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OFFICE OF THE AUDITOR-GENERAL

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FUNDS



AUDITOR-GENERAL'S REPORT ON NATIONAL GOVERNMENT FUNDS 2023/2024

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 13 FEB 2025
DAY. Thursday
TABLED BY: Hon. Owen Baya (Deputy Leader of the Majority Party)
CLERK-AT THE-TABLE: Inzofu Mwale

REPORT

OF

THE AUDITOR-GENERAL

ON

THE NATIONAL GOVERNMENT FUNDS

FOR

THE FINANCIAL YEAR

2023/2024

NATIONAL ASSEMBLY
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Foreword

This report, is a compilation of the audit reports of National Government Funds for the year ended 30 June, 2024.

National public funds are special entities created to provide specific functions and public service(s) or implement a specific government programme that cannot be delivered through the structure of the annual budget appropriations. They are meant to improve service delivery within a national government entity. Under Section 24(4) of the Public Finance Management Act, 2012, the Cabinet Secretary responsible for matters relating to finance is empowered to establish a national government public fund with the approval of the National Assembly.

The Auditor-General is mandated by the Constitution of Kenya, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. In addition, Article 229(6) requires the Auditor-General to confirm whether or not public resources have been applied lawfully and in an effective way. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

Article 229(7) of the Constitution requires the Auditor-General to audit and submit reports to Parliament or the relevant County Assembly within six (6) months after the end of the financial year. However, Section 81(4) of the Public Finance Management Act, 2012, reduces the timelines for audit and reporting to three (3) months by giving entities leeway up to the end of September to prepare and submit financial statements for audit. This reduces the duration for audit and reporting from six (6) months as mandated by the Constitution to three (3) months. This has been adversely affecting the audit scope and quality in reporting, which affects the efficiency and effectiveness of oversight by Parliament and the County Assemblies.

Further, as previously reported, the mechanism for follow up on implementation of audit recommendations is ineffective and as such most audit queries recur in subsequent years due to lack of decisive action. Section 204(1)(g) of the Public Finance Management Act, 2012 provides that the Cabinet Secretary for matters relating to finance may apply sanctions to a national government entity that fails to address issues raised by the Auditor-General, to the satisfaction of the Auditor-General.

However, despite numerous reports indicating lack of accountability and documents to support the legality and effectiveness in the use of public resources, failure to apply the requisite sanctions and consequences has resulted to some Accounting Officers not

adequately accounting for the management and use of public resources with impunity. Lack of action and sanctions has also led to fiscal indiscipline including misallocations, wastage of resources, lack of value for money in implementation of projects and loss of public funds, thereby impacting negatively on development programmes. This in turn threatens economic growth and sustainability of quality service delivery to citizens. There are instances where some Accounting Officers are in breach of Section 62 of the Public Audit Act, 2015 by failing to adequately prepare for audit which is exhibited by inaccuracies in financial statements presented for audit, lack of requisite supporting documents, several revisions of financial statements and, in some cases, lack of cooperation with the auditors during the audit process.

The Office of the Auditor-General has been continuously improving on the effectiveness and quality of the audit process to ensure that the results of audit and the recommendations thereof are credible, relevant, reliable and value adding. This is geared towards influencing improved decision making and positive impact on the lives and livelihoods of citizens and other stakeholders. Provision of quality and effective audit services and confirmation of the lawfulness and effectiveness in programme implementation requires comprehensive scrutiny and evaluation of supporting documents. Most critical is the physical confirmation of the existence and utilization of programmes implemented by Funds throughout the Country. To achieve this requires an independent and well-resourced audit Office with guaranteed adequate funding to enable efficient, effective and timely execution of oversight as well as retention of optimal staffing levels to ensure continuous, quality and sustainable audit operations.

The Office continues to seek financial independence and support from Parliament and the Executive through The National Treasury for enhancement of resources to enable us build technical capacity, expand our presence in the counties, widen the scope and comprehensiveness of audit and motivate staff. We continue to devolve our services closer to the people through establishment of Regional Offices and construction of office premises to accommodate our staff in order to address the audit needs at the devolved level. We have established fifteen (15) Regional Offices and constructed office premises in Garissa, Kakamega, Eldoret and Embu. Plans for construction of a Regional Office in Mombasa and our Headquarters in Nairobi, which are currently at the design stage, have been delayed by lack of adequate funding. However, the Office will continue to appeal to Parliament and The National Treasury for adequate funds to enable us perform our functions and achieve our mandate in enhancing accountability across government, both at the national and county levels, and in all other entities funded from public funds.

The audit scope has been expanding over the years due to the expansion of Government programs to ensure sustainable development and delivery of continuous and quality services to the citizens. This has led to growth in the national budget and establishment of additional entities that I am required to audit and report on. In addition to Ministries,

Departments and Agencies (MDAs), State Owned Enterprises and County Governments entities, all the over nine thousand (9,000) Public Secondary Schools were from 30 June, 2021 required to prepare and submit financial statements to the Auditor-General for audit and quite a number have complied. I am also required to audit and report on financial statements for all the three hundred and seventy-six (376) Level 4 hospitals and eighteen (18) Level 5 hospitals separately. Further, in the current financial year, I am required to audit a total of thirty-five (35) Teachers' Training Colleges, two hundred and thirty (230) Technical and Vocational Education and Training (TVET) Institutions funded by the Exchequer and Community Vocational Training Institutions estimated to be over one thousand and two hundred (1,200). In addition, implementation of new projects and establishment of new funds requires timely oversight.

During the period under review, the Office made great strides in enhancing delivery of audit services to the people of Kenya. The Office has entered into partnerships with other Supreme Audit Institutions (SAIs) regionally and globally and with local oversight institutions such as the Ethics and Anti-Corruption Commission (EACC), the State Corporations Advisory Committee (SCAC), the Salaries and Remuneration Commission (SRC), the Commission on Revenue Allocation (CRA) among other organizations, as we strive to increase the impact of audit through learning, knowledge sharing, innovation and collaboration.

Specific reports together with my opinion for each entity are contained in the respective Fund's audited financial statements for the year ended 30 June, 2024, which I have already submitted to Parliament and to each Accounting Officer.

I thank the entire staff of the Office of the Auditor-General for their commitment, passion and professionalism in carrying out their duties despite the challenges posed by lack of adequate funds and tight timelines. Special appreciation goes to the Team that compiled this Consolidated National Government Funds Report.

I also appreciate my clients or auditees for the cooperation they accorded my staff during the audit.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 January, 2025

Introduction

1.1 Constitutional Mandate of the Auditor-General

The Office of the Auditor-General (OAG) is an Independent Office established by Article 229 of the Constitution of Kenya. The Office is charged with the primary oversight role of ensuring accountability in the use of public resources within the three arms of government (the Legislature, the Judiciary and the Executive) as well as the Constitutional Commissions and Independent Offices. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

The Constitution requires the Auditor-General to audit and submit the audit reports of the public entities to Parliament and the relevant County Assemblies by 31 December, every year. In carrying out the mandate, the Auditor-General, is also required, under Article 229(6) to assess and confirm whether the public entities have utilised the public resources entrusted to them lawfully and in an effective way.

Further, the objects and authority of the Auditor-General, as outlined in Article 249 of the Constitution, are: to protect the sovereignty of the people; to secure the observance by all State Organs of democratic values and principles; and, to promote constitutionalism. The Auditor-General has also been given powers by the Constitution, under Article 252, to conduct investigations, conciliations, mediations and negotiations and to issue summons to witnesses for the purpose of investigations.

1.2 Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS), as prescribed by the Public Sector Accounting Standards Board (PSASB), and 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.

Management is also responsible for maintaining an effective internal control environment necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for the assessment of the effectiveness of internal control, risk management and governance.

Further, Management is required to ensure that the activities, financial transactions and information reflected in the financial statements, are in compliance with the law and other relevant or applicable authorities, and that public resources are applied in an effective way.

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

1.3 Auditor-General's Responsibility

My responsibility is to conduct an audit of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and to issue an auditor's report. The audit report includes my opinion as provided by Section 48 of the Public Audit Act, 2015, and the report is submitted to Parliament in compliance with Article 229(7) of the Constitution.

In addition, Article 229(6) of the Constitution requires me to express a conclusion on whether or not, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the law and other authorities that govern them, and that public resources are applied in an effective way. I also consider the entities' control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

I am independent in accordance with Article 249(2) of the Constitution of Kenya and ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of public entities in the Republic of Kenya.

1.4 Reporting Structure

The structure of my report addresses the reporting requirements of Article 229 (4) of the Constitution of Kenya, which requires that I audit and report on preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards, as prescribed by the Public Sector Accounting Standards Board. Further, Article 229(6) of the Constitution requires that an audit report shall confirm whether or not public resources have been applied lawfully and in an effective way. In addition, Section 7(1) (a) of the Public Audit Act, 2015 requires that I provide assurance on the effectiveness of internal controls, risk management and overall governance.

Further, I am expected to read the other information provided by Management and report whether the other information is materially inconsistent with the financial statements.
In order to address these requirements, my audit reports contain the following:

i. **Report on Financial Statements**, in which I give an audit opinion on whether the financial statements present fairly, in all material respects the financial position and performance of the entity.

ii. **Report on Lawfulness and Effectiveness in Use of Public Resources**, in which I give a conclusion on whether or not public resources have been applied lawfully and in an effective way.

iii. **Report on Effectiveness of Internal Controls, Risk Management and Governance**, in which I give a conclusion on whether internal controls, risk management and overall governance were effective.

1.5 Audit Opinions

I have expressed different types of audit opinions based on the following criteria:

a) Unmodified Opinion

The books of accounts and underlying records agree with the financial statements and no material misstatements were found. The financial statements present fairly, in all material respects, the operations of the entity. The financial statements with Unmodified Opinion are listed in **Appendix A**.

b) Qualified Opinion

Financial transactions were recorded and are to a large extent in agreement with the underlying records, except for cases where I noted material misstatements or omissions in the financial statements. The issues though material, are not widespread or persistent. The financial statements with Qualified Opinion are listed in **Appendix B**.

c) Adverse Opinion

The financial statements exhibit significant misstatements with the underlying accounting records. There exists significant disagreement(s) between the financial statements and the underlying books of accounts and/or standards. These discrepancies are widespread, persistent and require considerable interventions by the management to rectify. The financial statements with Adverse Opinion are listed in **Appendix C**.

d) Disclaimer of Opinion

The financial statements exhibit serious and significant misstatements that may arise from inadequate information, limitation of scope, inadequacy or lack of proper records such that I was not able to form an opinion on the financial operations. The financial statements with Disclaimer of Opinion are listed in **Appendix D**.

The key findings noted during the audit of the financial statements for the year ended 30 June, 2024 are highlighted in the ensuing pages.

THE NATIONAL TREASURY – VOTE 1071

EQUALISATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1. Unsupported Transfers to Other Government Entities

The statement of financial performance reflects expenditure on transfers to other Government entities of Kshs.156,137,032 as disclosed in Note 10 to the financial statements. The expenditure relates to transfers to the Ministry of Water, Sanitation and Irrigation for projects implemented under the First Policy of the Equalisation Fund. The expenditure includes an amount of Kshs.16,105,440 transferred towards payments for the supply and installation of electromechanical items for Baricho Water Treatment Plant in Mombasa County. However, the certificate of works attached to the payment voucher revealed that only an amount of Kshs.2,496,432 was certified leaving a balance of Kshs.13,609,008 not certified and therefore not supported.

Further, the expenditure includes an amount of Kshs.9,042,200 transferred towards payments for the drilling of eight (8) boreholes in Lungalunga in Kwale County. However, records indicate that the project had been fully paid for before the amount was transferred. The amount transferred was therefore unsupported.

In addition, the expenditure includes an amount of Kshs.5,603,851 was transferred towards payment for the construction of Madhalibah Water Pan in Wajir South, Wajir County. However, the project whose contract sum was Kshs.24,364,570 had been completed and fully paid for before the amount was transferred. The amount transferred was not supported.

In the circumstances, the accuracy, completeness and validity of the transfers to other Government entities of Kshs.156,137,032 could not be confirmed.

Other Matter

2. Low Allocations Under the Second Policy

Review of allocation of funds for financial years 2021/2022 and 2022/2023 under the Second Policy revealed that a total of Kshs.10,020,407,910 was allocated to one thousand, four hundred and twenty-four (1,424) marginalized areas identified under the Policy. The amounts allocated per area ranged from between Kshs.5 million and Kshs.9 million. Although the coverage for the funds has increased under the Policy, the amounts allocated may not have an impact on the marginalized communities due to the low allocation levels. Further, there was no evidence that an impact assessment on the

projects implemented under the First Policy was done to determine lessons learnt and guide on projects' choice and allocation in the Second Policy.

The low allocation may result in the Fund's objectives not being realized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

3. Non-Compliance with the Constitution

As reported in the previous year, review of the financial statements for the Equalisation Fund for the year ended 30 June, 2024 revealed that only an amount of Kshs.13,430,000,000 out of the expected Kshs.59,954,788,050 of the total entitlement from the financial years 2011/2012 to 2023/2024 had been transferred to the Equalisation Fund Account as tabulated below:

Financial Year	Approved Audited Revenues (Kshs.)	Amount of Equalisation Fund Entitlement (Kshs.)	Amount Transferred to the Fund (Kshs.)
2011/2012	468,151,970,000	2,340,759,850	
2012/2013	529,300,000,000	2,646,500,000	
2013/2014	529,300,000,000	2,646,500,000	
2014/2015	776,900,000,000	3,884,500,000	6,400,000,000
2015/2016	776,900,000,000	3,884,500,000	
2016/2017	776,900,000,000	3,884,500,000	6,000,000,000
2017/2018	776,900,000,000	3,884,500,000	
2018/2019	776,900,000,000	3,884,500,000	
2019/2020	776,900,000,000	3,884,500,000	
2020/2021	1,357,698,000,000	6,788,490,000	
2021/2022	1,357,698,000,000	6,788,490,000	
2022/2023	1,413,694,840,000	7,068,474,200	
2023/2024	1,673,715,000,000	8,368,574,000	1,030,000,000
Total	**11,990,948,810,000**	**59,954,788,050**	**13,430,000,000**

The National Treasury had not remitted the outstanding balance of Kshs.46,524,788,050 to the Fund as at 30 June, 2024. This was contrary to Article 204(1) of the Constitution of Kenya, 2010 which requires that one half per cent (0.5%) of all the revenue collected by the National Government each year, calculated on the basis of the most recent audited accounts of revenue received as approved by The National Assembly, be paid into the Equalisation Fund. Further, it is not clear if the Fund will receive the accrued share of revenue tabulated above. Lack of disbursements casts doubt on realisation of the Fund's intended objective of providing basic services to the marginalized areas.

In the circumstances, The National Treasury was in breach of the law.

4. Lack of Value for Money in Projects Under the First Policy

Physical verification of ten (10) sampled projects implemented under the First Policy on Equalisation in the month of December, 2024 revealed that six (6) projects were complete but not in use due to vandalism and some projects were not equipped. Further, completion certificate and inspection and acceptance committee report for Tabora Dam Project were not provided for review. In addition, four (4) Baricho Water Projects done under different contracts were incomplete, goods worth Kshs.32,485,301 were yet to be delivered and the stores ledger cards for verification of delivered items were not provided for audit.

Review of the status report revealed that fifty-seven (57) projects initiated more than five years ago under the Policy were significantly delayed, with estimated completion levels below 50%. No explanation was provided by Management on the measures to be taken to ensure that funds disbursed from the Fund are utilized as per the law and that projects implemented by various agencies are completed to achieve the objective of the Fund.

In the circumstances, value for money utilized on the respective projects could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

5. There were no material issues relating to effectiveness of internal controls, risk management and governance.

CONTINGENCIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

6. Unsupported Refunds to the Contingencies Fund

The statement of receipts and payments reflects payments from the Fund - advances to Ministries, Departments and Agencies (MDAs) of Kshs.6,529,762,811 to cater for various urgent and unforeseen requirements. However, expenditure returns with details of payments made from the advances in respect of Ministry of Defence-Kshs.500,000,000, State Department for Internal Security and National Administration-Kshs.500,000,000 and State Department for Irrigation-Kshs.70,000,000 all totalling Kshs.1,070,000,000 were not provided for audit.

In the circumstances, the validity of the amount disbursed from the Fund of Kshs.1,070,000,000 could not be confirmed.

7. Irregular Utilization of the Contingencies Fund

The statement of receipts and payments reflects advances to MDAs of Kshs.6,529,762,811 as disclosed in Note 17.2 to the financial statements. The amount includes Kshs.30,000,000 disbursed to the State Department for Public works, Kshs.65,000,000 to the State Department for Crop Development, Kshs.35,000,000 to the State Department for Livestock, all totalling Kshs.130,000,000. However, review of the respective expenditure returns revealed that the expenditure was in respect of goods and services that could not meet the threshold prescribed under Section 21 (1-4) of the Public Finance Management Act, 2012, which provides, inter alia, that the advances may be made from the Fund if the Cabinet Secretary is satisfied that an urgent and unforeseen need for expenditure has arisen for which there is no specific legislative authority.

In addition, the advances include Kshs.3,829,762,811 advanced to the State Department for the Arid and Semi-Arid Lands (ASALs) and Regional Development. However, review of the expenditure returns provided revealed that the funds were disbursed from December, 2023 to June, 2024 and expenditure was paid out from the funds until 14 June, 2024. No explanation was provided to justify the funding of the expenditure from the Fund yet the State Department had included the activities in the approved supplementary budget.

In the circumstances, the propriety of the expenditure could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

8. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

9. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PETROLEUM DEVELOPMENT LEVY FUND (HOLDING ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

10. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

11. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted receipts and actual on comparable basis amounts of Kshs.32,080,397,800 and Kshs.24,335,864,351 respectively, resulting in under-collection of Kshs.7,744,533,449 or 24% of the budget. Similarly, the statement reflects budgeted transfers of Kshs.32,080,397,800 against actual transfers of Kshs.24,941,965,942 resulting to an under-performance of Kshs.7,138,431,858 or 22% of the budget.

The under-collection and under-performance may have affected the planned activities and impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

12. Irregular Borrowing from Railway Development Levy Fund

The Fund's cash book and bank statements reflected receipts on various dates totalling Kshs.58,279,451,755 being receipts from Railway Development Levy Fund (RDLF) and State Department for Petroleum amounts of Kshs.33,479,451,755 and Kshs.24,800,000,000 respectively. Management indicated that the receipts from RDLF were borrowed to settle arrears due to oil marketing companies contrary to Section 4(1) of Petroleum Development Fund Act, 1991. The Section restricts receipts to the Fund to monies appropriated by Parliament and receipts from the Petroleum Development Levy with no room for borrowing to finance the operations of the Fund.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

13. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

14. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

15. Low Uptake of Loans by State Officers and Public Officers

I draw your attention to Part 2(a) on the background information in the financial statements which discloses that the State Officers and Public Officers Motor Car Loan Scheme Fund was established in 2015 through Legal Notice No.195 of 25 September, 2015 and pursuant to guidelines provided by the Salaries and Remuneration Commission on Car Loan benefit for State Officers and Other Public Officers in December, 2014. The Fund, had however, experienced low response from state officers and public officers which compelled Management to invest in Treasury Bills so that the allocated funds do not lie idle. The disbursed loans balance of Kshs.315,866,011 remains relatively low at 7.8% (2023 – 6.6%) in comparison to the total current assets balance of Kshs.4,112,896,530 as at 30 June, 2024. The objective and purpose for which the Fund was established may not be achieved.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

16. Irregular Expenditure on Training

The statement of financial performance reflects use of goods and services amounting to Kshs.74,758,476 as disclosed in Note 10 to the financial statements. The amount includes expenditure amounting to Kshs.48,055,724 that was incurred as facilitation for external training by members of the Advisory Board and staff. However, the guidelines on managing training in the public service dated February, 2017 require that approval to train in foreign based institutions would be granted only in instances where the course applied was not available in any local institution. Management had not provided justification for incurring expenditure on foreign training.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

17. Weaknesses in Asset Management and Control

The statement of financial position reflects a balance of Kshs.13,712,261 in respect of property, plant and equipment which, as disclosed in Note 15 to the financial statements, includes a balance of Kshs.9,043,161 in respect of motor vehicles. However, two motor vehicles, purchased by the Fund but registered under The National Treasury, had been left at a local garage for extended period due to unpaid repair bills for other motor vehicles owned by The National Treasury. The lack of full control over the motor vehicles exposes the Fund to potential losses and other inconveniences.

In the circumstances, the Fund's Management control over assets could not be confirmed.

GOVERNMENT CLEARING AGENCY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

18. Unsupported Fund Balances

As previously reported, the statement of financial position reflects balances of Kshs.300,931,776 and Kshs.52,973,896 in respect of the accounts receivable and accounts payable respectively. The balances relate to opening balances brought forward from 2022/2023 and earlier years. However, the amounts were not supported by ledger, trial balance or any verifiable documents from which the receivables and payables were drawn.

In the circumstances, the accuracy and completeness of the accounts receivable and accounts payable balances of Kshs.300,931,776 and Kshs.52,973,896, respectively could not be confirmed.

19. Delay in Winding Up the Fund

As previously reported, the Fund had been dormant for over twelve (12) years. The National Treasury formed a task force on the winding up of dormant funds which included the Government Clearing Agency Fund. Further, The National Treasury, in consultation with the Attorney General developed a Cabinet Memorandum on winding up of the dormant funds. This effort resulted to drafting of the Revocation Orders which were approved by the Cabinet and later forwarded to the Attorney General for onward transmission to the National Assembly. Even though the orders were forwarded to the Attorney General on 12 April, 2021 and a resubmission done on 31 March, 2022,

evidence was not provided that the Repeal Act had been passed by the National Assembly.

In the circumstances, Management has over the years continued to prepare financial statements for a dormant fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

20. 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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

21. 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.

TREASURY MAIN CLEARANCE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

22. Long Outstanding and Unsupported Balances

As reported previously, the statement of financial position reflects a balance of Kshs.12,503,607,446 and Kshs.12,490,478,941 in respect of accounts receivable and accounts payable – creditors, respectively. The balances have been outstanding for a long period of time and were not supported. Management stated that the amounts relate to old balances that have been carried forward for many years and that it had submitted a draft revocation order to the National Assembly to wind up the Fund. However, the orders had not been acted upon by the National Assembly at the time of audit.

In the circumstances, in the absence of provision for doubtful debts, the recoverability of the long outstanding accounts receivable and the discharge of the creditors could not be confirmed.

23. Unsupported Deficit Balance Brought Forward

As reported previously, the statement of financial position reflects a net financial position (closing fund balance) of Kshs.13,128,505. However, the balance was not supported by any reconciliation statement.

In the circumstances, the accuracy of the closing fund balance of Kshs.13,128,505 as at 30 June, 2024 could not be confirmed.

Emphasis of Matter

24. Delay in Winding Up of the Fund

As reported previously, the Fund has been dormant for thirteen (13) years. The National Treasury formed a task force on the winding up of dormant funds which included the Treasury Main Clearance Fund. Thereafter, The National Treasury sought and got legal opinion and recommendations from the Attorney General on the winding up of the Fund. A Cabinet Memorandum on winding up of the dormant funds was forwarded to the Attorney General in September, 2019 who advised that draft revocation orders be prepared on the same.

The Revocation Orders were prepared and submitted to the Cabinet for consideration and approval. On 2 March, 2021, the Head of Public Service communicated to the Cabinet approval for Revocation Order of the dormant funds. The Revocation Orders were submitted to the Attorney General's Office for onward transmission to the National Assembly for approval of the winding up of the dormant funds on 12 April, 2021. However, there was no evidence provided to confirm that the Revocation Orders had been passed by the National Assembly and the process of winding up of the Fund was yet to be completed by the time of the audit.

My opinion is not modified with respect to this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

25. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

26. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA LOCAL LOANS SUPPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

27. Inaccuracies in the Financial Statements

The statement of financial position reflects total net assets balance of Kshs.87,005,779. However, the statement of changes in net assets reflects a zero balance, leaving unreconciled variance of Kshs.87,005,779. Further, the statement of financial position reflects net assets (total assets less total liabilities) balance of Kshs.87,005,779, which is represented by zero accumulated surplus. The statement therefore does not represent a balanced financial position.

In the circumstances, the completeness and accuracy of balances reflected in the financial statements could not be confirmed.

28. Unsupported Balances

As previously reported, the statement of financial assets and liabilities reflects amounts of Kshs.9,045,400, Kshs.6,364,973 and Kshs.71,595,406 in respect of the bank balance, investments at cost and accounts receivables - accrued interest respectively, as at 30 June, 2024. However, the amounts were not supported by ledger, trial balance and schedule of details or any verifiable documents from which the interest was receivable. This constituted a serious limitation of scope as none of the balances could be tested for accuracy, completeness or measurement among other tests.

In the circumstances, the accuracy and completeness of the balances could not be confirmed.

29. Delay in Winding Up the Fund

As previously reported, the Fund has been dormant since June, 2006. Review of records revealed that The National Treasury had formed a task force on the winding up of dormant funds which included the Kenya Local Loans Support Fund. Further, The National Treasury, in consultation with the Attorney General developed a Cabinet Memorandum on winding up of the dormant funds. This effort resulted to Revocation Orders which were approved by the Cabinet. However, there was no evidence provided to prove that the Repeal Act had been passed by The National Assembly.

In the circumstances, Management has over the years continued to prepare financial statements using opening balances.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

30. 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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

31. 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.

AFRICAN UNION AND OTHER INTERNATIONAL ORGANIZATIONS SUBSCRIPTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

32. Unsupported and Irregular Transfer of Funds

The statement of receipts and payments reflects surplus transfer to Exchequer of Kshs.2,300,000,000 as disclosed in Note 10 to the financial statements. However, documentation to support approval of the payment were not provided for audit. This was contrary to Regulation 5 of the Public Finance Management (African Union and Other International Organizations Subscription Fund) Regulations, 2017 which provides that any payment out of the Fund shall be pursuant to the object and purpose for which the Fund is established which is contribution to the African Union and any other international organization to which Kenya has a financial obligation. Further, Regulation 6 requires all receipts, savings, balance and accruals of the Fund at the close of each financial year to be retained for the purpose for which the Fund is established.

In the circumstances, the accuracy and regularity of the surplus transfer to Exchequer of Kshs.2,300,000,000 could not be confirmed.

Emphasis of Matter

33. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.9,657,431,661 and Kshs.5,156,098,191 respectively resulting in an under-funding of Kshs.4,501,333,470 or 47% of the budget.

The under-funding affected implementation of the planned activities and may have impacted negatively on service delivery to the public.

34. Multiple Laws Guiding Operations of the Fund

As previously reported, I draw your attention to overview on the Fund financial statements which indicates that the Fund is established under a Gazette Notice No. 10 of 2017, in exercise of Section 23 of the Public Finance Management Act, 2012. The Public Finance Management (African Union and Other International Organizations Subscription Fund) Regulations, 2017 established the African Union and Other International Organizations Subscription Fund through which Kenya's contributions to African Union and Other International Organizations across all Government agencies were to be paid. Until 2017, the Government through The Treasury had been paying subscriptions to International Organizations through Vote R53 – Consolidated Fund Services – Subscriptions to International Organizations under various pieces of legislation namely: International Finance Corporations Act, CAP 466, International Development Association Act, CAP 465, Bretton Woods Agreements Act, CAP 464, the African Development Bank Act, CAP 492 and the Multilateral Investment Guarantee Agency Convention, 1988 (Revised 2010).

Previously, the Ministries, Departments and Agencies, (MDAs) had been remitting such subscriptions through their voted provisions within their budgets. The establishment of the African Union and Other International Organizations Subscription Fund therefore rendered all other individual voted provisions to be consolidated and budgeted under one Umbrella body, the African Union and Other International Organizations Subscriptions Fund.

Management has not caused the revocation or repealing of the earlier laws to be in tandem with the current legislation and therefore avert the risk of making multiple payments to the international organizations.

My opinion is not modified in respect of these matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

35. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

36. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PUBLIC SERVICE SUPERANNUATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

37. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

38. Delayed Pension Employer Contributions

The statement of net assets available for benefits and, as disclosed in Note 19 to the financial statements, reflects a balance of Kshs.3,275,639,289 in respect of trade and other receivables. The balance includes an amount of Kshs.3,205,373,558 in respect of employer's contributions that remained outstanding until 17 September, 2024. This was contrary to Section 8(c) of the Public Service Superannuation Scheme Act, 2012 which states that, not later than ten working days after the end of the month in which the contributions are due, the Government shall remit an amount comprising the member's and the Government's contribution to the custodian. Management indicated that The National Treasury remitted an amount of Kshs.7,906,329,733 on 17 September, 2024 which included the balance outstanding as at 30 June, 2024.

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

39. Delay in Remitting Instalment Tax

The statement of changes in net assets available for benefits reflects a comparative tax expense of Kshs.2,544,669 as disclosed in Note 14 to the financial statements. Management stated that a 10% upward adjustment was made to the comparative tax expense to arrive at the tax payable of Kshs.2,799,135 for the year under review. The amount was to be paid in quarterly instalments of Kshs.699,784. However, Management paid an amount of Kshs.2,099,352 on 05 June, 2024 in the last quarter of the year delaying the same by nine (9) months. Further, the balance for the last quarter which amounted to Kshs.699,784 had not been paid by 30 June, 2024 contrary to the provisions of Section 12 of the Income Tax Act, 2021 which states that the amount of instalment tax required to be paid for any year of income shall be the annual amount calculated in accordance with subsections (2) and (3) but subject to the proportions as specified in the Twelfth Schedule. Section 1(a) of the Twelfth Schedule states that proportions of the amount calculated under Section 12 are payable on or before the twentieth day of the fourth, sixth, ninth and twelfth months in the accounting period of the current year of income.

In the circumstances, failure to remit the tax in due time may attract penalties and Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

40. Failure to Tag Assets

During the year under review, the Fund failed to implement a robust asset tracking system hindering Management's ability to monitor and safeguard the Fund's assets effectively. Consequently, there is a heightened risk of asset misappropriation or loss due to the lack of proper tracking mechanism.

In the circumstances, Management may not have the ability to safeguard the Fund's assets.

PROVIDENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

41. Long Outstanding and Unsupported Other Pending Payables

As previously reported, the statement of financial position reflects a balance of Kshs.9,715,111 in respect to other pending payables. As disclosed in Note 11 to the financial statements, this represented amounts due to National Government entities. However, the supporting documents or analysis for the balance were not provided for audit. The balance had remained outstanding for a long period of time.

In the circumstances, the accuracy and validity of the balance amounting to Kshs.9,715,111 could not be confirmed.

Emphasis of Matter

42. Delay in Winding Up the Fund

As previously reported, the Provident Fund did not have any surviving beneficiaries as disclosed in Note 7 to the financial statements. However, The National Treasury formed a task force on the winding up of dormant funds which included the Provident Fund. Further, The National Treasury, in consultation with the Attorney General developed a Cabinet Memorandum on winding up of the dormant funds. This effort resulted to Revocation Orders which were approved by the Cabinet and subsequently The Provident Fund (repeal) Act, 2022 was assented on 24 February, 2022. Although Management explained that the winding-up process was actively in progress, the same was yet to be completed and had taken an unduly long time.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

43. Idle Funds

The statement of financial position reflects cash and cash equivalents of Kshs.1,029,530,738 (2022/2023 Kshs.1,008,788,200) being cash balance held at the Central Bank of Kenya. Further, and as disclosed in Note 7 to the financial statements, the Fund did not make any payment during the year as no member or beneficiary was surviving as at 30 June, 2024. It was not clear why the idle funds were not invested in interest bearing instruments. This may have led to a potential loss of interest estimated at Kshs.122,256,775 using the average Central Bank Rate of 11.875%. Although Management had indicated that The National Treasury had sought guidance from the Central Bank of Kenya on how to invest the funds, the matter had not been concluded as at the time of the audit in October, 2024.

In the circumstances, the effective use of the funds held in the bank could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

44. There were no material issues relating to effectiveness of internal controls, risk management and governance.

EUROPEAN WIDOWS AND ORPHANS PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

45. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

46. Doubtful Recoverability of Receivables

The statement of financial position and Note 10 to the financial statements reflects a balance of Kshs.16,900,000 in respect of receivables. As reported in the previous years, the receivables are in respect of cash owed by the defunct Cereals and Sugar Finance Corporation. The amount has been outstanding for more than twelve (12) years pending

the conclusion of the winding-up process of the Corporation and the Fund may not recover the amount invested resulting in a loss of public funds. However, as disclosed in Note 10 to the financial statements, the Cabinet Secretary approved the write-off of the balance through letter reference MOF/AC/305C VOL. 2(245) of 11 November, 2024 in line with Section 69(2) of the Public Finance Management Act, 2012 and in accordance with Regulation 148(6) and (7) of the Public Finance Management (National Government) Regulations, 2015.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

47. Idle Funds

The statement of financial position reflects cash and cash equivalents of Kshs.179,294,428 (2022/2023-Kshs.179,348,692) being cash balance held at the Central Bank of Kenya as at 30 June, 2024. Further, and as disclosed in the Statement of Pensions Fund Management Responsibilities, the Fund had only one (1) surviving beneficiary who was paid Kshs.54,264 during the year. It is not clear why the idle funds were not invested in interest-bearing instruments. This may have led to a potential loss of interest estimated at Kshs.21,291,213 using the average Central Bank Rate of 11.875%. Although Management has indicated that The National Treasury had sought guidance from the Central Bank of Kenya on how to invest the funds, the matter had not been concluded as at the time of the audit in November, 2024.

In the circumstances, the effective use of the funds held in the bank could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

48. There were no material issues relating to effectiveness of internal controls, risk management and governance.

ASIAN OFFICERS FAMILY PENSIONS FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

49. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

50. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts and expenditure budget on a comparable basis of Kshs.5,998 and Kshs.1,093,196 respectively resulting in a budget shortfall of Kshs.1,087,198. However, the Fund spent an amount of Kshs.969,432 against the actual receipts of Kshs.5,998 resulting in an over-utilization of Kshs.963,434 of the actual receipts.

In the circumstances, the budget shortfall and over-utilization are indications of spending on accumulated surpluses of the Fund and may impact negatively on future sustainability of the Fund.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

51. Fund Operating without a Board of Trustees

Review of records provided revealed that the Fund had been operating over the years without a Board of Trustees. As a result, the accumulated funds had not been invested. This was contrary to Section 3(1) of the Asian Officers' Family Pensions Act, Chapter 194 (Revised 2012) which states that there is hereby established a Board to be known as the Asian Officers' Family Pensions Board and Section 5(4) of the same Act which stipulates that moneys belonging to the Fund, so far as practicable, be invested on behalf of the Fund in such securities or employed at interest in such manner as may be approved by the Board.

In the circumstances, non-establishment of a Board of Trustees is a breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

52. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PUBLIC PRIVATE PARTNERSHIP PROJECT FACILITATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

53. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

54. Budgetary Control and Performance

The statement of cash flows reflects differed income received of Kshs.5,198,413,992 as disclosed in Note 36 to the financial statements. As at the closure of the year, the Fund had a balance of Kshs.5,600,552,667. However, no payments were made out of the Fund during the year under review.

The under-application affected the planned activities and may have impacted negatively on delivery of goods and services to the public.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

55. Lack of Approved Workplans

The statement of financial position reflects cash and cash equivalents balance of Kshs.5,600,552,667 which includes opening balance of Kshs.402,138,675 as disclosed in Note 24 to the financial statements. However, the Fund Management did not prepare an operations workplan for the year under review. This was contrary to Regulation 21(d) of Public Private Partnership (Project Facilitation Fund) Regulation, 2017 which provides that the Officer administering the Fund shall prepare estimates of annual revenue and expenditure of the Fund relating to the Public Private Partnerships Programme and the Funds' operational expenses and submit it to the Committee for adoption.

In the circumstances, Management was in breach of law.

56. Lack of Updated Public Private Partnership Legal and Policy Documents

Review of Funds operational and legal framework revealed the Public Private Partnerships Act, 2021 was enacted to repeal the Public Private Partnerships Act, 2013. However, Regulations to guide application of the Act and operations of the Fund had not been developed. Management continued to rely on Regulations that had been developed for the repealed Act.

Further, Management had not updated the Policy Statement on Public Private Partnerships, 2011 to align with the current law in place. This was contrary to Section 89(1) of the Public Private Partnerships Act, 2021 which provides that the Cabinet Secretary may make Regulations for the better carrying out of the provisions of this Act

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

57. Lack of an Approved Fund Manual

Review of records revealed that the Fund lacked an approved manual to guide the governance of the Fund. This was contrary to Regulation 64(1) of the Public Private Partnerships Regulations, 2014 which requires the Committee with the approval of the Cabinet Secretary, to develop and publish a manual for the governance of the Fund.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

58. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR ECONOMIC PLANNING – VOTE 1072

NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

59. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

60. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.78,097,618,804 and Kshs.60,166,118,804 respectively resulting in an under-funding of Kshs.17,931,500,000 or 23 % of the budget. However, the Fund transferred an amount of Kshs.60,129,259,385 against actual receipts of Kshs.60,166,118,804 resulting in an under-utilization of Kshs.36,859,419.

The under-funding and under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

61. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

62. There were no material issues relating to effectiveness of internal controls, risk management and governance.

WOMEN ENTERPRISE FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

63. Inaccuracies in the Financial Statements

Review of the financial statements presented for audit revealed unexplained variances between the financial statements and the supporting ledgers as follows:

Item	Financial Statements (Kshs.)	General Ledger (Kshs.)	Variance (Kshs.)
Courier and Postal Services	8,620,405	7,505,346	1,115,059
Advertising, awareness and Publicity Campaigns, Subscriptions to Newspapers	6,641,499	6,615,894	25,605
Printing and Stationery	61,860		61,860
Travel, Subsistence and Other Allowances	70,780,078		70,780,078
Board Expenses	29,939,547		29,939,547
Depreciation of PPE	26,340,565	25,976,946	363,619
Maintenance of Computers, Software and Networks	68,292,000	9,164,694	59,127,306
Amortization Expenses	363,619		363,619
Digital Loans	678,459,846		678,459,846
Loans to CWES	1,449,056,226	1,330,933,034	118,123,192
Thamini Loan	3,757,646	10,334,074	(6,576,428)
Car and Mortgage Scheme	258,717,140	221,259,165	37,457,975
Imprests and Advances	3,357,306	3,502,773	(145,467)
Intangible Assets	728,330		728,330
Trade and Other Payables	48,398,585		48,398,585
Employee Benefit Obligation	105,497,798		105,497,798

Further, the financial statements revealed that the Fund spent an amount of Kshs.374,208,903 on staff costs. However, the payroll records indicated that an amount of Kshs.369,034,088 was spent on staff costs resulting in an unexplained variance of Kshs.5,174,815.

In addition, the financial statements reflect depreciation of property plant and equipment of Kshs.26,340,565 while property, plant and equipment schedule at Note 19 to the financial statements reflects an amount of Kshs.25,976,946 resulting in an unexplained variance of Kshs.363,619.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

64. Non-Performing Loans to Financial Intermediary Partners

The statement of financial position reflects a balance of Kshs.2,510,430,962 in respect of receivables from exchange transactions which, as disclosed in Note 18 to the financial statements, includes non-performing loans balance of Kshs.71,330,000 from eight (8) financial intermediary partners. However, no provision for non-performing loans was made in the financial statements.

According to explanations by Management, the financial intermediary partners' debts outstanding had been handed over to the legal office for follow-up. However, the legal office had not provided evidence to show whether their efforts were successful and whether they will result in any recovery. It was, therefore, not possible to confirm whether the legal office was actively following-up these cases.

In the circumstances, the accuracy and recoverability of the receivables balance of Kshs.71,330,000 could not be confirmed.

65. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.2,510,430,962 as disclosed in Note 18 to the financial statements. The balance includes loans relating to digital loans, loans to Constituency Women Enterprise Schemes (CWEs), Sacco loans and LPO loans of Kshs.678,459,886, Kshs.1,449,056,226, Kshs.34,522,965 and Kshs.10,946,500 respectively. However, the loans were not supported with their respective ageing analysis.

Further, included in the receivables from exchange transactions balance is an amount of Kshs.23,383,337 representing amounts in the Suspense/Clearance Account. Management explained that payment of loan installments by clients through a local bank platform had not been fully configured with the in-house Enterprise Resource Planning - E.R.P system and therefore the payments do not instantly reflect in the client's loan accounts at the Fund. This had necessitated manual reconciliations between amounts received in the Women Enterprise Fund collection accounts and the client's loan accounts.

In the circumstances, the accuracy and completeness of receivables from exchange transactions of Kshs.2,510,430,963 could not be confirmed.

66. Understatement of Finance Income

The statement of financial performance reflect an amount of Kshs.71,060,851 which, as disclosed in Note 8 to the financial statements, is in respect to finance income. However, review of financial records revealed that the Fund had earned an amount of Kshs.5,366,810 as interest from the fixed deposits but which had not been disclosed as part of the finance income.

In the circumstances, the accuracy and completeness of finance income amount of Kshs.71,060,851 could not be confirmed.

67. Non-Disclosure of Inventories

The statement of financial position does not reflect inventories balance. However, physical verification of the store revealed that the Fund had stock/inventories valued at Kshs.3,997,933 at the close of the year.

In the circumstances, the financial statements are misstated.

68. Unsupported Gratuity Payments

The statement of financial performance reflects employees' costs amounting to Kshs.374,208,903 as disclosed in Note 10 to the financial statements. Included in the balance is an amount of Kshs.33,977,907 in respect of gratuity payments which were not supported with details of the payees and employment contracts.

In the circumstances, the accuracy and completeness of gratuity payments of Kshs.33,977,907 could not be confirmed.

69. Inaccuracies in Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.1,815,567,600 which, as disclosed in Note 17 to the financial statements, includes a balance of Kshs.1,645,751,217 for the Women Enterprise Fund (WEF) Main Account. However, the respective bank reconciliation statement for June 2024 reflected unpresented cheques relating to payments in the cash book not reflected in the bank statements amounting to Kshs.2,876,624 which have been outstanding since October 2023. Management did not explain why the cheques are yet to be cancelled and the balances written back into the cash book.

Further, the Fund maintained a savings account with a local commercial bank which had a balance of Kshs.47,095,075 and no deposits in to or withdrawals from the account were made during the financial year under review. Moreover, respective cash book, board of survey report and a certificate of balance as at 30 June, 2024 were not provided for audit review. It was further noted that the bank statement provided showed a balance of Kshs.48,906,112 while the 2023/2024 financial statements reflect a balance of Kshs.47,095,075.

In addition, review of the financial statements and the cash book balances revealed the following unreconciled variances;

Name of Bank Account	Financial Statements Balance (Kshs.)	Cash Book Balance (Kshs.)	Variance (Kshs.)
Main Account	1,645,751,217	1,630,222,077	15,529,140
Gratuity Account	105,497,798	119,557,492	(14,059,694)
Savings Account	47,095,075	48,906,112	(1,811,037)
Mobile Money	10,116,057	2,568,457	7,547,600

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,815,567,600 could not be confirmed.

70. Unsupported and Unaccounted for Mobile Money Funds

The statement of financial position reflects cash and cash equivalents balance of Kshs.1,815,567,600 which, as disclosed in Note 17 to the financial statements, include mobile money pay bill balance of Kshs.10,116,057. However, out of the Kshs.10,116,057 balance, only an amount of Kshs.2,568,457 was supported by the mobile account statement resulting in unsupported variance of Kshs.7,547,600. Further, the mobile money statement revealed that an amount of Kshs.20,979,311 was transferred on 31 August, 2023. However, Management did not provide details of the account into which the funds were transferred to.

Information available indicated that the Fund operated three (3) mobile pay bills for loan repayment under the manual lending, loan repayment under the new digital lending and loan disbursement to groups under digital lending. However, review of the Board Finance, Human Resource and Administration Committee Meetings Minutes held on 15 February, 2024, 15 April, 2024 and 29 April, 2024 ascertained that one of the pay bill held a balance of Kshs.212,151,894 and recommended that the funds be recalled to the WEF's main account to be invested in call deposits. This was contrary to Executive Order dated 04 August, 2023 that directed transition of all payments to government agencies to a single payment platform under the designated pay bill number 222222 and closure of all existing non-designated pay bills by 10 August, 2023.

In the circumstances, the mobile money balances of Kshs.212,151,894 could not be accounted for.

71. Inaccuracies in Employee Costs

The statement of financial performance and as disclosed in Note 10 to the financial statements, reflects an amount of Kshs.374,208,903 in respect of employee costs. Review of financial records revealed that an amount of Kshs.1,044,000 was in respect of the Board of Director's expenses wrongly charged to employee costs.

In the circumstances, the accuracy and completeness of employee costs amount of Kshs.374,208,903 could not be confirmed.

72. Unsupported Training Expenses

The statement of financial performance and as disclosed in Note 15 to the financial statements, reflects training expenses amount of Kshs.58,667,606. The training expenditure increased by Kshs.31,424,607 (115%) from the prior year expenditure of Kshs.27,242,999 and no explanation was provided for the increase. Further, Management did not provide an approved training plan, minutes or report of training committee indicating the criteria used to select staff for trainings for the financial year under audit, making it difficult to confirm whether the trainings were carried out and in accordance to the laid-out plan of the entity.

In the circumstances, the accuracy, completeness and regularity of training expenses amount of Kshs.58,667,607 could not be confirmed.

Emphasis of Matter

73. Material Uncertainty Related to Sustainability of Services

The statement of financial performance reflect total revenue and expenditure of Kshs.398,848,406 and Kshs.652,535,478 respectively resulting in a deficit of Kshs.330,089,422 up from the previous year's deficit of Kshs.220,889,234 representing a Kshs.109,200,188 or 49% decline in profitability. Therefore, the Fund continued to operate at a loss, which, if not managed, may affect its future operations and sustainability of services.

In the circumstances, the Fund may be unable to meet its financial obligations as and when they fall due and there is a risk of the Fund being technically insolvent.

74. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.531,984,690 and Kshs.398,848,406 respectively resulting in an underfunding of Kshs.133,136,284 or 25% of the budget.

Similarly, the statement reflects actual expenditure of Kshs.728,937,829 against an approved budget of Kshs.624,424,211 resulting in an unapproved over expenditure of Kshs.104,513,618 or 17% of the budget. However, the underfunding and over expenditure are wrongly reflected in the statement as Kshs.245,257,986 and Kshs.624,424,211 respectively.

In the circumstances, the under-funding may have affected the planned activities of the Fund and hence impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Matter

75. Unresolved Prior Year Matters

As disclosed in Appendix I to the financial statements on implementation status of Auditor-General's recommendations, various prior year's audit issues remained

unresolved as at 30 June, 2024. Management did not provide reasons for the delay in resolving the prior year's audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

76. Non-Preparation of Financial Statements for Staff Mortgages and Car Loan Fund

The statement of financial position and as disclosed in Note 18 to the financial statements reflects car and mortgage scheme balance of Kshs.258,717,140. However, the Fund did not prepare separate financial statements for the car and mortgage scheme as required by templates issued by the Public Sector Accounting Standards Board (PSASB). The templates require separate financial statements as opposed to being shown as a line item in the statement of financial position. Further, details of the beneficiaries of the car and mortgage scheme were not provided for audit review. In addition, there was no movement in the account balance implying that there were no loans being issued and no recoveries were made.

In the circumstances, the financial statements were not prepared in accordance with the financial reporting templates by the Public Sector Accounting Standards Board.

77. Unbalanced Budget

The statement of comparison of budget and actual amounts reflects budgeted revenue and budgeted expenditure of Kshs.531,984,690 and Kshs.624,424,211 respectively, resulting in an unbalanced budget of Kshs.92,439,521 which is incorrectly indicated as Kshs.107,419,521. This was contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that the budget shall be balanced.

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

78. Non-Compliance with Fiscal Responsibility Principles

The statement of financial performance reflects total revenue and employee costs amounts of Kshs.398,848,406 and Kshs.374,208,903 respectively. Contrary to Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015, the employee costs represent 94% of the total revenue. The Regulation which is on fiscal responsibility principles provides that expenditure on compensation of employees shall not exceed 35% of the revenues generated.

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

79. Outstanding Imprests and Advances

The statement of financial position and as disclosed in Note 18 to the financial statements reflects receivables from exchange transactions balance of Kshs.2,510,430,962. The balance includes outstanding imprests and advances of Kshs.3,357,306 which ought to have been recovered or accounted for on or before the close of the year. This was contrary to Regulation 93(6) of the Public Finance Management (National Government) Regulations, 2015 that requires that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest rate at the prevailing Central Bank Rate. Further, no reasons were provided for failure to surrender or account for the imprests as required by the Regulation.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

80. Irregular Board meetings

During the year under review, the Women Enterprise Fund Advisory Board held three (3) full board meetings, twelve (12) full board special meetings, five (5) audit and compliance committee meetings, five (5) credit committee meetings, nine (9) finance and administration committee meetings, nine (9) strategy, innovation and technology committee meetings giving rise to a total of forty-three (43) board meetings. However, the additional meetings were not approved.

In the circumstances, the existence of effective governance mechanisms on Board Meetings could not be confirmed.

NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

81. Failure to Depreciate Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.197,497,723 as disclosed in Note 19 to the financial statements. However, the assets had not been revalued or depreciation charged to reflect the net book value of the property, plant and equipment since the fund was yet to finalize the process of developing a depreciation policy document.

In the circumstances, the accuracy and completeness of property plant and equipment balance of kshs.197,497,723 could not be confirmed.

82. Loss of Interest Revenue from Commercial Banks

The statement of financial Performance and Note 7 to the financial statements reflects Kshs.7,478,577 balance for other income. Review of the National Government Affirmative Action Fund (NGAAF) CBK bank statements revealed that Kshs.1,886,122,327 was disbursed to counties via various Equity Bank Branches and earned interest of Kshs.8,270,931 before taxation. However, Kshs.1,862,605,020 disbursed to other counties via various commercial banks did not earn interest for NGAAF. This denies the Government the much-needed revenue hence no value for investment.

In the circumstances, the accuracy and completeness of other income balance of kshs.7,478,577 could not be confirmed.

83. Inaccuracies in Cash and Cash Equivalents

The statement of financial position and Note 17(a) to the financial statements reflects cash and cash equivalents balance of Kshs.1,195,802,559. Included in the balance is an amount of Kshs.350,711,873 in respect of Counties-NGAAF balances. However, verification of bank reconciliations for various accounts revealed stale cheques amounting to Kshs.17,674,161 dating back to 2020.This was an indication that the intended objectives were not achieved hence denying service delivery to the Kenyan Citizens.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.1,195,802,559 could not be confirmed.

84. Unutilized Funds

Note 17(b) to the financial statements reflects Kshs.554,289,708 for unspent county balances as at 30 June, 2024. This relates to funds that were not distributed to the counties in the year under review which is an indication of failure to meet the objectives

of the Fund in the financial year. Further, some counties had huge idle balances in their accounts yet there are so many needy Affirmative Action Groups on the ground. This denied enhancement of access to financial facilities for Affirmative Action Groups (AAGs).

In the circumstances, the accuracy and completeness of unspent county balances of Kshs.554,289,708 could not be confirmed.

Other Matter

85. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Other Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the matters remained unresolved as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

86. Human Resources

86.1 Non-Adherence to Human Resource Manual on Staff Establishment

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects employee costs of Kshs.169,019,048. However, review of the authorized staff establishment for NGAAF shows that the authorized establishment was two hundred and eighty-four (284) staff members while the in-post number was ninety (90) resulting in a deficit of one hundred and ninety-four (194) or 68% as at 30 June, 2024. Failure to comply with the approved staff establishment was contrary to Section A.15 of the Human Resource Policies and Procedures Manual for the Public Service, 2016.

86.2 Gender Inequality

Review of the Human Resource Records for the Fund revealed that, NGAAF had a total staff of seventy-eight (78) in the Integrated Pay Payroll Database (IPPD) as at 30 June, 2024. However, male staff were sixty (60) or 77% and female were eighteen (18) or 23%. This was contrary to Section B.22 (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016.

86.3 Failure to Accord Equal Employment Opportunities to Persons with Disabilities

During the year under review, Management recruited a total of 38 staff members. However, as per the Human Resource Policies and Procedures manual 2016, Management ought to have made a provision to recruit at least five percent (5%) individuals living with disability. This would have amounted to at least 2 individuals instead

of the one individual recruited. This was contrary to Section B.23 (1) and (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016.

86.4 Non-compliance with One-Third Basic Salary Rule

Review of the payroll data for the year under review revealed that a number of officers were earning net salary which was below one-third of their basic pay. This was contrary to Section C.1 (3) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which requires public officers not to over-commit their salaries beyond two thirds (2/3) of their basic salaries and Heads of Human Resource Units to ensure compliance.

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

87. Failure to Brand NGAAF Funded Projects

Note 8 to the financial statements reflects Kshs.3,366,438,345 being counties expenditure incurred as at 30 June 2024. However, physical verification of Kajiado County revealed that the fund office procured 5000 litres water tanks, car wash machines and posho mills which were not branded. This was contrary to Section 2.8 of the Access to Fund guidelines which stipulates that all NGAAF funded projects, buildings and assets shall bear the branding with Coat of Arms and NGAAF Logo and serialized to capture the County, Project Number and the Financial Year of funding.

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

88. Failure to Meet Full Board and Committees Meeting Threshold

The Board work plan for 2023/2024 indicated the timetable of meetings as four (4) meetings for the full board during the financial year under review. However, available documents indicated that the full board held only two (2) meetings on 26 February, 2024 and 11 July, 2023. Further, review of the Board work plan for 2023/2024 board and committees meeting minutes revealed that, the Finance and the Administration and Strategy and Programmes Committees held three (3) meetings each while the Audit and Risk Management Committee held one (1) meeting. The Conflict, Dispute Resolution and HR Committee did not hold any meeting during the year under review.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

89. Payments Made Outside Integrated Payroll and Personnel Database

Review of Fund Payroll records against the Integrated Payroll and Personnel Database (IPPD) system, which is part of the Government Human Resource Information Systems

(GHRIS), revealed that Salaries amounting to Kshs.17,274,700 were paid outside the IPPD system. No explanation on this anomaly was provided.

In the circumstances, the effectiveness of internal controls on payroll management could not be confirmed.

90. Inadequate Number of Drivers

Review of the records of the Fund revealed that, it has an approved establishment of 50 drivers against current in post of 37 drivers. Comparison of the list of motor vehicles and driver's establishment availed for audit revealed that the ratio of drivers to motor vehicles was 37 drivers against 96 mobile motor vehicles (equivalent to 1 driver for 2 vehicles). This implies that Management may not be operating at optimal level there being more vehicles than the drivers.

In the circumstances, the effectiveness of internal controls on fleet management could not be confirmed.

91. Failure to Maintain Proper Stores Records

Review of records maintained in the counties revealed that there were no standard stores ledger cards (S3) used by coordinators to document items received in the store and how they are issued. The coordinators could therefore not account for items held in the store in relation to the date and the year they were procured. Further, in Kitui County, ten (10) motor cycles that were procured in 2020/2021 were lying in the store several years after they were procured. No explanation for the failure to distribute the items was provided.

In the circumstances, the effectiveness of internal controls on stores management could not be confirmed.

STATE DEPARTMENT FOR INTERNAL SECURITY AND NATIONAL ADMINISTRATION – VOTE 1026

NATIONAL HUMANITARIAN FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

92. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

93. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

94. Non-Functioning Fund Committee

As reported in the previous year, although the Prevention, Protection and Assistance to Internally Displaced Persons and Affected Communities Act, 2012 prescribes the Fund Administration procedures including the composition and functions of the Committee and Secretariat, no evidence was provided of an active Secretariat as provided for in the enabling Act. Further, the Fund had not been operationalized in the absence of a Fund Committee whose functions includes protection and assisting internally displaced persons, overseeing the management and use of the Fund, among other functions.

In the circumstances, the adequacy and effectiveness of risk management and oversight over the Fund could not be confirmed.

GOVERNMENT PRESS FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

95. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.577,136,263. However, the supporting schedule provided reflected a balance of Kshs.430,349,863 leaving an amount of Kshs.146,786,400 unsupported. Further, as disclosed in Note 10 to the financial statements, receivables totalling Kshs.430,349,863 had been outstanding for a period of one (1) to two (2) years. In addition, the Fund did not have a policy for impairing long-outstanding debts. Additionally, the receivables from exchange transactions balance was incorrectly referenced to Note 15 in the statement of financial position instead of Note 10.

In the circumstances, the accuracy, valuation and recoverability of the receivables from exchange transactions balance of Kshs.577,136,263 could not be confirmed.

96. Long Outstanding Work-In-Progress

The statement of financial position reflects an inventories balance of Kshs.590,090,514 which, as disclosed in Note 11 to the financial statements, includes a balance of Kshs.256,702,838 in respect of Work-In-Progress (WIP). However, the WIP balance includes work orders initiated as far back as 2015 that remained incomplete as at 30 June, 2024. Further, work orders valued at Kshs.171,468,253 had been classified as WIP for more than one (1) year.

In addition, the WIP balance was not supported by a movement schedule indicating completed works and additional WIP during the review period.

In the circumstances, the accuracy and completeness of the inventory WIP balance of Kshs.256,702,838 could not be confirmed.

Other Matter

97. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. Management had, however, not resolved the issues or provided explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

98. Lack of an Approved Budget

The statement of comparison of budget and actual amounts reflects a final revenue budget of Kshs.400,000,000 and expenditure budget of the same amount. However, an approved budget was not provided for audit review. Failure to prepare a budget is contrary to Regulation 31(2)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer is responsible, in particular for ensuring that all services which can be reasonably foreseen are included in the estimates and that they are within the capacity of her or his national government entity during the financial year.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

99. Use of Outdated Machines

Physical verification of the Fund's printing factory revealed that, the entity relied on old and outdated machines for printing, some of which were acquired in the 1940s. The continued use of the old machines has led to frequent breakdowns due to wear and tear, resulting in slower production of documents and increased maintenance costs.

In the circumstances, the entity's ability to generate revenue effectively was impacted negatively.

100. Weak Controls Over Inventory Management

Physical verification of the stores conducted in October, 2024 revealed significant volumes of inventory in respect of copies of prior years' supplementary estimates books, copies of Kenya Gazette Notices and Acts of Parliament, some of which had been repealed and were, therefore, outdated and obsolete.

In the circumstances, the effectiveness of internal controls over inventory management could not be confirmed.

PRISON INDUSTRIES REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

101. Unsupported Cash and Cash Equivalents

The statement of financial position reflects a balance of Kshs.103,892,228 under cash and cash equivalents as disclosed in Note 11 to the financial statements. As reported in the previous year, one cash book and a single bank account was maintained for recording financial transactions for both the Prisons Industries Revolving Fund and the Prison Farms Revolving Fund. However, the two (2) Funds are distinct and prepare separate sets of financial statements. Further, payments made were commingled making it difficult to distinctly identify and apportion revenues earned by each specific Fund.

Although the State Department for Correctional Services indicated that authority had been sought from The National Treasury to open an extra bank account for either of the two Funds, progress made in this regard was not disclosed.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.103,892,228 could not be confirmed.

102. Unsupported Pay Master General (PMG) Balance

The statement of financial position reflects a balance of Kshs.175,987,430 relating to Pay Master General (PMG) Account held on behalf of the Fund in the former Ministry of Home Affairs Deposit Account. The amount represents a book balance which was to be transferred to the Fund's bank account but remains outstanding to date.

In the circumstances, the existence and recoverability of the P.M.G balance of Kshs.175,987,430 could not be confirmed.

103. Long Outstanding Debtors

The statement of financial position reflects a balance of Kshs.184,493,466 in respect of receivables from exchange transactions as disclosed in Note 13 to the financial statements. As reported in the previous year, the balance includes an amount of Kshs.99,758,634 relating to supply of number plates to the National Transport and Safety Authority (NTSA) which remained unpaid despite various correspondences including demand notes by the State Department for Correctional Services to the NTSA Management.

Further, the balance of Kshs.184,493,466 includes an amount of Kshs.36,958,748 being Authority to Incur Expenditure to farms for fertilizer whose details were not provided for audit. In addition, a debt recovery policy was not provided for audit to ascertain the recoverability of the outstanding debtors.

In the circumstances, the accuracy and recoverability of the outstanding debtors balance of Kshs.184,493,466 could not be confirmed.

104. Material Uncertainty Related to Going Concern

I draw attention to Note 5 to the financial statements which discloses that the Fund has existing litigations in regard to motor vehicle number plates. Moreover, a huge amount of money may be required in case the ruling goes in favour of the plaintiff greatly affecting the going concern of the Fund. This indicates existence of material uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern.

My opinion is not modified in respect of this matter.

Emphasis of Matter

105. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final budgeted revenue and actual on comparable basis of Kshs.289,861,203 and Kshs.159,979,097 respectively resulting to an under collection of Kshs.129,882,106 or 45%. Similarly, the Fund spent a total of Kshs.155,077,023 against actual receipts of Kshs.159,979,097 resulting to an under- utilization of Kshs.4,902,073 or 3% of the actual receipts.

The under-funding and under- utilization affected the operations and negatively impacted on the planned activities of the Fund.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

106. Failure to Use Information Technology in Finance and Procurement Departments

The Fund began operations on 01 July, 1987 vide Legal Notice No.314 of the Exchequer and Audit Act (Prison Industries Fund) Regulations,1988. Despite being in operation for thirty-seven (37) years, the Fund is yet to automate its operations especially for purposes of financial reporting and procurement of goods, works and services. The transaction processing, ledgers and financial statements are done manually to date.

Further, the Fund is yet to implement e-procurement for managing the procurement processes as required by the Public Procurement and Asset Disposal Regulations, 2020 and the Executive Order No.2 of 2018.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

107. Outstanding Scrap Machinery Balance

As previously reported, the property, plant and equipment balance of Kshs.86,382,341 includes an amount of Kshs.2,926,440 relating to scrap machinery as disclosed in Note 16 to the financial statements. The scrap machinery balance of Kshs.2,926,440 has been included in the financial statements over a number of years. Management has not indicated the plans in place to dispose of the assets to avoid any further deterioration.

In the circumstances, the effectiveness of controls related to asset management could not be confirmed.

PRISON FARMS REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

108. Long Outstanding Receivables

The statement of financial position reflects receivables from exchange transactions balance of Kshs.100,210,528 as disclosed in Note 12 to the financial statements which includes Kshs.12,584,345 relating to long outstanding debtors dating back to the year 2014. No explanation was provided on why the amount has been outstanding for long and what efforts were undertaken to pursue the debtors and recover the outstanding amounts.

In the circumstances, the recoverability of the outstanding receivables amounting to Kshs.12,584,345 could not be confirmed.

109. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents debit balance of Kshs.36,958,748 as disclosed in Note 11(a) to the financial statements. However, the balance was at variance with the reconciled cash book balance of Kshs.102,831,066. Further, the bank reconciliation statement in support of the cash book balance of Kshs.102,831,066 reflects payments in cash book not in the bank statement of Kshs.17,937,726 and payments in bank statement not in cash book of Kshs.17,326,907. The statement also reflects receipts in cash book not in the bank statement of Kshs.218,694. In addition, as reported in the previous year, one cash book and a single bank account was maintained for recording financial transactions for both the Prison

Farms Revolving Fund and the Prisons Industries Revolving Fund. However, the two (2) Funds are distinct and prepare separate sets of financial statements. Further, payments made were commingled making it difficult to distinctly identify and apportion revenues earned by each specific Fund.

In the circumstances, the accuracy and completeness of the cash and cash equivalents debit balance of Kshs.36,958,345 could not be confirmed.

Emphasis of Matter

110. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.273,103,700 and Kshs.154,727,085 respectively resulting to an under-funding of Kshs.118,376,615 or 43% of the budget. Similarly, the Fund spent a total of Kshs.140,790,966 against actual receipts of Kshs.154,727,085 resulting in an under- utilization of Kshs.13,936,119 or 9% of the actual receipts.

The under-funding and under- utilization affected the operations and negatively impacted on the planned activities of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

111. Failure to Use Information Technology in Finance and Procurement Departments

The Prison Farms Revolving Fund was established by Legal Notice No.87 of the Exchequer and Audit Act (Cap 412) Regulations,1993 and was deemed to be operational from 1 July, 1992. As reported in the previous period, the Fund, despite being in operation for 32 years, is yet to automate its operations especially for purposes of financial reporting and procurement of goods, works and services. The transaction processing, ledgers and financial statements are done manually.

Further, the Fund is yet to implement e-procurement for managing the procurement processes as required by the Public Procurement and Asset Disposal Regulations, 2020 and the Executive Order No.2 of 2018. Management has not provided explanation for failure to automate its operations.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

112. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR THE ARID AND SEMI-ARID LANDS AND REGIONAL DEVELOPMENT – VOTE 1036

NATIONAL DROUGHT EMERGENCY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

113. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

114. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budgeted and actual receipts on comparable basis of Kshs.20,000,000 and Kshs.47,125,221 respectively, resulting to an over collection of Kshs.27,125,221. Management explained that the over collection of Kshs.27,125,221, which was not budgeted for, resulted from interest income generated from bank deposits. Similarly, the Fund spent an amount of Kshs.54,240,320 against actual receipts of Kshs.47,125,221 resulting to an over-expenditure of Kshs.7,115,099 or 15% of the actual receipts. Management further explained that the over-expenditure of Kshs.7,115,099 was financed from prior year closing bank balances.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

115. Inadequate Seed Capital

As reported in the previous year, the Fund had received a cumulative amount of Kshs.483,300,000 against a seed capital of two (2) billion shillings provided for in Regulation 4(1) of the Public Finance Management (National Drought Emergency Fund) Regulations, 2021 which requires that the initial capital for the Fund shall be two (2) billion shillings appropriated by Parliament.

In the circumstances, the delayed release of the seed capital may affect the optimal implementation of the envisaged drought risk management actions.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

116. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR ROADS – VOTE 1091

MECHANICAL AND TRANSPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

117. Inaccuracies in Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.2,392,334,017 as disclosed in Note 19 to the financial statements. However, the balance excludes unknown value for buildings and other structures. No explanation was given on why the buildings had not been valued and included in the assets register.

Further, the Fund did not have title deeds for the lands on which the buildings are erected and no explanation was provided on why Management had not acquired land title deeds or efforts made towards acquiring them. Further, the security of land without title deeds could not be confirmed.

In the circumstances, the fair value and completeness of the assets balance of Kshs.2,392,334,017 could not be confirmed.

118. Long Outstanding Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 17 to the financial statements reflects current portion of receivables from exchange transactions balance of Kshs.107,720,940. Included in this amount is Kshs.48,710,152 and Kshs.36,337,417 owed by Kisii County Government and the Nairobi Metropolitan Services respectively, being amount that have been outstanding for more than one year. Further, the Fund did not provide an approved debt collection policy for audit and the recoverability of receivables balance is doubtful.

In the circumstances, the valuation and recoverability of receivables balance could not be confirmed.

Emphasis of Matter

119. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.420,000,000 and Kshs.463,754,152, respectively, resulting in an over-funding of Kshs.23,935,906 or 7% of the budget. However, the Fund spent an amount of Kshs.378,476,792 against actual receipts of Kshs.463,754,152 resulting in an under-utilization of Kshs.85,277,360 or 18% of the actual receipts.

In the circumstances, the under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

120. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 20 to the financial statements reflects an amount of Kshs.6,573,543 in respect of trade and other payables. However, the amount has been outstanding for more than one year. Failure to settle payables when due may attract accumulated penalties and interest on outstanding amount resulting to avoidable costs.

My opinion is not modified in respect of these matters.

Other Matter

121. Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under Emphasis of Matter and in the Report on the Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

122. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

123. Understaffing Against the Approved Staff Establishment

During the year under review, the Fund had an in-post of nine hundred and forty-eight (948) employees against the approved staff establishment of two thousand six hundred and seventy-five (2,675) staff members resulting in understaffing of one thousand seven hundred and twenty-seven (1,727). The understaffing in key areas may impair service delivery to the public as shortage of staff may result to overworked workforce resulting to demoralization.

In the circumstances, the effectiveness of the internal controls on management of staff could not be confirmed.

ROADS ANNUITY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified opinion

124. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

125. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted receipts amount of Kshs.12,200,000,000 against actual receipts amount of Kshs.12,200,000,000 or 100% of the budget. However, the statement reflects actual expenditure of Kshs.7,214,060,724 against actual receipts of Kshs.12,200,000,000, resulting to an underutilization of Kshs.4,985,939,276 or 41% of the total receipts.

The underutilization affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

126. Unresolved Prior Year Matters

In the audit report of the previous year, some issues were raised under Budgetary Control and Performance and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the issues remain unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

127. There were no material issues relating to the lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

128. There were no material issues relating to the effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR TRANSPORT – VOTE 1092

RAILWAY DEVELOPMENT LEVY FUND - HOLDING ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

129. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

130. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted receipts amount of Kshs.65,519,265,131 against actual receipts amount of Kshs.67,483,046,645 resulting to over - collection of Kshs.1,963,781,514 or 3% of the budget. However, the statement reflects actual expenditure of Kshs.53,229,854,545 against actual receipts of Kshs.67,483,046,645 resulting to an underutilization of Kshs.14,253,192,100 or 21% of the total receipts.

The underutilization affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

131. Unresolved Prior Year Matters

In the audit report of the previous year, some issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management did not give any explanation on how the issues were resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

132. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

133. There were no material issues relating to effectiveness of internal controls, risk management and governance.

RAILWAY DEVELOPMENT LEVY FUND (OPERATION ACCOUNT)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

134. Failure to Prepare Financial Statements

During the year under review, Management had initially prepared the financial statements for the year ended 30 June, 2024 without indicating comparative balances on the premises that this was the first year of preparation. However, review records and available information revealed that the State Department had been preparing the same financial statements up to 2020/2021 financial year when the process ceased under unclear circumstances. Consequently, the financial statements for the year ended 30 June, 2024, presented for audit lacked comparative and opening balances. No explanation was provided for the failure by Management to prepare and submit financial statements for the financial years 2021/2022 and 2022/2023 for audit.

Although the State Department subsequently prepared the financial statements for two (2) years and revised 2023/2024 financial statements, review of the Railway Development Levy Fund - Holding Account indicated that amounts of Kshs.26,844,351,913 and Kshs.28,173,372,446, totalling to Kshs.55,017,724,359 were transferred to The National Treasury by the Fund during the 2021/2022 and 2022/2023 financial year respectively. However, the three (3) statements omitted the effects of the transaction and did not factor in the closing balances thereon.

In the circumstances, it was not possible to determine the operations of the Fund during the two (2) years and confirm opening/comparative balances as indicated in the subsequent prepared financial statements in the absence of audited financial statements. This amounts to a limitation of scope and leads to loss of data.

In the circumstances, the accuracy, completeness and fair presentation of the operations of the Fund could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

135. 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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

136. 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.

STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT – VOTE 1094

CIVIL SERVANTS HOUSING SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

137. Outstanding Receivables from Exchange Transactions

The statement of financial position reflects a balance of Kshs.8,504,525,956 which, as disclosed in Notes 17a and 17b to the financial statements, constitutes amounts of Kshs.499,232,439 and Kshs,8,005,293,517 in respect of the current receivables from exchange transactions and long-term receivables from exchange transactions, respectively. However, the current receivables from exchange transaction balance of Kshs.499,232,439 includes amounts of Kshs.109,647,558 and Kshs.360,401,264 in respect of amounts owed by the Principal Secretary, State Department for Lands and Physical Planning, and rent and services charge arrears respectively, which have been outstanding for over ten (10) years.

Further, the long-term receivables from exchange transactions balance of Kshs.8,005,293,517 includes amounts of Kshs.8,680,397 and Kshs.884,412 in respect of loan arrears and interests respectively, owed by one officer, whose loan has not been performing for more than a year. Although Management provided demand letters issued to the defaulter, the amount remained outstanding as at 30 June, 2024. In addition, no provision for bad and doubtful debts has been made in the financial statements.

In the circumstances, the accuracy and recoverability of the long outstanding receivables balance could not be confirmed.

Emphasis of Matter

138. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.916,048,428 and Kshs.520,199,446 respectively, resulting to an under-funding of Kshs.395,848,982 or 43% of the budget.

The underfunding affected the planned activities and impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

139. Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under Basis for Qualified Opinion and two issues under Other Matter. The issues remained unresolved contrary to the provisions of Section 149(2)(l) of the Public Finance Management Act, 2012 which requires the Accounting Officers designated to try to resolve any issues resulting from an audit that remain outstanding.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

140. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

141. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA SLUM UPGRADING, LOW-COST HOUSING AND INFRASTRUCTURE TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

142. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

143. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Although Management stated that the issues were resolved, there was no evidence and explanation on how the issues were resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

144. Failure to Constitute a Board of Trustees for the Fund

Review of the Fund's records revealed that the Board of Trustees for the Fund had not been constituted. There was no evidence to indicate that the Minister responsible for matters relating to Housing had appointed trustees. This was contrary to Regulation 10(1) and (2) of the Government Financial Management (Kenya Slum Upgrading, Low-Cost Housing and Infrastructure Fund) Regulations, 2006. Further, there were no documents such as minutes of meeting or an attendance register as evidence that the trustees convened meetings to deliberate on the activities of the Fund.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

145. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE OFFICERS HOUSE MORTGAGE SCHEME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

146. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

147. Low Uptake of Mortgage Funds

During the year under review, the Fund had a development budget for loans to State Officers of Kshs.1,000,000,000. However, loan disbursements during the year as reflected in the bank loan status report amounted to Kshs.607,639,736 or 61% of the budget. As a result, an amount of Kshs.392,360,264 or 39% of the budgeted amounts for the Fund were not taken up by the State Officers.

In the circumstances, the overall objectives of the Fund may not have been achieved.

148. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.578,072,635 and Kshs.94,661,420, respectively, resulting to an under-funding of Kshs.483,411,215 or 84% of the budget. However, the Fund spent an amount of Kshs.457,984,275 against actual receipts of Kshs.94,661,420 resulting to an over-utilization of Kshs.363,322,855 or 384% of the actual receipts.

The under-funding affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Matter

149. Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. These issues remained unresolved contrary to the provisions of Section 149(2)(l) of the Public Finance Management Act, 2012 which require the Accounting Officers designated to try to resolve any issues resulting from an audit that remain outstanding.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

150. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

151. Lack of Back-Up Mechanism

Review of the Fund's operations and management systems revealed that the Fund financial and accounting records were managed and maintained manually. Financial reports, ledgers, trial balance, budgets and financial statements were prepared manually and there was no evidence of back-up. Further, manual operations may lead to misreporting, misrepresentation and loss of data.

In the circumstances, the effectiveness of internal controls on management of operations and financial records could not be confirmed.

152. Lack of a Risk Management Policy

During the year under review, the Fund operated without a documented Risk Management Policy. In absence of a Risk Management Policy, the Fund is exposed to loss of funds through fraud due to weak mitigating mechanisms.

In the circumstances, the existence of effective mechanisms on risk management could not be confirmed.

153. Failure to Establish an Internal Audit Committee

During the year under review, the Fund did not establish a functional Internal Audit Committee to review the work of the internal audit and support the Accounting Officers with regard to the responsibilities for issues of risk, internal controls and governance.

In the circumstances, the effectiveness of internal controls on independent expert assessment of the activities of Fund, financial reporting, financial management and operations could not be confirmed.

154. Non-Performing Loans or Mortgage Arrears

The statement of financial position and as disclosed in Note 18(b) to the financial statements reflects long-term receivables from exchange transactions balance of Kshs.2,832,831,312. Review of the non-performing loans/defaulters' records revealed arrears amounting to Kshs.17,583,795 or 0.6% in respect of five (5) beneficiaries that had been outstanding for a period of more than four months. Although the Scheme Management Committee provided demand letters to the defaulters, the amount remained outstanding as at 30 June, 2024.

In the circumstances, the existence of effective mechanisms to ensure recoverability of the long outstanding mortgage arrears could not be confirmed.

STORES AND SERVICES FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

155. Unsupported Long Outstanding Receivables

The statement of financial position reflects receivables from exchange transactions balance of Kshs.1,232,261 as disclosed in Note 7 to the financial statements. The balance has been outstanding for a long period casting doubt on its recoverability. No provision for bad and doubtful debts has been made in the financial statements during the year under review. Further, debtors supporting schedules were not provided for audit review.

In the circumstances, the accuracy and existence of the receivables balance could not be confirmed.

156. Unsupported Inventories

The statement of financial position as disclosed in Note 8 to the financial statements reflects inventories balance of Kshs.197,048,168. Management did not provide stock sheets and ledgers for audit review. Further, the stocks have remained in stores for a long time and may become obsolete resulting in loss of public funds.

In the circumstances, the accuracy and existence of the inventory balance could not be confirmed.

157. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.76,808,202 as disclosed in Note 9 to the financial statements. This includes an amount of Kshs.19,641,489 relating to a suspense account that was not supported by analysis or documents indicating the source of the suspense. Further, the balance includes payments received in advance amounting to Kshs.57,166,713 that was not supported by bank statements and a schedule indicating dates when the deposits were made.

In the circumstances, the accuracy, existence and completeness of trade and other payables balance could not be confirmed.

158. Unsupported Bank Overdraft/Long Term Portion of Borrowing

As previously reported, the statement of financial position and as disclosed in Note 10 to the financial statements reflects a long-term portion of borrowings in respect of a bank overdraft balance of Kshs.283,595,154. Management did not provide evidence in support

of the nature and purpose of the overdraft, and did not retire the overdraft at the end of the year. This was in contravention of Regulation 83(3) of the Public Finance Management (National Government) Regulations, 2015 which provides that the National Government overdraft at the Central Bank of Kenya shall be retired by the end of the financial year.

In the circumstances, the regularity of the bank overdraft balance could not be confirmed.

159. Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under Emphasis of Matter and in the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources sections and Report on Effectiveness of Internal Controls, Risk Management and Governance. The issues remained unresolved contrary to the provisions of Section 149(2)(l) of the Public Finance Management Act, 2012 which require the Accounting Officers designated to try to resolve any issues resulting from an audit that remain outstanding.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

160. 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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

161. 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.

STATE DEPARTMENT FOR LANDS AND PHYSICAL PLANNING – VOTE 1112

LAND SETTLEMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

162. Long Outstanding Receivables from Exchange Transactions

As previously reported, the statement of financial position and as disclosed in Note 20.12 reflects receivables from exchange transactions balance of Kshs.11,740,540,548. The balance includes amounts of Kshs.6,618,256,223, Kshs.5,055,278,634 and Kshs.67,002,590 in respect of long-term loan receivables, long term interest receivable outstanding and development loan issued, respectively.

Review of the records provided revealed that some of the loans were issued to settlers dating back to the year 1962 and have remained outstanding to date with minimum or no movement during the year. Further, Management did not have a clear policy on evaluation and management of accounts receivables which could be used to determine the recoverability of the outstanding loans and there was no provision for bad debts. In addition, no status reports on the existence and recoverability of the balances from the initial loanees or their beneficiaries.

In the circumstances, the accuracy, fair value and recoverability of the non-current receivables from exchange transactions could not be confirmed.

Emphasis of Matter

163. Budgetary Control and Performance

The statement comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,497,338,981 and Kshs.2,169,696,587 respectively resulting to an under-funding of Kshs.327,642,394 or 13% of the budget. However, the Fund spent an amount of Kshs.2,334,293,611 against actual receipts of Kshs.2,169,696,587 resulting to an over-utilization of Kshs.164,597,024 or 8% of the actual receipts.

The under-funding affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

164. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the issues still remained unresolved and Management did not provide explanation for failure to implement recommendations.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

165. Undistributed Land

165.1 Kisima Njoro for Resettlement of Internally Displaced Persons (IDPS) in Nakuru County

As previously reported, the Fund purchased Kisima Njoro land measuring one thousand one hundred and twelve (1,112) acres at a cost of Kshs.396,984,000 as per sale agreement dated 3 October, 2012 for resettlement of internally displaced persons. However, at the time of audit in November, 2024, the land had not been surveyed or sub-divided and the beneficiaries had not been settled twelve (12) years after the purchase of the land.

165.2 Mikanjuni Farm in Kilifi County

As previously reported, the Fund purchased Mikanjuni farm measuring ninety-one (91) acres at a cost of Kshs.377,000,000 as per sale agreement dated 22 April, 2020 for resettlement of informal settlers. Although a list of beneficiaries was provided by the Land Adjudication and Settlement Officer of Kilifi County, at the time of audit in November, 2024, the farm was still listed as undistributed by the Fund. No justification was given for not allocating and settling informal settlers.

165.3 Kadza Ndani Land in Mombasa County

As previously reported, the Fund purchased Kadza Ndani land measuring a total of twenty-eight point four (28.4) acres in Mombasa County at a cost of Kshs.378,000,000 as per the sale agreement dated 11 September, 2020 for resettlement of informal settlers. Although a list of beneficiaries was provided by the Land Adjudication and Settlement Officer of Mombasa County, at the time of audit in November, 2024, the land was still listed as unallocated. No justification was given for not allocating and settling informal settlers.

165.4 Mazrui Farm in Kilifi County

The Fund purchased Mazrui farm measuring a total of one thousand four hundred and ninety-seven point three eight (1,497.38) acres in Kilifi county at a cost of

Kshs.445,461,625 as per the sale agreement dated 21 July, 2022 for the settlement of informal settlers. However, as at 30 June, 2024, the distribution of the land to the intended beneficiaries had not been completed.

In the circumstances, the objective for which the parcels of land were acquired and value for money had not been achieved.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

166. Lack of Risk Management Policy

The Fund's Institutional Risk Management Policy Framework (IRMPF) Steering Committee had been constituted. However, the Fund did not have in place an institutionalized risk management policy hence no formal approved processes and guidelines on how to mitigate operational, legal and financial risks.

In the circumstances, Management of the Fund is not in a position to evaluate, rank and prioritize critical risks and channel resources towards mitigating identified risks.

STATE DEPARTMENT FOR SPORTS – VOTE 1132

SPORTS, ARTS AND SOCIAL DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

167. Unaccounted for Returns on Social Development Including Universal Health Care

The statement of financial performance reflects transfers to government implementing agencies and sports organisations balance of Kshs.14,269,210,229 which includes Kshs.1,125,422,926 in respect to social development including universal health care as disclosed in Note 16 to the financial statements. The latter balance includes Kshs.300,000,000 which was transferred to the Ministry of Health towards equipping of Level 4 hospital in Sololo Marsabit County. However, expenditure returns were not provided for audit.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.300,000,000 could not be confirmed.

168. Lack of Motor Vehicles Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.2,701,629,445 which includes motor vehicles balance of Kshs.12,918,497 as disclosed in Note 19 to the financial statements. Review of ownership documents revealed that log books for three (3) motor vehicles were not registered in the name of the Fund.

In the circumstances, the accuracy, completeness and ownership of the motor vehicles balance of Kshs.12,918,497 could not be confirmed.

169. Long Outstanding Accounts Payables

The statement of financial position and as disclosed in Note 20 to the financial statements reflects trade and other payables balance of Kshs.32,301,288. Included in the balance is Kshs.9,207,734 owed to various suppliers, which had remained unpaid for more than two (2) years. No explanation was provided for the delay settling the balance.

In the circumstances, the completeness and accuracy of the balance of Kshs,9,207,734 could not be confirmed.

However, physical verification done in September, 2024 revealed that five (5) floors were un-occupied.

In the circumstances, with the continued low occupancy of the building, value for money from the resources utilized in construction and maintenance of the building could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

174. Lack of Internal Audit Function and Audit Committee

Review of documents revealed that the Fund had not established internal audit function and an audit committee. This was contrary to the provisions of the Regulation 174(1) of the Public Finance Management (National Government) Regulations, 2015 which provides for the establishment of internal audit function and an Audit Committee. The Fund did not benefit from the internal audit function as well as oversight from the audit committee.

In the circumstances, the effectiveness of internal control system could not be confirmed.

Emphasis of Matter

170. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts of Kshs.16,208,000,000 and Kshs.14,800,737,484 respectively, resulting to an underfunding of Kshs.1,407,262,516 or 9% of the approved budget. Similarly, the Fund spent an amount of Kshs.14,540,259,119 against the actual receipts of Kshs.14,800,737,484 resulting to an under expenditure of Kshs.260,478,365 or 2% the approved budget.

The under-funding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

171. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues or given any explanations for failure to implement the recommendations as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

172. Delay in Disbursement of Funds to Sporting Federations

The statement of financial performance reflects transfer to government implementing agencies of Kshs.14,269,210,229 as disclosed in Note 16 to the financial statements. Included in the balance is Kshs.11,540,176,218 transferred to various sports federations for promotion and development of sports. Review of documents revealed that the federations submitted budgets to the State Department for Sports on time but the authority for disbursement of these funds was often delayed, with some allocations being released up to two months after the events had concluded.

In the circumstances, the delays in fund disbursement may hinder the planning and implementation of essential operational elements thereby adversely affecting the federation's reputation and the country's ability to host major sporting events.

173. Unutilized Office Spaces at Talanta Plaza

Review of documents revealed that the Fund owned Talanta Plaza building in Nairobi with a net book value of Kshs.2,670,883,536. The purpose for the construction of the building was to provide office space to the Fund and also generate rental income.

STATE DEPARTMENT FOR ENERGY – VOTE 1152

PETROLEUM DEVELOPMENT LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

175. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

176. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year under review reflects a receipts budget and actual on comparable basis amounting to Kshs.926,000,000 and Kshs.493,476,292 respectively. Similarly, the Fund spent Kshs.464,365,235 against actual receipts of Kshs.493,476,292 resulting to an under-utilization of Kshs.29,111,057 or 6% of the actual receipts.

The under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

177. Irregular Utilization of the Fund Resources

The statement of receipts and payments as disclosed in Note 3 to the financial statements reflect transfers to other Government entities totalling Kshs.460,000,000. The Fund Management transferred the funds to various Government entities and one (1) private entity, all of which have no responsibility in the oil and petroleum industry, contrary to Section 4(4) of the Petroleum Development Fund Act, No.4 of 1991 (Revised 2012), which provides that there shall be paid out of the petroleum development funds such monies as are necessary for the development of common facilities for distribution or testing of oil products and matters relating to the development of the oil industry.

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

178. Excess Withholding Tax on Interest Income

The statement of receipts and payments and Note 4 to the financial statements reflects general expenses of Kshs.4,365,235 which includes withholding tax expense of Kshs.4,354,895. The withholding tax of Kshs.4,354,895 was computed at a rate of 20%

of interest income earned from a local bank for the period from July, 2023 to December, 2023 contrary to the provisions of the Income Tax Act CAP 470 which states that resident withholding tax on qualifying interest be charged at a rate of 15%.

Consequently, the Fund lost Kshs.962,306 as a result of excess withholding tax charged on the interest earned. Although, Management wrote to the bank on 6 December, 2023 on this matter and which the bank acknowledged. The funds had not been refunded as at the time of audit in September, 2024. Further, Kshs.1,366,692 lost in the previous year in a similar manner at the same bank had not been recovered.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

179. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA ENERGY SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

180. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

181. Unresolved Prior Year Issues

In the audit of the previous year, various issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Although Management indicated that some of the issues had been resolved, no evidence was provided to indicate how the matters were resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

182. Low Contribution to the Fund

As previously reported, review of the projected contributions by 8 agencies for the ten (10) years towards the Fund, based on the 2019/2029 action plan revealed that out of the

expected contribution of Kshs.824,000,000, only kshs.311,000,000 or 38% was realized from three (3) agencies while five (5) agencies had not made any contributions over the last (5) years as detailed below:

No.	Organization	Proposed Phase Two Allocation (2019-2029) Amount (Kshs.)	Contribution Allocation for Last 5 Years (Kshs.)	Total Contribution Received in The Last 5 Years (Kshs.)	Deficit in Contribution (Kshs.)
1	Ministry of Energy (MOE)	659,000,000	263,600,000	302,000,000	(38,400,000)
2	Kenya Electricity Transmission Company (KETRACO)	5,000,000	2,500,000	0	2,500,000
3	Geothermal Development Company (GDC)	54,000,000	27,000,000	0	27,000,000
4	Nuclear Power and Energy Agency (NuPEA)	12,000,000	6,000,000	0	6,000,000
5	Kenya Power and Lighting Company Limited (KPLC)	10,000,000	5,000,000	3,000,000	2,000,000
6	Energy and Petroleum Regulatory Authority (EPRA)	20,000,000	10,000,000	6,000,000	4,000,000
7	Kenya Electricity Generating Company PLC (KenGen)	10,000,000	5,000,000	0	5,000,000
8	Rural Electrification & Renewable Energy Corporation (REREC)	54,000,000	27,000,000	0	27,000,000
Total		**824,000,000**	**346,100,000**	**311,000,000**	**35,100,000**

Management attributed the non-contribution to the Fund to a Presidential directive to all Ministries, Departments and Agencies (MDAs) and Semi-Autonomous Government Agencies (SAGAs) to grow fifteen billion trees by 2023. The target for the Cabinet Secretary, therefore, was cascaded to the SAGAs as an indirect contribution towards the energy and environment programme.

In the circumstances, the non-contribution to the Fund is a violation to the terms of the agreement and may impact negatively on the operations of the Fund and its ability to achieve the intended goals and objectives.

183. Excess Withholding Tax Charged on Interest Income

Note 7 to the financial statements reflects use of goods and services amount of Kshs.120,915,556 which includes bank charges of Kshs.1,061,692. The charges include Kshs.855,944 in respect of withholding tax computed at a rate of 20% on interest income earned from a local bank for the first six (6) months between July, 2023 – December, 2023. However, the applicable interest according to the Income Tax Act, CAP 470 was 15%. Consequently, the Fund lost Kshs.169,588 as a result of excess withholding tax charged on the interest income. Management has written severally to the Bank seeking clarification on the high withholding tax charge. However, no response had been received at the time of the audit.

In the circumstances, the excessive tax charge was unlawful.

184. Irregular Funding of the Program

The statement of financial performance reflects transfers from other Government entities amounting to Kshs.101,000,000 as disclosed in Note 5 to the financial statements. Included in the amount is Kshs.100,000,000 transferred from Petroleum Development Levy Fund Account on 15 March, 2024. However, Kenya Energy Sector Environment and Social Responsibility Programme Fund had no responsibility in the oil and petroleum industry and, thus the transfer contravened Section 4(4) of the Petroleum Development Fund Act No.4 of 1991 (Revised 2012).

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

185. Unaccounted for Energy Saving Jikos

Management procured 5,500 energy saving jikos at a cost of Kshs.18,899,000 for distribution to low-income households as a measure to minimize forest destruction. Review of documents provided in respect of the program revealed that 2,000 jikos were issued to Women Representative Members of Parliament for Nyeri, Laikipia, Nakuru, Uasin Gishu, Bomet and Kitui counties to distribute in their areas of representation. However, following unsatisfactory issues were revealed from the review;

i. Despite Management providing for purchase of the jikos in the Fund's annual work plan, no evidence was provided to indicate that prerequisite studies were conducted on indoor air quality to measure carbon dioxide, carbon monoxide and other gases in households. Similarly, no surveys were conducted to identify households with children aged below five years who were being targeted.

ii. Management did not justify reasons for using selected Members of Parliament for distribution of the jikos and the criteria to be used by the Members to identify beneficiaries in their respective areas of representation.

iii. Signed lists of beneficiaries who received the jikos were not provided for audit verification.

iv. There was no record provided to indicate that the jikos were initially received at the Fund before eventual distributed to beneficiaries.

v. Records and physical verification exercise done, revealed that 660 jikos were distributed to beneficiaries in Nyeri, Kirinyaga East, Kirinyaga West, Nyahururu Sub-County and Mwea Sub-Counties out of the 3500 jikos purchased during the year. The remaining 2,840 acquired at a cost of Kshs.9,780,149 were yet to be unaccounted for.

vi. Records on the issuance of the jikos lacked details of beneficiaries such as names and contact information. In addition, the jikos were not branded for identification.

In the circumstances, value for money incurred in purchase of energy saving jikos amounting to Kshs.18,899,000 for distribution to households could not be confirmed.

186. Unsupported Reimbursement of Rehabilitation Works

The State Department for Energy in 2019 contracted two local companies to undertake rehabilitation works at Enoosupukia Water Tower for enhancement of geothermal power development. The works were divided in three (3) lots, each measuring approximately 50 hectares. Lots C1 and C2 works were awarded to the two firms for a contract sum of Kshs.36,233,600 and Kshs.36,990,080 respectively and were estimated to take four (4) years from December, 2019 to December, 2023.

According to the respective contracts, payments to contractors were based on measured works and executed activities as per the bills of quantities. However, review of payments revealed payments to the two contractors amounting to Kshs.22,402,800 for activities which had not been executed. The payments were in relation to mobilization and sensitization, supervision and benchmarking trips which were yet to be conducted.

In addition, the payments were not supported by evidence such as minutes meeting and signed attendance registers, motor vehicle work tickets indicating areas where supervision was undertaken and evidence of the benchmarking trips.

In the circumstances, the value for money paid in respect of the contracts could not be confirmed.

187. Irregular Procurement of Seedlings

187.1 Gakanga Beat Forest, Nyeri County

Management paid Kshs.4,800,000 to Muringato Forest Association in Nyeri County for purchase of eighty thousand (80,000) assorted tree seedlings for growing in Gakanga Beat along the Aberdare Forest. The seedlings were purchased from a local supplier at the same cost. However, review of documents provided in support of the payment revealed the following anomalies:

i. There was no evidence of requisition forms or letters from the users initiating the procurement.

ii. Bidder quotations received on 19 April, 2023 were opened by only one person, the chairperson of the Association.

iii. Two of the firms which were issued with quotation forms shared a postal address, and their names appeared similar indicating that they might have originated from the same person. In addition, the winning bidder shared an address with the Kenya Forest Service Nyeri, Muringato Community Forest Association.

iv. There were no quotations or tender register to evidence receipt of quotations from bidders.

v. There was no acknowledgement of receipt of the seedlings by Muringato Community Forest Association who was the beneficiary.

vi. The procurement exceeded the threshold of Kshs.3,000,000 for use of quotations as provided for in the second schedule of the Public Procurement and Asset Disposal Regulations, 2020

In the circumstances, the Management was in breach of the law. In addition, the value for money paid for purchase of seedlings at a cost of Kshs.4,800,000 could not be confirmed.

187.2 Maragoli Hills Forest

Management made payments totalling Kshs.7,845,600 to Maragoli Community Forest Association for purchase of assorted tree seedlings. However, no documents were provided to support the procurement method used or the process for identification of the suppliers, contrary to Section 91(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

188. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR LIVESTOCK DEVELOPMENT – VOTE 1162

VETERINARY SERVICES DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

189. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

190. Unresolved Prior Year Matters

Various prior year audit issues were raised under the Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the issues remained unresolved as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

191. Weaknesses in Imprest Management

The statement of financial performance reflects an amount of Kshs.145,807,685 in respect of use of goods and services which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.28,377,589 in respect of training expenses. However, review of records revealed that Management did not adhere to controls for imprest issuance. Several officers were issued with additional imprest funds before surrendering the previous imprest amounts. Further, it was observed that officers took more than seven (7) working days after returning to duty station to surrender the imprest. This was contrary to Regulation 93(8) of the Public Finance Management (National Government) Regulations, 2015 which states that in order to effectively and efficiently manage control of temporary imprests, an accounting officer or AIE holder shall ensure that no second imprest is issued to any officer before the first imprest is surrendered or recovered in full from his/her salary.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

192. Lack of Internal Audit Reports

Review of Fund records revealed that the only work undertaken by the Internal Auditor from the Ministry of Agriculture for six (6) days was the audit inspection of veterinary farms, border posts and veterinary laboratories in five (5) institutions under the Directorate of Veterinary Services in the month of June, 2024.

In the circumstances, the Fund did not benefit from the independent assurance over its financial reporting and risk management processes.

STATE DEPARTMENT FOR THE BLUE ECONOMY AND FISHERIES – VOTE 1166

FISH LEVY TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

193. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

194. Unresolved Prior Year Matters

In the audit of the previous year, various matters were raised under the Report on Financial Statements, the Report of Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issues as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

195. Non-Appointment of Board of Trustees

Review of the records provided revealed that the Fund had no Board of Trustees during the year under review. Although Management wrote severally to the Cabinet Secretary on the issue, no Board had been appointed as at 30 June, 2024. This was contrary to Section 28(4) of the Fisheries Management and Development Act, 2016 which states that the Fund is to be administered by a five-member Board of Trustees nominated through an open and competitive process and that they shall meet the requirements of Chapter six of the Constitution.

In the circumstances, Management was in breach of law.

196. Inadequate Staff

During the year under review, the Fund carried its operations using interns and officers seconded from the State Department for Blue Economy and Fisheries. Further, during the year, the Fund undertook a training of four (4) technical staff, including the Chief Executive Officer and two accounts staff who were also seconded from this State Department. However, it was not certain that the Fund will retain the staff after the training.

In the circumstances, the Fund may not adequately deliver on its mandate.

197. Delayed Exchequer Releases

The statement of financial performance reflects transfers from other Government entities of Kshs.30,000,000. Review of the receipts ledger and bank statements of the Fund revealed that a transfer of Kshs.2,500,000 was received on 8 July, 2024 which was after the closure of the financial year. This was despite the amount having been budgeted for the period under review. The late receipt of exchequer affected implementation of planned activities which may have impacted negatively on service delivery.

In the circumstances, full operationalization of the Fund may not be achieved.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

198. There were no material issues relating to effectiveness of internal controls, risk management and governance.

COMMODITIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

199. Sustainability of Loans

During the period under review, the Fund wrote-off long outstanding loans amounting to Kshs.12,355,764,000 owed by Sugar Companies. While due process was followed through approvals from Parliament and The National Treasury through a National Treasury letter dated 27 March, 2024, these substantial loans write-off raises significant financial implications for the Fund. Further, Management and The National Treasury had not provided an assessment of the effect of the write-off of these loans on the financial reserves and overall sustainability of the Fund. The write-off represents a direct reduction in the Fund's reserves, potentially limiting its capacity to extend future financial support to agricultural stakeholders or other sectors.

In the circumstances, the impact on the Fund's ability to operate as a going concern may be greatly affected and its objective to support agricultural development may not be achieved.

200. Variances in the Loans Due for Write-Off

The statement of financial position reflects long term receivables of Kshs.1,635,006,000 and current portion of receivables from exchange transactions of Kshs.685,463,000 as disclosed in Note 19(ii) to the financial statements which comprise of gross loans of Kshs.9,180,705,000 and total provisions of Kshs.6,860,233 as at 30 June, 2024. Included in the balance are loans due from five (5) sugar mills as included in the table below totalling Kshs.12,335,763,897. However, The National Treasury vide a letter dated 27 March, 2024 approved write-off of loans amounting to Kshs.12,336,003,135. Analysis of the amount for write off against the amounts due revealed some discrepancies as analyzed below:

Entity	Approved for Write-Off (Kshs.)	Loan Balance as per Commodities Fund (Kshs.)	Variance (Kshs.)
Nzoia Sugar Company	2,805,165,569	3,024,787,556	(219,621,989)
Chemilil Sugar Company	3,740,868,462	3,647,977,903	92,890,559
Muhoroni Sugar Company Limited	3,466,198,521	3,473,544,680	(7,346,159)
Miwani Sugar Company	1,820,525,811	1,686,123,254	134,402,557
South Nyanza Sugar Company Limited	503,244,772	503,330,504	(85,732)

In the circumstances, the accuracy and completeness of the receivables from exchange transactions gross loans and advances of Kshs.1,635,006,000 could not be confirmed.

201. Long Outstanding Receivables

As disclosed in Note 19(ii), the restated gross loans and advances amount of Kshs.9,180,705,000, this includes Kshs.7,561,971,000 for the Sugar Sector, Kshs.1,582,877,000 for the Coffee Sector, and Ksh.35,856,000 in other loans. These loans have remained outstanding for an extended period, resulting in a restated provision for doubtful debts of Kshs.6,945,563,000. This reflects the growing concern over the recoverability of these loans and highlights the need for improved credit risk management and more effective debt recovery strategies.

In the circumstances the recoverability of the debtors' balance of Kshs.7,561,971,000 is doubtful.

202. Loan Loss Provision

Note 17 indicates an increase in the loan loss provision for Grade 5 loans, classified as 100% doubtful. The provision stood at Kshs.7,846,788,000 as at June, 2024, rising from Kshs.7,785,416,000 as reported in 2023. This increase highlights significant weaknesses in the Fund's credit risk management practices, such as inadequate borrower vetting, lack of effective monitoring of loan performance and inefficient loan recovery systems.

In the circumstance, these may further expose the organization to financial risks and increase the likelihood of continued loan defaults. In addition, the decreased loan provisions reduces available funds for public projects and essential services impacting the entity's ability to fulfill its objectives effectively.

203. Outstanding Amounts from Related Parties

As disclosed in Note 30(c) to the financial statements, a sum of Kshs.40,000,000 is outstanding from the Ministry of Fisheries, Livestock, and Cooperatives, which is classified as a related party transaction. However, Management provided correspondences requesting for reimbursement of the fund which the Parent Ministry had not honored to date.

In the circumstances, there is a risk of non-collection or delayed payments, given that the amount is due from a related party. This could negatively affect liquidity and financial stability of the Fund.

204. Overpayment of House Allowance

The statement of financial performance reflects an expenditure of Kshs.122,592,000 as employee cost which includes housing benefits and allowance of Kshs.25,800,000 as disclosed under Note 11 to the financial statements. However, employees in Job Group M were paid monthly House Allowance of Kshs.35,000 contrary to the approved Salaries and Remuneration Commission (SRC) approved rate of Kshs.28,000. This resulted to a

total overpayment of Kshs.742,000 without approval from Salaries Remuneration Commission.

In the circumstances, it was not possible to confirm the accuracy and completeness of Kshs.122, 592,000 for employee cost.

Other Matter

205. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved some of the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

206. Transitioning of Coffee Development Fund and Sugar Development Fund to Commodities Fund

The Commodities Fund is an Agency under the Ministry of Agriculture and Livestock Development established under Section 9 of the Crops Act, 2013 and operationalized on 1 August, 2014. Coffee Development Fund and Sugar Development Fund were wound up in the process. However, the winding up procedures did not conform to Section 24(9) of the Pubic Finance Management Act, 2012 on the winding up of a National Public Fund and neither did the Crops Act articulate the transition of the functions, assets and liabilities of the Funds therein.

The Commodities Fund Management failed to provide evidence that the Fund was directly under the control of the Agriculture and Food Authority as per Section 10(2) of Crops Act which states that the Authority shall, from time to time, make rules for the better management of the Fund in the best interest of farmers where by the Authority refers to Agriculture and Food Authority established under the Agriculture and Food Authority Act, 2013.

Further, the Fund did not have existing regulations guiding its operations and administrative management as articulated in Section 10(2) of the Crops Act, 2013. In addition, specific guidelines on the establishment of the Board, appointment and/or establishment of the office of the Managing Trustee, the term, duties and operations had not been articulated in law.

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

207. Lack of Regulations for Commodity Fund

Section 9 of the Crops Act, 2013 established the Commodities Fund which was to provide sustainable affordable credit and advances to farmers for all or any of the following purposes; farm improvement, farm inputs, farming operations, price stabilization and any other lawful purpose approved by the Authority. The Fund was to be financed by monies paid as License Fees, Commission, Export or Import Agency fees and fees that may accrue to or vest in the Authority in the course of exercise of its functions under the Act, funds from any other lawful source approved by the Trustees; and funds appropriated by Parliament for this purpose.

The Fund had no regulation contrary to Section 24(11) of the Public Finance Management Act, 2012 which states that the regulations shall provide for the establishment, management, operation or winding-up of national public funds.

Further, the Fund did not have existing regulations guiding its operations and administrative management as expected and articulated in Section 10(2) of the Crops Act, 2013. In addition, specific guidelines on the establishment of the Board, appointment and/or establishment of the office of the Managing Trustee, the term, duties and operations had not been articulated in law.

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

208. Existence of a Public Fund Beyond the Maximum Period Without Approval of Cabinet and Parliament

The Commodities Fund was established by the Crop Act of 2013 and operationalized on 1 August, 2014. As at the time of audit in August 2024, no cabinet and parliament approval had been sought for continued existence of the Fund which had been in existence beyond the ten (10) year legal period.

In the circumstance, the approval of the Cabinet Secretary and Parliament should be sought for the continued existence of the Fund.

209. Dependence on Annual Funding from the Exchequer

The previous year budget of the Fund indicated that it budgeted to receive Kshs.45,396,000 as Government Grants – Recurrent and for the 2023/2024 financial year, the Fund had budgeted to receive recurrent grant of Kshs.125,166,000. This indicated that the Fund's existence depended on the continuous funding from the exchequer after being in existence for ten (10) years contrary to Regulation 207(1)(e) of the Public Finance Management (National Government) Regulations, 2015 which states that the Cabinet Secretary responsible for the National Government entity functions shall confirm in writing that the establishment of the Fund and its continued existence will not depend on annual financing from The National Exchequer.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

210. Failure to Establish an Audit Committee

During the year under review, the Audit Committee for Commodities Fund composed of only two (2) Board Members and a Representative from The National Treasury contrary to Section 174(4) of the Public Finance Management (National Government) Regulations, 2015.

Additionally, there was no evidence of the Audit Committee undergoing a performance assessment of its effectiveness by a recognized professional body or institution as required in Regulation 166(3) of the Public Finance Management (National Government) Regulations, 2015.

Further an Audit Work Plan to carry out detailed audit projects or work as documented in the Strategic Plan and approved by Audit Committee was not provided for audit review.

In the circumstances, the Fund did not benefit from the oversight role and advice from the Audit Committee and the Internal Audit Function.

211. Staff Under-Establishment

During the year under review, Human Resource records provided for audit, revealed that the Fund had a staff establishment of one hundred and thirty-nine (139) against sixty-two (62) staff members in post resulting in an overall under establishment of seventy-seven (77) personnel.

In the circumstances, the Fund may not be able to effectively undertake its mandate.

212. Non-Integration of the Dynamics 365-Business Central System (ERP) and the Bank

The Commodities Fund operates an Enterprise Resource Planning (ERP) system with nine (9) modules namely, Financial Management, Credit Management, Administration, Payment Processes, Supply Chain Management, Advanced HR, Common Requisitions, Fleet Management, and Payroll Management. However, during the system walkthrough and review of the Credit Management module, it was observed that the ERP System had not been integrated with the bank. After Loan repayments were made to the bank, personnel from the Credit Department manually retrieved the bank statements and recorded all transactions in an Excel file. This file was then transferred to the Finance Department, where it was manually uploaded into the system, a process that is prone to errors.

In the circumstances, the Fund operations is prone to inefficiencies and errors.

213. Non-Automation of Loan Appraisal and Loan Application Processes

When a borrower intends to borrow money from the Fund, an application form is filled out with the required details. An appraisal of the client's on the creditworthiness and viability of the project was done and an appraisal fee of 1.5% of the approved loan amount charged. A report was then presented to Management Credit Committee and then to the Credit Board Committee for approval. The above process was manually done, a process that is prone to errors and inefficiencies.

In the circumstances, the Fund loan processing is prone to errors and inefficiencies.

214. Use of Generic User Account

Review of the credit and finance log files revealed the use of the Generic User ID "ADMINISTRATOR" within the system. This ID could be accessed by multiple users, making it challenging to track and assign specific actions to individual users, thus undermining accountability and traceability.

Additionally, it was observed that the Commodities Fund lacks a standardized naming convention for user accounts. This absence of a clear naming convention further complicates user management.

In the circumstances, data integrity of the Fund may be compromised.

215. Insufficient Details on the Audit Logs

Review of the database logs revealed insufficient details captured for all user activities while logged into the system. Missing information included system activities, records of both successful and failed access attempts, attempts to access data and other resources, changes to system configurations, files accessed, and the type of access, as well as records of transactions executed by users within the applications.

In the circumstances, unauthorized access and modification of transaction may not be easily traced.

COMMODITIES FUND STAFF MORTGAGE AND CAR LOAN SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

216. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.52,676,144 which, as disclosed in Note 9 to the financial statements includes amounts of Kshs.30,805,925, Kshs.9,381,202 and Kshs.12,489,017 held in three (3) local commercial banks. However, the balances were not supported by monthly bank reconciliation statements, cashbooks and board of survey reports.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.52,676,144 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

217. Fund Operating Without an Approved and Gazetted Loan Scheme Regulations

The Fund had been operating Staff Mortgage and Car Loan Scheme without the existence of an Approved and Gazetted Loan Scheme Regulations since its inception in 2019. This was contrary to Section 24(11) of the Public Finance Management Act, 2012 which states that the regulations shall provide for establishment, management, operation or winding-up procedures of National Public Funds.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

218. There were no material issues relating to effectiveness of internal controls, risk management and governance.

AGRICULTURAL INFORMATION RESOURCE CENTRE REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

219. Long Outstanding Accounts Receivable Balances

The statement of financial position reflects net receivables from exchange transactions balance of Kshs.9,827,809 as disclosed in Note 13 to the financial statements. As previously reported, review of the debtor's ageing analysis revealed that these debtors balance of Kshs.7,804,209 had been long outstanding with some dating back to the year 1993. Further, the statement of financial performance did not have any provision for bad debts and it was not explained how the provision moved from Kshs.390,210 in the previous year to Nil in the current year.

In addition, the debtor balances were not supported with relevant documents including individual debtors' statements, and copies of actual invoices and a debtors' policy.

In the circumstances, the accuracy, completeness and recoverability of receivables from exchange transactions balance of Kshs.9,827,809 could not be confirmed.

220. Failure to Revalue Fully Depreciated Assets

The statement of financial position reflects property, plant and equipment net book value of Kshs.220,800 as disclosed in Note 15 to the financial statements. As previously reported, the balance excludes assets with total original cost of Kshs.38,852,599 that were fully depreciated and which had not been revalued. This was despite the assets still being in use.

In the circumstances, the accuracy and completeness of property plant and equipment balance of Kshs.220,800 could not be confirmed.

221. Long Outstanding Creditors

The statement of financial position reflects current liabilities of Kshs.1,498,598 as disclosed in Note 18 to the financial statement. As previously reported, review of the supporting ledger revealed that the payables had been long outstanding with some dating as far back as the financial year 2017/2018 for which none of the creditors had laid claim on the amounts. Management did not explain why these payables had remained unpaid for that long.

In the circumstances, the accuracy and existence of the accounts payable balance of Kshs.1,498,598 could not be confirmed.

Emphasis of Matter

222. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted income and actual on comparable basis of Kshs.28,000,000 and Kshs.17,101,015 respectively resulting to an under-funding of Kshs.10,898,985 or 39% of the budget. Similarly, the Fund spent Kshs.15,944,148 against actual receipts of Kshs.17,101,015 resulting to an under-utilization of Kshs.1,156,867 or 7% of actual receipts.

The underfunding and under-utilization affected the planned activities and may have impacted negatively on delivery of goods and services to the public.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

223. Lack of Approved and Balanced Budget

The statement of comparison of budget and actual amounts reflects total budgeted income totalling Kshs.28,000,000. The amount differs with the budgeted expenditure

totalling to Kshs.22,947,500 resulting in an unreconciled variance of Kshs.5,052,500. This was contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015 that requires the budget to be balanced. Further, the budget was not approved since there was no Board of Directors in office during the year under review.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

224. Understaffing at the Entity

Comparison of the approved staff establishment and in post indicated that the entity had twenty-nine (29) members of staff against one hundred and eighteen (118) as indicated in the establishment. The entity was therefore operating below its optimal staff level. Further, the available staff establishment was a draft as it had not been approved by the relevant bodies including the Public Service Commission.

In the circumstances the ability of the entity to carry out its mandate effectively could not be confirmed.

225. Uncertainty of Performance Due to Weak IT Control Systems

Section 2.(b) of the financial statements states that the Fund's primary activity is to collect, collate, process and disseminate agricultural information to stakeholders. However, the Fund may fail to disseminate agricultural information due to lack of IT strategic plan, lack of IT security policies, lack of approved guidelines on IT and lack of approved disaster recovery plans.

In the circumstances, the effectiveness in dissemination of agricultural information to stakeholders could not be confirmed.

226. Failure to Appoint Members to the Board of Directors

During the year under audit, the Fund operated without a dully appointed and functional board of directors. The Fund therefore lacks the governance structure as prescribed in the Exchequer and Audit Regulations, 1993.

In the circumstances, the internal controls, governance structure and risk management within the organization may therefore have been weak.

227. Failure to Conduct Internal Audit

An assessment of the Fund's internal control environment revealed that the Fund did not have an internal audit function to continuously monitor implementation of internal controls and no evidence was provided to confirm that internal audit activities were performed on

the Fund. Further, during the year under review the Fund did not have a documented risk management policy and did not perform any risk assessments. In addition, the Fund Management had not established a disaster recovery/business continuity plan.

In the circumstances, the effectiveness of the Fund's internal controls could not be confirmed.

STATE DEPARTMENT FOR COOPERATIVES – VOTE 1173

FINANCIAL INCLUSION FUND (HUSTLERS' FUND)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

228. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.3,346,510,887 as disclosed in Note 10 to the financial statements. However, certificates of bank balances for Mpesa float balance at Safaricom and Principal float balance at other Telcos of Kshs.38,094,937 and Kshs.6,123,170 respectively, both totalling Kshs.44,218,107 were not provided for audit. Further, included in reconciliations is a cheque balance of Kshs.142,400 relating to PAYE payment which had become stale but had not been reversed in the cash book.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.3,346,510,887 could not be confirmed.

229. Unsupported Receivables

The statement of financial position reflects receivables balance of Kshs.13,571,908,132 which, as disclosed in Note 11 to the financial statements includes a balance of Kshs.1,199,641,809 reflected as interest receivable on loans. Management had computed the amount using the interest paid instead of interest accrued from the disbursed Safaricom Group loans. Further, the receivables balance includes loans amount of Kshs.2,520,146, Kshs.5,280,469 and Kshs.12,174,624 advanced to Safaricom, Airtel and Telkom respectively. However, at the close of the financial year, the service providers had not accounted for the funds. In addition, balances of Kshs.574,141, Kshs.301,240 and Kshs.984,705 for suspense Telkom/KCB, Airtel suspense and Airtel deposit error on repayment respectively were not supported. Further, provision of the accrued interest from the disbursed loan has not been provided.

In the circumstances, the accuracy and completeness of accounts receivables balance of Kshs.13,571,908,132 could not be confirmed.

230. Understatement of Interest Income

The statement of financial performance reflects interest income balance of Kshs.955,854,402 as disclosed in Note 6(a) to the financial statements. The available documents indicated that the Fund was to receive an amount of Kshs.110,901,076 as share of interest paid by borrowers while the service providers receive the same as provided in the contract, all amounting to Kshs.221,802,151. However, documents provided indicated that the total amount received by the service providers was

Kshs.253,889,996, therefore the Fund was to receive a total of Kshs.126,944,998 as total interest income from service providers resulting to a variance of Kshs.16,043,922. It is not clear why service providers did not disburse the funds collected as stated in the contracts.

In the circumstances, the accuracy and completeness of interest income of Kshs.955,854,402 could not be confirmed.

231. Long Outstanding Payables

The statement of financial position reflects trade and other payables totalling Kshs.599,820,906 as further disclosed in Note 14 to the financial statements. Further, review of records provided revealed that interest payable by the partners totalling Kshs.121,893,705 has remained outstanding for a period of more than one year without settlement.

In the circumstances, the ability of the Fund to settle the payables as they fall due could not be confirmed.

232. High Non-Performing Loans

The statement of financial position reflects receivables balance of Kshs.13,571,908,132 which, as disclosed in Note 11 to the financial statements, includes amounts of Kshs.1,199,641,809 and Kshs.12,333,495,176 as interest receivable and the principal loan from the borrowers respectively. However, records provided indicated that approximately Kshs.8,737,216,077 or 64% of the Fund's total loans receivables as at 30 June, 2024 were outstanding for more than one (1) year hence casting doubt if the Fund will recover the loans issued to borrowers.

In the circumstances, the recoverability of the non-performing loans of Kshs.8,737,216,077 could not be confirmed.

233. Irregular Closure of Loan Accounts

Review of loans accounts revealed that 1,041 Safaricom loan accounts, whose principal amount had not been fully repaid were closed. The loans disbursed amounted to Kshs.1,465,515 but were closed after repayment of Kshs.646,870 leaving a balance of Kshs.818,645, which ought to have been collected before closing the accounts. Further, there were thirty (30) loan accounts with a total of Kshs.598,987 that were closed without repayment of the loan balances.

In the circumstances, the regularity of the closure of accounts and recoverability of balances in those accounts could not be confirmed.

234. Duplicated Outstanding Loans

Review of records on the outstanding loans revealed there were 880,013 duplicate outstanding Safaricom loans amounting to Kshs.1,606,311,681. Further, there were

235,628 loans disbursed amounting to Kshs.210,447,077 which had not been repaid and were not included in the outstanding loans balance as at 30 June, 2024.

In the circumstances, the accuracy and completeness of loan accounts balance could not be confirmed.

235. Over Reliance on the Service Providers

The Fund does not have control of the loans management including disbursements, repayments, withdrawal of savings and maintenance of records of the outstanding loans. Instead, the Fund relies heavily on the systems and data processed by the service providers. This exposes the Fund to operational, financial and data integrity issues.

In the circumstances, the accuracy of loans management could not be confirmed

236. Underage Customers

Review of the customers and opted in data sets provided revealed customers who were below the required mandatory age of eighteen (18) years and others whose birthdates was in the future after 30 June, 2024 as summarized below:

i. Customers whose Birthdates are between 1 July, 2024 and 31 December, 2073

Telco	Total Customers	Customers Paid	Amount (Kshs.)
Safaricom	243,208	32,483	24,588,216
Airtel	10,110	10,099	6,260,874
Telkom	399	399	286,600
Total	**253,717**	**42,981**	**31,135,690**

ii. Underage Customers between 10 days and 17 years

Telco	Total Customers	Customers Paid	Amount (Kshs.)
Safaricom	1,358	1,186	681,395
Airtel	18	-	-
Telkom	1	-	-
Total	**1,377**	**1,186**	**681,395**

The records are therefore unreliable and the resultant data in the systems may not have adequate controls.

In the circumstances, loan agreements with underage individuals are potentially unenforceable and increases the likelihood of default.

237. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on a comparable basis of Kshs.120,000,000 and Kshs.110,901,074 resulting

in an under-realization of Kshs.9,098,926 or 8 % of the budget. However, the Fund spent an amount of Kshs.75,229,550 against actual receipts of Kshs.110,901,074 resulting in under-utilization of Kshs.35,671,524 or 32% of actual revenue.

In the circumstances, the under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

238. Lack of Procurement Documents for Service Providers

The statement of financial performance reflects interest income amount of Kshs.955,854,402 as disclosed in Note 6(a) to the financial statements. Review of documents provided for audit revealed that the Fund involved service providers; Kenya Commercial Bank, Family Bank, Safaricom, Airtel and Telkom as partners in the management and disbursement of loans issued to its clients. However, the Management and those charged with governance of Financial Inclusion Fund did not provide procurement documentation for acquisition of service providers.

In the circumstances, it was not possible to establish how the services providers were identified and contracted and whether the relevant provisions of law were followed.

239. Under Staffing

The Fund's Human Resource Instruments indicate that the Public Service Commission approved the staff establishment for the Fund with a total of 119 staff. However, the Fund had not recruited staff to fill in positions as per the approved staff establishment but relied on members of staff deployed from the State Department for Micro, Small and Medium Enterprises Development. The total number of staff seconded from State Department for Micro, Small and Medium Enterprises Development were 16 staff only, resulting to a shortfall of 103 members of staff. The Fund is operating with a very limited number of staff therefore, adversely affecting its service delivery.

In the circumstances, the operations of the Fund could not be confirmed as functioning optimally.

240. Irregular Acting Beyond Six (6) Months

The Fund was established under the Public Finance Management Regulations, 2022 Executive Order No. 1 of 2023. The Fund's Chief Executive Officer has been on an acting capacity from inception of the Fund for a period of two (2) years one (1) month. However, it was not clear why the Board of Directors had not yet done competitive recruitment on the position of the Chief Executive Officer of the Fund. This was contrary to Section 34 of the Public Service Commission Act, 2017, which provides that a person shall not be appointed to hold a public office in an acting capacity for more than six (6) months.

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

241. Failure to Establish Internal Audit Unit and Audit Committee

During the year under review, the Fund did not establish an Internal Audit Function. This was contrary to Section 73(1) of the Public Finance Management Act, 2012 which states that every National Government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Public Sector Accounting Standards Board.

Further, the Fund did not have an established Audit Committee during the year under review. This was contrary to Regulation 174(1) of the Public Finance Management (National Government) Regulations, 2015 which provides for the establishment of an Audit Committee. The Fund did not benefit from the assurance and advisory services from the Internal Audit Function as well as oversight from the Audit Committee.

In the circumstances, the effectiveness of internal controls and risk management could not be confirmed.

242. Lack of Proper Loan Management System/ERP System

The statement of financial position reflects revolving fund balance of Kshs.12,398,822,364 as further reflected in the statement of changes in net assets. Review of documents provided for audit revealed that the Fund had received an amount of Kshs.12.8 billion from the Exchequer since it was established out of which an amount of Kshs.12.4 billion was for onward lending to the target clients while Kshs.401 million was used to match the long-term savings of the clients who had borrowed more than five times. However, it was noted that despite the Fund's mandate to manage and oversee the lending and savings activities, it had not invested in a proper loan management system. The Fund is fully dependent on the service providers loan management systems resulting to various challenges that may have been avoided if the Fund had its own loan management systems.

Further, Management did not have a credit policy and collection strategy for non-performing loans. Credit policy protects the Fund from late payments and helps it maintain a healthy working capital position.

In the circumstances, recoverability of the defaulted loans was doubtful and it was not possible to determine Management ability to provide real time information on loan management status.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

243. 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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

244. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for my audit conclusion.

CO-OPERATIVE SOCIETIES LIQUIDATION ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

245. Incomplete Financial Statements

The Public Sector Accounting Standards Board (PSASB) reporting template requires inclusion of statement of comparison of budget and actual amounts in the financial statements. However, the financial statements submitted on 13 December, 2024 did not have statement of comparison of budget and actual amounts. Further, the Management indicated that the Account did not have prior audit issues. However, the previous year's audit report had two (2) issues, one (1) on Report on Financial Statements and another on Report on Lawfulness and Effectiveness in Use of Public Resources.

In the circumstances, the presentation, accuracy and completeness of financial statements could not be confirmed.

246. Unsupported Expenditure

The statement of financial performance reflects transfers to liquidation beneficiaries amount of Kshs.15,944,636 disbursed to three (3) societies as disclosed in Note 2 to the financial statements. However, the amount of Kshs.6,088,467 expended by the Lukenya Ranching and Farmers Co-operative Society Ltd was not supported by committee attendance schedules, minutes for meetings and staff dues supporting documents. Further, the amount of Kshs.4,537,804 expended by the New Kenya Planters Cooperative Union included Kshs.980,000 relating to legal fees not supported by details of the case, survey and advocates fees of Kshs.1,200,000 and book keeping of Kshs.120,000 not supported by payee details, all totalling Kshs.2,300,000. In addition, the bank statements of liquidators' accounts where funds were channelled for distribution were not provided for audit.

In the circumstances, the propriety of Kshs.8,388,467 expenditure could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

247. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

248. Non-Disclosure of Assets and Liabilities Managed by the Liquidators

Review of the records provided for audit revealed that Fund's Management did not disclose the identity and value of assets and liabilities managed by the liquidators. Further, most of the liquidators were officers of the State Department for Cooperatives appointed by the Commissioner and some societies had high value assets including land and rental properties. In addition, there was no information on any other money or revenue generated in the offices of the Liquidators.

In the circumstances, the effectiveness of internal controls, risk management and governance on assets and liabilities managed by the liquidators could not be confirmed.

MANAGEMENT AND SUPERVISION FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

249. Cash and Cash Equivalents

249.1 Unconfirmed Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.7,764,617 as disclosed in Note 6 to the financial statements. However, the Fund does not have its own separate bank account but utilizes the deposit account for the State Department for Co-operatives. It was therefore not possible to trace the receipts in the bank statement. This was contrary to Section 68(2)(b) of the Public Finance Management Act, 2012 which requires an accounting officer to ensure that the entity keeps financial and accounting records that comply with the Act.

249.2 Inaccuracies in Statement of Cash Flows

The statement of cash flows reflects closing cash and cash equivalents balance of Kshs.7,764,617. However, re-computation of the balances yielded a balance of Kshs.15,163,901 resulting to an unexplained variance of Kshs.7,399,284.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.7,764,617 in both statement of cash flows and statement of financial position could not be confirmed.

250. Unsupported Debtors Balance

The statement of financial position reflects debtors balance of Kshs.17,587,751 relating to management and supervision fees as disclosed in Note 9 to the financial statements. However, the balance was not supported by detailed analysis of the debtors. Further, included in the balance was an amount of Kshs.10,219,347 which has been outstanding for the last ten (10) years that has been classified under current assets. This was contrary to the provisions of paragraph 76(c) of the International Public Sector Accounting Standards No. 1 which states that an asset shall be classified as current when it is expected to be realized within twelve months after the reporting date. Similarly, Management did not explain why these debts have not been collected and what measures had been put in place to ensure full recovery of the debts.

In the circumstances, the completeness, accuracy and recoverability of the debtors balance of Kshs.17,587,751 could not be confirmed.

251. Failure to Remit Appropriations-In-Aid to The National Treasury

The statement of financial performance reflects total revenue from non-exchange transactions of Kshs.21,701,323 which includes audit and supervision fees of Kshs.11,973,468 as disclosed in Note 1 to the financial statements. However, the Fund did not remit 50% of the amount to The National Treasury as Appropriations-In-Aid (AIA) during the year under review. This was contrary to the provision of Rule No. (19) (1) of the Co-operative Societies Rules, 2004 which states that fifty percent of the annual receipts received by the Fund shall be payable half yearly to the Government as appropriations-in-aid This may have overstated the surplus for the year and understated the liabilities by Kshs.5,986,734

In the circumstances, the accuracy and completeness of audit and supervision fees of Kshs.11,973,468 could not be confirmed.

252. Irregular Retention Revenue

The statement of financial performance reflects retention revenue balance of Kshs.8,848,507 as disclosed in Note 3(a) to the financial statements. Management explained that these were retentions held during payment to contracts to cover the defects liability. The amounts therefore do not qualify to be a revenue but a liability that is payable when the defects liability expires. In addition, the Fund did not have any contract payments during the year and therefore the source of the retentions could not be explained.

In the circumstances, the revenue reported for the year ended 30 June, 2024 is overstated by Kshs.8,848,507.

253. Unsupported Retention Payables

The statement of financial position reflects payables retention balance of Kshs.4,863,907 as disclosed in Note 3(c) to the financial statements. However, the balance is higher than the expenditure reflected in the statement of financial performance and Note 3(b) to the financial statements amounting to Kshs.3,984,600. The two amounts have not been explained considering the financial statements have been prepared on accrual basis of accounting. The source of the retention balances was not supported.

In the circumstances, the accuracy of the payables retention balance of Kshs.4,863,907 could not be confirmed.

Emphasis of Matter

254. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounting to Kshs.14,000,000 and Kshs.11,973,468 respectively resulting in an under-collection of Kshs.2,026,532 or 14% of the budget. Similarly, the Fund expended Kshs.5,124,300 against actual receipts of Kshs.11,973,468 resulting in an under-utilization of Kshs.6,849,168 or 57% of actual receipts.

The under-collection and under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

255. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved all the issues or given any explanation for failure to implement the recommendations.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

256. Irregular Payment of Meal Allowance

The statement of financial performance reflects general expenses amount of Kshs.5,262,694 as disclosed in Note 5 to the financial statements. However, included in the amount was Kshs.240,000 paid as meal allowances to officers who worked past the official working hours. This was contrary to Section C.17(3) of the Human Resources Policies and Procedures Manual for the Public Service-May 2016 which provided that meal allowance shall not be paid as a compensation for officers who are required to work beyond the official working hours.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

257. There were no material issues relating to effectiveness of internal controls, risk management and governance.

COFFEE CHERRY ADVANCE REVOLVING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

258. Long Outstanding Receivables from Non-Exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.215,187,818 which, as disclosed in Note 31 to the financial statements, includes an amount of Kshs.26,344,773 made up of Kshs.18,400,660 and Kshs.7,944,113 for farmers' coffee auction in 2019 and terminal dues of former Managing Director respectively. The amounts were paid by the Fund on behalf of the liquidator but have been outstanding for more than two (2) years. Management did not provide explanation for the delays in recovery or actions being taken to recover the long overdue amounts. In addition, no provisions for bad and doubtful debts have been made despite its doubtful nature.

In the circumstances, the accuracy and recoverability of the trade receivables balance of Kshs.215,187,818 could not be confirmed.

259. Unsupported Grant from Contingency Fund

The statement of changes in net assets reflects capital grant from GoK balance of Kshs.500,000,000 withdrawn from the Contingency Fund created under Article 223 of the Constitution of Kenya. Management did not provide for audit requests for funds, justification and approval of the emergency situations leading to the request for funding from the Contingency Fund. In addition, the details of application of the Funds after the receipt was not provided for audit.

In the circumstances, the validity and the application of Kshs.500,000,000 received from Contingency Fund could not be confirmed.

260. Unconfirmed Transfers from the State Department for CoOperatives

Note 6(b) to the financial statements reflects transfers from Ministries, Departments and Agencies (MDAs) amount of Kshs.500,000,000 received from the State Department for Cooperatives. However, the financial statements of the State Department for

Cooperatives reflect no amount transferred to Coffee Cherry Advance Revolving Fund (CCARF).

In the circumstances, the accuracy and completeness of the transfers from State Department for Cooperatives of Kshs.500,000,000 could not be confirmed.

Emphasis of Matter

261. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.2,180,000,000 and Kshs.4,838,187,744 respectively resulting in an over-collection of Kshs.2,658,187,744 or 122% of the budget. In the circumstances, the over-collection of revenue is an indication of under-budgeting on revenue streams of the Fund.

My opinion is not modified in respect of this matter.

Other Matter

262. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in use of Public Resources. However, the Management had not resolved the issues or given any explanation for failure to implement the recommendations.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

263. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

264. There were no material issues relating to effectiveness of internal controls, risk management and governance.

YOUTH ENTERPRISE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

265. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.2,792,431,210 as disclosed in Note 20(a) to the financial statements. However, review of records and aging analysis at Note 21 to the financial statements revealed loan categories with an amount of Kshs.2,095,380,640 which had not been serviced for a period of more than two (2) years.

Further, included in trade receivables balance was an amount of Kshs.34,993,802 relating to loan repayments from unidentified borrowers, with some remaining unidentified for more than three (3) years. No reconciliations were done to identify, update and allocate borrowers accounts which could lead to misstatement of receivables from exchange transactions balance. However, Management indicated commitment to reconcile the accounts and allocate the balances to respective borrowers' accounts.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs.2,792,431,210 could not be confirmed.

266. Undisposed Inventories

As previously reported, the statement of financial position and Note 24 to the financial statements reflects inventories balance of Kshs.36,600,500 which had been brought forward from the previous financial year. The inventories were in respect of automatic hatching machines that were procured during the financial year 2012/2013. The stock take report for the year ended 30 June, 2024 reflects that eight hundred and fifty-three (853) and fifty-two (52) pieces that were being held at the National Youth Service (NYS) Ruaraka and NYS Mtongwe respectively, had been carried forward throughout the years without being disposed off. Further, despite the inventories being slow moving and likely to be impaired, no provision for impairment had been made.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.36,600,500 could not be confirmed.

Emphasis of Matter

267. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipt budget and actual on comparable basis of Kshs.427,879,098 and Kshs.415,020,377 respectively resulting in an under-realization of Kshs.12,858,721 of the budget. Similarly, the Fund spent an amount of Kshs.335,878,409 against actual receipts of Kshs.415,020,377 resulting in under-utilization of Kshs.79,141,968 or 19% actual receipts.

The under-realization and under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

268. Unresolved Prior Year Matters

In the audit report of the previous years, several issues were raised under the Report on Financial Statements, Other Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the matters have remained unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

269. Officers in Acting Capacity

Review of the human resource records revealed that out of the Management Team of seventeen (17) officers, fourteen (14) had been in an acting capacity for several years. This was contrary to Section 34(3) of the Public Service Commission Act, 2017 which states that an officer maybe appointed in acting capacity for a period of at least thirty days and not exceeding six (6) months.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

270. Understaffing

Review of the approved staff establishment revealed an authorized staff establishment of two hundred and forty-one (241) officers. However, review of records revealed that only two hundred and twenty-five (225) were in post resulting in an understaffing of sixteen (16) officers. Further, analysis of human resource records indicate that credit officers who perform the core business of the fund constituted the biggest portion of the staff deficit. However, Management did not explain measures being undertaken to bridge the gap.

In the circumstances, the effectiveness of the Fund's service delivery to the public may be negatively affected.

STATE DEPARTMENT FOR LABOUR AND SKILLS DEVELOPMENT – VOTE 1184

OCCUPATION SAFETY AND HEALTH FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

271. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

272. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total receipt budget and actual receipt budget of Kshs.199,370,000 and Kshs.145,733,678 respectively resulting to revenue shortfall of Kshs.53,636,322 or 27%. Similarly, the Fund spent Kshs.165,080,093 against total receipts of Kshs.145,733,678 resulting to an over-absorption of Kshs.19,19,346,415.

The revenue shortfall may have affected the planned activities and impacted negatively on delivery of services to the public.

My opinion is not modified in respect of this matter.

Other Matter

273. Unresolved Prior Year Matter

In the audit report of the previous year, an issue was raised under the Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the issue remained unresolved as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

274. Unprocedural Procurement of Use of Goods and Services

The statement of financial performance reflects use of goods and services expenditure of Kshs.134,021,112 as disclosed in Note 9 to the financial statements. Included in the expenditure are payments amounting to Kshs.2,339,500 in respect to various goods and services procured through direct procurement by use of standing imprest.

This was contrary to Section 106(2)(a) of Public Procurement and Asset Disposal Act, 2015 which states that the Accounting Officer of a procuring entity shall give the request to such persons as are registered by the procuring entity.

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

275. Lack of Contractual Agreement with Media Houses

The statement of financial performance reflects use of goods and services expenditure of Kshs.134,021,112 as disclosed in Note 9 to the financial statements. The expenditure includes printing and stationery of Kshs.11,909,495 out of which Kshs.1,056,621 was paid to various media houses. However, contractual agreements between the Fund and the media houses were not provided for audit. This was contrary to Section 134(1) of Public Procurement and Asset Disposal Act, 2015 which states that the Accounting Officer shall be responsible for preparation of contracts in line with the award decision.

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

276. Irregular Payments of Allowances

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects use of goods and services of Kshs.134,021,112 which includes committee expenses of Kshs.12,016,800. Included, in the committee expenses are staff allowances of Kshs.5,440,000 that were paid to members of staff while performing accounting duties in the office. This was contrary to Salaries and Remuneration Commission circular of 7 August, 2023 which prohibits payment of sitting allowances alongside earning a basic salary.

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

277. Failure to Deduct PAYE

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects board expenses of Kshs.14,696,540. However, Management did not deduct PAYE of Kshs.440,100 on allowances paid to Board members contrary to Section 37(1) of the Income Tax Act Cap 470.

In the circumstances, Management was in breach of the law

278. Unprocedural Procurement on Repairs and Maintenance

The statement of financial performance statements reflects repair and maintenance expenditure of Kshs.4,500,941 as disclosed in Note 12 to the financial. The expenditure includes expenses amounting to Kshs.1,100,000 incurred through direct procurement by use of standing imprest. This was contrary to Section 106(2)(a) of Public Procurement and Asset Disposal Act, 2015 which states that the Accounting Officer of a procuring entity shall give the request to such persons as are registered by the procuring entity.

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

279. Irregularities in Procurement of Fixed Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.28,919,581 as disclosed in Note 15 to the financial statements. The balance

includes assets additions of Kshs.8,981,500. Review of the procurement records revealed that assets amounting to Kshs.4,269,000 had various procurement irregularities including procurement done without valid professional opinion, opening of quotation beyond the stipulated time and invalid tax compliance certificates. This was contrary to Section 84(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that the head of procurement function of a procuring entity shall, alongside the report to the evaluation committee as secretariat comments, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings.

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

280. Irregular Appointment of Ad-Hoc Quotations Evaluation Committee

During the year under review, Management of the Fund appointed one Ad-Hoc Evaluation Committee consisting of seven (7) members to evaluate requests for quotations. This was contrary to Section 46(4)(1)(b) of the Public Procurement and Asset Disposal Act, 2015 which inter alia, provides, that an Evaluation Committee shall consist of between three and five members appointed on a rotational basis comprising heads of user department and two other departments.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

281. Failure to Carry Out Risk Assessment

During the year under review the Fund Management did not carry out risk assessment contrary to Treasury Circular No. 3/2009 of 23 February, 2009 which provides that Accounting Officers shall put in place structures and systems to manage their identified risks, considering their legal obligations, policy decisions, business objectives and public sector expectations.

In the circumstances, the effectiveness of internal controls and overall governance of the Fund could not be confirmed.

282. Incomplete Fixed Asset Register

The statement of financial position reflects property, plant and equipment of Kshs.28,919,581 as disclosed in Note 17 to the financial statements. However, the fixed asset register maintained by the Fund did not include cost, date of purchase, location and serial numbers of the fixed assets.

In the circumstances, effectiveness of internal controls over fixed assets could not be confirmed.

STATE DEPARTMENT FOR SOCIAL PROTECTION AND SENIOR CITIZEN AFFAIRS – VOTE 1185

THE NATIONAL ASSISTANCE TRUST FUND FOR VICTIMS OF TRAFFICKING IN PERSONS

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

283. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

284. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total actual receipts and actual expenditure of Kshs.20,000,000 and Kshs.18,544,225 respectively resulting in an under expenditure of Kshs.1,455,775.

The under expenditure affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

285. Missed Performance Targets

The statement of performance against predetermined objectives indicates that training of key stakeholders on trafficking in persons was to be done in ten (10) counties. However, it was carried out in only two (2) counties. Further, according to Section 7.1 of the Trust Fund guidelines for assisting victims, the Secretary to the Board should conduct biannual monitoring and evaluation of on-going activities. Monitoring and evaluation was not performed in the financial year under review.

286. Exceeded Approved Budget Amounts

The statement of performance against predetermined objectives includes two (2) performance indicators which are development of the national minimum standards and procedures for operating shelter for victims and, development of national integrated data collection and management software for trafficking in persons. The budgeted expenditure for the activities was Kshs.2,500,000 while actual expenditure amounted to Kshs.4,514,200 exceeding the amount approved in the work plan by Kshs.2,014,200.

In the circumstances, implementation of other program activities may have been affected which could affect achievement of strategic objectives.

My opinion is not modified in respect of these matters.

Other Matter

287. Unresolved Prior Year Matter

In the audit report of the previous year, one issue was raised under the Report on Financial Statements. However, Management had not resolved the issue as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

288. Irregularities in Operation of the Fund's Bank Account

The statement of financial position and as disclosed in Note 9 to the financial statements reflects cash and cash equivalents balance of Kshs.6,442,865. Audit verification carried out revealed that the Fund operates an account held at a commercial bank for all its operations. The signatories to the account are the Treasurer or the Secretary of the Fund plus either the Head of Accounts or the Accountant. The mandate doesn't make the Fund Treasurer a compulsory signatory contrary to Regulation 12(3) of Counter-Trafficking in Persons (National Assistance Trust Fund for Victims of Trafficking in Persons), Regulations, 2020 which states that the Treasurer of the Board of Trustees shall be the mandatory signatory to all transactions and accounts operated by the Board of Trustees.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

289. Lack of Board Charter

During the year under review, the Fund did not have an approved Board Charter contrary to Section 1.11 of Mwongozo Code of Governance for State Corporations, 2015 which states that the Board should develop and adopt a Board Charter and that the Board Charter should clearly define the roles, responsibilities and functions of the Board in the governance of the organization.

In the circumstances, there was limited clarity on roles, responsibilities and processes of board operations which may have impacted negatively on the board effectiveness.

290. Lack of Substantive Fund Secretary

Review of the financial statements revealed that the Fund Secretary has been on acting appointment since 6 February, 2020 contrary to The National Treasury Circular which sets the limit of acting in a position to a maximum of six (6) months. No explanation was provided for the failure to fill the position substantively. In addition, the appointment letter to the acting capacity of the Secretary was not provided for audit.

In the circumstances, lack of substantive appointments could affect the effective performance of officers on acting appointment.

STREET FAMILIES REHABILITATION TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

291. Inaccuracies in Use of Goods and Services

The statement of financial performance reflects use of goods and services amount of Kshs.169,142,870 which includes domestic, travel and subsistence allowances of Kshs.146,101,941 as disclosed in Note 8 to financial statements. However, travel and subsistence allowances amounting to Kshs.24,812,318 were not supported with payment vouchers. In addition, use of goods and services expenditure includes rent expense of Kshs.7,851,214 which differed with re-computed annual rent for the year of Kshs.7,271,399 resulting to an overstatement of use of goods and services expenditure by Kshs.579,815.

In the circumstances, the accuracy and completeness of use of goods and services expenditure of Kshs.169,142,870 could not be confirmed.

292. Variances Between Financial Statements and Supporting Schedules

The statement of financial position reflects trade and other payables balance of Kshs.15,244,742 as disclosed in Note 15 to the financial statements. However, supporting schedules reflect a balance of Kshs.7,000 resulting to a variance of Kshs.15,237,742 which was not supported by creditors statement of accounts.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.15,244,742 could not be confirmed.

293. Property, Plant and Equipment

The statement of financial position and as disclosed in Note 14 to the financial statements reflects property, plant and equipment balance of Kshs.49,544,022. However, the following observations were noted:

293.1 Variances in Information and Communication Technology Equipment Cost

The balance includes Information and Communication Technology (ICT) equipment cost of Kshs.6,834,025. However, the fixed asset register maintained reflected Kshs.4,642,675 resulting to an unexplained variance of Kshs.2,191,350.

293.2 Land Donated by the Kenya Pipeline Company Limited

As previously reported, Kenya Pipeline Corporation donated and surrendered to the Fund a piece of land in August 2007. Subsequently, the title deed was surrendered to the

Commissioner of Lands on 06 August, 2007 for the purposes of transferring and registering the property in the name of the Fund. However, it was noted that the land had not been transferred to the Fund and had been encroached upon as at the time of audit in October 2024

293.3 Lack of Ownership Documents for Parcels of Land in Embu, Murang'a and Laikipia

As previously reported, available information indicates that the defunct Local Authorities of Embu, Murang'a and Laikipia Counties informally allocated land to the Street Families Rehabilitation Trust Fund as captured in the Minutes dated 19 September, 2016. However, review of the matter revealed that the Fund had not identified the locations of these parcels or obtained their title deeds or any other legal/formal allocation documents. Further, Management had not demonstrated any efforts put in place to acquire ownership documents.

293.4 Failure to Value Land

The property, plant and equipment balance of Kshs.49,544,022 includes an amount of Kshs.38,000,000 for land being the initial cost in 2013 and eleven (11) years later, the land had not been revalued.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.49,544,022 could not be confirmed.

Emphasis of Matter

294. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.230,290,000 and Kshs.200,200,000 respectively, resulting to an under-funding of Kshs.30,090,000 or 13% of the budget. However, the Fund spent an amount of Kshs.243,453,710 against actual receipts of Kshs.200,200,000 resulting to an over-utilization of Kshs.43,253,710 or 22% of the actual receipts.

The under-funding may have affected the planned activities and impacted negatively on service delivery to the public.

295. Fund's Performance

The statement of financial performance reflects total expenditure of Kshs.246,279,477 which includes use of goods and services expenditure of Kshs.169,142,870, out of which Kshs.146,101,941 or 60% of total expenditure relates to travel, subsistence and other allowances. However, the Fund disbursed only Kshs.65,000,000 or 26% of total expenditure to various children's homes in the Country.

In the circumstances, substantial part of the budgeted amounts was incurred on travel, subsistence and other allowances rather than on the Fund's strategic objective activities.

My opinion is not modified in respect of these matters.

Other Matter

296. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements. However, Management had not resolved the issues as at 30 June, 2024 or given any explanation for the failure to resolve them. In addition, all the prior year issues were not disclosed under Progress on Follow up of Auditor Recommendations section of the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

297. Irregular Payment of Daily Subsistence Allowances

The statement of financial performance reflects use of goods and services expenditure of Kshs.169,142,870 which includes travel, subsistence and other allowances of Kshs.146,101,941 as disclosed in Note 8 to the financial statements. However, allowances amounting to Kshs.4,380,600 were paid as daily subsistence allowances for a forty-two (42) days exercise on charitable children institutions carried out between 19 March, 2024 to 30 April, 2024. This was contrary to Section C16(2) of the Public Service Commission Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that accommodation allowance will be paid for a maximum continuous period of thirty (30) days. Notwithstanding the provisions of paragraph (1) of this provision, an officer who is required to be away from his duty station for more than thirty (30) days will be paid accommodation allowance for the subsequent additional days at half (½) rate up to a maximum period of five (5) months. Beyond this period, if the officer continues to work in the same station, this will be treated as a posting and accommodation allowance will cease to be applicable.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

298. Failure to Carry Out Risk Assessment

During the year under review, the Fund Management did not carry out risk assessment. This was contrary to Treasury Circular of 23 February, 2009 which states that Accounting Officers shall put in place structures and systems to manage their identified risks, considering their legal obligations, policy decisions, business objectives and public sector expectations.

In the circumstances, the effectiveness of risk management in the Fund could not be confirmed.

STATE DEPARTMENT FOR PETROLEUM – VOTE 1193

PETROLEUM DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

299. There were no material issues noted during the audit of the financial statements of the Fund.

Other Matter

300. Unresolved Prior Year Matters

In the audit of the previous year, matters were raised under the Report on the Financial Statements. However, although Management in Note 15 to the financial statements has indicated as waiting appearance before the National Assembly's Public Accounts Committee, no evidence was provided to support that status.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

301. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

302. Lack of Governance Framework for Stabilization of Petroleum Prices

The statement of receipts and payments reflects transfers to other government entities amounting to Kshs.49,168,389,363. As disclosed in Note 3 to the financial statements, the amount includes Kshs.47,445,889,363 incurred on oil market price stabilization. Review of documents relating to the stabilization program revealed a letter from The National Treasury dated 21 July, 2022 which advised the State Department to form a multi-agency team to review the total resource requirement and assess the sustainability of the fuel price stabilization programme. However, Management did not constitute the taskforce but continued to make payments towards petroleum price stabilization.

In the circumstances, the existence and effectiveness of controls governing stabilization of petroleum pump prices could not be confirmed.

PETROLEUM TRAINING LEVY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

303. Inclusion of Non-Training Receipts

The statement of financial performance reflects fines, penalties and levies amounting to Kshs.176,868,122. The amount comprises of training fees of Kshs.115,226,412 and surface fees levied on International Oil Companies (IOCs) of Kshs.61,641,710. The surface fees collected from the oil companies was included in the Fund financial statements. However, the fee does not meet the criteria set out in Section 52 of the Petroleum Act, 2019 which establishes the Petroleum Training Levy Fund for purposes of training Kenyan nationals in upstream petroleum operations, and provides that all moneys raised by the contractors as training contribution shall be paid into the Fund.

In the circumstances, the accuracy and completeness of fines, penalties and levies income of Kshs.176,868,122 could not be confirmed.

304. Long Outstanding Receivables

The statement of financial position reflects other receivables balance of Kshs.3,693,136,289. Review of the aging analysis provided in support of the receivables revealed that Kshs.3,659,092,840 (USD 28,248,999) relating to fines, penalties and levies had been outstanding for more than two years, with some dating back to 2011. Although Management provided demand letters issued to various companies in the effort to recover the receivables, the amount was still outstanding as at 30 June, 2024.

In addition, an amount of Kshs.221,608,214 (USD 1,710,864) was owed by Lamu Oil and Gas Limited which was struck off from the register of companies on 11 December, 2020 through a gazette notice number 10421 of 2020. It was not clear how Management intended to recover the amount from the unregistered company.

In the circumstances, the accuracy and completeness of other receivables balance of Kshs.3,693,136,289 could not be confirmed.

Other Matter

305. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and the Report on Lawfulness and Effectiveness in Use of Public Resources. However, the issues remained unresolved as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

306. Outstanding imprest

The statement of financial position and as disclosed in Note 17.11 to the financial statements reflects imprests and advances balance of Kshs.656,040. Review of records revealed that it related to an imprest issued in 2017. Management did not demonstrate efforts taken to recover the amount. This was contrary to Regulation 93 (6) of the Public Finance Management (National Government) Regulations, 2015 which provides that in the event of an imprest holder failing to account for or surrender an imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

307. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR GENDER AND AFFIRMATIVE ACTION – VOTE 1212

UWEZO FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

308. Long Term Receivables

308.1 Lack of Provision for Bad and Doubtful Debts

The statement of financial position reflects long term receivables – outstanding loans of Kshs.5,168,026,629 as disclosed in Note 16 to the financial statements. However, the Fund Management had not developed a policy on provision of bad and doubtful debts against the long-term receivables. This was contrary to paragraph 1 of the International Public Sector Accounting Standard (IPSAS) 19 which states that the entity that prepares and presents financial statements under accrual basis of accounting shall apply IPSAS 19 in accounting for provisions, contingent liabilities, and contingent assets.

In the circumstances, the recoverability, accuracy and completeness of long-term receivables–outstanding loan balance of Kshs.5,168,026,629 could not be confirmed.

308.2 Non-Distinction between Current and Non-Current Receivables

The statement of financial position reflects long term receivables – outstanding loans of Kshs.5,168,026,629 as disclosed in Note 16 to the financial statements. It was observed that Management did not provide the loan repayments criteria or the accounting policy for classifying as either current or long-term due. Management acted contrary to Paragraph 70 of IPSAS 1 which provides that, an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position.

In the circumstances, due to failure to designate loan repayments due as either current or long-term, the completeness and valuation of the long-term receivables of Kshs.5,168,026,629 could not be confirmed.

Emphasis of Matter

309. Financial Performance

The statement of financial performance reflects a deficit of Kshs.74,182,749 during the year under review. Although Management as disclosed under the statement of Directors/Fund Committee responsibilities stated that the Fund will remain a going concern for at least the next twelve (12) months from the date of the statement, strategies need to be put in place to avert such an occurrence so that the Fund does not face financial challenges in the future.

In the circumstances, the Fund is likely to face financial challenges in future if the current situation is not reversed.

310. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final income budget and actual on comparable basis of Kshs.309,700,000 and Kshs.153,700,000 respectively, resulting to an under-funding of Kshs.156,000,000 or 50% of the budget. However, the Fund spent Kshs.211,756,370 against actual receipts of Kshs.153,700,000 resulting to an over-utilization of Kshs.58,056,370 or 38% of actual receipts.

In the circumstances, the under-funding may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Other Matter

311. Unresolved Prior Year Matters

In the prior year audit report, issues were raised under Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. The issues have not been resolved, and they are yet to be deliberated in Parliament.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

312. Unrecovered Administration Fees from Fund Loan

Report of the Chief Executive Officer/Fund Administrator on page xvi states that the Fund disbursed Kshs.518,000,000 in the year under review to the constituencies. However, it was noted that the Fund reported Nil income under revenue from exchange transactions contrary to Regulation 3(1)(c) of the Public Finance Management (Uwezo Fund) Regulations, 2014 which states that, the Fund shall consist of income generated from the proceeds of the Fund. In addition, Regulation 20 states that the administrative fee for Fund loan shall be a maximum of one per cent (1%).

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

313. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR PUBLIC SERVICE – VOTE 1213

NATIONAL YOUTH SERVICE - MECHANICAL AND TRANSPORT FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

314. Variances Between the Financial Statements Figures and the Ledgers

The statement of financial performance reflects expenditure on repair and maintenance of Kshs.136,416,536 as disclosed in Note 10 to the financial statement. Included in the amount is Kshs.10,669,175 in respect of spare parts issued from China Stock which is at variance with the amount reflected in the ledger of Kshs.12,870,911. The variance of Kshs.2,201,736 was not explained or reconciled.

Further, included in the expenditure is an amount of Kshs.108,741,065 for spares bought locally and used during the period, however, the supporting ledger was not provided for audit review.

In the circumstances, the accuracy and completeness of the repair and maintenance of Kshs.136,416,536 could not be confirmed.

315. Inaccuracies of the Opening Balances

The statement of financial performance reflects comparative use of goods and services amount of Kshs.211,109,116 while the previous year audited financial statement reflected an amount of Kshs.211,139,116 resulting to a variance of Kshs.30,000 which was not reconciled.

Further, the statement of financial position reflects comparative property, plant and equipment balance of Kshs.3,390,961,258 while the previous year audited financial statements reflected a balance of Kshs.3,154,440,830, resulting to a variance of Kshs.236,520,428 which was not reconciled nor explained.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

316. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.649,239,235 as disclosed in Note 14 to the financial statements. This balance includes debts of Kshs.432,163,530 and Kshs.1,441,960 owing from the defunct Nairobi Metropolitan Services (NMS) and an investment company respectively which had been outstanding for over five years. Management did not explain the steps they are taking to recover the money owed to them. In addition, Management had not made a

provision for bad and doubtful debts to factor the risk of possible non recovery of these debts.

In the circumstances, the accuracy and valuation of the receivables totalling Kshs.649,239,235 could not be confirmed.

317. Long Outstanding Receivables from Non-Exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.1,190,416,159 as disclosed in Note 15 to the financial statements. The receivables relate to debts owing from National Youth Service (NYS) Units. However, these balances had been outstanding for more than two years and Management had not made a provision for bad debts since the recovery is uncertain.

In the circumstances, the accuracy and valuation of the receivables from non-exchange transactions balance of Kshs.1,190,416,159 could not be confirmed.

318. Unconfirmed Property, Plant and Equipment Balance

As previously reported, the statement of financial position reflects property, plant and equipment balance of Kshs.3,231,202,775 (2023-Kshs.3,390,961,258) as disclosed in Note 17 to the financial statements. The balance includes plant and machinery, heavy commercial vehicles and light motor vehicles balance of Kshs.2,232,929,941, Kshs.847,730,348 and Kshs.147,739,381 respectively. However, Management had not valued the assets for financial reporting purposes since inception and the depreciation policy had not been approved by Council. Further, furniture and fittings such as executive tables, chairs and cabinets had not been tagged with unique identification numbers.

In the circumstances, the accuracy, valuation and completeness of the property, plant and equipment balance of Kshs.3,231,202,775 could not be confirmed.

Emphasis of Matter

319. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on a comparable basis of Kshs.560,890,934 and Kshs.281,174,578 respectively resulting to an underfunding of Kshs.279,716,356 or 50% of the budget. Similarly, the Fund spent Kshs.314,177,705 against total receipts of Kshs.281,174,578 resulting to an over absorption of Kshs.33,003,127 or 11% of the actual receipts.

In the circumstances, the underfunding may have affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Other Matter

320. Unresolved Prior Year Audit Issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved the issues as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

321. Legal Status of the National Youth Service - Mechanical and Transport Fund

The National Youth Service-Mechanical and Transport Fund was established in January 2011 by the NYS-Mechanical and Transport Fund Regulation, 2011. The Fund is subject to Regulations 207(1)(i) of the Public Finance Management (National Government) Regulations, 2015 which states that the initial approval for establishment of a National Public Fund shall be for a maximum period of ten (10) years, beyond which Cabinet and Parliament approvals shall be sought. However, by the time of this audit, the Fund's lifespan was thirteen (13) years and the approval for extension by the Cabinet and Parliament was not provided for audit review.

Further, the process of winding up had not commenced in line with Regulations 209(1) of the Public Finance Management (National Government) Regulations, 2015 which states that, where the lifespan of Fund lapses, within six (6) months from the date of the lapse, the winding up shall commence.

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

322. Grounded Motor Vehicles, Plant and Equipment

As previously reported, the Fund's asset register revealed that one hundred and thirty (130) motor vehicles, plant machinery and equipment had been grounded for long period of time due to various mechanical reasons. Management had not made any efforts to repair or to seek approval for the disposal of the assets.

In the circumstances, the assets continue to deteriorate and any salvage value that could have been realized may be lost.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

323. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE LAW OFFICE AND DEPARTMENT OF JUSTICE – VOTE 1252

CRIMINAL ASSETS RECOVERY FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

324. Inaccuracy in the Statement of Cash Flows

The statement of cash flows reflects proceeds from preserved assets balance of Kshs.226,255,071. However, the support schedule provided reflected a balance of Kshs.238,652,854 resulting to an unexplained variance of Kshs.12,397,783.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

Other Matter

325. Unresolved Prior Year Matters

As disclosed in Appendix 1 to the financial statements on implementation status of Auditor-General's recommendations, several issues raised in the previous year had not been resolved as at 30 June, 2024. Management did not give any explanation for failure to resolve the issues and to adhere to the provisions of the Public Sector Accounting Standards Board reporting templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

326. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

327. Undetermined Ownership of Assets

The statement of financial position reflects property, plant and equipment-forfeited assets balance of Kshs.102,715,000 as disclosed in Note 11 to the financial statements. However, ownership documents for a forfeited immovable asset/property relating to a building in Kasarani valued at Kshs.36,000,000, was not provided for audit.

Further, logbooks for twenty-three (23) motor vehicles valued at Kshs.44,800,000 were not provided for audit. Available information indicates that Management requested the National Transport and Safety Authority (NTSA) for re-registration of the motor vehicles but no logbooks had been received as at the time of the audit. The ownership status of these assets remain unclear even after the end of the Judicial appeal process.

In the circumstances, the existence of effective controls in relation to assets management could not be confirmed.

328. Decrease in Value of the Recovered Assets

Review of the assets register revealed that the Agency had recovered a total of seventy-six (76) motor vehicles which are held in different locations across the country. Further, review of records revealed motor vehicles which were grounded since the year 2019. The long preservation period between confiscation and the end of the judicial process may result in a significant loss in the value of the assets.

In the circumstances, the existence of effective mechanisms of preservation of seized assets could not be confirmed.

NATIONAL INTELLIGENCE SERVICE – VOTE 1281

INTELLIGENCE SERVICE DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

329. There were no material issues noted during the audit of the financial statements of the Fund.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

330. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

331. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OFFICE OF THE REGISTRAR OF POLITICAL PARTIES – VOTE 1311

POLITICAL PARTIES FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

332. There were no material issues noted during the audit of the financial statements of the Fund.

Emphasis of Matter

333. Under-Funding of the Political Parties

The statement of comparison of budget and actual amounts reflects actual revenue receipts with respect to transfers from other Government entities of Kshs.808,300,000. However, the amount was not in compliance with Section 24(1)(a) of the Political Parties Fund Act, 2011, (Revised 2022) on funding of political parties, which requires that allocations be at least 0.3% of all the National Government's share of revenue as outlined in the annual Division of Revenue Act. The underfunding may have negatively affected the planned activities for the forty-eight (48) eligible political parties that were to receive funding.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

334. Failure by Political Parties to Maintain Offices in the Counties

Review of political party registration records at the Office of the Registrar of Political Parties revealed a discrepancy between the information provided during the registration process and the actual presence of party offices. While parties submitted addresses for their headquarters and county offices prior to registration, field visits in March 2024 revealed that a significant number of parties lacked offices in more than half of the counties as required by Section 7(2)(f)(iii) of the Political Parties Act, 2011 (Revised 2022) which states that a provisionally registered political party shall be qualified to be fully registered if it has submitted to the Registrar the location and addresses of the branch offices of the political party, which shall be in more than half of the counties.

Political parties attributed the non-compliance to insufficient funding from the Political Parties Fund, citing difficulties in affording rent and staff salaries after registration. The

non-compliance raises concerns regarding the parties' ability to effectively operate and engage with constituents across the country.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

335. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PARLIAMENTARY CATERING FUND

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

336. Long Outstanding Receivables

The statement of financial position and as disclosed in Note 12 to the financial statements reflects receivables from exchange transactions balance of Kshs.89,617,805. The balance includes an amount of Kshs.20,677,421 related to debts that have been outstanding for more than 180 days or six (6) months. Further, as disclosed in Note 12 to the financial statements, the collectability of debts amounting to Kshs.25,393,523 is uncertain. However, the financial statements do not include any provision for potential impairment of the outstanding receivables.

In the circumstances, the accuracy, completeness and recoverability of the receivables from exchange transactions balance of Kshs.89,617,805 could not be confirmed.

Other Matter

337. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and the Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved the issues or explained their failure to resolve them as at 30 June, 2024.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

338. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

339. There were no material issues relating to effectiveness of internal controls, risk management and governance.

Appendices

Appendix A: Unmodified Opinion

No.	National Government Funds
1.	Petroleum Development Levy Fund (Holding Account) – The National Treasury
2.	State Officers and Public Officers Motor Car Loan Scheme Fund – The National Treasury
3.	Public Service Superannuation Fund – The National Treasury
4.	European Widows and Orphans Pensions Fund – The National Treasury
5.	Asian Officers Family Pensions Fund – The National Treasury
6.	Public Private Partnership Project Facilitation Fund – The National Treasury
7.	National Government Constituencies Development Fund – State Department for Economic Planning
8.	National Humanitarian Fund – State Department for Interior and Citizen Services
9.	National Drought Emergency Fund – State Department for The Arid and Semi-Arid Lands and Regional Development
10.	Roads Annuity Fund – State Department for Roads
11.	Railway Development Levy Fund (Holding Account) – State Department for Transport
12.	Kenya Slum Upgrading Low Cost Housing and Infrastructure Trust Fund – State Department for Housing and Urban Development
13.	State Officers House Mortgage Scheme Fund – State Department for Housing and Urban Development
14.	Petroleum Development Levy Fund – State Department for Energy
15.	Kenya Energy Sector Environment and Social Responsibility Programme Fund – State Department for Energy
16.	Veterinary Services Development Fund – State Department for Livestock Development
17.	Fish Levy Trust Fund – State Department for The Blue Economy and Fisheries

Appendix A: Unmodified Opinion

18. Occupational Safety and Health Fund – State Department for Labour and Skills Development
19. The National Assistance Trust Fund for Victims of Trafficking in Persons – State Department for Social Protection and Senior Citizen Affairs
20. Petroleum Development Levy Fund – State Department for Petroleum
21. Intelligence Services Development Fund – National Intelligence Service
22. The Political Parties Fund – Office of the Registrar of Political Parties

Appendix B: Qualified Opinion

No. National Government Funds

1. Equalisation Fund – The National Treasury
2. Contingencies Fund – The National Treasury
3. African Union and Other International Organizations Subscription Fund – The National Treasury
4. Provident Fund – The National Treasury
5. National Government Affirmative Action Fund – State Department for Economic Planning
6. Government Press Fund – State Department for Internal Security and National Administration
7. Prison Industries Revolving Fund – State Department for Correctional Services
8. Prison Farms Revolving Fund – State Department for Correctional Services
9. Mechanical and Transport Fund – State Department for Roads
10 Civil Servants Housing Scheme Fund – State Department for Housing and Urban Development
11. Land Settlement Fund – State Department for Lands and Physical Planning
12. Sports, Arts and Social Development Fund – State Department for Sports
13. Commodities Fund – State Department for Agriculture
14. Commodities Fund Staff Mortgage and Car Loan Scheme - State Department for Agriculture
15. Agricultural Information Resource Centre Revolving Fund – State Department for Agriculture
16. Co-operative Societies Liquidation Account – State Department for Co-operatives
17. Management and Supervision Fund – State Department for Co-operatives
18 Coffee Cherry Advance Revolving Fund - State Department for Co-operatives
19. Youth Enterprise Development Fund – State Department for Co-operatives
20. Street Families Rehabilitation Trust Fund – State Department for Social Protection and Senior Citizen Affairs
21. Petroleum Training Levy Fund – State Department for Petroleum

Appendix B: Qualified Opinion

22. Uwezo Fund – State Department for Gender and Affirmative Action
23. National Youth Service - Mechanical and Transport Fund – State Department for Public Service
24. Criminal Assets Recovery Fund – State Law Office and Department of Justice
25. Parliamentary Catering Fund – Parliamentary Service Commission

Appendix C: Adverse Opinion

No.	National Government Funds
1.	Treasury Main Clearance Fund – The National Treasury
2.	Women Enterprise Fund – State Department for Economic Planning

Appendix D: Disclaimer of Opinion

No.	National Government Funds
1.	Government Clearing Agency Fund – The National Treasury
2.	Kenya Local Loans Support Fund – The National Treasury
3.	Railway Development Levy Fund (Operation) – State Department for Transport
4.	Stores and Services Fund – State Department for Public Works
5.	Financial Inclusion Fund (Hustlers' Fund) – State Department for Co-operatives

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