Administration of the Ministry.

The Ministry is categorized as vote 1041 within the approved National Budget which is administered by Dr. Ibrahim M. Mohamed, CBS as the Accounting Officer.

The accompanying financial statements constitute the financial statements for the Ministry of Defence.

1.1 VISION

A premier, credible and mission capable Force deeply rooted in professionalism.

1.2 MISSION

To defend and protect the sovereignty and territorial integrity of the Republic, assist and cooperate with other civil authorities in situations of emergency or disaster and restore peace in any part of Kenya affected by unrest or instability as assigned.

1.3 CORE VALUES

To achieve its mission and vision, the Ministry has a number of core values and beliefs namely:-

a. Apolitical: The Defence Forces will steer clear of politics and will remain steadfastly apolitical.

b. The Civil prerogative: The Defence Forces shall always subordinate itself to democratic Civil Authority and exemplify civility in its dealings with the people of Kenya.

c. Loyalty and Commitment: The Defence Forces will uphold its loyalty and commitment to the Commander-In-Chief and the people of Kenya through the chain of command.

d. Patriotism: The staff of the Ministry of Defence shall always be patriotic to the Government and the people of Kenya.

e. Professionalism: Service delivery will be based on the highest professional standards and will be blind to gender, ethnic, race or any other consideration.

f. Integrity: The staff of the Ministry of Defence will carry out duties with the highest integrity and in accordance with the laid down rules and regulation

1.4 CORE FUNCTIONS

The core functions of the Ministry of Defence as stipulated in the Executive Order No. 2/2013 are:

a. National Defence.

b. Development and Management of the National Defence Policy.

c. Protection of National Borders.

d. Support for Civil Authority.

e. Defence Intelligence.

1.5 USERS OF THE FINANCIAL STATEMENTS

a. Office of the Auditor General

b. The Parliament

c. The National Treasury

d. Controller of budget

e. Commissioner of Revenue Allocation

f. Tax Payer

g. Ministry of Defence

(b) Key Management

The Ministry's day-to-day management is under the following key personnel:

No.	Designation	Name
1	**Cabinet Secretary**	Hon. Eugene Ludovic Wamalwa,EGH
2	**Principal Secretary and Accounting Officer**	Dr. Ibrahim M. Mohamed,CBS
3	**The Chief of the Defence Forces**	Gen. Robert K. Kibochi, MGH, CBS, 'NDC'(K),'PSC'(UK)
4	**Commander Kenya Army**	Lt. Gen. Walter K. Raria CBS, OGW 'NDC' (K) 'PSC' (TZ)
5	**Commander Kenya Air Force**	Maj. Gen. F O Ogolla EBS, HSC, 'NDC' (K) 'PSC' (FRA)
6	**Commander Kenya Navy**	Maj. Gen. Jimson Long'iro Mutai M.B.S ,'NDC' (K) 'PSC' (K)

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th Jun 2021 and who had direct fiduciary responsibility were:

No.	Designation	Name	Period Served
1	**Cabinet Secretary**	Amb Dr. Monica K. Juma,CBS	1st July 2021-10th Sep 2021
	Cabinet Secretary	Hon. Eugene Ludovic Wamalwa,EGH	30th Sep 2021-30th Jun 2022
2.	**Principal Secretary and Accounting Officer**	Dr. Ibrahim M. Mohamed,CBS	1st July 2021-30th June 2022
3	**The Chief of the Defence Forces**	Gen.Robert K. Kibochi, MGH, CBS, 'ndc'(K),'PSC'(UK)	1st July 2021-30th June 2022
4.	**Commander Kenya Army**	Lt. Gen. Walter K. Raria CBS, OGW 'ndc' (K) 'PSC' (TZ)	1st July 2021-30th June 2022
5.	**Commander Kenya Air Force**	Major General John Mugaravai Omenda EBS SS OGW 'rcds' (UK) 'psc' (K)	1st July 2021-30th June 2022
6.	**Commander Kenya Navy**	Maj. Gen. Jimson Long'iro Mutai MBS ,'ndc' (K) 'PSC' (K)	1st July 2021-30th June 2022

(d) Fiduciary Oversight Arrangements

(i) Ministerial Committees

(a) Budget Implementation

The committee is mandated to undertake the following:

i. To review and consider the cash-flow plans
ii. To review the utilization of cash limits and consider any changes as may be required
iii. To review the utilization of donor funds voted to the Ministry
iv. To advice the accounting officer on any challenges related to to the budget implementation
v. To review and recommend reallocation of expenditure
vi. To review and approve the submission of the expenditure returns, IPPD, pending bills and Revenue for the Ministry and recommend actions to be taken.
vii. To participate in Sector Working Groups.
viii. To prepare budgets for line Ministries in consultation with Heads of Departments

The Committee is scheduled to meet monthly in order to review any budget related issues and periodically advice the Accounting Officer

(b) Ministerial Human Resource Management Advisory Committee (MHRMAC)

The functions of MHRMAC entail making recommendations to the authorized officer regarding:

i. Recruitment,
ii. Performance management,
iii. Promotions,
iv. Training and development,
v. Deployment,
vi. Recommendations for retirement under 50 year rule among others.

It is chaired by the Principal Secretary or his deputy. The Director HRM is the Secretary. The HoD's and Military representation from DHQ and the Three Services are members of the Committee.

(c) Ministerial Performance Management Committee(MPMC)

The functions of MPMC entail:

i. Undertaking quarterly review of implementation of Strategic Plans and Performance Contracts,
ii. Ensure linkage between institutional performance contract and individual performance contract,
iii. Ensure that the performance of all officers are evaluated and feedback on performance is relayed at the end of the Financial Year,
iv. Develop and implement the internal monitoring and evaluation and reporting system.

It is chaired by the Principal Secretary or his deputy. The Director HRM is the Secretary. The HoD's and Military representation from DHQ and the three Services are members of the committee.

(d) Procurement Advisory Board

The function of Procurement Advisory Board is to advise the Accounting Officer in decision making on matters of procurement and assets disposals.

(e) Ministerial Audit Committee

The Ministerial Audit Committee has been reorganized with guidance from the National Treasury and has clear corporate terms of reference which include the following:-

i. Follow up on recommendations of the Parliamentary Accounts Committee (PAC).
ii. Preparation of responses on the Annual Report of the Auditor General.
iii. Arranging for entry and exit meetings with the External Auditors

(f) Parliamentary Committee Activities

(a) Parliamentary Committee on Defence and Foreign Relations.

The Ministry engaged the committee to:

i. Discuss the budget strategy paper
ii. To review the performance of the National Security Sector.

(b) Public Accounts Committee

i. The Committee held discussions with the Ministry on the Report of the Auditor General on the Ministry's Appropriation Accounts for the Financial Year 2019/2020 and Financial Year 2018/2019

Ministry's Contact Details

e) **Ministry Headquarters**

P.O. Box 40668-00100
Ulinzi House-Lenana Road
Nairobi, KENYA

f) **Ministry Contacts**

Telephone: (254) 020-2721100
E-mail: ps@mod.go.ke
Website: www.mod.go.ke

g) **Ministry Bankers**

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

h) **Independent Auditors**

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

i) **Principal Legal Adviser**

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112,City Square 00200
Nairobi, Kenya

2. FOREWORD BY THE CABINET SECRETARY

MANDATE

Article 241, sub-article 3 (a), (b) and (c) of the Constitution provides that the Mandate of the Ministry shall be the Defence and protection of the sovereignty and territorial integrity of the Republic, assist and co-operate with other authorities in situations of emergency or disaster and report to the National Assembly whenever deployed in such circumstances and may be deployed to restore peace in any part of Kenya affected by unrest or instability only with the approval of the National Assembly.

ACCOMPLISHMENTS

During the period under review, the Ministry accomplished the following

i. Under the rubric of Article 241 (3) (a) the Ministry performed its primary role by deploying and manning the borders thus ensuring the sovereignty and territorial integrity of the Republic.

ii. Under the rubric of article 240 (8) (a) the Ministry continued to facilitate KDF's deployment in South Sudan under UN Mission in Darfur (UNAMID) and UN Mission in South Sudan (UNMISS). KDF deployed troops, alongside other Troop Contributing Countries (TCCs) under AMISOM (Somalia) Sector 2, UNMISS and UNAMID (Darfur), MINUSCA (Central Africa Republic) and MINUSMA(Mali). These deployments were instrumental in fostering regional peace and security.

iii. On the Multi-Agency Approach to Security, the Ministry continued to collaborate with all the stakeholders including; Parliament, Ministries, Departments, and Agencies to achieve its Mandate. In this regard therefore, KDF collaborated with the Ministry of Interior and Coordination of National Government by conducting operations in Lamu (Fagia Msitu), Laikipia, Baringo and Pokot. Other operations included manning of a Multi - Agency Road Blocks in Isiolo, Garissa and Kilifi Counties, among other areas.

iv. The Ministry awarded procurement opportunities worth ***Kshs 1,764,243,774*** to the Youth, Women and Persons with Disability owned enterprises to adhere to the Presidential directive on the **30%** procurement rule on Access to Government Procurement Opportunities (AGPO).

v. Under the **40%** Policy on Promotion of Local Content in Procurement, the Ministry spent a total of ***Kshs 6,450,783,767*** on procurement of local goods and services.

vi. In support of the Government effort in Environmental Sustainability in line with SDG's and Kenya's Vision 2030, the Ministry planted a total of 1,388,629 seedlings in designated areas and identified water towers through the Environmental Soldier Programme (ESP). This was achieved through working in partnerships with other supporting agencies and organizations.

vii. To foster Regional cooperation the Ministry has taken a leading role by supporting and participating in the EAC, EASF, IGAD, UN, and AU Programmes and activities. These activities included; Workshops, Policy Organs Meetings, Training, Joint Exercises, Sporting and Cultural events.

viii. To ensure that the Ministry's assets were well maintained for operational readiness, an Asset and Property Register was developed while plant and equipment were maintained in accordance with the manufacturer's schedules.

ix. The Ministry further continued to support the Government Policy on Gender mainstreaming by implementing the Ministry's Gender Policy and building capacity of women in the security sector; with reference to UN Resolutions 1325 (2000), through UN Women financial support.

x. The Ministry was also able to absorb the entire approved Recurrent Budget of **KShs. 136,507,604,217** for the Financial Year under review. This being **100%** of the amount budgeted for in the year in focus.

The Ministry was further able to utilise **Kshs. 6,080,000,000.00** of Development Funds as provided for in the budget. However the Ministry was unable to absort **Kshs. 69,000,000** budgeted for under the Export Compensation Agreement (ECA) due to contractual delays.

xi. The following modernization programmes continued to be implemented in the FY 21/22

a) New accommodation and messing facilities at various military installations

b) Completion of ongoing projects.

c) Equipment upgrades and improvement
d) Kenya-Somalia border Securitization programme
e) Finalization of the construction of Ulinzi Sports Complex
f) Construction of Uhuru Gardens National Monument and Museum
g) Construction of Regional Hospitals

xii. The Ministry was able to carry out the following Humanitarian Civil Activities/Projects
a) Drilling of Boreholes and construction of water pans
b) Airlifting of relief food to various drought afflicted areas of the country
c) Rehabilitation of the meter gauge railway lines
d) Planting of Trees in military cantonments, and other designated areas
e) Medical intervention camps in different parts of the country including Lamu County, Isiolo among other counties.

xiii. Further, on the National Development Agenda, the Ministry of Defence (MoD), in line with its mandate to aid civil authorities and in executing directives of government, launched a number of projects that contribute towards the National Development Agenda. The projects undertaken during the year are as follows:

a) On May 31st 2022, H.E the Commander In Chief of Kenya Defence Forces officially opened the Uhuru Gardens National Monument and Museums built by the KDF.

CHALLENGES

The Ministry's optimum performance was constrained by the following factors:

Inadequate Funding. Inadequate funding is a major constraint in implementing defence programmes and activities. This is further compounded by the escalating costs of modern military hardware. Inadequate funding has in particular delayed implementation of Programmes in the Development Budget occasioning Pending Bills in the both the Recurrent and Development Vote.

Procurement Lead Times. Coupled with the challenges of having to rely heavily on foreign military products, the duration it takes to complete the procurement cycle is inordinately long due to the fact that military hardware are not off the shelf item.

Diminishing Training Areas. Diminishing of training areas is attributed partly to encroachment into military land and a rapidly expanding population. The reduction of training fields has called for adoption of other options and in particular reliance on advanced technology system like simulation. In effect, the adoption of these technologies will continue to call for more budgetary allocations.

Ageing and Inadequate Infrastructure. The deterioration of Defence infrastructure over the years due to inadequate funding continues to demand for more resources for the rehabilitation of most of the physical infrastructure and the rehabilitation of ageing equipment.

Inadequate Number of Civilian Staff. The Ministry is currently lacking enough civilian staff to meet the demands of providing support services to the rapidly expanding the military. Further, the Ministry has a challenge of civilian succession management due to restrictive Public Service recruitment and staffing policies. However, this challenge is currently being addressed by the leadership.

Technological Changes. The rapid changes being experienced in technology has continued to impact on the Ministry's ability to retain military systems over extended periods. Consequently, this effect has resulted in frequent changes in communications and information systems.

Currency Fluctuation. Most of our Military hardware is sourced from the international market and the volatility of international currencies adversely affected the Ministry's budgetary allocations.

Covid-19 Global Pandemic. Due to the global challenges related to Covid-19 pandemic, the Ministry lost staff. It also disrupted with implementation of key activities and programmes. The Ministry also lost some of its staff during the period under review

ACKNOWLEDGEMENT

I wish to acknowledge the support and cooperation accorded to the Ministry during the period under review by: the National Treasury; the Parliament; the Central Bank of Kenya; the Kenya Revenue Authority; other Government Ministries, Departments and Agencies and the staff of the Ministry both uniformed and civilian; suppliers of goods and services and the people of the Republic Kenya.

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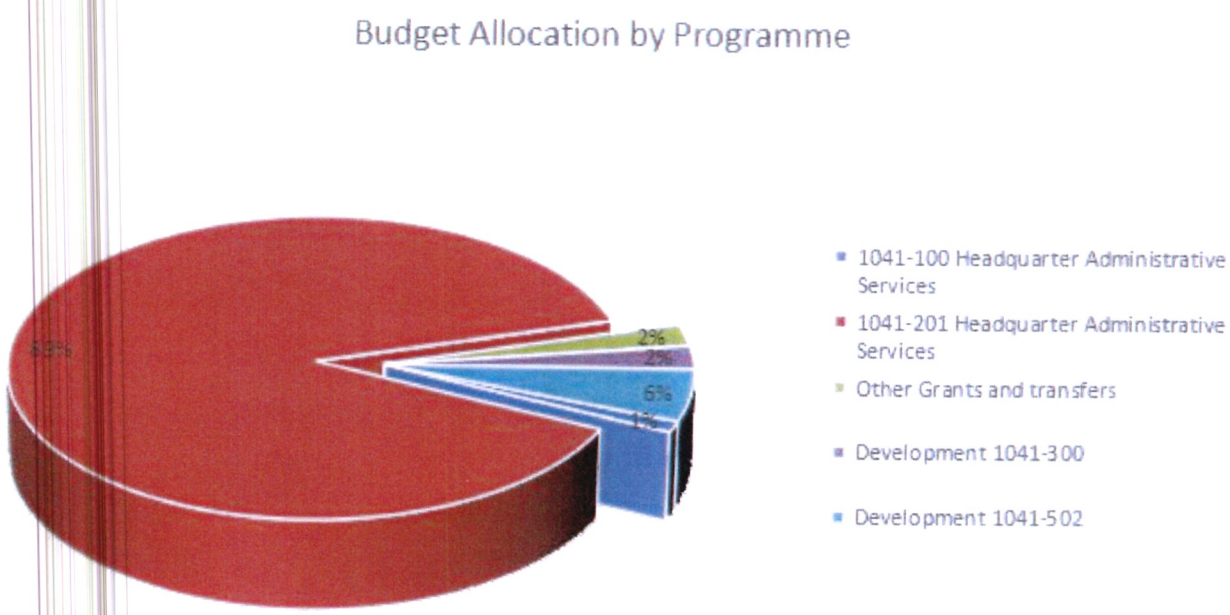
EUGENE LUDOVIC WAMALWA,EGH/CABINET SECRETARY

DEFENCE MINISTRY

3. Statement by the Principal Secretary / Accounting Officer

BUDGETARY ALLOCATION

The budget allocated to the Ministry for the FY 2021/22 to accomplish the set objectives was **KShs 136,757,604,247.** This constituted an allocation of **Kshs 130,608,604,247** for Recurrent Expenditure and **Kshs 6,149,000,000** as Capital Grant for Mordenization Programme; apportioned as shown on the Chart below.



The total budgetary allocation for FY 2021/22 was **KShs. 136,688,604,247**, but the actual expenditure was **KShs. 134,677,327,282** with Recurrent Expenditure having an actual expenditure of **Kshs. 128,597,327,282** while GoK Funded Development Expenditure had an expenditure of **Kshs 6,080,000,000.**

Below is an overview of the financial performance for the year ended 30th June 2022 as reported in the detailed financial statements.

For Budgeted Recurrent Expenditure;

	Printed Estimates	Actual	Variance	% Utilization Variance
Total Receipts	130,608,604,247	128,597,327,282	2,011,276,965	98
Total Payments	130,608,604,247	128,589,253,541	2,019,350,706	98

For Budgeted the Development Expenditure;

	Printed Estimates	Actual	Variance	% Utilization Variance
Total Receipts	6,080,000,000	6,079,897,746	102,254	99%
Total Payments	6,080,000,000	6,079,897,746	102,254	99%

Budget Utilization

The Ministry spent **KShs. 134,669,151,287**; against an approved budget of **KShs. 136,688,604,247** representing absorption of 98%. Utilisation of the budget was carried out through various activities (economic classifications) as shown in the table below:

Compensation of Employees	1,449,459,700	1,288,932,298	160,527,402
Use of goods and services	431,156,700	393,973,793	37,182,907
Military Payments	129,619,206,236	127,808,928,332	1,810,277,904
Other Grants and transfers	5,150,000,000	5,150,000,000	-
Acquisition of Assets	38,781,611	27,316,864	11,464,747
Grand Total	136,688,604,247	134,669,169,722	2,019,434,525

CURRENT YEAR PERFORMANCE AGAINST PRIOR YEAR

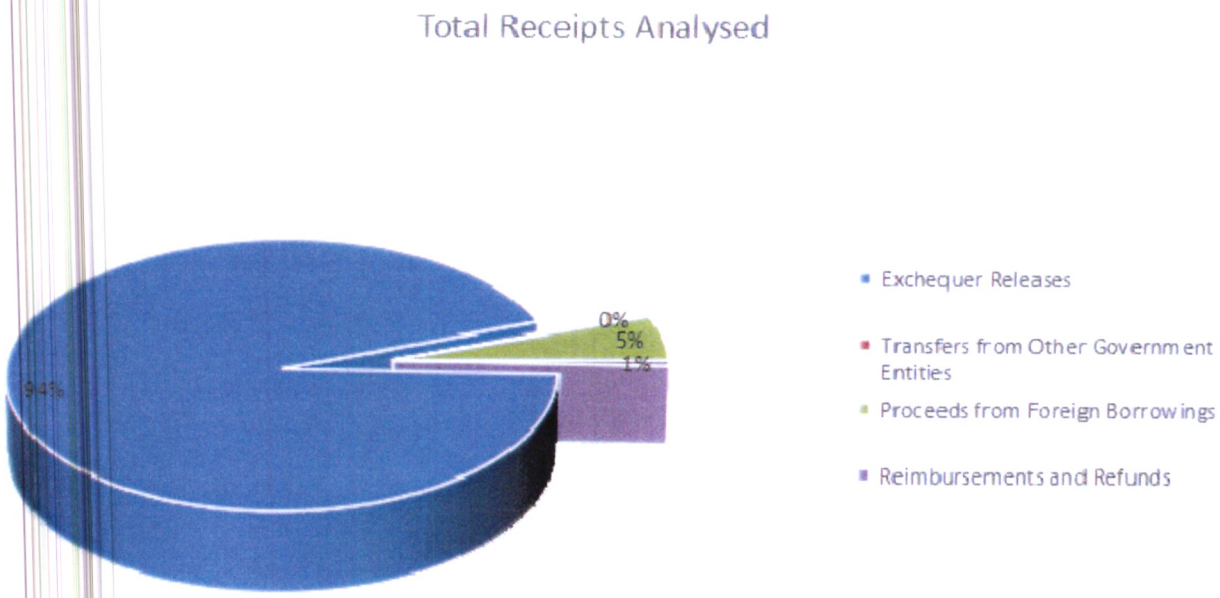
Receipts and Payments

	Year to Year Ending 30th June 2022	Year to Year Ending 30th June 2021	Change	% Change
TOTAL RECEIPTS	138,878,725,540	123,485,250,306	15,393,475,234	112
TOTAL PAYMENTS	138,857,639,609	123,438,905,717	15,418,733,891	112

Total Receipts Broken Down

Receipts Classification	Year to Year Ending June 2022	Year to Year Ending June 2021	Variance	% Change
Exchequer Releases	134,677,327,292	115,511,792,399	19,165,534,893	14%
Transfers from Other Government Entities	3,728,258,248	479,523,053	3,248,735,195	87%
Proceeds from Foreign Borrowings	-	6,742,786,689	-6,742,786,689	
Reimbursements and Refunds	473,140,000	751,148,165	-278,008,165	-59%
TOTAL REVENUES	**138,878,725,54**	**123,485,250,30**	**15,393,475,234**	**11%**

The diagram below depicts the share of major categories of receipts for the fiscal year ended 30th June 2021. The major source of funding for the Ministry of Defence is exchequer releases that account for 93% of the total receipts

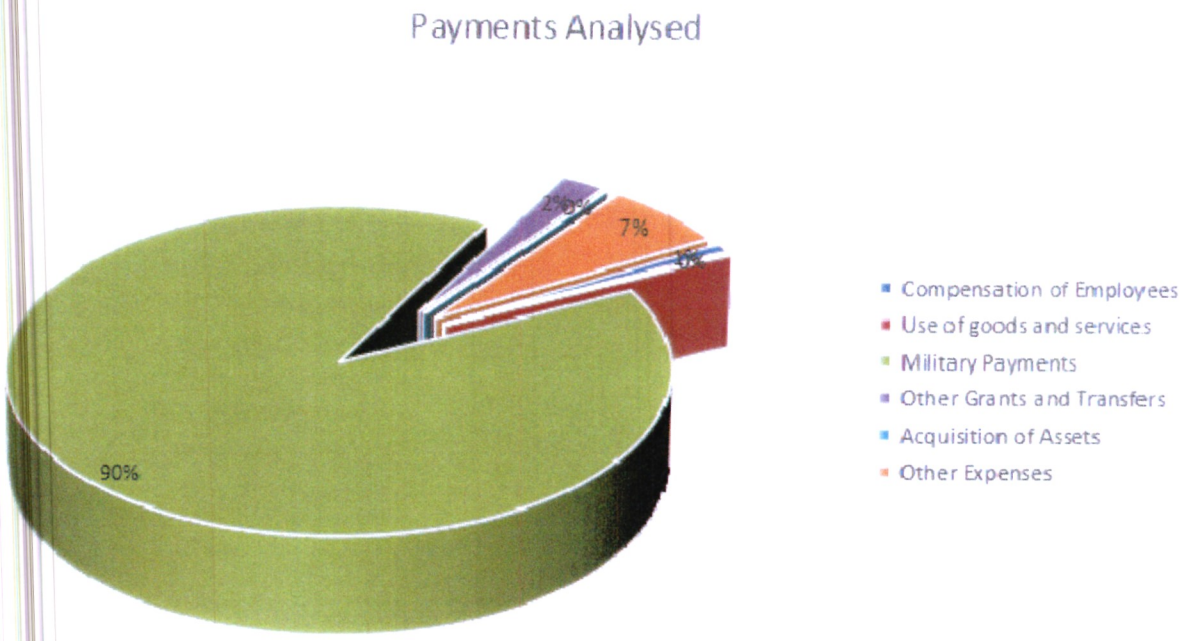


Total Payments

Payments Classification	Year to Year Ending June 2022	Year to Year Ending June 2021	Variance	% Change
Compensation of Employees	1,288,932,298	1,028,843,167	260,089,131	25%
Use of goods and services	393,973,793	329,471,494	64,502,299	20%
Military Payments	127,888,946,666	111,132,101,605	16,756,845,061	15%
Other Grants and Transfers	5,150,000,000	2,912,601,546	2,237,398,454	77%
Acquisition of Assets	27,316,864	62,429,999	-35,113,135	-56%
Other Expenses	4,108,469,988	7,973,457,907	-3,864,987,919	-48%
TOTAL PAYMENTS	138,857,639,609	123,438,905,718	15,418,733,891	12%

The increase in Payments is due to Increase in Budget for the Ministry, New MDA's within the Ministry.

The diagram below depicts the share of major categories of payments for the fiscal year ended 30th June 2022.

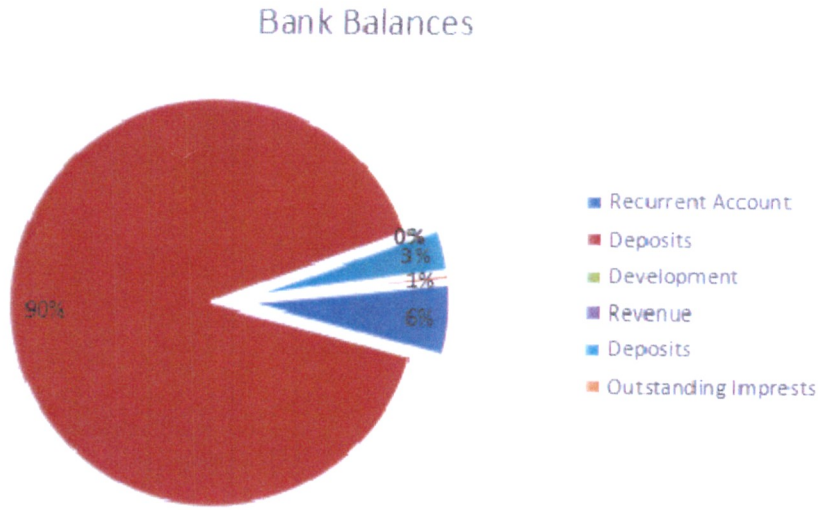

Payments Analysed
2%
7%
90%
Compensation of Employees
Use of goods and services
Military Payments
Other Grants and Transfers
Acquisition of Assets
Other Expenses

Financial Assets Summary

Bank Account Name	Year to Year Ended Jun 2022	Year to Year Ended Jun 2021	Change	% Change
Recurrent Account	21,085,931	46,174,947	-25,089,016	46%
Deposits	1,926,439,822	713,362,884	1,213,076,938	170%
Development	1,049,427	169,643	879,784	519%
Revenue	0	0	0	
Ulinzi Sports Complex	40,770,497	26,978,541	13,791,956	51%
Escrow	496,791,300	0	496,791,300	
Total	**2,486,136,977**	***786,686,015***	***1,837,744,856***	234%

Recurrent Bank balances increased by 46% as a result of increased receipts towards year end. Deposit Account Bank Balance increased by 170% as a result of increased collection of deposits, transfer of Unclaimed Liabilities (Pensions,Uncleared Effects) and unused agency funds.

The Ministry had a new deposit account (Escrow) which is a project account.



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PRINCIPAL SECRETARY / ACOUNTING OFFICER

DEFENCE MINISTRY

4. Statement of Performance Against Predetermined Objectives for FY2021/22

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the Ministry's performance against predetermined objectives.

The key objectives of the Ministry of Defence as per its constitutional mandate are to:

a) To defend and protect the sovereignty and territorial integrity of the Republic, support internal security operations and promote Regional and International Peace and Security
b) To support humanitarian activities
c) To provide policy direction and administrative support services
d) To administer and cordinate space related activities

Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

MDA Program:	Objective	Outcome	Indicator	Performance
1. National Defence				
Sub Program: 1. Defence Policy Management	To defend and protect sovereignty and territorial integrity of the Republic, support internal security operations and promote Regional and International Peace & Security	Provide direction and support to the three Services to secure the Nation.	Timely and effective logistics support	Provided ammo and material, and Maintained equipment and infrastructure
			Efficient personnel administration	General personnel administration and welfare was provided.
			Timely and effective operational support	Provided support to military operations
			Intelligence gathering and dissemination	Intelligence gathered and disseminated

MDA Program:	Objective	Outcome	Indicator	Performance
			Comprehensive medical support	Coordination, provision of medical supplies and services was done
			Level of public awareness	Public awareness and information dissemination was done
			Quality and effectiveness of legal support	Litigations and legal support to services was provided
			Military modernisation	Acquisition of new equipment and development of related infrastructure on going
Sub Program: 2 Land Defence		Secure National land borders	Respond to land based threats.	Timely and effective response to land based threats
		Border Securitization	Percentage of completion of the Border	45% completion
		Enhanced regional & International Peace & Security	Participation in regional and international Peace support operations (PSOs) and programmes	Timely deployment and effective participation in PSOs and programmes
Sub Program: 3. National Air Space Defence		Secured National Air Space	Respond to Airborne threats	Timely and effective response to Airborne threats
		Enhanced regional & International peace &security	Participation in regional and international Peace support operations (PSOs) and programmes	Timely deployment and effective participation in PSOs and programmes
Sub Program: 4. Territorial Water Defence.		Secured Territorial Waters	Respond to Territorial Waters threats	Timely and effective response to Seaborne Threats
		Enhanced regional & International peace	Participation in regional and international Peace support	Timely deployment and effective participation in PSOs and programmes

MDA Program:	Objective	Outcome	Indicator	Performance
		&security	operations (PSOs) and programmes	
2. Civil Aid				
Sub Program: **1. Civil Aid**	To support humanitarian activities	Humanitarian assistance provided	Respond and mitigate crisis, disasters and emergencies	Timely and effective response to emergencies and disasters
3. General Administration, Planning and Support				
Sub Program: **1. General Administration, Planning and Support Services**	To provide policy direction and administrative support services	Effective Service Delivery	Provide administrative support services	Effective administrative support services were provided
		Strategic Plan 2018-2022 Strategic Defence and Security Review (SDSR) Peace Support Operations Policy Military Land Policy	Strategic Plan 2018-2022 Strategic Defence and Security Review (SDSR) Peace Support Operations Policy Military Land Policy	Implementation of 2018-2022 Strategic Plan done Develop the Peace Support Operations Policy Development of Military Land Policy on going
Sub Program: **2. Military Industrialization**		Manufacture of small arms ammunition	Timely supply of Small Arms Ammunition	Sustained operational requirements of security agencies
		Modernization of small arms ammunition production lines	New WARSAW and NATO Ammo Production Lines	Acquisition of modern ammo production line on going
		Military Dehydrated Food and Ration Supplies produced	Timely Supply of Dehydrated Food and Rations	Production of dehydrated vegetables, fruits and MREs done

MDA Program:	**Objective**	**Outcome**	**Indicator**	**Performance**
4 National Space Management				
Sub Program: National Space Management	To administer and coordinate space related activities	Effective management and regulation of space related activities	National Space sector regulation framework established	Linkages among academia, industry, Govt and partners Sustainable development of capacity and outreach on going Promote use of space derived data across Government

5. Environmental and Sustainability Reporting

a) Sustainability strategy and profile -

The Ministry of Defence has been engaged in various aspects as far as Corporate Social Responsibility is concerned. Notably, among them is the Environmental Soldier Program that is aimed at conserving the environment. We have planted more than seven million trees countrywide. The Ministry has also conducted medical camps in remote areas of the country to assist the residents access better medical care. This is in line with the Big 4 Agenda of universal Health Care. In addition, the Ministry of Defence through its technical arm, KDF, has sunk boreholes in various parts of the Country to provide potable water to the populace.

We have in the recent past rehabilitated public institutions and infrastructure such as schools, roads, bridges, railway lines, and ships in an effort to ease transport and improve livelihood.

b) Environmental Policy and Performance

Ministry of Defence (MOD) is in the process of reviewing its Defence Environmental Policy – a process which is at an advanced stage, pending review by Service Commanders Committee and ratification. The policy aims at enhancing sustainability across all MOD activities and installations to enable mission readiness towards achieving 'Total National Defence'.

Sustainability Successes

MOD has had a number of successes in its environmental sustainability efforts. These include:

a. Through the Environmental Soldier Programme (ESP), MOD has **planted 2,900,000 seedlings** in military cantonments and gazetted government forests during the year under review.

b. MOD continues to oversee the setting up of tree nurseries in military cantonments to ensure sustainable supply for its afforestation programme. Tree nurseries have been set up at Embakassi Garrison, Kenya Military Academy, Moi Airbase and Thika Barracks, and a further two nurseries are immediately planned for the School of Military Intelligence and Langata Barracks.

c. MOD in partnership with the Ministry of Environment and Forestry (MoEF) and other stakeholders, continues to rehabilitate its adopted forests. Successes in this area includes the ongoing restoration of Mareba Wetlands in Uasin Gishu County, successful reforestation and continued monitoring of Kibiku Forest, and the regeneration of Ragia Forest in Nyandarua – a catchment of the Sasumua Dam.

d. MOD facilitated the training of personnel in various sustainability fields including the recently concluded Google Earth Engine Training of Five (5) Pax to enable better geospatial planning for environmental sustainability.

e. Through the Environmental Sustainability Programme at the Kenya Military Academy, Cadets continue to be engaged in clean-up programmes including the clean-up of Dundori River and Lake Nakuru National Park.

f. MOD has also instituted incorporation of its environmental experts in all projects' design, implementation and operation, to minimize its environmental footprint.

g. MOD has implemented energy efficiency projects utilizing renewable energy including:

(1) Implementation of energy saving lighting across KDF units.

(2) Installation of LED street lighting across KDF units.

(3) Replacement of firewood with the Energy Efficient Cook Stove (DEFKITCH (K) 2010) in KDF bases.

(4) Installation of solar water heating units in different KDF bases.

h. The Ministry is also implementing integrated solid waste management pilot projects at KMA, MAB and Defence Headquarters.

i. MOD has also expanded its partnership portfolio through the whole of government approach. The partners range from government and non-governmental organizations including:

(1) Ministry of Environment.

(2) United Nations Environment Programme.

(3) Summit Seekers.

(4) Green Belt Movement.

(5) Various county governments.

(6) Nairobi Metropolitan Services

Challenges

A major challenge remains availability of funding. In spite of the efforts by the Ministry, internal funding is insufficient for the scale of its environmental programme. External is also restrictive with regards to priority projects, and as such ineffective.

c) Employee welfare

The Ministry is guided by various Government policies in recruitment of personnel, specifically the Public Service Commission polices and guidelines. The recruitment takes into consideration the a third gender ratio.

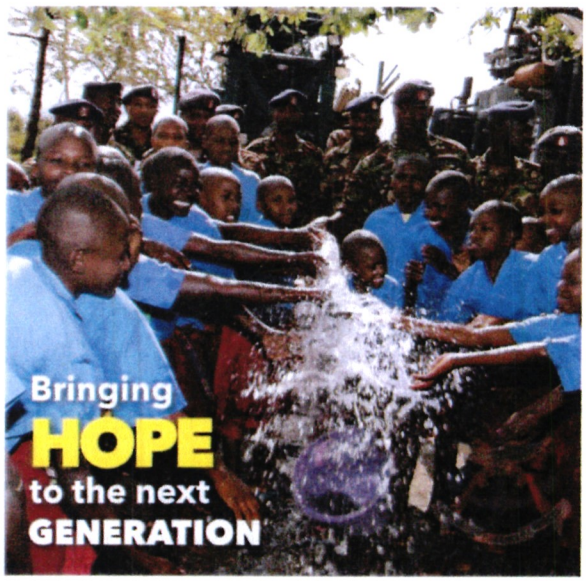
The Ministry has continued to train its staff to enhance performance and facilitate career development. Promotion, re-designation and job enrichment are the key strategies applied in promoting employee career growth.

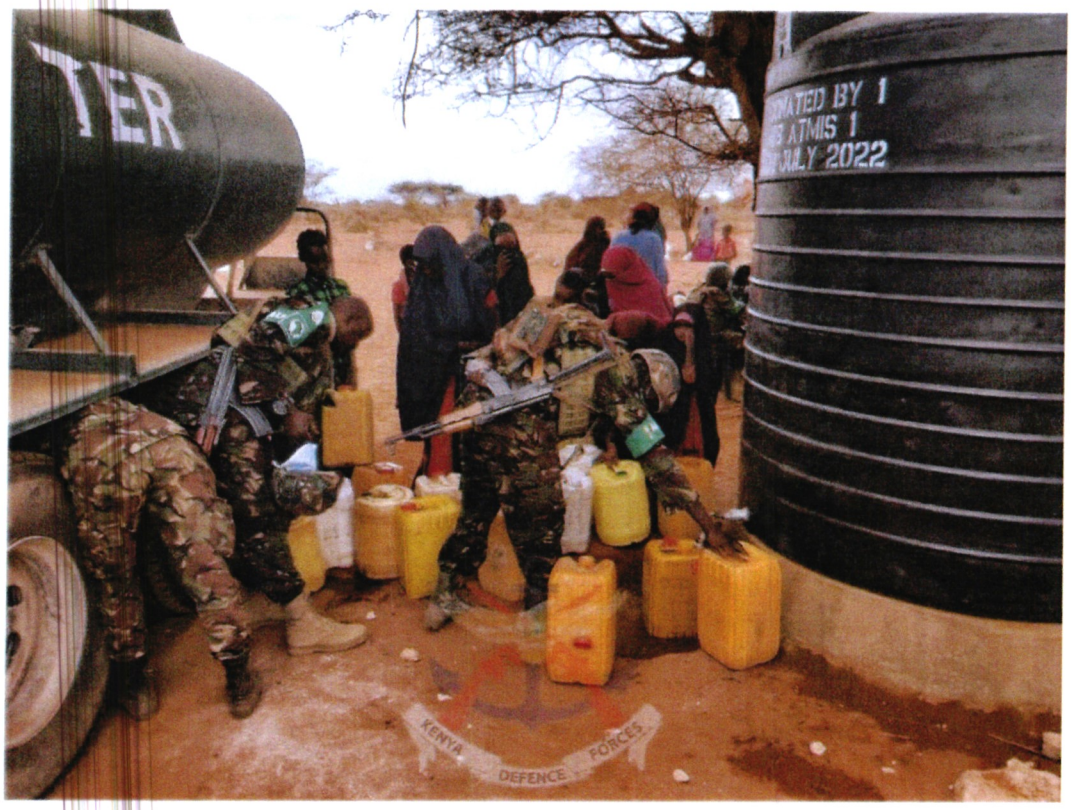
All employees are placed on annual performance appraisal system. The Ministry has a reward/sanction system based on performance.

The Ministry has implemented various measures to comply with the Occupational, Safety and Health Act, 2007. These include development of ministerial guidelines on health and safety management, training of personnel on OSHA as well as provision of Personal Protective Equipment to staff.

d) **Community Engagements-**

The Ministry was able to airlift food and medical supplies to various parts of the country.

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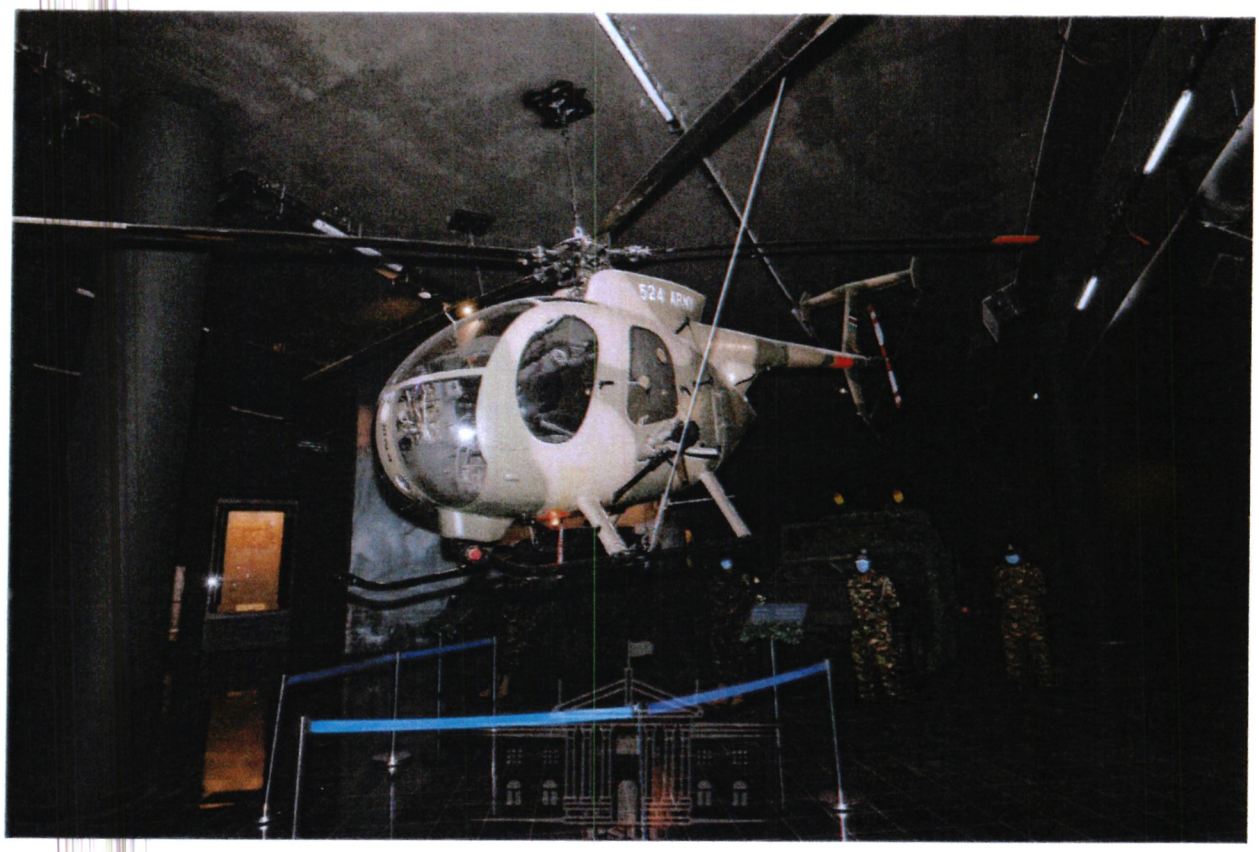


Ukumbi wa Turathi ya kijeshi
Military Heritage Gallery

Women in KDF
KDF kwenye nyendo za ulinzi
KDF security operations

NATIONAL DEFENCE UNIVERSITY-KENYA

NATIONAL DEFENCE UNIVERSITY-KENYA

ULINZI SPORTS
COMPLEX-LANGATA
The Motto: SPORTS & WELLNESS

ELDORET REGIONAL HOSPITAL
KENYA DEFENCE FORCES

6. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 83 (1) of the Public Finance Management Act, 2012 requires that, at the end of each quarter, the accounting officer for a National Government Ministry shall prepare financial statements in respect of that Ministry. Section 83 (2) (b) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the Ministry of Defence is responsible for the preparation and presentation of the Ministry's financial statements, which give a true and fair view of the state of affairs of the Ministry for and as at the end of the quarter (period) ended on Jun 30, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements 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 Ministry; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Ministry; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the *Ministry of Defence* accepts responsibility for the Ministry'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 (IPSAS). The Accounting Officer is of the opinion that the *Ministry's* financial statements give a true and fair view of the state of Ministry's transactions during the quarter/period ended Jun 30, 2022 and of the Ministry's financial position as at that date. The Accounting Officer charge of the *Ministry of Defence* further confirms the completeness of the accounting records maintained for the *Ministry*, which have been relied upon in the preparation of the Ministry's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the *Ministry of Defence* confirms that the Ministry has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the Ministry's funds received during the quarter under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the Ministry's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

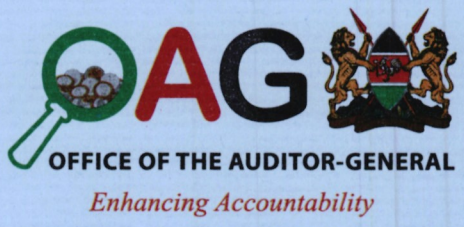
The financial statements were approved and signed by the Accounting Officer on 11.08.2022 2022.

Principal Secretary
Name: Dr. Ibrahim M. Mohamed

Deputy Accountant General
Name: Electina W. Wanyonyi
ICPAK No: 3674

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON MINISTRY OF DEFENCE FOR THE YEAR ENDED 30 JUNE, 2022

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 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 year 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 Ministry of Defence set out on pages 1 to 37, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and

summary statements of appropriation - recurrent and development combined for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ministry of Defence as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Ministry of Defence 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 year under review.

Other Matter

1. Pending Bills

Disclosed in Note 17.2 and Annex 1 to the financial statements are pending bills totalling Kshs.1,755,046,240 as at 30 June, 2022 owed to suppliers of goods and services which were not paid in the year under review but were carried forward to 2022/2023 financial year.

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.

2. Contingent Liabilities

As disclosed in Note 17.4 to the financial statements, the Ministry of Defence had contingent liabilities amounting to Kshs.1,807,350,099 as at 30 June, 2022. The contingent liabilities related to court cases against the Ministry. Detailed analysis of the balance provided for audit indicated that the total courts awards amounted to Kshs.2,171,750,099, out of which an amount of Kshs.364,400,000 was paid during the year, leaving a balance of Kshs.1,807,350,099 outstanding.

No explanation was provided for failure to pay the outstanding balance of Kshs.1,807,350,099 in compliance with the court rulings.

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, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else 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

Unbudgeted Expenditure Incurred on Projects

During the year under review, the Ministry of Defence received funding for infrastructure projects procured and supervised by the Ministry on behalf of another Ministry/Agency as detailed below:

	Ministry/Agency	Project Description	Contract Amount (Kshs.)	Amount Paid (Kshs.)	Unbudgeted Expenditure (Kshs.)
1	Ministry of Interior & Citizen Services	National Police Service - Level IV Hospital	824,928,279	400,000,000	424,928,279
2	Ministry of Interior & Citizen Services	State Department for Correctional Services – Level IV Hospital	999,628,135	400,000,000	599,628,135
3	State House - Nairobi Metropolitan Service	Uhuru & Central Park Rehabilitation Project	1,183,494,712	778,192,768	405,301,944
	Total		**3,008,051,126**	**1,578,192,768**	**1,429,858,358**

However, the Ministry of Defence signed contracts for amounts above the actual funds received for the respective projects, resulting in an unbudgeted expenditure of Kshs.1,429,858,358. This is contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer not to commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in the approved budget estimates.

Although physical verification done in the month of October, 2022 confirmed that the projects had been completed, the unpaid amounts totalling Kshs.1,429,858,358 were not included as pending bills as at the end of the financial year. The Ministry of Defence had continuously requested for the outstanding balances from the respective Ministry/Agency without success due to unavailability of funds. However, Management did not disclose

how the extra expenditure of Kshs.1,429,858,358 committed by the Ministry will be funded in the absence of an approved budget.

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

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 processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls 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 Ministry's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Ministry 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 Ministry's financial reporting process, reviewing the effectiveness of how the 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls.

- 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 Ministry'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 Ministry 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 Ministry to express an opinion on the financial statements.

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

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

I also provide the 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 Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 December, 2022

8. Statement of receipts and payments for the year ended 30th June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
RECEIPTS			
Exchequer releases	1	134,677,327,293	115,511,792,399
Transfers from Other Government Entities	2	3,728,258,248	479,523,053
Proceeds from Foreign Borrowings	3	0	6,742,786,689
Reimbursements and Refunds	4	473,140,000	751,148,165
TOTAL RECEIPTS		**138,878,725,541**	**123,485,250,306**
PAYMENTS			
Compensation of Employees	5	1,288,932,298	1,028,843,167
Use of goods and services	6a	393,973,793	329,471,494
Military Payments	6b	127,807,878,804	111,132,101,605
Transfers to Other Government Entities	7	5,150,000,000	2,912,601,546
Acquisition of Assets	8	27,316,864	62,429,999
Other Payments	9	4,188,488,423	7,973,457,907
TOTAL PAYMENTS		**138,856,590,182**	**123,438,905,716**
SURPLUS/DEFICIT		**22,135,359**	**46,344,588**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Ministry's financial statements were approved on 11.08.2022 2022 and signed by:

.....

Name:Dr. IBRAHIM M MOHAMED
Principal Secretary

.....

Name: ELECTINA W WANYONYI
Head of Accounting Unit
ICPAK M/No 3674

9. Statement of assets and liabilities as at 30th June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	**10A**	2,486,136,977	786,686,015
Cash Balances	**10B**	0	0
Total Cash and cash equivalent		**2,486,136,977**	**786,686,015**
Accounts Receivables	**11**	4,475,000	4,475,000
TOTAL FINANCIAL ASSETS		**2,490,611,977**	**791,161,015**
FINANCIAL LIABILITIES			
Accounts Payables	**12**	2,464,001,619	740,341,425
NET FINANCIAL ASSETS		***26,610,358***	**50,819,590**
REPRESENTED BY			
Fund balance b/fwd	**13**	4,475,000	4,475,000
Prior year adjustment	**14**	-	
Surplus/Deficit for the year		22,135,359	46,344,588
NET FINANCIAL POSITION		***26,610,359***	**50,819,590**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Ministry's financial statements were approved on 11.08. 2022 and signed by:

.....

Name: Dr. IBRAHIM M MOHAMED
Principal Secretary

.....

Name: ELECTINA W WANYONYI
Head of Accounting Unit
ICPAK M/No 3674

10. Statement of cash flows for the year ended 30th June 2022

		2021-2022	2020-2021
		Kshs	Kshs
Receipts for operating income			
Exchequer Releases	1	134,677,327,293	115,511,792,399
Transfers from Other Government Entities	2	3,728,258,248	479,523,053
Reimbursements and Refunds	4	473,140,000	751,148,165
		138,878,725,541	**116,742,463,617**
Payments for operating expenses			
Compensation of Employees	5	1,288,932,298	1,028,843,167
Use of goods and services	6a	393,973,793	329,471,494
Military Payments	6b	127,807,878,804	111,132,101,605
Transfers to Other Government Units	7	5,150,000,000	2,912,601,546
Other Expenses	9	4,188,488,423	7,973,457,907
		138,829,273,318	**123,376,475,719**
Adjusted for:			
Adjustments during the year			
Decrease/(Increase) in Accounts Receivable	***11***	***0***	***0***
Increase/(Decrease) in Accounts Payable	***12***	***1,723,660,194***	***156,187,373***
Prior Year Adjustments	**14**	**(46,344,586)**	

		2021-2022	2020-2021
		Kshs	Kshs
Receipts for operating income			
Net cash flow from operating activities		*1,726,767,831*	*(6,477,284,729)*
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets			
Acquisition of Assets	8	(27,316,864)	(62,429,999)
Net cash flows from Investing Activities		**(27,316,864)**	**(62,429,999)**
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	3	-	**6,742,786,689**
Net cash flow from financing activities		-	***6,742,786,689***
NET INCREASE IN CASH AND CASH EQUIVALENT		**1,699,450,967**	**202,531,961**
Cash and cash equivalent at BEGINNING of the year		**786,686,015**	**584,154,054**
Cash and cash equivalent at END of the year	**10a**	**2,486,136,977**	**786,686,015**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Ministry's financial statements were approved on 11. 08. 2022 and signed by:

.....

Name: Dr. IBRAHIM M MOHAMED
Principal Secretary

.....

Name: ELECTINA W WANYONYI
Head of Accounting Unit
ICPAK M/No 3674

11. Summary Statement of Appropriation: Recurrent Vote

Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
	a	b	c=a+b	d	e=d-c	f=d/c %
RECEIPTS						
Exchequer releases	114,671,705,987	15,936,898,260	130,608,604,247	128,597,327,293	2,011,276,954	98%
Total Receipts	**114,671,705,987**	**15,936,898,260**	**130,608,604,247**	**128,597,327,293**	**2,011,276,954**	98%
PAYMENTS						
Compensation of Employees	1,489,459,700	(40,000,000)	1,449,459,700	1,288,932,298	160,527,402	89%
Use of goods and services	431,156,700		431,156,700	393,973,793	37,182,907	91%
Military Payments	112,012,307,976	14,606,898,260	126,619,206,236	124,807,981,159	1,811,225,077	99%
Other Grants and transfers	670,000,000	1,400,000,000	2,070,000,000	2,070,000,000	0	100%
Acquisition of Assets	68,781,611	(30,000,000)	38,781,611	27,316,864	11,464,747	70%
Grand Total	**114,671,705,987**	**15,936,898,260**	**130,608,604,247**	**128,588,204,114**	**2,020,400,133**	**98%**
Surplus/Deficit	**0**	**0**	**0**	**9,123,179**	**(9,123,179)**	

(a) ***Variance analysis***: *The acquisition of Assets was less than 90% due to exchequer shortfall. The under expenditure in payments was as a result of delayed recruitment of new staff in the Ministry.*

(b) ***Reallocations within the year***: *The reallocations/adjustments in budget during the financial year was due to 2 Supplementary budgets that approved by the Parliament during the financial year under review.*

The Ministry's financial statements were approved on 11.08. 2022 and signed by:

Name:Dr. IBRAHIM M MOHAMED
Principal Secretary

Name: ELECTINA W WANYONYI
Head of Accounting Unit
ICPAK M/No 3674

11 (a) Summary Statement of Appropriation: Recurrent and Development combined

Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Exchequer releases	118,751,705,987	17,936,898,260	136,688,604,247	134,677,327,293	2,011,276,954	99%
Total Receipts	**118,751,705,987**	**17,936,898,260**	**136,688,604,247**	**134,677,327,293**	**2,011,276,954**	**99%**
Payments						
Compensation of Employees	1,489,459,700	-40,000,000	1,449,459,700	1,288,932,298	160,527,402	89%
Use of goods and services	431,156,700	-	431,156,700	393,973,793	37,182,907	91%
Military Payments	115,012,307,976	14,606,898,260	129,619,206,236	127,807,878,804	1,811,327,432	99%
Other Grants and transfers	1,750,000,000	3,400,000,000	5,150,000,000	5,150,000,000	-	100%
Acquisition of Assets	68,781,611	-30,000,000	38,781,611	27,316,864	11,464,747	70%
Grand Total	**118,751,705,987**	**17,936,898,260**	**136,688,604,247**	**134,668,101,759**	**2,020,502,488**	**99%**
Surplus/Deficit	-	-	-	**9,225,534**	**-9,225,534**	

Notes

(a) ***Variance analysis**: The acquisition of Assets was less than 90% due to exchequer shortfall. The under expenditure in payments was as a result of delayed recruitment of new staff in the Ministry.*

(b) ***Reallocations within the year**: The reallocations/adjustments in budget during the financial year was due to 2 Supplementary budgets that approved by the Parliament during the financial year under review.*

The Ministry's financial statements were approved on 11. 08. 2022 and signed by:

Name:Dr. IBRAHIM M MOHAMED
Principal Secretary

Name: ELECTINA W WANYONYI
Head of Accounting Unit
ICPAK M/No 3674

Receipts as per Statement of Appropriation	134,677,327,293
Transfers from Other Government Entities	3,728,258,248
Reimbursements and Refunds	473,140,000
Receipts Not Appropriated by TNA	***4,201,398,248***
Revised Receipts (including Funds not appropriated by TNA	138,878,725,541
Payments as per Statement of Appropriation	134,668,101,759
Payments from Funds Not appropriated By TNA	4,188,488,423
Revised Payments (Including Funds Not appropriated By TNA)	***138,856,590,182***

11 (b) Summary Statement of Appropriation: Development for FY2021/22

Revenue/Expense Item	***Original Budget***	***Adjustments***	***Final Budget***	***Actual on Comparable Basis***	***Budget Utilisation Difference***	***% of Utilisation***
	a	*b*	*c=a+b*	*d*	*e=c-d*	*f=d/c %*
RECEIPTS						
Proceeds from Domestic and Foreign Grants	*0*	*69,000,000*	*69,000,000*	*0*	*69,000,000*	*0%*
Exchequer releases	*5,080,000,000*	*1,000,000,000*	*6,080,000,000*	*6,079,999,999*	*1*	*100%*
Total Receipts	***5,080,000,000***	***1,069,000,000***	***6,149,000,000***	***6,079,999,999***	***69,000,001***	*99%*
Payments						
Payments - Development	*3,000,000,000*	*0*	*3,000,000,000*	*2,999,897,645*	*102,355*	*100%*
Grants to Other Govt Agencies	*2,080,000,000*	*1,000,000,000*	*3,080,000,000*	*3,080,000,000*	*0*	*100%*
Grand Total	***5,080,000,000***	***1,000,000,000***	***6,080,000,000***	***6,079,897,645***	***102,355***	***100%***
Surplus/Deficit	***0***	***69,000,000***	***69,000,000***	***102,354***	***68,897,646***	*100%*

(a) ***Variance analysis****: [Provide below a commentary on significant underutilization (below 90% of utilization) and any overutilization (above 100%)]*

(b) ***Reallocations within the year***: *(Explain whether the changes between the original and final budget are as a result of reallocations within the budget or other causes as per IPSAS 1.7.23.) The actual on a comparable basis in the Summary Statement of Appropriation: Recurrent and Development Combined should agree to the amounts reported in the Statement of Receipts and Payments.*

The Ministry's financial statements were approved on 11. 08. *2022and signed by:*

.....

Name:Dr. IBRAHIM M MOHAMED

Principal Secretary

.....

Name: ELECTINA W WANYONYI

Head of Accounting Unit

ICPAK M/No 3674

11 (c) Budget Execution by Programmes and Sub-Programmes for FY2021/22

Programme/Sub-programme	Original Budget 2021	Adjustments	Final Budget 2021	Actual on comparable basis	Budget utilization difference	%
	Kshs	Kshs	Kshs	Kshs	Kshs	
1041-100 Headquarter Administrative Services	1,989,398,011	(70,000,000.00)	1,919,398,011	1,710,222,955	209,175,056	91%
1041-201 Headquarter Administrative Services	112,012,307,976	14,606,898,260.00	126,619,206,236	124,807,981,159	1,811,225,077	93%
Other Grants and transfers	670,000,000	1,400,000,000.00	2,070,000,000	2,070,000,000	0	100%
Development 1041-300	3,000,000,000	0.00	3,000,000,000	2,999,897,645	102,355	73%
Development 1041-502	1,080,000,000	2,000,000,000	3,080,000,000	3,080,000,000	0	88
	118,751,705,987	**17,936,898,260.00**	**136,688,604,247**	**134,668,101,759**	**2,020,502,488**	**92**

12. Notes to the Financial Statement

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

1. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (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.

2. Reporting Ministry

The financial statements are for the Ministry of Defence. The financial statements encompass the reporting entity as specified under Section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity:

i. Rehabilitation of Railway
ii. Completion of Uhuru Garden National Museum and Monument
iii. Construction of Regional Hospitals in Kahawa,Eldoret, Mombasa and Isiolo
iv. Completion of Ulinzi Sports Complex
v. Construction of Level 4 Hospitals For Kenya Police Service and The State Department of Corrections
vi. Rehabilitation of Boreholes at Kenya Airports Authority
vii. Drilling of boreholes for Kenya Forestry Department

3. Reporting Currency

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

4. Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by Ministry of Defence for all the years presented.

a) Recognition of Receipts

The *Ministry* recognises all receipts from the various sources when the event occurs, and the related cash has been received by the *Ministry.*

(i) Transfers from the Exchequer

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving *Ministry.*

(ii) External Assistance

External assistance is received through grants and loans from multilateral and bilateral development partners. Grants and loans 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/loan 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. A similar recognition criteria is applied for loans received in the form of a direct payment.

During the year ended 30th June 2022, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

Significant Accounting Policies (Continued)

(iii) Other receipts

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

b) Recognition of payments

The Entity recognises all payments when the event occurs, and the related cash has been paid out by the *Ministry*.

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 paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

iii) Interest on Borrowing

The Ministry did not incur any interest due to borrowing activities

iv) Principal on borrowing

There was no principal repayment due to borrowing by the Ministry

v) Acquisition of Fixed Assets

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

A fixed asset register is maintained and a summary provided for purposes of consolidation. *This summary is disclosed as at note 8 to the financial statements.*

vi) In-kind contributions

In-kind contributions are donations that are made to the Entity 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 *Ministry* 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.

vii) Third Party Payments

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

c) 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.

A bank account register is maintained and a summary provided for purposes of consolidation. *This summary is disclosed as at note 10a to the financial statements.*

Restriction on Cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2022, this amounted to Kshs ***2,464,001,619*** compared to Kshs ***740,341,425*** in prior period as indicated on note 12. There were no other restrictions on cash during the year.

d) Imprests and advances

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

Significant Accounting Policies (Continued)

e) Third party deposits and retention

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted for National Government Ministries and Agencies.

Other liabilities including pending bills are disclosed in the financial statements.

f) Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

g) Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits and retentions, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament in *June 2021 for the period 1st July 2021 to 30th June 2022* as required by Law and there were 2 supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements. Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-ministry transfers.

Significant Accounting Policies (Continued)

h) Comparative Figures

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

i) Subsequent Events

There have been no events after the financial year end with a significant impact on the financial statements for the year ended *30th June 2022.*

j) Prior Period Adjustment

During the year, errors that have been corrected are disclosed *under note 14* explaining the nature and amounts.

k) Related Party Transactions

Related party means parties are related if one party has the ability to:

a) Control the other party or
b) Exercise significant influence over the other party in making financial and operational decisions, or if the related party entity and another entity are subject to common control.

Relates party transaction is a transfer of resources of obligations between related parties regardless of whether a price is charged.

Significant Accounting Policies (Continued)

l) 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 *Ministry* 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. **Note 17.4** and *Annex 7* of this financial statement is a register of the contingent liabilities in the year.

Notes to the Financial Statements

1 Exchequer Releases

Description	2021-2022	2020-2021
	Kshs	Kshs
Total Exchequer Releases	*134,677,327,293*	*115,511,792,399*
Total	***134,677,327,293***	***115,511,792,399***

The Budget for the Ministry was increased in the reporting period due to addition of SAGAs and increase in staff for both the KDF and and the Civilian component.

2 Transfers from other Government Entities

Description	2021-2022	2020-2021
	Kshs	Kshs
Transfers from Central government entities		
Pensions	131,815,107	124,409,778
RTCDC	8,606,756	6,735,475
Ministry of Interior	1,035,861,989	301,000,000
Ministry of Health	1,716,226,520	
Ministry of Transport	40,215,895	47,377,800
Ministry of ICT & Youth	6,808,982	
Ministry of Environment	10,530,231	
State House	778,192,768	
TOTAL	***3,728,258,248***	***479,523,053***

Notes to the Financial Statements (Continued)

2a Transfers from other Government Entities

	Kshs	Kshs	Kshs	Kshs
			2021-2022	**2020-2021**
Transfers from Central government entities	Recurrent	Development	Total	
Pensions	131,815,107		131,815,107	124,409,778
RTCDC	8,606,756		8,606,756	6,735,475
Ministry of Interior				
Operation Fagia Misitu	154,150,000		154,150,000	301,000,000
Operation Amani Boni	56,250,000		56,250,000	
National Police Service Level 4 Hospital	400,000,000		400,000,000	
State Department of Correction Level 4 Hospital	400,000,000		400,000,000	
Ministry of Interior	25,461,989		25,461,989	
State House (Nairobi Metropolitan Service)				
Uhuru & Central Park Rehabilitation Project	778,192,768		778,192,768	
Ministry of Transport				
Kenya Railways				23,377,800
Kenya Airport Authority	40,215,895		40,215,895	24,000,000
Ministry of Health				
Ministry of Health	1,716,226,520		1,716,226,520	0
Ministry of ICT				
Communication Authority	6,808,982		6,808,982	
Ministry of Environment & Natural Resources -				
Kenya Forestry Services	10,530,231		10,530,231	
Total	***3,728,258,248***		***3,728,258,248***	***479,523,053***

During the period under review, the Ministry was engaged as an implementing agency by other Government MDA in line with Government Multi-Agency-Approach to implementation of Key Governement Projects. This resulted in increased funds remitted to the Ministry.

3 Proceeds from Foreign Borrowing

	2021-2022	2020-2021
	Kshs	Kshs
Foreign Borrowing – (A-in-A)	0	6,742,786,689
Total	***0***	***6,742,786,689***

(The Ministry did not incur any expenditure in relation to the ECA Projects during the financial year in review)

4 Rembursements and Refunds

	2021-2022	2020-2021
	Kshs	Kshs
Reimbursement and Refund	473,140,000	751,148,165
Total	***473,140,000***	***751,148,165***

5 Compensation of Employees

	2021-2022	2020-2021
	Kshs	Kshs
Basic salaries of permanent employees	765,713,312	652,098,492
Personal allowances paid as part of salary	523,218,986	376,744,374
Total	***1,288,932,298***	***1,028,843,167***

6a Use of Goods and Services

	2021-2022	2020-2021
	Kshs	Kshs
Utilities, supplies and services		
Communication, supplies and services	11,657,796	10,972,610
Domestic travel and subsistence	85,411,835	15,874,300
Foreign travel and subsistence	19,713,899	5,197,250
Printing, advertising and information supplies & services	11,474,064	4,085,045

Training expenses	43,466,057	51,982,232
Hospitality supplies and services	46,263,642	39,362,643
Specialized materials and services	34,060,073	39,931,289
Office and general supplies and services	14,154,774	28,070,876
Fuel Oil and Lubricants	22,420,547	32,741,352
Other operating expenses	69,838,233	64,014,521
Routine maintenance – vehicles and other transport equipment	25,451,326	23,904,714
Routine maintenance – other assets	10,061,547	11,834,660
Research, Feasibility Studies	-	1,500,000
Total	***393,973,793***	***329,471,494***

6b Use of Goods and Services

	2021-2022	2020-2021
	Kshs	Kshs
Recurrent Payments - Military	124,230,749,753	107,760,115,643
Development Expenditure - Military	2,999,897,645	2,999,201,554
National Air Assets Department	577,231,406	372,784,408
Total	***127,807,878,804***	***111,132,101,605***

7 Grants and Transfers to other Government Entities

Description	2021-2022	2020-2021
	Kshs	Kshs
Transfers to National Government entities		
Kenya Shipyard Limited	3,000,000,000	1,800,000,000
Kenya Meat Commission	1,950,000,000	962,601,546
Kenya Space Agency	200,000,000	150,000,000
TOTAL	***5,150,000,000***	***2,912,601,546***

Notes to the Financial Statements (Continued)

8 Acquisition of Assets

Non -Financial Assets	2021-2022	2020-2021
	Kshs	Kshs
Overhaul and Refurbishment of Construction and Civil Works	-	29,699,999
Purchase of Vehicles and Other Transport Equipment	9,960,414	30,000,000
Overhaul of Vehicles and Other Transport Equipment	-	-
Purchase of Office Furniture and General Equipment	14,381,850	2,730,000
Purchase of Specialized Plant, Equipment and Machinery	2,974,600	0
Sub-total	***27,316,864***	***62,429,999***

9 Other Payments

Description	2021-2022	2020-2021
	Kshs	Kshs
Transfers from Central government entities		
Pensions	118,905,282	124,409,778
RTCDC	8,606,756	6,735,475
Ministry of Interior	1,035,861,989	301,000,000
Ministry of Transport	40,215,895	47,377,800
Ministry of Health	1,716,226,520	0
Ministry of ICT & Youth	6,808,982	
Ministry of Environment	10,530,231	
State House	778,192,768	
UN Compensation Reimbursement	473,140,000	751,148,165
Direct Payments – National Treasury		6,742,786,689
TOTAL	**4,188,488,423**	***7,973,457,907***

(The Ministry did not benefit from Direct Payments from National Treasury in relation to ECA Projects. However there was significant increase in Payments in relation to Agency Payments for Implementation of Projects in a Multi-agency approach to Project implementation.)

Notes to the Financial Statements (Continued)

10a Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate (if in foreign currency)	2021-2022	2020-2021
				Kshs	Kshs
Recurrent,MoD,1000181435	Ksh	Recurrent		21,085,931	46,174,947
Deposit MoD, 1000182032	Ksh	Deposit		1,926,439,822	713,362,884
CBK, 1000182466, CBK 165	Ksh	0		0	0
Development MoD	Ksh	Development		1,049,427	169,643
MoD, 1000387246	Ksh	Revenue		0	0
Ulinzi Sports Complex Deposit MoD, 1000477873	Ksh	Deposit		40,770,497	26,978,541
Escrow	Kshs	Project Deposit		496,791,300	
Total				***2,486,136,977***	***786,686,015***

(Deposit accounts increased due to amounts transferred for implementation of projects with Ministry of Health, This funds were however ***not fully utilized*** *at the close of reporting period. There were funds deposited in Escrow account awaiting instructions on implementation in relation to Projects to be undertaken by the Ministry)*

10b Cash in Hand

Description	2021-2022	2020-2021
	Kshs	Kshs
DHQ	0	0
Total	**0**	0

11 Accounts Receivable

Description	2021-2022	2020-2021
	Kshs	Kshs
Government Imprests	4,475,000	4,475,000
Clearance accounts	0	0
Total	***4,475,000***	***4,475,000***

Name of Officer or Institution	*Date Imprest Taken*	*Amount Taken*	*Amount Surrendered*	*Balance*
		Kshs	*Kshs*	*Kshs*
Capt B M Macharia	April 2004	4,475,000	0	4,475,000
Total		***4,475,000***	***0***	***4,475,000***

Notes to the Financial Statements (Continued)

12 Accounts Payables

Description	2021-2022	2020-2021
	Kshs	Kshs
Deposits	2,464,001,619	740,341,425
Total	***2,464,001,619***	***740,341,425***

13 Fund Balance Brought Forward

Description	2021-2022	2020-2021
	Kshs	Kshs
Bank accounts	786,686,015	596,435,311
Surrendered Balances Recurrent Vote	-46,174,947	-6,719,894
Surrendered Balances Development Vote	-169,643	-5,561,365
	740,341,425	**584,154,052**
Cash in hand	0	0
Accounts Receivables	4,475,000	4,475,000
Accounts Payables	-740,341,425	-584,154,052
Total	***4,475,000***	***4,475,000***

Provide short appropriate explanations as necessary]

Notes to the Financial Statements (Continued)

14. Prior Year Adjustments

	Balance b/f FY 2021/2022 as per audited financial statements	Adjustments during the year relating to prior periods	Adjusted ** Balance b/f FY 2020/2021
Description of the error	**Kshs**	**Kshs**	**Kshs**
Bank account Balances	786,686,015	46,344,588	740,341,427
Prior Year disclosure			
Cash in hand			
Accounts Payables			
Receivables			
Others (*specify*)			
Total	***786,686,015***	***46,344,588***	***740,341,427***

[Provide short appropriate explanations as necessary)

The adjustments made during the Financial year was in relation to surplus at the end of the Previous reporting period (Jun 2021). Part of the funds was in relation to receipts on the last day of the financial year (schedule attached; this were paid out during the financial year) whereas part of the balances was surplus which was surrendered to the National Treasury during the period under review hence resulting in the adjustments in the adjustments.

15 (Increase)/ Decrease in Advances and Imprests

Description of the error	2021 - 2022	2020 - 2021
	KShs	KShs
Outstanding Imprest as at 1st July 2021 (A)	4,475,000	4,475,000
Imprest issued during the year (B)	1,088,552,228	885,589,474
Imprest surrendered during the Year (C)	(1,088,552,228)	(885,589,474)
Net changes in account receivables D= A+B-C	**4,475,000**	**4,475,000**

(Receivable as at 1St July for FY 2021/22 should be the same as receivable as at 30th June for FY 2020/21)

16 Increase/ (Decrease) in Retention and Third-Party Deposits

	2021 - 2022	2020 - 2021
	KShs	KShs
Deposit and Retentions as at 1st July 2020 (A)	740,341,425	584,154,052
Deposit and Retentions held during the year (B)	5,232,644,269	1,694,326,987
Deposit and Retentions paid during the Year (C)	4,005,775,375	1,538,139,614
Net changes in account payaables D= A+B-C	**1,967,210,319**	**740,341,425**

17 Other Important Disclosures

Related party disclosure is encouraged under non-mandatory section of the Cash Basis IPSAS. The following comprise of related parties to the Ministry of Defence

i) Key management personnel that include the Cabinet Secretaries and Accounting Officers

ii) Other Ministries Departments and Agencies and Development Projects;

iii) County Governments; and

iv) State Corporations and Semi-Autonomous Government Agencies.

17.1 Related party transactions:

Description	2021-2022	2020-2021
	Kshs	Kshs
Key Management Compensation		
Transfers to Related Parties		
Transfers to other MDAs	5,070,000,000	2,912,601,546
Total Transfers to Related Parties	**5,070,000,000**	**2,912,601,546**
Transfers from Related Parties		
Transfers from the Exchequer	134,677,327,293	115,511,792,399
Transfers from other MDAs	3,728,258,248	479,523,053

(Insert any other Transfers Received from Govt.)		
Total Transfers from Related Parties	**138,405,585,541**	**115,991,315,452**

Notes to the Financial Statements (Continued)

17.2: Pending Accounts Payable (See Annex 1)

Description	Balance b/f FY 2020/2021 Kshs	Additions for the period Kshs	Paid during the year Kshs	Balance c/f FY 2021/2022 Kshs
Construction of Buildings				
Construction of Civil Works				
Supply of Goods		1,755,046,240	0	1,755,046,240
Supply of Services				
Total		**1,755,046,240**		**1,755,046,240**

Notes to the Financial Statements (Continued)

17.3: Other Pending Payables (See Annex 3)

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2021/22	Outstanding Balance 2020/21	Comments
	A	B	c	d=a-c		
Construction of buildings						
1.						
2.						
Sub-Total						
Construction of civil works						
3.						
4.						

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2021/22	Outstanding Balance 2020/21	Comments
Sub-Total						
Supply of goods						
5.	0			1,755,046,240	0	
6.						
Sub-Total						
Supply of services						
7.						
8.						
Sub-Total				1,755,046,240	0	
Grand Total				**1,755,046,240**	0	

Notes to the Financial Statements (Continued)

17.4 Contingent Liabilities

Contingent liabilities	2021-2022	2020-2021
	Kshs	Kshs
Court case against Ministry of Defence	1,807,350,099	2,536,677,187
Bank guarantees in favour of subsidiary		
Contingent liabilities arising from PPPs		
Total	**1,807,350,099**	**2,536,677,187**

Notes to the Financial Statements (Continued)

17.5 **Progress on follow up of Prior Years Auditor-General's recommendations**

The following is the summary of issues raised by the Auditor-General during the prior year and management comments that were provided.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*

Guidance Notes:

(i) Use the same reference numbers as contained in the external audit report.

(ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management.

(iii) Before approving the report, discuss the timeframe with the appointed focal persons within your entity responsible for implementation of each issue.

(iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Principal Secretary

Head of Accounting Unit

18 Annexes

Annex 1 - Analysis of Pending Accounts Payable

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2021/22	Outstanding Balance 2020/21	Comments
	A	B	c	d=a-c		
Supply of goods						
1	0			1,755,046,240		
Sub-Total				1,755,046,240		
Grand Total				**1,755,046,240**		

Annex 2 – Summary of Fixed Asset Register

Asset class	Historical Cost b/f (Kshs) 2020/2021	Additions during the year (Kshs)	Disposals during the year (Kshs	Transfers in/(out) during the year	Historical Cost c/f (Kshs) 2021/22
Buildings and structures	26,699,999		0	0	26,699,999
Transport equipment	135,938,729	9,960,414	0	0	145,899,143
Office equipment, furniture and fittings	62,656,157	14,381,850	0	0	77,038,007
ICT Equipment	47,774,299	2,974,600	0	0	50,748,899
Total	***273,069,184***	***27,316,864***	***0***		***300,386,048***

(NB: The balance as at the end of the year is the cumulative cost of all assets bought and inherited by the Ministry, Department or Agency. Additions during the year should tie to note 18 on acquisition of assets during the year. Ensure this section is complete and covers all the entity's assets. Ensure the complete fixed asset register is separately prepared as per circular number 5/2020 and follow up reminder of circular No.23/2020 of The National Treasury)

Annex 3 – List of Projects implemented by (Ministry of Defence)

Ref	Project Name	Principal activity of the project	Accounting Officer	Project consolidated in these financial statements(yes/no)

Annex 4 – List of SCs, Sagas and Public Funds Under Ministry of Defence

Ref	SC, SAGA or Public Fund's name	Principal activity of entity	Accounting Officer	Amount transferred during the year	Inter- entity reconciliations done?(yes/no)
1	Kenya Space Agency	National Space Management and Policy	Director General Brig Hillary B Kipkosgey	200,000,000	Yes
2	Kenya Shipyard Limited	Building of Shipyards and Maritime Vessels	Managing Director - Brig Paul Otieno	3,000,000,000	Yes
3	Kenya Meat Commission	Promote the country's meat industry through purchase and slaughter of livestock products in the local and export markets	Managing Commissioner - Brig James N Githaiga	1,950,000,000	Yes

Annex 5 – Contingent Liabilities Register

Seperate Schedule attached

Annex 6- Reports Generated from IFMIS

The following financial reports generated from IFMIS should be attached as appendices to these financial statements.

i. GOK IFMIS Comparison Trial Balance
ii. FO30 (Bank reconciliations) for all bank accounts
iii. GOK IFMIS Receipts and Payments Statement
iv. GOK IFMIS Statement of Financial Position
v. GOK IFMIS Statement of Cash Flows
vi. GOK IFMIS Notes to the Financial Statements
vii. GOK IFMIS Statement of Budget Execution
viii. GOK IFMIS Statement of Deposits
ix. GOK IFMIS Budget Execution by Programme and Economic Classification
x. GOK IFMIS Budget Execution by Heads and Programmes
xi. GOK IFMIS Budget Execution by Programmes and Sub-programmes