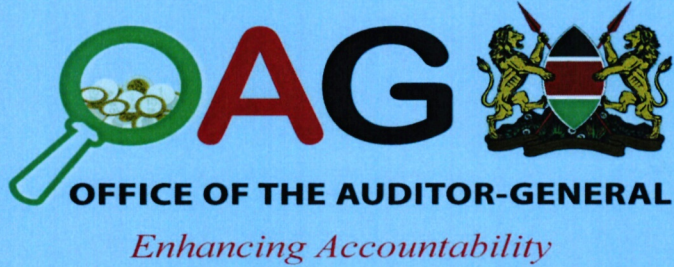


REPUBLIC OF KENYA

71



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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**STUDY AND CAPACITY BUILDING FUND  
PROJECT (CREDIT NO. CKE 6015 01K)**

**FOR THE YEAR ENDED  
30 JUNE, 2020**

**THE NATIONAL TREASURY**



**STUDY AND CAPACITY BUILDING FUND PROJECT**

**THE NATIONAL TREASURY  
RESOURCE MOBILIZATION DEPARTMENT**

**PROJECT GRANT NUMBER: CKE 6015 01 K  
PROJECT GRANT NUMBER: CKE 1047 01 K  
PROJECT GRANT NUMBER: CKE 1043 01 F**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2020**

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

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## 1. PROJECT INFORMATION AND OVERALL PERFORMANCE

### 1.1 Name and registered office

#### Name

The project's official name is Study and Capacity Building Fund

#### Objective

The key objective of the project is Financing of Feasibility studies for projects to be financed by AFD and to build capacity of implementing ministries and departments.

#### Address

The address of its registered office is:

**The National Treasury Headquarters**  
P.O. Box 30007-00100  
Treasury Building  
Harambee Avenue  
**Nairobi, Kenya**

#### Contacts

The following are the project contacts

Telephone: (254) 020-2252299

E-mail: [info@treasury.go.ke](mailto:info@treasury.go.ke)

Website: [www.treasury.go.ke](http://www.treasury.go.ke)

### 1.2 Project Information

Project Start Date:	a) CKE6015.01.K project start date is 21.09.07 b) CKE1047.01.K project start date is 25.09.09 c) CKE1043.01.F project start date is 21.10.11
Project End Date:	a) CKE6015.01.K, End date: 30.04.12, Extension up to 30.04.14 b) CKE1047.01.K, End date: 31.12.14, Extension up to 30.06.19 c) CKE1043.01.F, End date: 31.12.16, Extension up to 30.06.20
Project Manager:	The project manager is Mr. Moses K. Kanagi Ag. Director Resource Mobilization Department/The National Treasury
Project Sponsor:	The project sponsor is Agence Francaise de Development (AFD)

**Study and Capacity Building Fund Project  
Reports and Financial Statements  
For the financial year ended June 30, 2020**

**1.3 Project Overview**

Line Ministry/State Department of the project	The project is under the supervision of the Resource Mobilization Department of The National Treasury.
Project number	a) CKE6015.01.K b) CKE1047.01.K c) CKE1043.01.F
Strategic goals of the project	The strategic goals of the project are as follows: (i) To facilitate studies and preparation for projects that AFD intend to finance (ii) To build capacity of the beneficiary Ministries, Departments and sometimes the communities where the project is to be implemented.
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Ensuring projects are properly planned before implementation (ii) Ensuring the beneficiaries have enough capacity
Project duration	The project started on various dates as follows:  a) CKE6015.01.K, start date: 21 <sup>st</sup> September, 2007 b) CKE1047.01.K, start date: 25 <sup>th</sup> September, 2009 c) CKE1043.01.F, start date: 21 <sup>st</sup> October, 2011  To run until as indicate below:  a) CKE6015.01.K, with an end date of 30 <sup>th</sup> April, 2012, Extension up to 30 <sup>th</sup> April, 2014 17 b) CKE1047.01.K, with an end date of 31 <sup>st</sup> December, 2014, Extension up to 30 <sup>th</sup> June, 2019 c) CKE1043.01.F, with an end date of 31 <sup>st</sup> December, 2016, Extension up to 30 <sup>th</sup> June, 2020: Additional Extension to 30 <sup>th</sup> June 2023 1

15/12/12 ←  
11/4/19

**1.4 Bankers**

The Project does not have a bank account as all payments are done directly by the donor in the form of A.I.A after approval from The National Treasury.

## **2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES**

The Principal Secretary for the National Treasury and the Project Manager for Study and Capacity Building Fund Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

The Principal Secretary for the National Treasury and the Project Manager for Study and Capacity Building Fund Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2020, and of the Project's financial position as at that date. The Principal Secretary for the National Treasury and the Project Manager for Study and Capacity Building Fund Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

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

### **Approval of the Project financial statements**

The Project financial statements were approved by Principal Secretary for the National Treasury and the Project Manager for Study and Capacity Building Fund Project on \_\_\_\_\_ 2020 and signed by them.

\_\_\_\_\_  
JULIUS M. MUIA, PhD, EBS  
PRINCIPAL SECRETARY/TNT

\_\_\_\_\_  
MOSES K. KANAGI  
PROJECT MANAGER

\_\_\_\_\_  
MICHAEL C. MUKANZI  
ICPAK MEMBER NO.17538  
PROJECT ACCOUNTANT

**3. REPORT OF THE INDEPENDENT AUDITORS ON THE STUDY AND CAPACITY  
BUILDING FUND PROJECT**

**Study and Capacity Building Fund Project  
Reports and Financial Statements  
For the financial year ended June 30, 2020**

### 1.5 Auditors

Auditor General  
Office of the Auditor General-Kenya  
Anniversary Towers, University way  
P.O Box 30084-00100  
Nairobi - Kenya.

### 1.6 Roles and Responsibilities

The following are the roles and responsibilities assigned to the Project.

Names	Title designation	Key qualification	Responsibilities
Dr. Julius Muia	Principal Secretary	Accounting Officer	Accounting Officer
Moses K. Kanagi	Director Resource Mobilization	Ag. Director	Project Manager
Michael C. Mukanzi	Principal Accountant	Accountant	Project Accountant

### 1.7 Funding summary

The Project has three Grant Agreements as follows:

Project No.	Amount (Euro)	Project Start date	Project end date
CKE6015.01.K	1,500,000.00	21 <sup>st</sup> September, 2007	30 <sup>th</sup> April, 2014
CKE1047.01.K	500,000.00	25 <sup>th</sup> September, 2009	30 <sup>th</sup> June, 2019
CKE1043.01.F	800,000.00	21 <sup>st</sup> October, 2011	30 <sup>th</sup> June, 2023
<b>Total</b>	<b>2,800,000.00</b>		

Below is the funding summary:

Source of funds	Donor Commitment		Amount received to date (30 June 2020)		Undrawn balance to date (30 June 2020)	
	<i>Euro</i>	<i>KShs</i>	<i>Euro</i>	<i>KShs</i>	<i>Donor currency</i>	<i>KShs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
<b>(i) Grant</b>						
Agence Francaise de Development	2,800,000	338,800,000	1,574,435.42	190,341,675.50	1,225,564.58	148,458,324.5
<b>Total</b>	<b>2,800,000</b>	<b>338,800,000</b>	<b>1,574,435.42</b>	<b>190,341,675.50</b>	<b>1,225,564.58</b>	<b>148,458,324.5</b>

### 1.8 Summary of Overall Project Performance:

- Budget performance against actual amounts for current year and for cumulative to-date,
- Physical progress based on outputs, outcomes and impacts since project commencement,
- Comment on value-for-money achievements,
- Indicate the absorption rate for each year since the commencement of the project.

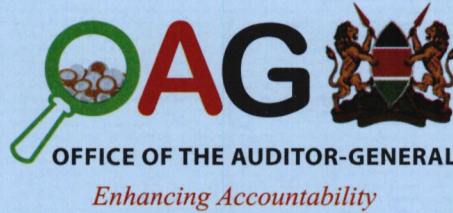
- List the implementation challenges and recommended way forward.

**1.9 Summary of Project Compliance:**

- Include significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants,
- Include consequences suffered on account of non-compliance or likely to be suffered
- Indicate mitigation measures taken or planned to be taken to alleviate the adverse effects of actual or potential consequences of non-compliance

# REPUBLIC OF KENYA

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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 STUDY AND CAPACITY BUILDING FUND PROJECT (CREDIT NO. CKE 6015 01K) FOR THE YEAR ENDED 30 JUNE, 2020 – THE NATIONAL TREASURY

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### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of Study and Capacity Building Fund Project (Credit No. CKE 6015 01K) set out on pages 1 to 14, which comprise the statement of financial assets as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Study and Capacity Building Fund Project (Credit No. CKE 6015 01K) as at 30 June 2020, 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 Financing Agreement No. CKE 6015 01K between the Agence Francaise De Development (AFD) and the Government of Kenya dated 21 September, 2007 and subsequently extended on 30 April, 2012, 7 April, 2014, 28 January, 2016 and 10 October, 2017, and the Public Finance Management Act, 2012.

#### Basis for Opinion

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Study and Capacity Building Fund Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with 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.

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*Report of the Auditor-General on Study and Capacity Building Fund Project (Credit No. CKE 6015 01K) for the year ended 30 June, 2020 - The National Treasury*

## **Other Matter**

### **Budget Control and Performance**

The statement of comparative budget and actual amounts reflects approved receipts budget and actual on comparable basis amount of Kshs.5,475,000 and Kshs.2,025,000, respectively, resulting to shortfall in receipts of Kshs.3,450,000 or 63%. Further, the Project's approved expenditure budget was Kshs.5,475,000 while the actual expenditure was Kshs.2,025,000, resulting to under-expenditure of Kshs.3,450,000 or 63% of the budget. Consequently, planned activities of the Project may possibly not have been implemented, thus affecting achievement of the intended goals of the Project.

## **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**

#### **Irregular Termination of Technical Assistant Contract**

Contrary to the provisions of Section 153(1) of the Public Procurement and Asset Disposal Act, 2015, the contract for a technical assistant (consultant) was terminated without the approval of the Accounting Officer. Further, no prior written notice was served to the consultant contrary to clause 13 of the signed contract.

The Project is in breach of the law to the extent.

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 overall governance were not effective.

### **Basis for Conclusion**

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

### **Responsibilities of Management and those Charged with Governance**

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

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

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015. In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective way.

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

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements

can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 Project 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 Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related

disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**


**30 December, 2020**


*Study and Capacity Building Fund Project  
Reports and Financial Statements  
For the financial year ended June 30, 2020*

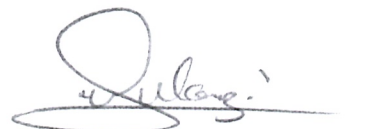
**4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30 JUNE 2020**

	Note	2019/2020		2018/2019		Cumulative to-date (From inception)
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs
<b>RECEIPTS</b>						
Proceeds from domestic and foreign grants	10.3	-	2,025,000	-	3,429,220	192,187,511.65
<b>TOTAL RECEIPTS</b>		-	<b>2,025,000</b>	-	<b>3,429,220</b>	<b>192,187,511.65</b>
<b>PAYMENTS</b>						
Purchase of goods and services	10.5	-	2,025,000	-	3,135,000	190,841,191.65
Acquisition of non-financial assets	10.6	-	-	-	294,220	1,346,320.00
<b>TOTAL PAYMENTS</b>		-	<b>2,025,000</b>	-	<b>3,429,220</b>	<b>192,187,511.65</b>
<b>SURPLUS/(DEFICIT)</b>		-	-	-	-	-

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

  
**JULIUS M. MUIA, PhD, EBS**  
**PRINCIPAL SECRETARY/TNT**

  
**MOSES K. KANIGI**  
**PROJECT MANAGER**

  
**MICHAEL C. MUKANZI**  
**ICPAK MEMBER NO.17538**  
**PROJECT ACCOUNTANT**

*Study and Capacity Building Fund Project  
Reports and Financial Statements  
For the financial year ended June 30, 2020*

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**5. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2020**

	Note	2019-2020	2018-2019
		KShs	KShs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances		-	-
Cash Balances		-	-
<b>Cash Equivalents (short-term deposits)</b>		-	-
<b>Total Cash and Cash Equivalents</b>		-	-
Accounts receivables – Imprest and Advances		-	-
<b>TOTAL FINANCIAL ASSETS</b>		-	-
<b>REPRESENTED BY</b>			
Fund balance b/fwd		-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year		-	-
<b>NET FINANCIAL POSITION</b>		-	-

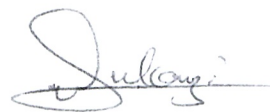
The accounting policies and explanatory notes to these Financial Statements form an integral part of the Financial Statements. The Financial Statements were approved on \_\_\_\_\_ 2020 and signed by:



**JULIUS M. MUIA, PhD, EBS  
PRINCIPAL SECRETARY/TNT**



**MOSES K. KANAGI  
PROJECT MANAGER**



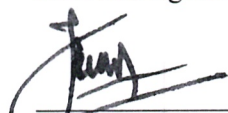
**MICHAEL C. MUKANZI  
ICPAK MEMBER NO.17538  
PROJECT ACCOUNTANT**

*Study and Capacity Building Fund Project  
Reports and Financial Statements  
For the financial year ended June 30, 2020*

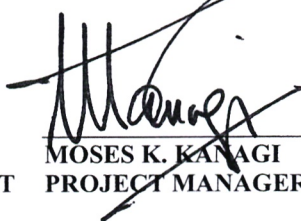
**6. STATEMENT OF CASHFLOW FOR THE PERIOD 30 JUNE 2020**

		2019-2020	2018-2019
	Note	KShs	KShs
<b>Receipts from operating activities</b>			
Proceeds from domestic and foreign grants	10.3	2,025,000	3,429,220
<b>Payments from operating activities</b>			
Purchase of goods and services	10.5	2,025,000	3,135,000
<b>Net cash flow from operating activities</b>			
		-	-
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of Assets	10.6	-	294,220
<b>Net cash flows from Investing Activities</b>			
		-	-
<b>CASHFLOW FROM BORROWING ACTIVITIES</b>			
Proceeds from Foreign Borrowings		-	-
<b>Net cash flow from financing activities</b>			
		-	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>			
		-	-
<b>Cash and cash equivalent at BEGINNING of the year</b>			
		-	-
<b>Cash and cash equivalent at END of the year</b>			
		NIL	NIL

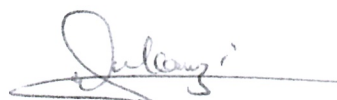
The accounting policies and explanatory notes to these Financial Statements form an integral part of the Financial Statements. The entity Financial Statements were approved on \_\_\_\_\_ 2020 and signed by:



**JULIUS M. MUIA, PhD, EBS**  
PRINCIPAL SECRETARY/TNT



**MOSES K. KANAGI**  
PROJECT MANAGER



**MICHAEL C. MUKANZI**  
ICPAK MEMBER NO.17538  
PROJECT ACCOUNTANT

*Study and Capacity Building Fund Project  
Reports and Financial Statements  
For the financial year ended June 30, 2020*

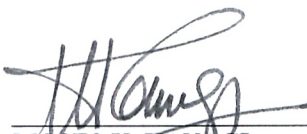
**7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

<b>Receipts/Payments Item</b>	<b>Original Budget</b>	<b>Adjustments</b>	<b>Final Budget</b>	<b>Actual on Comparable Basis</b>	<b>Budget Utilization Difference</b>	<b>% of Utilization</b>
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Proceeds from domestic and foreign grants	10,000,000	(4,525,000)	5,475,000	2,025,000	3,450,000	37%
<b>Total Receipts</b>	<b>10,000,000</b>	<b>(4,525,000)</b>	<b>5,475,000</b>	<b>2,025,000</b>	<b>3,450,000</b>	<b>37%</b>
<b>Payments</b>						
Purchase of goods and services	10,000,000	(4,525,000)	5,475,000	2,025,000	3,450,000	37%
<b>Total Payments</b>	<b>10,000,000</b>	<b>(4,525,000)</b>	<b>5,475,000</b>	<b>2,025,000</b>	<b>3,450,000</b>	<b>37%</b>

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



**JULIUS M. MUIA, PhD, EBS**  
PRINCIPAL SECRETARY/TNT



**MOSES K. KANAGI**  
PROJECT MANAGER



**MICHAEL C. MUKANZI**  
ICPAK MEMBER NO.17538  
PROJECT ACCOUNTANT

## **8. NOTES TO THE FINANCIAL STATEMENTS**

The principal accounting policies adopted in the preparation of these Financial Statements are set out below:

### **8.1 Basis of Preparation**

#### **Statement of compliance and basis of preparation**

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

The Financial Statements comply with and conform to the form of presentation prescribed by the PSASB.

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

#### **8.1.1 Reporting entity**

The Financial Statements are for the Study and Capacity Building Project under National Government of Kenya. The Financial Statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

#### **8.1.2 Reporting currency**

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

### **8.2 Significant Accounting Policies**

#### **a) Recognition of receipts**

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

#### **• Transfers from the Exchequer**

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

#### **• External Assistance**

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

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**Donations and grants**

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

**Proceeds from borrowing**

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

**Undrawn external assistance**

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

- **Other receipts**

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

**b) Recognition of payments**

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

- **Compensation of employees**

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

- **Use of goods and services**

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

- **Interest on borrowing**

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

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

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

- **Acquisition of fixed assets**

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

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

**c) In-kind donations**

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

**d) Cash and cash equivalents**

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

**Restriction on cash**

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

direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits

**e) Accounts receivable**

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

**f) 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 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.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

**g) Contingent Assets**

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

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**h) Pending bills**

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

**i) Budget**

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

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

**j) Third party payments**

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

**k) Exchange rate differences**

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

**l) Comparative figures**

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

**m) Subsequent events**

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2020

**n) Errors**

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

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### 10.3 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 12 months to 30 June 2020 we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Grants received in cash	Grants received as direct payment*	Grants received in kind	Total amount in KSh	
						2019/20	2018/19
						KShs	KShs
<b>Grants Received from Bilateral Donors (Foreign Governments)</b>							
Agence Francaise De Development				2,025,000	-	2,025,000	3,429,22
<b>Total</b>				<b>2,025,000</b>		<b>2,025,000</b>	<b>3,429,22</b>

\* The direct payment grants represent payments for goods and services done directly by the donor on behalf of the project. Projects should ensure that the adequate documents and support document is requested from the donors to support this grant.

### 10.4 COMPENSATION OF EMPLOYEES

	2019/20			2018/19	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
-					
<b>Total</b>	≡				

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**10.5 PURCHASE OF GOODS AND SERVICES**

	2019/20			2018/19	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Consultancy services	-	2,025,000	2,025,000	3,135,000	186,704,051.65
Training of officers	-	-	-	-	4,137,140.00
<b>Total</b>	=	<b>2,025,000</b>	<b>2,025,000</b>	<b>3,135,000</b>	<b>190,841,191.65</b>

**10.6 ACQUISITION OF NON-FINANCIAL ASSETS**

	2019/20			2018/19	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Purchase of office furniture & general equipment	-	-	-	294,220	1,346,320
<b>Total</b>	=	=	=	<b>294,220</b>	<b>1,346,320</b>

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
AA/TNT/S CBFP/2017 - 18/Vol.1(8)	Project duration was not consistent	The statement was adjusted to reflect the correct duration	Michael Mukanzi	Resolved	N/A
AA/TNT/S CBFP/2017 - 18/Vol.1(8)	Under-utilization of budget in both receipt and payments	Full direct expenditure from donor will be incorporated once final return by donor is provided	Michael Mukanzi	Not resolved	N/A
AA/TNT/S CBFP/2017 - 18/Vol.1(8)	Purchase of goods and services includes amount relating to July 2018	The consultant is paid in quarterly basis hence the overlap	Michael Mukanzi	The Contract for the technical assistant has been amended and he is currently being paid on monthly basis	N/A
AA/TNT/S CBFP/2017 - 18/Vol.1(8)	Appointment of consultant not competitive	A no objection letter was sought from the donor	Michael Mukanzi	Not resolved	N/A
AA/TNT/S CBFP/2017 - 18/Vol.1(8)	The project did not provide an asset register despite procuring assets	The auditor was of opinion that the assets were reflected in the ministry's register	Michael Mukanzi	Asset register is in place	N/A

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<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
AA/TNT/S CBFP/2017 - 18/Vol.1(8)	Procurements not in annual work plan	The items were demand driven and no objection was sought from the donor	Michael Mukanzi	Not resolved	N/A

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PRINCIPAL SECRETARY/TNT

**MOSES K. KANAGI**  
PROJECT MANAGER

**MICHAEL C. MUKANZI**  
ICPAK MEMBER NO.17538  
PROJECT ACCOUNTANT

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**ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

	<b>Final Budget</b>	<b>Actual on Comparable Basis</b>	<b>Budget Utilization Difference</b>	<b>% of Utilization</b>	<b>Comments on Variance</b>
	a	b	c=a-b	d=b/a %	
<b>Receipts</b>					
Proceeds from domestic and foreign grants	5,475,000	2,025,000	3,450,000	37%	The Technical Assistant's contract was terminated thus he was not paid half of the financial year. Also planned trainings did not happen due to Covid-19 outbreak. This has led to low absorption of the Budget
<b>Total Receipts</b>	<b>5,475,000</b>	<b>2,025,000</b>	<b>3,450,000</b>	<b>37%</b>	
<b>Payments</b>					
Purchase of goods and services	5,475,000	2,025,000	3,450,000	37%	The Technical Assistant's contract was terminated thus he was not paid half of the financial year. Also planned trainings did not happen due to Covid-19 outbreak. This has led to low absorption of the Budget
<b>Total payments</b>	<b>5,475,000</b>	<b>2,025,000</b>	<b>3,450,000</b>	<b>37%</b>	

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**ANNEX 2 – SUMMARY OF FIXED ASSET REGISTER**

<b>Asset class</b>	<b>Opening Cost (KShs) 2018/2019</b>	<b>*Purchases/Additions in the Year (KShs) 2019/2020</b>	<b>**Disposals in the Year (KShs) 2019/2020</b>	<b>Transfers in/(out) Kshs 2019/2020</b>	<b>Closing Cost (KShs) 2019/2020</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)= (a)+ (b)-(c)+(-)d</b>
Office equipment, furniture and fittings	96,700.00	Nil	Nil	Nil	<b>96,700.00</b>
ICT Equipment,	197,520.00	Nil	Nil	Nil	<b>197,520.00</b>
Other Machinery and Equipment					
<b>Total</b>	<b>294,220.00</b>				<b>294,220.00</b>

Notes

\* There were no purchases done during the Financial Year

\*\* The was no disposal of asset during the Financial Year.