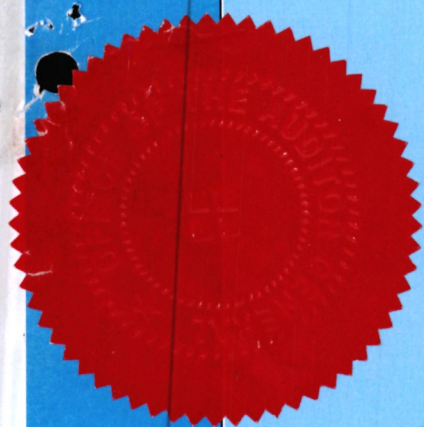


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

**OF
THE AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
STORES AND SERVICES FUND**

**FOR THE YEAR ENDED
30 JUNE 2018**

STATE DEPARTMENT OF PUBLIC WORKS



MINISTRY OF TRANSPORT INFRASTRUCTURE, HOUSING AND URBAN DEVELOPMENT

**STATE DEPARTMENT FOR PUBLIC WORKS
AMENDED SUPPLIES BRANCH STORES AND SERVICES FUND**

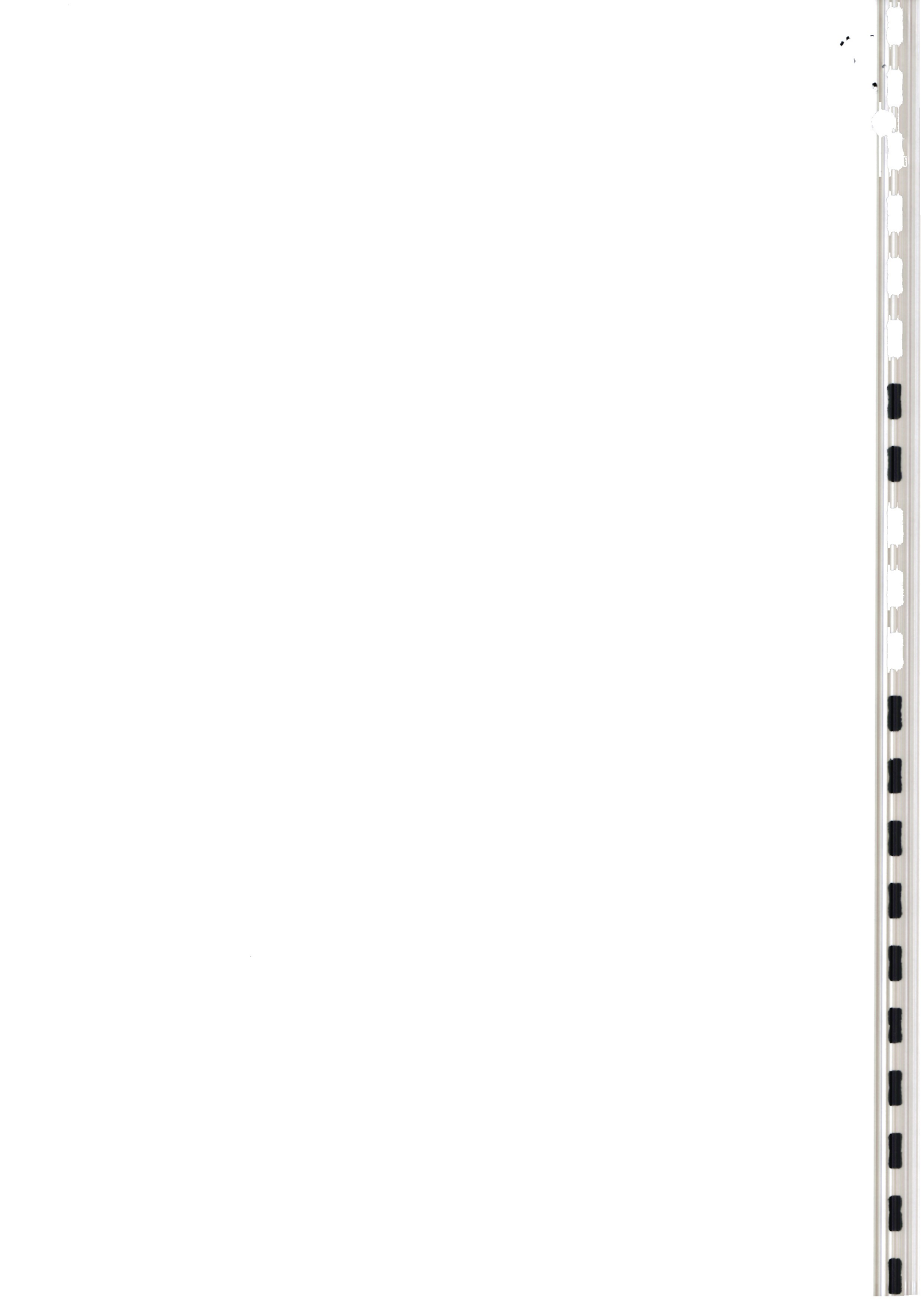
AMMENDED ANNUAL REPORT AND FINANCIAL STATEMENTS



FOR THE FINANCIAL YEAR ENDED

JUNE 30,2018

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



Supplies Branch Stores and Services Fund

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Supplies Branch Stores and Services Fund

2. KEY STORES AND SERVICES FUND INFORMATION AND MANAGEMENT

(a) Background information

Supplies Branch is one of the Department under the state Department of Public Works and it is located in the Industrial area along Likoni Road. It occupies an area of approximately 20 acres owned by the Ministry of Lands, Housing & Urban Development. Within its compound, the following Government Agencies are accommodated: - the Kenya National Examinations Council (KNEC), the Independent Electoral and Boundaries Commission (IEBC), the Kenya Police Central Engineering Workshop, the Central Kenya Police Service Armory, the Kenya Amorous School. The Ministry of Foreign Affairs Warehouse, the Ministry of Education Warehouse, the Ministry of Finance - Pensions Department, Ministry Interior and Co-ordination - Immigration Department and some staff accommodation. In addition, the Department also runs the Government Petrol Station situated along Machakos Road, Industrial Area.

Supplies Branch has seven Regional depots namely Mombasa, Kisumu, Nakuru, Nyeri, Kakamega, Embu, and Garissa and four sub-depots in Kisii, Bungoma, Voi, and Murang'a.

Supplies Branch was established by the Colonial Government vide treasury Circular Ref. No. 12/57/02 of 19th January, 1960 with a capital fund of K\$ 750,000 (ksh. 15 million). The main objective was to procure common user items (for the Government) in bulk to realize the benefits of economies of scale, which is true as of today.

Treasury Circular Ref. No. CFN. 12/18/01 OF 9th May, 1961 accorded Supplies Branch the role of investigations of prices, the quality and source of items.

Treasury Circular No. BFN. 12/18/01 OF 19th January, 1971 and Ref. AFN 226/02/075 of 30th May, 1974 highlighted the problem of splitting of orders to avoid approvals by the Tender Committees

In 1984, the emergency of the District focused Regional Development, subsequent liberation and conflict of interest altered the monopoly of Supplies Branch.

This resulted in overstocking and weak stock control systems, frequent stock out, dead stocks, poor storage, damages, pilferages, debts and shortcomings.

Supplies Branch as a department has been operating under various Ministries, at its creation it was in the Ministry of Public Works, then later moved to the Ministry Of Finance, then to the Office of the President and back to Ministry of Works and Housing in the mid 1970's and currently in the Ministry Of Lands, Housing & Urban Development.

VISION

To procure best quality common user items/services at competitive market prices within the Country.

MISSION

To ensure that the Government realizes savings in the procurement of common- user items/services both effectively and efficiently through bulk purchasing, hence realizing the economies of scale.



Supplies Branch Stores and Services Fund

THE MANDATE

- 1) To ensure that the Government realizes savings in the procurement of common-user items which are needed by its Ministries/Departments, Government Institutions/Parastatals and County Governments through bulk purchasing.
- 2) Sourcing of Quantity and Term Contracts.
- 3) Storage of furniture for VIP and state functions.
- 4) Sourcing and supply of fuel to Government Ministries/Departments and Institutions.

Supplies Branch is headed by the Officer-in-charge at the level of the Senior Deputy Secretary. The Department has three divisions; procurement which is headed by a Principal Supply Chain Management Officer and Accounts headed by a Chief Accountant and the Administration headed by a Senior Assistant Secretary.

(b) Principal Activities/Mission

To ensure that the Government realizes savings in the procurement of common-user items/services both effectively and efficiently through bulk purchasing, hence realizing the economies of scale.

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Principal Secretary	Prof. Arch. Paul Mwangi Maringa. (PhD)
2.	Officer-In-Charge Supplies Branch	Evans Keronche
3.	Director of Administration	Mike Kimoko
4.	Head of accounting unit	Michael O. Ngolo

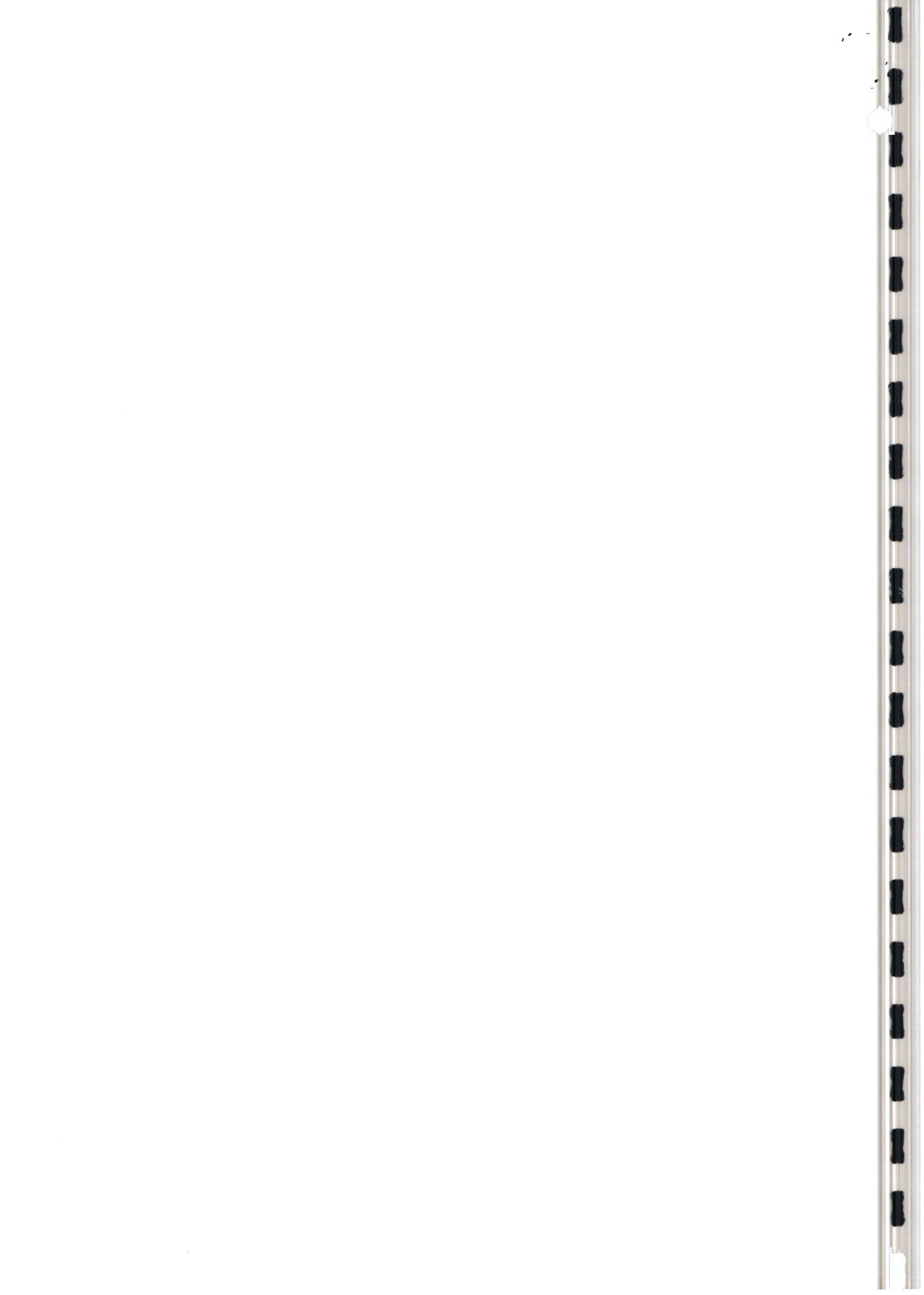
(d) Headquarters

P.O Box 30071 - 00100

Supplies Branch -Likoni

Industrial Area

Nairobi, Kenya



Supplies Branch Stores and Services Fund

(e) Bankers

Central Bank of Kenya

Haile Selassie Avenue

P.O Box 60,000

City Square 00200

Nairobi, Kenya

(f) Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary towers, University Way

P.O Box 30084

GOP 00100

Nairobi, Kenya

(g) Principal Legal Adviser

The Attorney General

State law office

Harambee Avenue

P.O Box 40112

City Square 00200

Nairobi, Kenya



Supplies Branch Stores and Services Fund

2. REPORT OF THE ACCOUNTING OFFICER

The Accounting Officer submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the Stores and Services Fund's affairs.

principal activities

The principal activities of the Stores and Service Fund are to ensure that the Government realizes savings in the procurement of common-user items/ services both effectively and efficiently tghrough bulk purchasing, hence realizing the economies of scale.

Results

The results of the Stores and Service Fund for the year ended June 30, 2018 are set out on page..... to.....

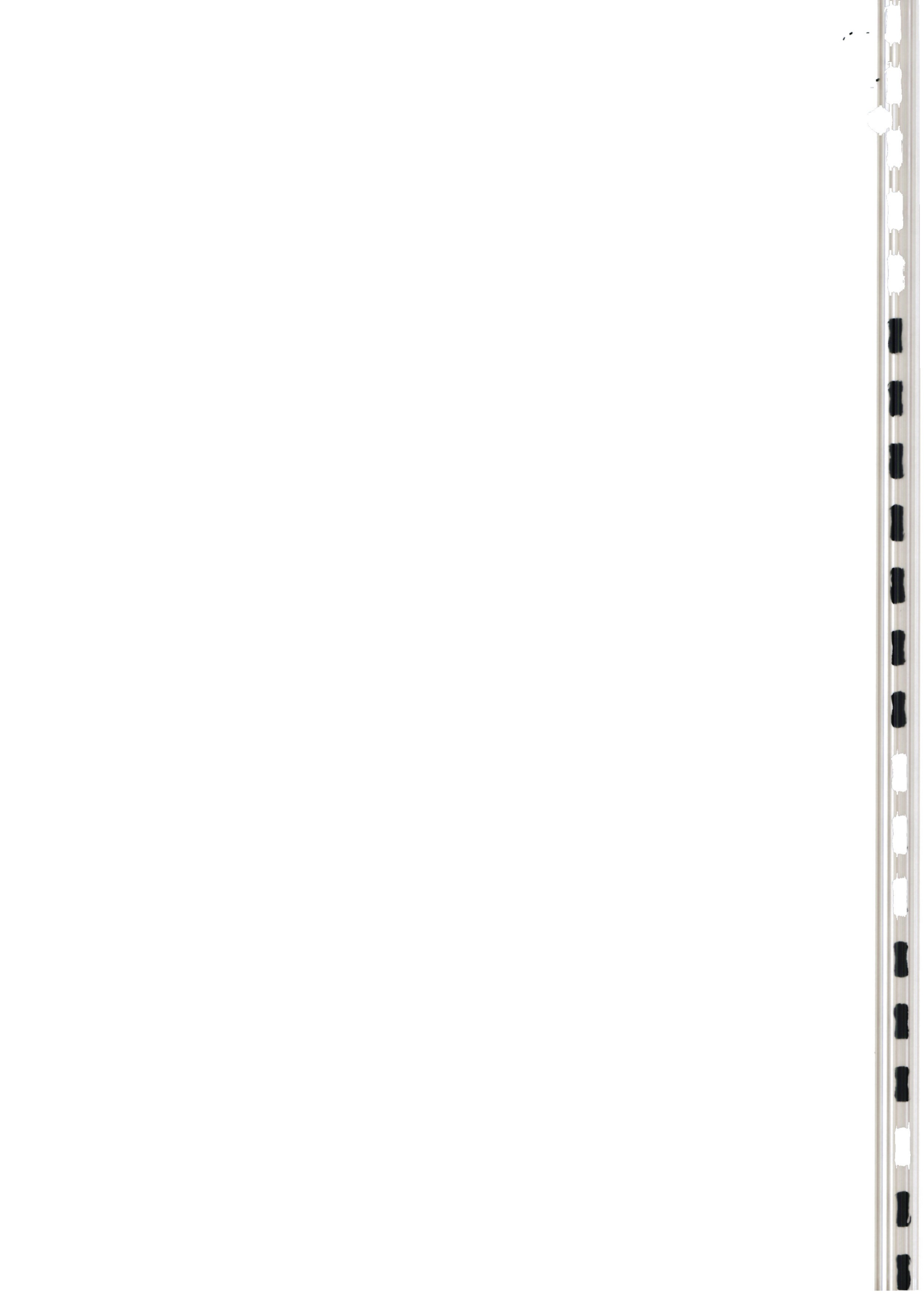
Auditors

The Auditor General is responsible for the statutory audit of the Stores and Services Fund in accordance with the Section..... Of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nomminate other auditors to carry out the audit on his behalf.

Accounting officer

Nairobi

Date.....



Supplies Branch Stores and Services Fund

3. STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, require the Accounting Officer to prepare financial statements in respect of the Stores and Services Fund, which give a true and fair view of the state of affairs of the Stores and Services Fund at the end of the financial year/period and the operating results of the Stores and Services Fund for that year/period. The Accounting officers are also required to ensure that the Stores and Services Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Stores and Services Fund. The accounting Officers are also responsible for safeguarding the assets of the Stores and Services Fund.


The Accounting Officers are responsible for the preparation and presentation of the Stores and Services Fund financial statements, which give a true and fair view of the state of affairs of the Stores and Services Fund for and as at the end of the financial year (period) ended on June 30, 2016. 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 effective throughout the reporting period; (ii) maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the entity; (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 stores and Services Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


the Accounting Officer accept responsibility for the Stores and Services Fund financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the mannaer required by the PFM Act and the State Corporations Act. The accounting officer are of the opinion that the Stores and Services Fund financial statements give a true and fair view of the state of Stores and Services Fund transactionsd during the financial year ended june 30, 2016, and of the Stores and Services Fund financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Stores and Services Fund, which have been relied upon in the preparation of the Stores and Services Fund financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the accounting officer to indicate that the stores and Services fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The stores and Services Fund financial statements were approved by the Accounting Officer on 2018 and signed on its behalf by:


.....
Accounting Officer


.....
Head of Accounting Unit



REPUBLIC OF KENYA

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Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON STORES AND SERVICES FUND FOR THE YEAR ENDED 30 JUNE 2018 - STATE DEPARTMENT OF PUBLIC WORKS

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Stores and Services Fund set out on pages 1 to 12, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, the statement of changes in net assets and statement of cash flows 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Lack of Budget, Ledgers and Trial Balance

During the year ended 30 June 2018, Management did not avail an approved budget, ledgers and the Trial Balance for Stores and Service Fund.

In the circumstances, it was not possible to confirm the accuracy and correctness of the Revenue from sale of goods amounting to Kshs.7,211,800 and the expenses totaling to Kshs.6,696,330 reflected in the statement of financial performance for the year ended 30 June 2018.

2.0 Bulky Purchase of Stores and Fuel

The bulky purchase of stores and fuel expenditure of Kshs.6,696,330 as reflected in the statement of financial performance is at variance with the supporting schedules and payment vouchers balance of Kshs.74,724,385 resulting to unexplained difference of Kshs.68,028,055. The expenditure is therefore understated by the same amount.

3.0 Inventories

3.1 Unaccounted for Stocks

The inventory balance of Kshs.130,736,547 as at June 2018 as per the statement of financial position is at variance with the Inventory stock sheets balance of Kshs.515,470 resulting to unexplained difference of kshs.130,221,077.

Report of the Auditor-General on the Financial Statements of Stores and Services Fund - State Department of Public Works for the year ended 30 June 2018

In the circumstance, it was not possible to ascertain the correctness and accuracy of the Inventory balance of Kshs.130,736,547 as at 30 June, 2018.

3.2 Stocks Transferred to Regional Offices

The Fund transferred stock worth Kshs.5,138,117 to Regional Offices (Kisumu Kshs.3,162,689 and Kisii Kshs.1,975,428) during the year under audit. There were no returns from these Regions to confirm whether the said stocks were received and taken on charge and accounted for.

4.0 Cash and Bank Balances

4.1 Cash in Transit

The cash and bank balance of Kshs,6,847,026 as at 30 June 2018 include Kshs.377,860 referred to as cash transit which has been outstanding since 2016/2017 and no further details were provided.

4.2 Lack of Bank Reconciliation Statements

The cash and bank balance of Kshs.6,847,025 as at 30 June 2018 was not supported with a bank reconciliation statement. Management did not prepare bank reconciliation statements as required under Public Finance Management Act of 2012. It was therefore not possible to ascertain the completeness and accuracy of cash and bank balance of Kshs.6,847,025 as at 30 June 2018.

5.0 Receivables from Exchange Transactions

5.1 Long Outstanding Receivables

The receivables from exchange transactions balance of Kshs.1,232,261 as at 30 June 2018 include receivables which have been outstanding for over one year and whose recoverability is doubtful. Management has not made any provision for doubtful debts. Further, management did not provide receivables age analysis.

6.0 Sale of Goods and Services

The sale of goods and services received during the year amounted to Kshs.7,211,800 as compared to Kshs.113,247,541 in the previous year 2016/2017 representing 94% reduction. Management has not provided evidence of any efforts being made to reverse the trend in future and sustain its services.

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 communicate in my report.

Other Matters

Unresolved Previous Audit Matters

1.0 Presentation of Financial Statements

Examination of the Fund's financial statements for the year ended 30 June 2017 revealed instances of noncompliance with the reporting template issued by Public Sector Accounting Standards Board (IPSAB) as outlined below;

1.1 Unsigned Pages in the Financial Statements

The statements below were not signed by the Fund's management as required in the template

- i. Statement of financial performance
- ii. Statement of changed in net assets
- iii. Statement of cash flows

1.2 Missing Financial Statements Header

The financial statements as presented did not indicate the name of the Fund and the reporting period on top of each page as required in the template issued by the Board.

1.3 Wrong Description of Net Operating Results

The statement of financial performance showed the net operating result as a "Deficit for the period". This description was not spaced and was also incorrect as the operations of the Fund resulted into net surplus.

1.4 Missing Disclosure Notes on Bulk Purchase of Stores and Fuel

The statement of financial performance showed expenditure item described as bulk purchase of stores and fuel with a balance of Kshs.96,461,850. This item was not properly spaced and also lacks a supporting disclosure note as required by International Public Sector Accounting Standard (IPSAS) 1.

1.5 Missing Statement of Comparison of Budget and Actual Amount

Template issued by Public Sector Accounting Standards Board (IPSAB) require that financial statements to have statement of comparison budget and actual amount which is also a requirement under paragraph 24 of International Public Sector Accounting Standards (IPSAS). It was however observed that the Funds financial statements as presented did not have this statement and did not comply with the Board's reporting standards.

2.0 Inaccuracies in the Financial Statements

A review of the Fund's financial statements for the year ended 30 June 2017 revealed several misstatements as outlined below:

2.1 Errors in Comparatives

A review of the comparatives balances in the financial statements showed differences with the audited balances for the year ended 30 June 2016 as follows:

Description	2016/17 (Comparatives) Kshs.	2015/16 (Audited) Kshs.	Variance Kshs.
Revenue			
Sales of goods	73,273,198	96,639,911.34	(23,366,712.63)
Expenses			
Bulk purchase of stores & fuel	68,260,372	120,017,323.45	(51,756,951.45)
Deficit for the period	5,012,826.71	(23,377,412.11)	28,390,238.82
Current Assets			
Cash and Equivalents	147,892,435	155,840,626	(7,948,191)
Receivables	65,437,436	65,320,196	117,240
Inventories	131,879,858	130,121,256	1,758,602
Current Liabilities			
Payables	76,302,909	52,994,135	23,308,774
Payment in Advance	151,928,903.39	149,591,532	2,337,371
Non-Current Liabilities			
Borrowings	844,003,800	844,003,247	553
Financing			
Accumulated surplus	(848,001,254)	(816,282,207)	(31,719,047)

The above differences were not reconciled or explained.

3.0 Statement of Financial Performance

A review of the statement of financial performance for the year ended 30 June 2017 revealed several discrepancies as outlined below:

3.1 Undisclosed Fund Operating Expenditure

The statement of financial performance showed sales of goods and services amount of Kshs.100,047,544 and expenditure on Bulk Purchase of stores and fuel of Kshs.96,461,850 and a resultant surplus from operations of Kshs.3,585,694. It was however noted that the statement did not disclose costs related to operations of the Fund such as Staff costs, utilities, motor vehicle running expenses and office running expenses. Consequently, the statement of financial performance does not reflect the correct position on results of the operations of the Fund.

3.3 Sales of Goods

The statement also showed amount of Kshs.100,047,544 as receipts from sale of goods which was not analyzed and did not have supporting documents. It was therefore not

possible to confirm the accuracy and completeness of sales of goods amount of Kshs.100,047,544 for the year ended 30 June 2017.

3.4 Bulk Purchases of Stores and Fuel

The statement further showed an amount of Kshs.96,461,850 for bulk purchase of stores and fuel. However, a schedule given in support of this amount did not show details of the payees and the date of payments. Further, management did not avail payment vouchers and the supporting procurement records for audit verification. In the circumstances the propriety, correctness and accuracy of the amount for bulk purchase of store and fuel in the financial statements could not be confirmed.

4.0 Statement of Financial Position

Examination of balances in the statement of financial position revealed the following discrepancies:

4.1 Receivables

The statement reflected receivables from exchange transactions balance of Kshs.65,437,436 which was not analyzed. Further, management did not avail a receivables ledger or correspondences with the said debtors for audit verification. It was therefore not possible to confirm the accuracy of receivables balance reflected in the financial statements.

4.2 Trade and Other Payables

The statement of financial position also showed a balance of Kshs.97,278,342 in respect of trade and other payables. Management provided two schedules in support of this of Kshs.79,595,301 and Kshs.17,549,972 for stores and fuel respectively. The combined total from these two schedules was Kshs.97,145,273 which differed from amount in the statement above by Kshs.133,069. Further, the two schedules did not have aging analysis and the creditors' ledger was not availed for audit verification. It was therefore not possible to confirm the accuracy and correctness of the Trade and Other Payables balance as at 30 June 2017.

4.3 Payment Received in Advance

The statement of financial position also had a balance of Kshs.65,051,145 for payments received in advance which was not analyzed. The accuracy of this amount could therefore not be confirmed.

4.4 Inventories – Kshs.137,830,312

The statement further shows a balance of Kshs.137,830,312 for inventories. A schedule provided in support of this amount only showed a breakdown by station with a total of Kshs.105,785,617.77 resulting to a variance of Kshs.32,044,694. Further, management did not avail a stock taking report or stock sheets in support of inventories balance. In the

circumstances, the accuracy of inventories balance in the financial statements could not be confirmed.

4.5 Borrowings

The statement of financial position also reflected a borrowings balance of Kshs.844,003,800. However, the document availed in support of this amount is a letter from Central Bank dated 8 September, 2008 showing write off of overdrawn Fund's Bank account balances of Kshs.560,408,645.95. The amount in this supporting document differed from the financial statements balance of Kshs.844,003,800 by Kshs.283,595,154 which was not explained. It was also noted that the description given to this balance is incorrect as overdraft write-off is a funding since it amounts to settling a liability without a requirement for the Fund to repay this amount.

4.6 Cash and Cash Equivalents

The statement also showed a cash and cash equivalents balance of Kshs.79,625,351 representing a bank balance of Kshs.79,326,058 and cash in hand balance of Kshs.299,294. However, examination of the Fund's cash book and the supporting bank reconciliation statements showed Bank balance of Kshs.81,319,219 as at 30 June 2017. Further, a cash count certificate from the Board of Survey committee showed that the Fund had nil cash in hand balance as at the close of the year. In the circumstances, the accuracy and correctness of cash and cash equivalents of Kshs.79,625,351 could not be confirmed.

5.0 Statement of Changes in Net Assets

A review of the statement of changes in net assets for the year ended 30 June 2017 revealed the following errors:

- Balance brought forward as at 30 June 2016 description is not aligned to the corresponding amounts.
- The statement also reflects a balance for accumulated 'surplus' brought forward of Kshs.(792,904,795). This description is incorrect as the above 'surplus' is in negative meaning it is a deficit. Further, the audited financial statements for the year ended 30 June 2016 had accumulated balance carried down of (Kshs.816,282,207). The resultant difference of (Kshs.23,377,412) was not reconciled.

6.0 Statement of Cash Flows

A review of the statement of cash flows for the year as set out in page 15 of the financial statements revealed some misstatements as follows:

6.1 Receipts

The statement showed receipts from sale of goods balance of Kshs.12,497,403 which differed from the statement of financial performance balance of Kshs.100,047,544 resulting to unexplained variance of Kshs.87,550,141.

6.2 Payments

The statement reflected payment for goods and services as Kshs.80,764,486 while the statement of financial performance has a balance of Kshs.96,461,850 on the same account. The resultant difference of Kshs.15,697,364 was not explained.

6.3 Net Cash Flows from Operating Activities

The statement further reflected a balance of Kshs.68,267,083 as net cash flow from operating activities which is supported by Note 7 in the financial statements. A review of the above note revealed that change in receivables in the year was shown as negative Kshs.5,950,453 while the statement of financial position shows that there was no change in receivables balance from 2015/16. The balance for Net Cash flow from Operating Activities amount was therefore incorrect.

Unresolved Prior Year Matters – Inaccuracies for the Year Ended 30 June 2016

1.0 Inaccuracies in the Financial Statements

The 2015/2016 financial statements presented for audit review reflected the following inaccuracies:

1.1 Cash and Cash Equivalent

Cash and Cash Equivalent balance brought forward amounts to Kshs.224,744,758 while the prior year audited financial statements reflect a balance of Kshs.224,741,758 thus resulting to un-reconciled or unexplained variance of Kshs.3,000.

1.2 Inventories

The prior year's inventories balance reflected in the financial statements amounted to Kshs.130,935,583 while the audited closing balance was Kshs.128,342,508 thus resulting to a variance of Kshs.2,593,074 which has not been explained.

1.3 Sales of Goods

The prior year's balance for sale of goods amounts to Kshs.32,321,404 while the audited balance for the account in the year 2014/2015 was Kshs.252,482,244.98. The resultant difference of Kshs.220,160,841 has not been explained. In addition, the statement of financial performance reflects sale of goods balance of Kshs.96,639,911 as at 30 June 2016 while the statement of cash flows reflects Kshs.90,893,143 thus resulting to unexplained variance of Kshs.5,746,769.

1.4 Borrowings

The statement of financial position reflects prior year borrowings totaling to Kshs.844,003,247 while the audited statement of financial position as at 30 June 2016 reflects a balance of Kshs.844,003,247 under the Paymaster General (PMG) Account. It is not clear and the management has not explained the correlation of the tow creditors. In addition, supporting documentation was not presented for audit review.

1.5 Bulk Purchases of Stores

The statement of financial performance for the year ended 30 June 2016 reflect payment for bulk purchases of stores and fuel of Kshs.120,017,323 while the statement of cash flows reflects a balance of Kshs.76,186,588. The resultant difference of Kshs.43,830,735 has not been explained or reconciled.

In the circumstances, the validity and accuracy of the financial statements for the year ended 30 June 2016 could not be ascertained.

2.0 Bulk Purchase of Stores and Fuel

Note 8.4 to the financial statements indicate bulk purchases of stores and fuel of Kshs.82,135,913 and Kshs.37,881,410 respectively. However, schedules provided for audit review reflected balances of Kshs.83,572,057 and Kshs.36,445,266 for stores and fuel resulting to difference of Kshs.1,436,143 and Kshs.1,436,144 respectively which however, have not been explained. Further, supporting schedules for purchase of fuel worth Kshs.36,445,226 indicate that the purchase was done in 2014 and therefore does not relate to the year under review. Management has not explained the anomaly. In addition, purchases of fuel during the year amounting to Kshs.13,508,501 was excluded from these financial statements.

Under the circumstances, it has not been possible to confirm the accuracy of bulky purchases of stores and fuel balance of Kshs.120,017,323 reflected in the financial statements for the year ended 30 June 2016.

3.0 Cash and Cash Flow Equivalents

The following anomalies were noted in relation to cash and cash equivalents of Kshs.155,840,626 included in the statement of financial position as at 30 June 2016:

- 3.1** The cash and cash equivalent balance of Kshs.155,840,626 reflected in the statement of financial position is at variance with the cashbook balance of Kshs.212,993 resulting to unexplained variance of Kshs.155,627,633.
- 3.2** Further, no evidence was presented for audit review to confirm that the Fund appointed a Board of Survey at the end of the financial year to verify the actual cash balance of Kshs.117,613 reflected in Note 8.5 (b) to the financial statements.
- 3.3** The bank reconciliation statement presented for audit review reflected receipts in the bank statement and not in the cashbook of Kshs.90,786 and receipts in the cashbook and not in the bank statement of Kshs.499,641. In addition, Kshs.5,387,452 described in the bank reconciliation statement as a cashbook under cast could not be confirmed.

In the circumstances, the validity and accuracy of cash and cash equivalent balance of Kshs.155,840,626 as at 30 June 2016 cannot be confirmed.

4.0 Trade and Other Payables

Trade and other payables from exchange transactions balance reflected in the statement of financial position as at 30 June 2016 was Kshs.52,994,135. However, supporting schedules reflect a balance of Kshs.51,915,535 thus resulting to a variance of Kshs.1,078,600 which has not been explained or reconciled. Further, records available indicate that other unpaid purchases totaling to Kshs.52,280,900 were excluded from the trade and other payables balance of Kshs.52,994,135 but no reason was given for their omission. Under the circumstances the trade and other payables from the exchange transactions balance of Kshs.52,994,135 included in the statement of financial position as at 30 June 2016 could not be confirmed.

5.0 Inventories

The statement of financial position as at 30 June 2016 reflect inventories totaling to Kshs.130,121,256. However, the balance could not be confirmed since stock sheets for the year were not presented for audit review. Further, the Fund did not hold a stock taking exercise at the end of the financial year as required. Consequently, the accuracy and validity of the inventories balance of Kshs.130,121,256 reflected in the statement of financial position as at 30 June 2016 cannot be confirmed.

6.0 Payment Received in Advance

The statement of financial position as at 30 June 2016 reflects payments received advance totaling to Kshs.149,591,532. However, the dates when the payments were received by the Stores and Services Fund were not presented for audit review. Further, the bank statements were not provided to confirm whether they were indeed received. Under the circumstances, the balance of Kshs.149,591,532 denoted as payments received in advance as at 30 June 2016 cannot be confirmed.

7.0 Sale of Goods

The statement of financial performance for the year ended 30 June 2016 reflects a balance of Kshs.96,639,911.34 while the supporting schedules presented for audit review reflected a balance of Kshs.100,274,267 thus resulting to a difference of Kshs.3,634,356 which has not been explained. In addition, the Fund did not maintain a sales ledger and therefore the source of the sales data could not be confirmed for the year ended 30 June 2016.

8.0 Missing Receipt Books

The statement of financial performance reflects total revenue of Kshs.96,639,911. However, receipt numbers MR 6654401 to 6654450 dated September 2015 to March 2016 and receipt numbers 6654351 to 6654400 dated April 2016 were not availed for audit review. Further, the management has not explained whether revenue collected from May to June 2016 was receipted using official receipts. In the circumstances, the total revenue balance of Kshs.96,639,911 included in the statement of financial performance for the year ended 30 June 2016 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

I do not express a conclusion on the lawfulness and effectiveness I the use of Public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and Governance as required by Section 7(1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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 Accrual Basis and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control. In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so.

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 money is applied in an effective manner.

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

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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control 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 control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

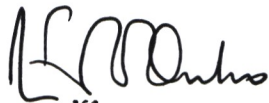
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those

risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern or 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 Fund to cease to continue as a going concern or 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 Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

09 May 2019

Supplies Branch Stores and Services Fund

The Financial Statements set on pages 1 to 17 were signed on behalf of the Ministry by:

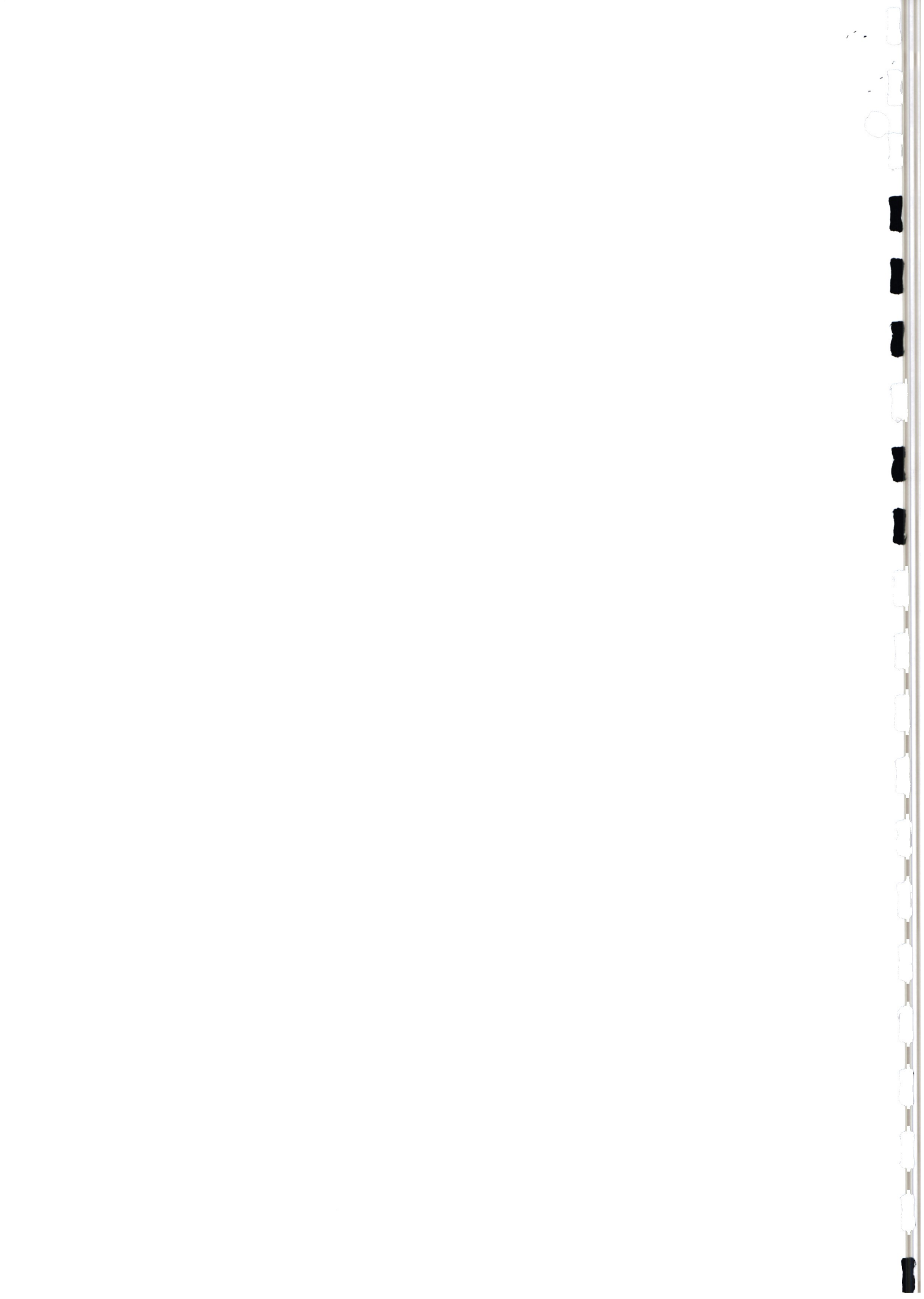
4. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2018

	Notes	2017 - 2018	2016 - 2017
		Kshs	Kshs
Revenue from exchange transactions			
Sale of Goods	8.3	7,211,800.00	100,047,543.88
Total Revenue		7,211,800.00	100,047,543.88
Expenses			
Bulk Purchase of Stores & Fuel	8.4	6,696,330.00	96,461,850.00
Total Expenses		6,696,330.00	96,461,850.00
Net surplus / Deficit for the period		515,470.00	3,585,693.88

Accounting Officer

Ministry of Lands, Housing and Urban Development

Date.....

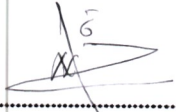


Supplies Branch Stores and Services Fund

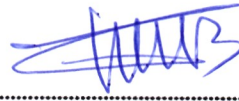
5. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2018

	Notes	2017 - 2018 Kshs	2016 - 2017 Kshs
Assets			
Cash and cash equivalents	8.5	6,847,025.00	79,625,351.30
Receivables From Exchange Transactions	8.6	1,232,261.00	65,437,435.69
Suspence Account		55,834,826.39	-
Inventories	8.7	130,736,547.00	137,830,311.55
Total assets		194,650,659.39	282,893,098.54
Liabilities			
Current Liabilities			
Trade and Other Payables from exchange transactio	8.8	6,696,330.00	97,278,341.80
Payments received in advance		66,875,248.11	65,051,145.01
		73,571,578.11	162,329,486.81
Non - Current Liabilities			
Bank overdraft (CBK)	8.9	283,595,154.10	844,003,800.00
Total liabilities		357,166,732.21	1,006,333,286.80
Capital Reserves		120,975,370.20	120,975,370.20
Revenue Reserve		(283,491,443.02)	(844,415,558.98)
Total Equity		(162,516,072.82)	282,893,098.02
Total liabilities and Equity		194,650,659.39	282,893,098.00

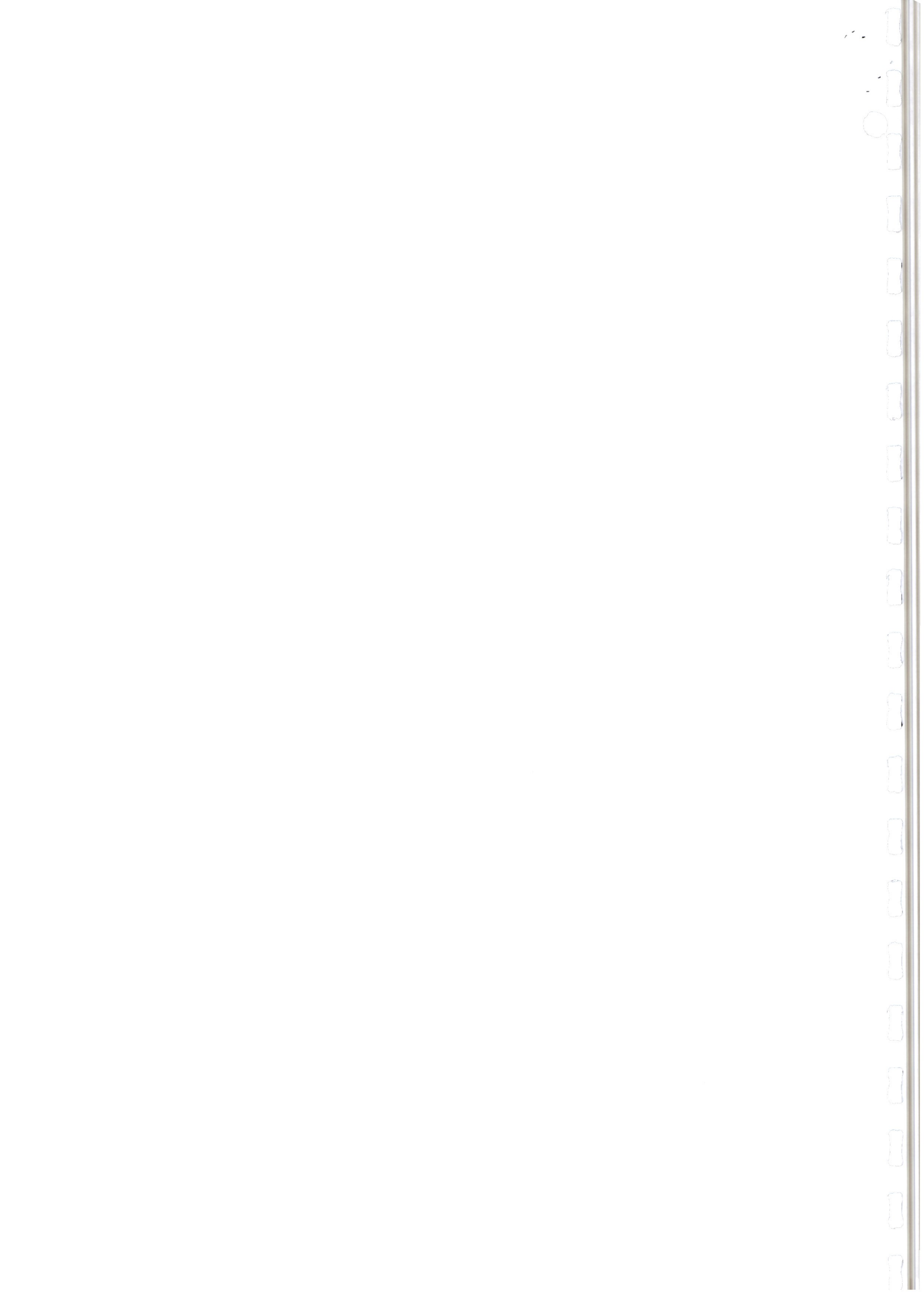
The financial statements on pages 2 were signed by the Principal Secretary.



Principal Secretary
Name: Prof. Arch. Paul Mwangi Maringa. (PhD)
CBS, Corp, Arch, MAAK MKIP



Principal Account
Name: Michael Obiero Ngolo
ICPAK Member Number: 13093



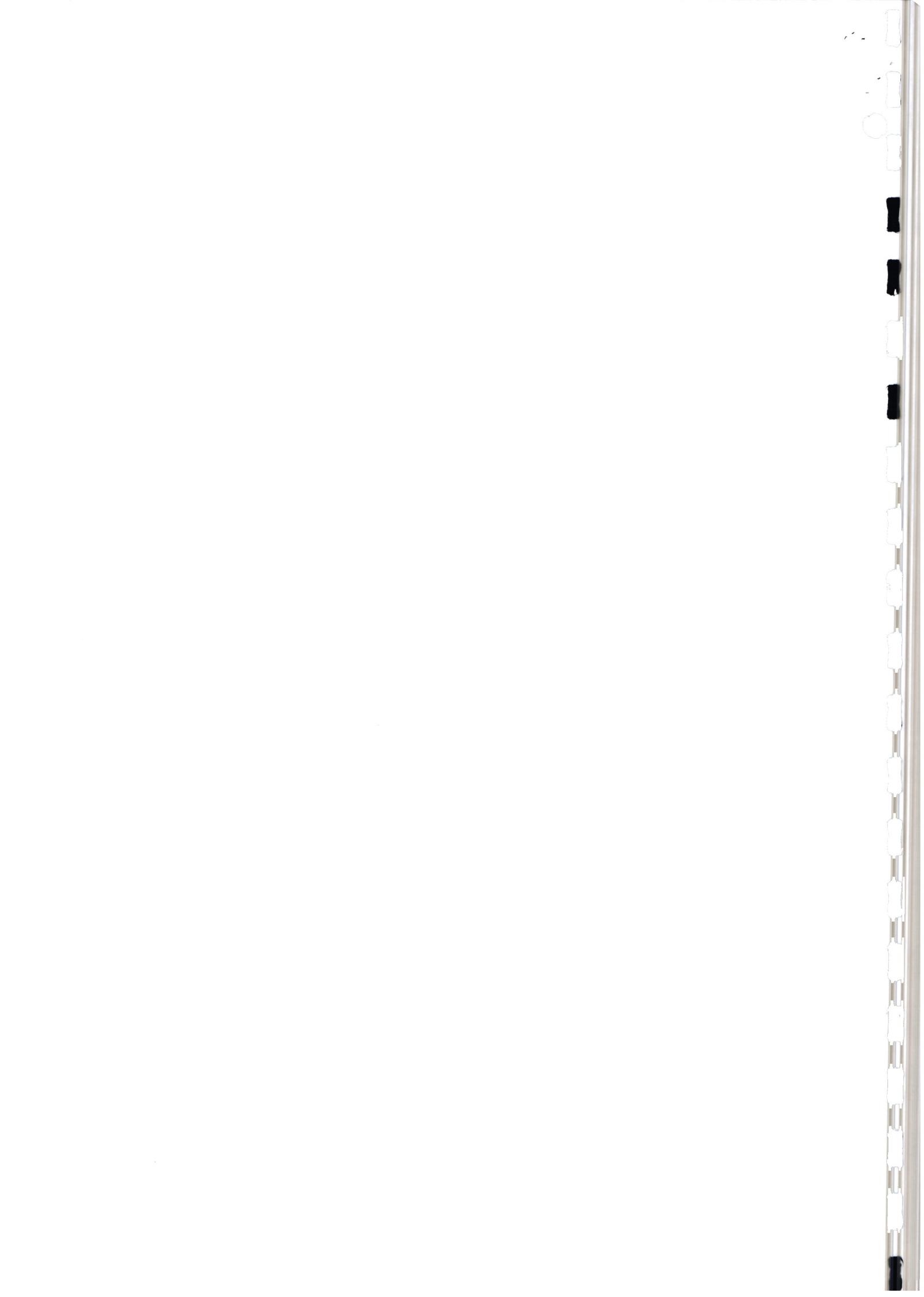
Supplies Branch Stores and Services Fund

6. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDING 30TH JUNE 2018

RESERVES

	Capital Replacement Development Reserve	Accumulated Surplus	Total
	Kshs	Kshs	Kshs
	120,975,370.20	(792,904,794.79)	(671,929,424.59)
Balance as at 30th June 2017	<u>120,975,370.20</u>	<u>(848,001,252.85)</u>	<u>(727,025,882.65)</u>
Surplus / Deficit for the year 2017	-	3,585,693.88	3,585,693.88
Prior Year Adjustment	-	-	-
Transfers to / from accumulated	-	-	-
Balance as at 30th June 2017	<u>120,975,370.20</u>	<u>(844,415,558.97)</u>	<u>(723,440,188.77)</u>
Surplus / Deficit for the year 2018	-	515,470.00	515,470.00
Prior Year Adjustment (bank overdraft written off)	-	560,408,645.95	560,408,645.95
Balance as at 30th June 2018	<u>120,975,370.20</u>	<u>(283,491,443.02)</u>	<u>(162,516,072.82)</u>

The prior adjustment is amount of bank overdraft witten off By crediting bank account with 560,408,645.95. and credting reserve account with the same amount



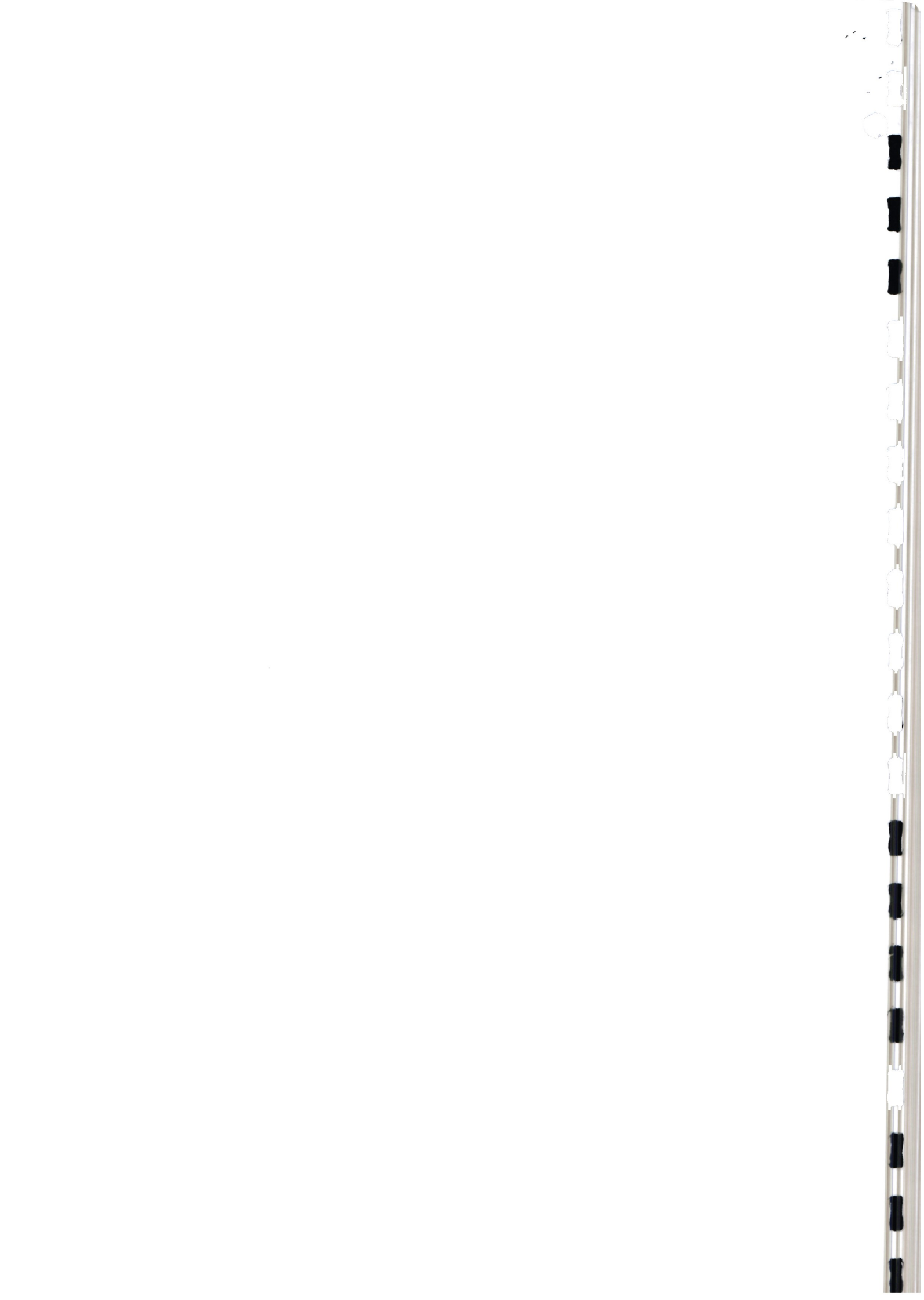
Supplies Branch Stores and Services Fund

7 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2018

	2017 - 2018 Kshs	2016 - 2017 Kshs
<u>Cash flow from operating activities</u>		
Receipts		
Sale of Goods	7,211,800.00	113,247,541.96
Prior year Adjustment	-	485,942,579.00
Payments		
Goods and services	(6,696,330.00)	(96,639,912.02)
Other payments	-	-
<i>(Increase) / decrease in operating assets</i>		
- Receivables	(64,205,174.69)	2,557,349.00
- Suspence A/c	55,834,826.39	-
<i>(Increase) / decrease in operating liabilities</i>		
- Payables	90,582,011.80	20,978,035.00
- Creditors	1,824,103.10	(85,899,995.00)
Net Cash from operating activities	84,551,236.60	440,185,597.94
Cash flow from investing activities		
<i>Increase/ Decrease in inventories</i>	(7,093,764.55)	(7,234,837.00)
Net Cash flow from investing activities	(7,093,764.55)	(7,234,837.00)
<u>Net Cash from financing activities</u>		
- Net Increase/Decrease in cash and cash equivalents	-	-
- Borrowings (CBK overdraft)	-	(560,408,646.00)
Net Cash inflow from financing activity	-	(560,408,646.00)
Increase in cash and cash equivalents for the year	77,457,472.05	(127,457,885.06)
Cash and cash equivalents as at 1st JULY	(30,171,011.72)	97,286,873.34
Cash and cash equivalents as at 30th JUNE	47,286,460.33	(30,171,011.72)

Sales amount in the cash flow relates to the amounts received during the financial year.

The amounts of the sale amounts are derived from the advance payment account from MDAS and relates to the financial years.



Supplies Branch Stores and Services Fund

NOTES TO THE FINANCIAL STATEMENTS

8.1 Statement of compliance and basis of preparation

The stores and Services Fund financial statements have been prepared in accordance with and comply with international public Sector Accounting (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting of the fund. This is the first year for the presentation of the IPSAS accounting.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

8.2 Summary of significant accounting policies

a) Revenue from exchange transactions

Rendering of services

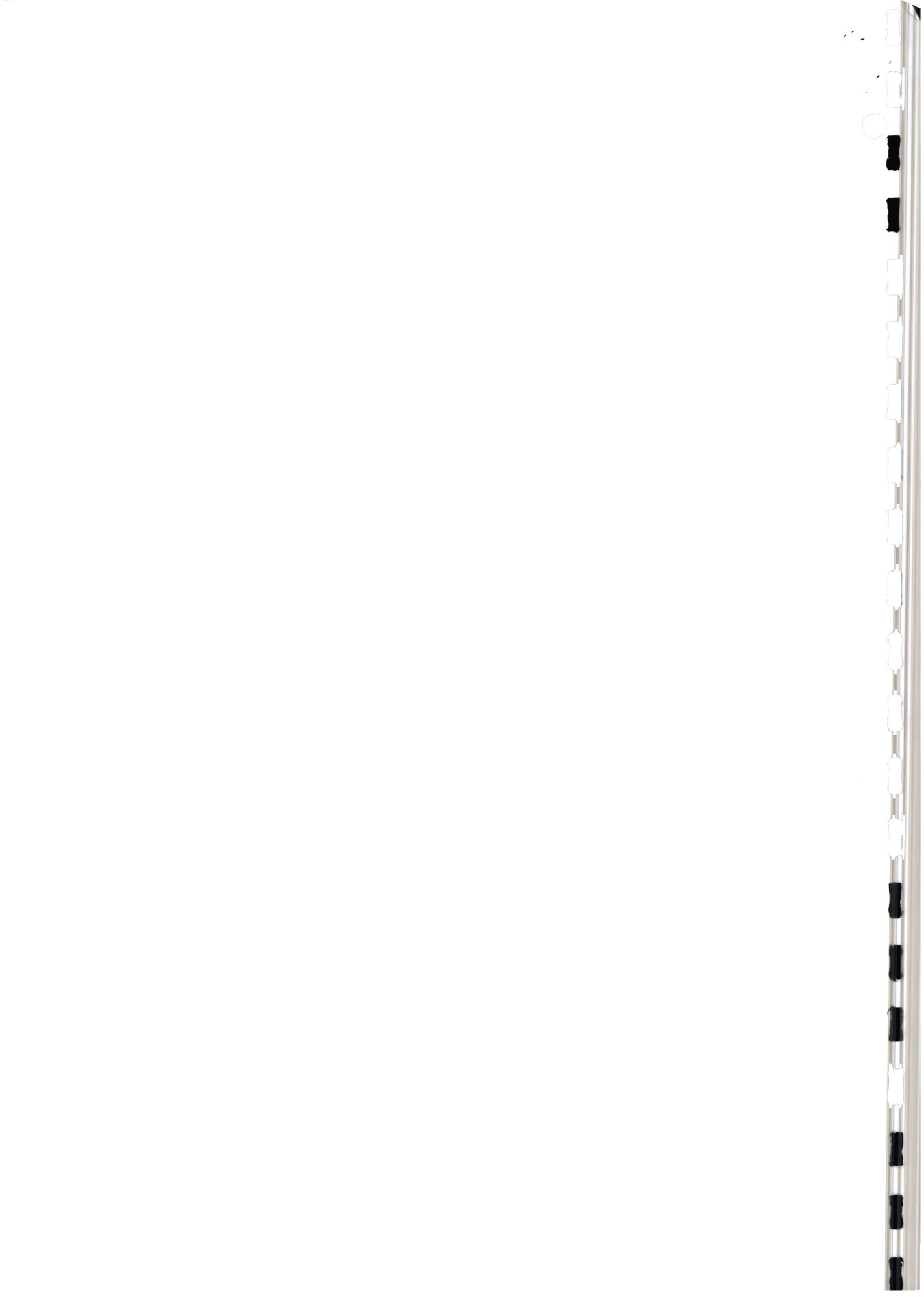
The Stores and Services Fund recognizes revenue from rendering of services by reference to the stage completion when the outcome of the transaction can be estimated reliably.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the department.

Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost a nominal cost), the cost of the inventory is its fair value at the date of acquisition.



Supplies Branch Stores and Services Fund

Costs incurred in bringing each product to its present location are accounted for, as follows:

Ω Raw materials: purchase cost using the weighed average cost method

Ω Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the stores and Services Fund.

h) Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity or available-for-sale financial assets, as appropriate. The stores and services fund determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

ii) financial liabilities

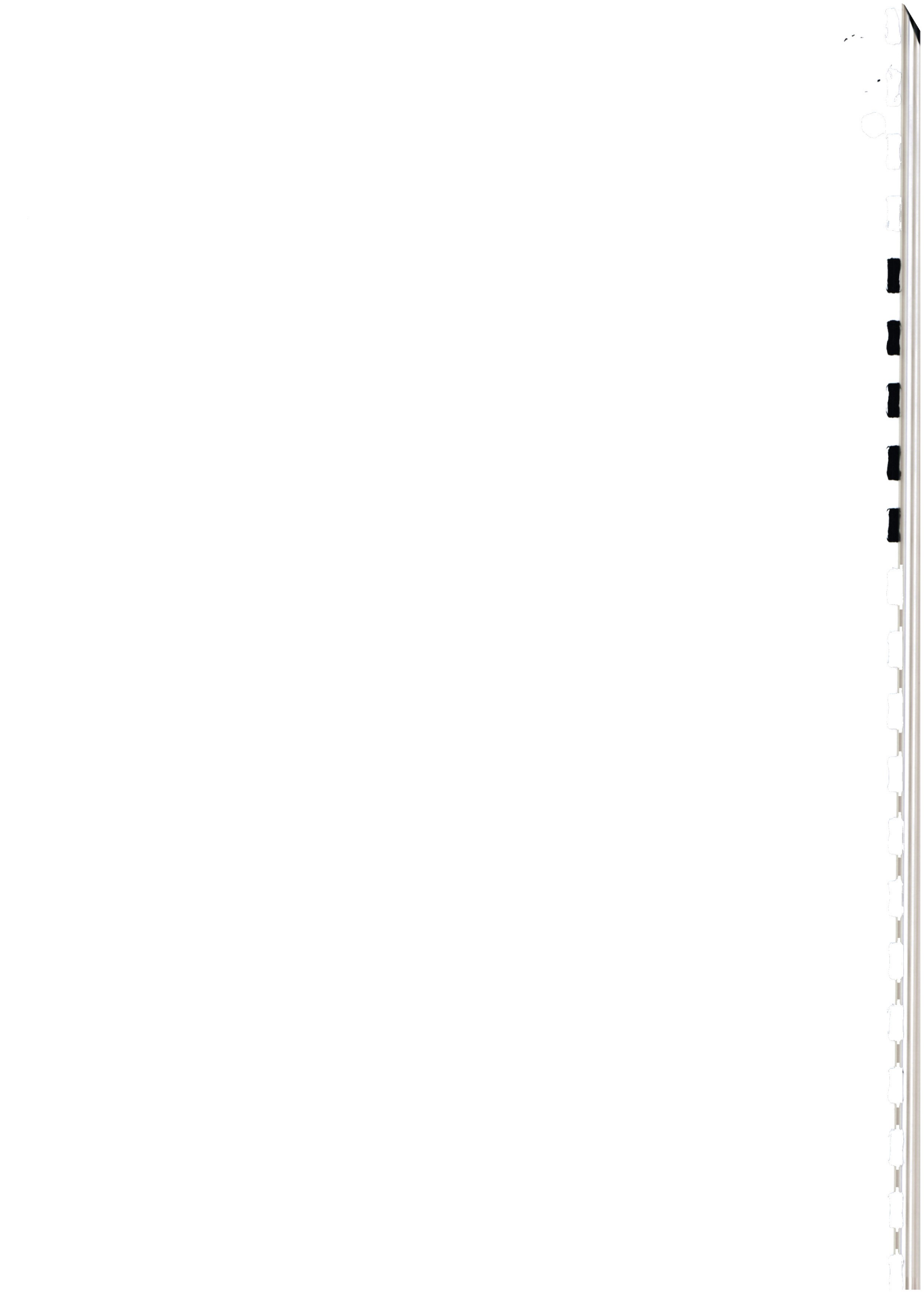
initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Contingent liabilities

The Entity 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.



Supplies Branch Stores and Services Fund

Nature and purpose of reserves

The stores and services fund creates and maintains reserves in terms of specific requirements. Entity to state the reserves maintained and appropriate policies adopted.

Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

Cash and cash equivalents

Cash and cash equivalents comprise on hand and cash at bank, short term deposits on the 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 at the end of the financial year.

The stores and services fund recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical

Comparative figures

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

Significant judgements and sources of estimation uncertainty

The preparation of the supplies branch financial statements in conformity with IPSAS requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made.



Supplies Branch Stores and Services Fund

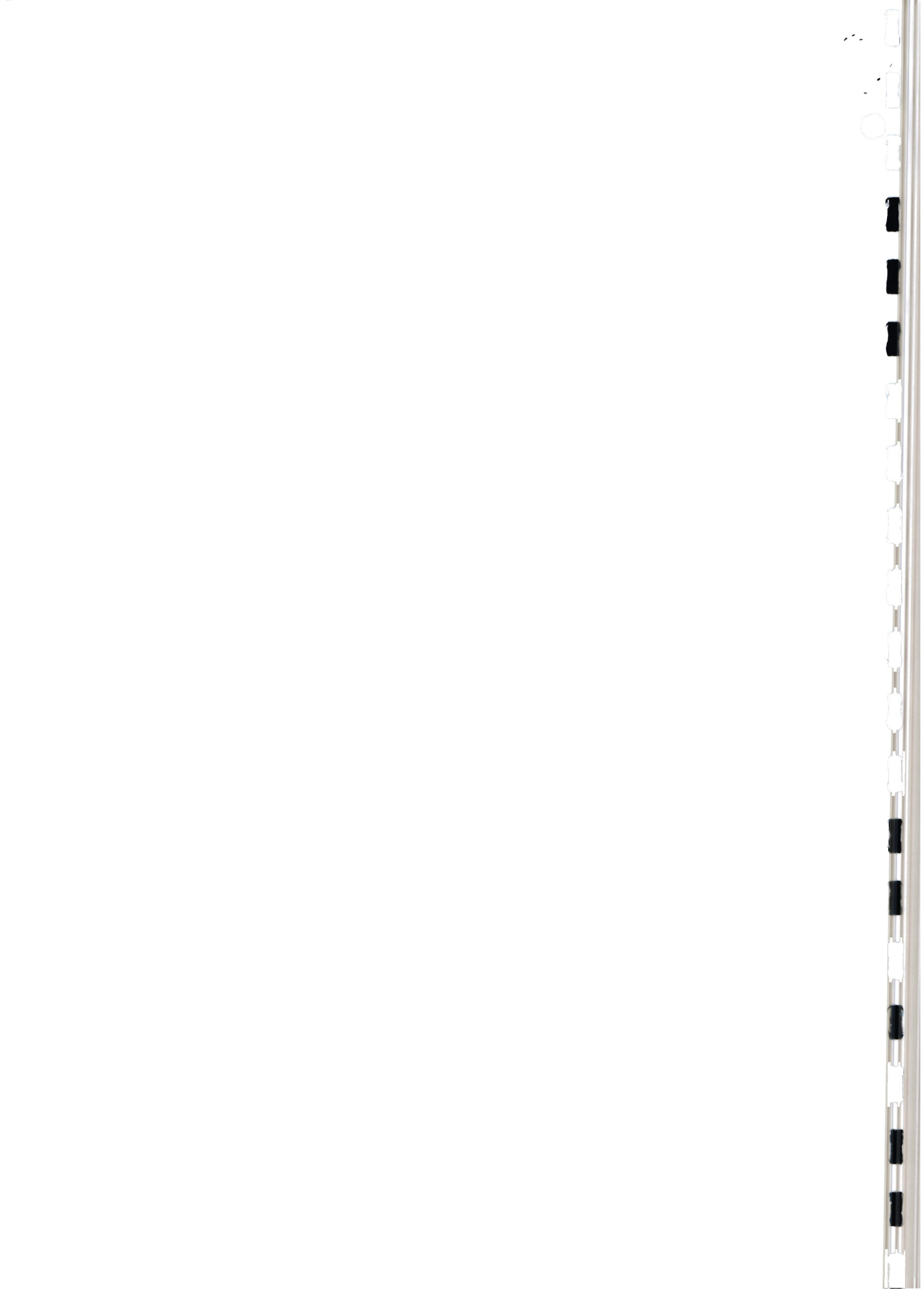
8.3 Sale of Stores & Fuel

	2017 - 2018 Kshs	2016 - 2017 Kshs
Sale of stores	7,211,800.00	-
Sale of Fuel	-	100,047,543.88
Total revenue from the sale of goods	<u>7,211,800.00</u>	<u>100,047,543.88</u>

Revenue is recognized when common user items are received by Stores and Services Fund on behalf of MDA's and goods are inspected and accepted by inspection and acceptance committee in the presence of MDA respective and significant risk transferred to the buyer. Supplies Branch charges a commission of 0.0375 on the value of invoice for all common user items and 50 cents for fuel sold to MDA's.

8.3 Bulk purchases

	2017 - 2018 Kshs	2016 - 2017 Kshs
Stores	6,696,330.00	96,461,850.00
Fuel	-	-
Total bulk purchases	<u>6,696,330.00</u>	<u>96,461,850.00</u>



Supplies Branch Stores and Services Fund

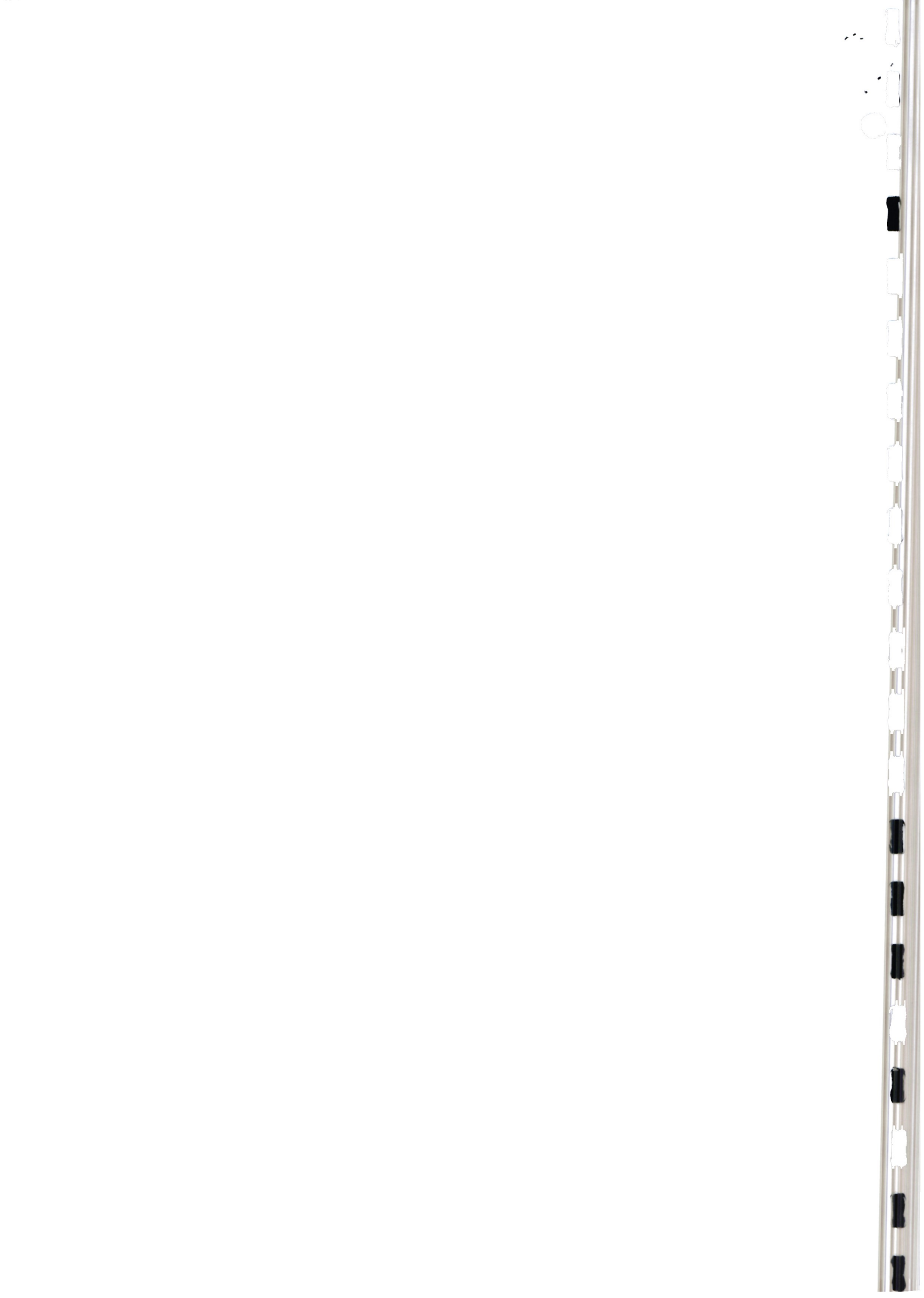
Analysis of the cash and cash equivalents

8.5 (a) Banks

Name of Bank	Bank Account Number	Currency	2017 - 2018 Kshs	2016 - 2017 Kshs
Central Bank of Kenya	1000195387	Kshs	6,847,025.00	79,326,057.80
Total			<u>6,847,025.00</u>	<u>79,326,057.80</u>

(b) Cash on Hand and in transit

Form of cash holding e.g liquid cash, M-pesa, Tangaza e.t.c	2017 - 2018 Kshs	2016 - 2017 Kshs
CBK 1000195387	6,847,025.00	79,326,057.80
Cheques	-	299,293.50
Total	<u>6,847,025.00</u>	<u>79,625,351.30</u>



Supplies Branch Stores and Services Fund

8.6 Receivables from exchange transactions

	2017 - 2018	2016 - 2017
	Kshs	Kshs

Current Receivables

Stores & Fuel

	1,232,261.00	65,437,435.69
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Total Current Receivables

	<u>1,232,261.00</u>	<u>65,437,435.69</u>
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Non Current Receivables

Non Current Receivables

	-	-
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Total Receivables

	<u>1,232,261.00</u>	<u>65,437,435.69</u>
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8.7. Inventories

	2017 - 2018	2016 - 2017
	Kshs	Kshs

Other Goods held for resale

	130,736,547.00	137,830,311.55
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Total inventories

	<u>130,736,547.00</u>	<u>137,830,311.55</u>
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Supplies Branch Stores and Services Fund

8.8 Trade and other payables from exchange transactions

	2017 - 2018	2016 - 2017
	Kshs	Kshs
Trade Payables	6,696,330.00	97,278,341.80
Payment received in advance	66,875,248.11	65,051,145.01
Total Trade and Other Payables	<u>73,571,578.11</u>	<u>162,329,486.81</u>

8.9. Borrowings

	2017 - 2018	2016 - 2017
	Kshs '000	Kshs '000
Bank (CBK) - overdraft	283,595,154.10	844,003,800.00
Total borrowings	<u>283,595,154.10</u>	<u>844,003,800.00</u>

This was overdraft with Central Bank taken over by the National Treasury.

9.0. Events after the reporting period

There are no material non-adjusting events after the reporting date.



Supplies Branch Stores and Services Fund

9.1 Related Parties

Sale of Goods

Ministry of Finance

National Youth Service

a. Contingent Liabilities

The Fund does not have any contingent liabilities in the year.

b. Comparative figures

The fund comparative figures have been restated due to adoption of the IPSAS accrual basis template.

9.2 PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved

