THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 28 FEB 2023 DAY: TUESDAY
TABLED BY: The Leader of The Majority Party (LOM) Inzofu Mwale.
CLERK-AT-THE-TABLE:

# REPORT

# OF

# THE AUDITOR-GENERAL

# ON

# THE NATIONAL GOVERNMENT

# MINISTRIES, DEPARTMENTS AND AGENCIES

# FOR

# THE YEAR 2021/2022

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## Foreword

This report, popularly referred to as the Blue Book, is a compilation of the audit reports of Ministries, Departments and Agencies including their respective Donor Funded Projects for the year ended 30 June, 2022.

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 timeline 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 given by the Constitution to three (3) months. This has been adversely affecting the timelines for reporting, leading to backlogs and affecting the efficiency and effectiveness for oversight by Parliament and the County Assemblies.

Further, as previously reported, an effective mechanism for follow up on implementation of audit recommendations is lacking and as such most audit queries recur in subsequent audit reports due to lack of requisite 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 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 numerous inaccuracies in financial statements presented for audit, lack of requisite supporting

documents, several revisions of financial statements and, in some cases, reluctance to cooperate 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 projects or programmes implemented 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 the audit cycle 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 it build technical capacity, expand its 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 grassroot level. During the year under review, we established the Upper North Regional Office in Isiolo and the North Western Regional Office in Kitale. We have so far constructed regional offices in Garissa, Kakamega and Eldoret, while construction works in Embu is almost complete. Plans for construction of our Headquarters in Nairobi, which is currently at the design stage, has been delayed by lack of funding. However, the Office continues to make appeals 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 formation of additional entities that I am required to audit and report on. All the over nine thousand (9,000) Public Secondary Schools were from 30 June, 2022 required to prepare and submit financial statements to the Auditor-General for audit and quite a number have complied. In addition, I am required to audit and report on financial statements for all the three hundred and fifty-eight (358) Level 4 hospitals and fourteen (14) Level 5 hospitals separately. In the current financial year, I am also required to audit a total of two hundred and eighteen (218) Technical and Vocational Education and Training (TVET) Institutions and the number could increase as we are currently undertaking an evaluation exercise with the State Department for Technical, Vocational Education and Training to identify all institutions funded by the Exchequer including the Community Vocational Training

Institutions that are estimated to be over one thousand and two hundred (1,200) Institutions. In addition, new projects and funds have been created that require timely oversight.

During the period under review, the Office of the Auditor-General 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) and the Salaries and Remuneration Commission (SRC) 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 MDA's audited financial statements for the year ended 30 June, 2022, which I have already submitted to Parliament and to each Accounting Officer. A summary highlighting key cross-cutting audit findings will be submitted separately.

I wish to sincerely 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. Special appreciation goes to the team that prepared this Consolidated Audit Report.

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

**CPA Nancy Gathungu, CBS**
**AUDITOR-GENERAL**

**Nairobi**

**20 February, 2023**

## Introduction

### 1.1 Constitutional Mandate of the Auditor-General

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. 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.

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 reporting structure of my report address the reporting requirements of Article 229(6) of the Constitution of Kenya, which requires that an audit report shall confirm whether or not public resources have been applied lawfully and in an effective way. Section 7(1) (a) of the Public Audit Act, 2015 also requires that I provide assurance on the effectiveness of internal controls, risk management and overall governance.

In addition, the International Standards of Supreme Audit Institutions (ISSAIs), require the incorporation of Key Audit Matters in the report on the financial statements, which are those matters that I determine in my professional judgment, are of most significance in the audit of the financial statements as a whole, for the year under review.

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.

iv. **Report on Other Legal and Regulatory Requirements** is included where applicable, especially for the entities that are registered under the Companies Act, 2015 and any other enabling legislation or authorities that require such disclosure.

### 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 problems 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, 2022 are highlighted in the ensuing pages.

# THE NATIONAL TREASURY - VOTE 1071

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**1. Unconfirmed Expenditure Balances**

The statement of receipts and payments reflects an expenditure of Kshs.1,606,952,339 in respect of acquisition of assets which, as disclosed in Note 15.12 to the financial statements, includes an amount of Kshs.9,847,738 relating to purchase of office furniture and general equipment. However, the latter amount was at a variance with the amount of Kshs.89,234,988 reflected in the Integrated Financial Management Information System (IFMIS) system payments report by an unexplained variance of Kshs.79,387,250. Similarly, the statement of receipts and payments reflects an amount of Kshs.25,026,311,607 in respect of use of goods and services which, as disclosed in Note 15.06 to the financial statements, includes an amount of Kshs.13,063,400 in respect of fuel, oil and lubricants. However, the amount of Kshs.13,063,400 was at variance with the amount of Kshs.50,091,990 computed from the fuel statements by an unexplained variance of Kshs.37,028,590.

In the circumstances, the accuracy of the expenditure of Kshs.9,847,738 incurred on purchase of office furniture and general equipment and the expenditure of Kshs.13,063,400 incurred on fuel, oil and lubricants could not be confirmed.

**2. Long Outstanding Bank Reconciling Items**

The statement of assets and liabilities reflects an amount of Kshs.3,657,492,025 in respect of bank balances. However, review of the bank reconciliation statement for the development bank account for the month of June, 2022, revealed that a number of reconciling items had been outstanding for a long period. The bank reconciliation statement reflected receipts of Kshs.4,839,939,398 recorded in the bank statement on 26 May, 2022 but not in the cash book. Further, the bank reconciliation statement reflected receipts in the cash book not yet recorded in the bank statement totalling Kshs.2,716,155,626 out of which receipts totalling Kshs.623,593,984 were dated between 13 May, 2020 and 02 December, 2021. No explanation was provided for failure to clear the long outstanding reconciling items.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.3,657,492,025 as at 30 June, 2022 could not be confirmed.

**Other Matter**

**3. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a final receipts budget and actual on comparable basis of Kshs.167,894,349,737 and Kshs.126,414,837,692 respectively resulting to an underfunding of Kshs.42,782,675,278 or 25% of the budget.

Similarly, The National Treasury spent a total of Kshs.125,778,027,665 against an approved budget of Kshs.167,894,349,737 resulting to an underexpenditure of Kshs.42,116,322,072 or 26% of the budget.

The underfunding and underperformance affected the planned activities of The National Treasury and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**4. Lack of Fixed Assets Register**

As previously reported, Annex 4 to the financial statements reflects a summary of fixed assets register with a historical cost of Kshs.6,570,539,354 (2021: Kshs.5,614,749,522) and which included assets valued at Kshs.955,789,832 as additions during the year under review. However, The National Treasury did not provide an assets' register to support the assets valued at Kshs.6,570,539,354 as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

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

**5. Over-Commitment of Salary**

The statement of receipts and payments reflects an expenditure of Kshs.3,192,672,341 on compensation of employees, which, as disclosed in Note 15.05 to the financial statements, includes an amount of Kshs.1,652,229,155 paid as basic salaries to permanent employees. However, review of the payroll data revealed that, during the year under review, one hundred and twenty five (125) employees earned a net salary less than one-third (⅓) of their basic salary. This was against Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that public officers shall not over-commit their salaries beyond two thirds (⅔) of their basic salaries and Heads of Human Resource Units should ensure compliance.

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

**6. Non-Operational Vehicle Scanning Machines**

During the financial year 2014-2015, The National Treasury awarded a contract to install modern vehicle scanning machines at the Treasury Building and Bima House to a local contractor at a cost of Kshs.164,510,341. The contract entailed the supply of three (3) handheld advanced, explosive, trace, particulate and vapor detectors at a cost of Kshs.16,882,502. However, none of the scanners or detectors were in operation at the time of the audit in the month December, 2022.

In the circumstances, it was not possible to confirm whether The National Treasury obtained value for money from the expenditure of Kshs.16,882,502 incurred on the project.

### 7. Failure to Implement the Public E-Procurement System

Review of procurement processes in government corporations and other public procuring entities revealed that, by the time of their respective audits, the entities' procurement processes had not been linked with the Integrated Financial Management Information System (IFMIS) as per Executive Order No. 2 of 2018. The Order had directed that by 01 January, 2019, The National Treasury was to facilitate seamless integration of all public procurement entities to the Integrated Financial Management Information System (IFMIS) and that by that same date, all Public Procuring entities undertake all their procurement through the e-procurement module. Most of the non-complying procuring entities have blamed The National Treasury for failing to create the integration platform.

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

### 8. Unauthorized Staff Establishment

Review of The National Treasury staff establishment revealed that thirty-nine (39) positions with ninety-two (92) members of staff in-post were not authorized. Similarly, forty-five (45) positions with an authorised establishment of four hundred and sixty-six (466) members of staff had one thousand and sixty-one (1,061) staff members in-post, exceeding the approved establishment by five hundred and ninety-five (595) staff members.

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

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.

## NATIONAL EXCHEQUER ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**10.** There were no material issues noted during the audit of the financial statements of the National Exchequer Account.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**11. Non-Compliance with Article 260 of the Constitution - Late Exchequer Releases**

As disclosed in Note 13.6 to the financial statements, an amount of Kshs.39,964,834,094 was indicated as payments in the cash book not yet recorded in the bank statement (uncleared items). However, examination of records indicated that the amount relates to Exchequer releases to Ministries, Departments and Agencies, Public Debt and County Governments that were disbursed after the end of the financial year. This was contrary to Regulation 97(4) of the Public Finance Management (National Government) Regulations, 2015 which states, inter alia, "that an actual cash transaction taking place after the 30 June, shall not be treated as pertaining to the previous financial year." This was also in breach of Article 260 of the Constitution which states that "financial year means the period of twelve months ending on the thirtieth day of June or other day prescribed by national legislation."

Further, the practice of backdating transactions to 30 June, is against the concept of IPSAS cash accounting. Management has explained that the late Exchequer releases were occasioned by late receipt of revenues and that approval was given by the Controller of Budget.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## CONSOLIDATED FUND SERVICES - PUBLIC DEBT

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**13.** There were no material issues noted during the audit of the financial statements of the Consolidated Fund Services - Public Debt.

**Emphasis of Matter**

**14. Payment of Commitment Fees on Undrawn Amounts**

As reported in the previous year, the statement of receipts and payments for the year ended 30 June, 2022 reflects finance costs including loan interest amounting to

Kshs.510,090,079,877 which, as disclosed in Note 13.3 to the financial statements, includes interest payments on foreign borrowing of Kshs.121,494,973,255. The latter balance includes commitment fees on undrawn amounts paid during the period under review amounting to Kshs.1,486,813,083. The commitment fees relates to undrawn loans signed between the Government of Kenya and foreign lenders.

Further, review of the summary statement of debt stock as at 30 June, 2022 revealed that twenty (20) loans agreements with cumulative loans of Kshs.379,943,389,070 were signed between 1 July, 2019 and 31 December, 2020. However, no drawdowns on these loans had been made by the various implementing Agencies for the funded projects and programmes as at 30 June, 2022. Had the implementing Agencies put proper mechanisms in place to enable absorption of the committed credit within the agreed timeframe, payment of commitment fees would have been minimized. The National Treasury, being the overall supervisor of Government Ministries, Departments and Implementing Agencies needs to ensure that programmes and projects are ready for execution before committing the Government to bear the loans.

## 15. Guaranteed Debts

The summary statement of public debt reflects total outstanding debt stock balance of Kshs.8,478,949,965,757 as at 30 June, 2022. Review of the debt stock records provided revealed that the balance includes guaranteed loans amounting to Kshs.145,356,697,726 as at 30 June, 2022. As reported in the previous year, these are loans advanced to State Agencies for which The National Treasury is the guarantor. Although the guaranteed loans are serviced by the recipient entities and would only be charged to the Consolidated Fund in cases of default, the guaranteed loans constitute contingent liabilities and form part of public debt as guaranteed debts. However, the balance does not include loans and overdrafts, if any, held by other National and County Governments entities. Management has however indicated that there were no borrowings by the County Governments and The National Treasury did not guarantee any loan by State Agencies during the year. Management has also indicated that where a State Agency secures a loan, it is the responsibility of the Board of Directors to ensure that the amount is repaid and is not chargeable to the Consolidated Fund.

However, the National Government is obliged to bail out any amount that could be defaulted by the County Governments and State Agencies using public resources.

## 16. Default on Debt Repayment

As reported in the previous year, review of records held by The National Treasury's Commonwealth Secretariat Debt Recording and Management System as at 30 June, 2022 revealed that the Government had defaulted on servicing an amount of Kshs.11,039,138,761 in respect of three (3) loans advanced by an International Commercial Bank towards the construction of three (3) dams as detailed below:

| Project | Disbursed Amount Euro | Principal Defaulted Euro | Interest Defaulted Euro | Total Arrears Euro | Equivalent (Kshs.) |
|---|---|---|---|---|---|
| Arror Dam | 91,852,267 | 3,196,591 | 9,874,612 | 23,071,203 | 2,861,297,485 |
| Itare Dam Project | 141,552,608 | 36,388,094 | 6,735,832 | 43,123,926 | 5,348,242,211 |
| Kimwarer Dam | 71,878,751 | 15,380,277 | 7,435,335 | 22,815,612 | 2,829,599,065 |
| **Total** | **305,283,626** | **64,964,961** | **24,045,779** | **89,010,741** | **11,039,138,761** |

The credit agreements for these loans were not provided for audit review to confirm the terms of the loans and if the termination of the credit was conducted in accordance with the provisions in the respective agreements. Management indicated that the lender has cancelled the remaining balance and the credit agreements for the three (3) dams are in the custody of the Directorate of Criminal Investigation (DCI) as the matter was in court. The default on debt repayment exposes the Government to risks of legal suits that may lead to punitive penalties and subsequent loss of public resources.

**17. Increase in Domestic Borrowings**

Review of Summary statement of public debt for the year ended 30 June, 2022 revealed that external debt rose from Kshs.3,761,235,298,615 to Kshs.4,076,028,476,708 or 8.37% against that of internal debt which increased from Kshs.3,635,319,130,686 to Kshs.4,257,564,791,323 or 14.62%. Interest on internal debt for the financial year ended 30 June, 2022 stood at 76% to that of external debt which stood at 24% of the total finance costs, including loan interest. The cost of domestic debt is three times the cost of external borrowings. Management has not indicated the measures being put in place to guard against the excessive internal borrowings with a view to reducing the crowding out effect of local borrowers in the economy.

In the circumstances, the high domestic borrowings may have a negative impact on the country's interest rates, inflation rates and may lead to crowding out of private investors due to reduced loanable funds in the market.

My opinion is not modified in respect of these matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**18.** 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**

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

## RECEIVER OF REVENUE (RECURRENT)

REPORT ON THE REVENUE STATEMENTS

**Unmodified Opinion**

**20.** There were no material issues noted during the audit of the recurrent revenue statements.

**Other Matter**

**21. Budgetary Control and Performance**

As disclosed in Note 5 to the revenue statements, fees on licenses under the Traffic Act and Petroleum Development Levy realized during the year under review was Kshs.4,424,032,458 and Kshs.26,132,322,347 respectively, against estimated revenues of Kshs.5,106,206,554 and Kshs.37,132,000,000 resulting in under-collections of Kshs.682,174,096 or 13% and Kshs.10,999,677,653 or 30%, respectively. Further, as disclosed in Note 8 to the revenue statements, sundry revenue realized during the year under review was Kshs.275,548,422 against estimated revenue of Kshs.902,639,669 resulting to under-collection of Kshs.627,091,247 or 69%.

The under-collection may have impacted negatively on funding the budgets of the various public entities and therefore affecting development and service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**22.** 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**

**23. Long Outstanding Arrears of Revenue**

As reported in the previous year, the statement of arrears of revenue reflects total tax arrears amounting to Kshs.1,558,258,572,271 as analyzed in the Kenya Revenue Authority debt portfolio. The balance includes an amount of Kshs.177,788,000,000 categorized as long outstanding legacy debts. The debts date back to 1992 and relate to penalties, interest, prior years debt, estimated assessment debt and other debts that are subject to other factors such as data corrections, objections and appeal processes.

Further, the statement of arrears of revenue as at 30 June, 2022 reflects non-tax revenues arrears of Kshs.79,955,123,344 comprising of loan redemption amounting to Kshs.38,078,376,052 and loan interest amounting to Kshs.41,876,747,292. Included in

the balance is an amount of Kshs.54,100,388,350 which has been outstanding for more than two years.

Although Management provided various reasons for the non-receipt of the revenues and explained measures in place to improve the outstanding debt arrears position, it is not clear why some unrecovered long outstanding balances continue to be retained in the revenue statements.

In the circumstances, the existence of an effective mechanism to ensure full realization of the outstanding arrears of revenue could not be established.

## DEVELOPMENT REVENUE STATEMENTS

REPORT ON THE REVENUE STATEMENTS

**Unmodified Opinion**

**24.** There were no material issues noted during the audit of the development revenue statements.

**Other Matter**

**25. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.96,570,519,961 and Kshs.61,046,004,175 respectively resulting to under performance of Kshs.35,524,515,786 or 37% of the budget. Management attributed the under performance to underutilization of budgets by the respective Projects in the Ministries, Department and Agencies.

The underperformance resulted to underfunding of planned development activities which may have adversely impacted on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**26.** 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**

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

# GOVERNMENT INVESTMENTS AND PUBLIC ENTERPRISES - REVENUE STATEMENTS

REPORT ON THE REVENUE STATEMENTS

**Basis for Qualified Opinion**

**28. Unreconciled Outstanding Loans Balances**

The summary schedule of outstanding loans reflects total outstanding loans of Kshs.920,690,539,503. However, eighteen (18) entities with a total loan balance amounting to Kshs.268,875,962,951 reflected in the summary schedule differed with the loan balance of Kshs.268,241,119,147 independently confirmed from the entities resulting to an unexplained variances as summarized below;

| No. | Company/Institution | Balance as per the Revenue Statements (Kshs.) | Balance Confirmed After Circularization (Kshs.) | Variance (Kshs.) |
|---|---|---|---|---|
| 1. | Athi Water Services Board | 47,181,677,443 | 44,780,310,172 | 2,401,367,271 |
| 2. | Coast Water Service Board | 15,839,546,804 | 12,865,923,145 | 2,973,623,659 |
| 3. | Equity Bank Limited | 136,672,275 | 14,913,236 | 121,759,039 |
| 4. | Kenya Airports Authority | 1,708,012,739 | 1,709,808,167 | (1,795,428) |
| 5. | Kenya Electricity Generating Company Limited | 81,533,589,265 | 88,136,215,941 | (6,602,626,676) |
| 6. | Kenya Electricity Transmission Company Limited | 2,306,257,099 | 2,563,713,710 | (257,456,611) |
| 7. | Kenya Meat Commission | 940,241,100 | 300,000,000 | 640,241,100 |
| 8. | Kenya Power and Lighting Company Limited | 56,147,469,037 | 56,340,742,324 | (193,273,287) |
| 9. | Kilifi Mariakani Water and Sewerage Company Limited | 283,998,236 | 379,210,338 | (95,212,102) |
| 10. | Lake Victoria North Water Services Board | 11,594,143,705 | 12,618,417,315 | (1,024,273,610) |
| 11. | Lake Victoria South Water Services Board | 12,991,985,210 | 9,471,336,598 | 3,520,648,612 |
| 12. | Malindi Water, Sewerage and Sanitation Company Limited | 284,748,410 | 354,033,526 | (69,285,116) |
| 13. | Northern Water Services Board | 5,389,000,000 | 3,267,383,722 | 2,121,616,278 |
| 14. | Nzoia Sugar Company Limited | 458,510,100 | 11,454,385,173 | (10,995,875,073) |
| 15. | Rural Electrification Authority | 13,426,088,636 | 13,385,625,937 | 40,462,699 |
| 16. | Tana Water Services Board | 7,543,116,143 | 4,545,195,118 | 2,997,921,025 |
| 17. | Tanathi Water Services Board | 9,713,565,506 | 5,691,292,426 | 4,022,273,080 |
| 18. | Water Resource Management Authority | 1,397,341,243 | 362,612,300 | 1,034,728,943 |
| **Total** | | **268,875,962,951** | **268,241,119,147** | |

Further, institutions with outstanding balances amounting to Kshs.14,566,060,517 did not confirm their loan balances as at 30 June, 2022 as detailed below:

| No. | Institution | Balance as Per Revenue Statements (Kshs.) |
|---|---|---|
| 1. | Halal Meat Products | 27,701,420 |
| 2. | Kenya Urban Transport Various Towns | 40,706,140 |
| 3. | Local Government Loans Authority | 7,594,273,720 |
| 4. | Miwani Outgrowers Mills Limited | 6,600,000 |
| 5. | Miwani Sugar Company (1989) Limited | 16,000,020 |
| 6. | Miwani Sugar Mills Limited | 78,088,180 |
| 7. | Mombasa Pipeline Board | 22,964,980 |
| 8. | Mumias Outgrowers Company Limited | 16,517,400 |
| 9. | Mumias Sugar Company Limited | 3,000,000,000 |
| 10. | Nairobi City Council | 102,333,760 |
| 11. | National Water Conservation and Pipeline Corporation | 2,460,874,897 |
| 12. | Uchumi Supermarkets Limited | 1,200,000,000 |
| **Total** | | **14,566,060,517** |

In the circumstances, the validity, accuracy and completeness of the reported outstanding loans balance of Kshs.920,690,539,503 as at 30 June, 2022 could not be confirmed.

**Other Matter**

**29. Dormant Loans**

As previously reported, the summary schedule of outstanding loans reflects total loans outstanding of Kshs.920,690,539,503. Included in the balance are twelve (12) loans amounting to Kshs.13,151,255,401 which had no movement during the year and have remained unpaid over a significant period. Further, the Management did not provide the aging analysis of the dormant loans tabulated below:

| No. | Institution | Amount Outstanding as at 30 June, 2022 (Kshs.) |
|---|---|---|
| (i) | Agro-chemical and Food Company Limited | 2,941,884,000 |
| (ii) | East African Sugar Industries Limited, Muhoroni | 177,123,100 |
| (iii) | Halal Meat Products | 27,701,420 |
| (iv) | Kenya Meat Commission | 940,241,100 |
| (v) | Kenya Urban Transport Various Towns | 40,706,140 |
| (vi) | Miwani Outgrowers Mills Limited | 6,600,000 |
| (vii) | Miwani Sugar Company (1989) Limited | 16,000,020 |
| (viii) | Miwani Sugar Mills Limited | 78,088,180 |
| (ix) | Mumias Sugar Company Limited | 3,000,000,000 |
| (x) | National Irrigation Board | 2,262,036,544 |
| (xi) | National Water Conservation and Pipeline Corporation | 2,460,874,897 |
| (xii) | Uchumi Supermarkets Limited | 1,200,000,000 |
| | **Total** | **13,151,255,401** |

Management has not disclosed measures put in place to ensure all loans are being repaid and in case of default, sanctions imposed on the defaulters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**30.** 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**

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

## EAST AFRICA TOURIST VISA FEE COLLECTION ACCOUNT

REPORT ON THE REVENUE STATEMENTS

**Unmodified Opinion**

**32.** There were no material issues noted during the audit of the revenue statements of the East Africa Tourist Visa Fee Collection Account.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**33.** 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**

**34. Lack of Annual Audit Services**

The statement of receipts and payments reflects total receipts of Kshs.205,071,201 collected during the year under review. However, there was no evidence of establishment of a Joint Verification Committee to subject the collection account to annual audit. This was contrary to Article 9(4) of the Memorandum of Understanding between the Government of the Republic of Kenya, the Government of the Republic of Rwanda and the Government of the Republic of Uganda which stipulates that a Joint Verification Committee from the parties shall be put in place to carry out annual audit, although the

process of sharing the East Africa Tourist Visa revenues shall be done through mutual trust and respect.

In the circumstances, the effectiveness of the collection account internal controls system and risk management processes were not tested during the year.

## STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY GOVERNMENT OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Disclaimer of Opinion**

**35. Unsupported Balance**

As reported in the previous years, the statement of outstanding obligations guaranteed by the Government of Kenya continue to reflect an outstanding balance of Kshs.152,317,825; (2021-Kshs.152,317,825) being capital and interest owed by the Cereals and Sugar Finance Corporation. However, the balance has not been supported by any verifiable records or documents and this constitutes a limitation of scope. Although Management has indicated that the Corporation is dormant and has embarked on the process of winding up of the Corporation, it is not clear how the guaranteed debt will be cleared without supporting documentation on the same.

**36. Undisclosed Balances**

The Consolidated National Government Investment Report for the year 2021/2022, prepared by The National Treasury in accordance with Section 89 of the Public Finance Management Act, 2012 and the Summary Statement of Public Debt for the year 2021/2022 reflects guaranteed debts/undischarged guarantee from four (4) entities totaling Kshs.145,357,000,000 which have been omitted from the statement of obligations guaranteed by Government of Kenya as indicated below:

| Entity | Lender | Guaranteed Debt (Kshs.) |
|---|---|---|
| Kenya Electricity Generating Company PLC | Government of Japan and Federal Republic of Germany-GTZ | 24,513,000,000 |
| Kenya Ports Authority | Government of Japan | 33,077,000,000 |
| Kenya Airways | Exim Bank USA | 77,824,000,000 |
| Kenya Power and Lighting Company | Government of Japan | 9,943,000,000 |
| **Total** | | **145,357,000,000** |

In the circumstances, the completeness, accuracy and the status of the outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2022 could not be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**37.** 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**

**38.** 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.

## CONSOLIDATED FUND SERVICES - SUBSCRIPTIONS TO INTERNATIONAL ORGANIZATIONS

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**39.** There were no material issues noted during the audit of the financial statements of the Consolidated Fund Services – Subscriptions to International Organizations.

**Other Matter**

**40. Multiple Laws Guiding Operations of the Fund**

As previously reported, prior to 2017, the Government through The National 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 Corporation 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). Other Ministries, Departments and Agencies, MDAs have been remitting such subscriptions through their voted provisions within their budgets.

However, 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. This in effect rendered all other individual voted provisions to be consolidated and budgeted under one umbrella body, the African Union and Other International Organizations Subscription Fund.

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

**41. Budgetary Control and Performance**

Review of the statement of comparison of budget and actual amounts revealed that the Fund had a budget of Kshs.500,000 but did not incur any expenditure during the period under review resulting in under absorption of funds by the same amount or 100% under-utilization. The under-utilization of funds was attributed to the fact that the Fund did not receive any invoices during the period under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**42.** 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**

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

## CONSOLIDATED FUND SERVICES - SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**44.** There were no material issues noted during the audit of the financial statements of the Consolidated Fund Services – Salaries, Allowances and Miscellaneous Services.

**Other Matter**

**45. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects budgeted receipts and actual receipts on comparable basis of Kshs.4,542,867,150 and Kshs.3,195,244,429, respectively resulting in a receipts shortfall of Kshs.1,347,622,721 or 30% of the budget. Similarly, the statement reflects expenditure budget and actual payments on comparable basis of Kshs.4,542,867,150 and Kshs.3,200,966,015, respectively resulting in underabsorption of Kshs.1,341,901,135 or 30%.

The undercollection and underexpenditure imply that some of the budgeted programs and activities may not have been executed during the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**46.** 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**

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

## CONSOLIDATED FUND SERVICES – PENSION AND GRATUITIES

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**48. Long Outstanding Bank Reconciliation Items**

The statement of financial assets and liabilities reflects a bank balance of Kshs.1,991,824,419 which, as disclosed in Note 9 to the financial statements, includes an amount of Kshs.1,324,694,712 in respect of funds held in the recurrent bank account at the Central Bank of Kenya. However, an examination of the bank reconciliation statement for the month of June, 2022 revealed payments in cash book not in bank amounting to Kshs.145,813,004 with some transactions dating back September, 2019. Further, the reconciliation statement reflects payments in bank not in cash book of Kshs.17,545,255 with some transactions having remained outstanding since 2008. In addition, the bank reconciliation statement reflects receipts in bank not in cash book amounting to Kshs.30,858,908 while receipts in cash book not in bank amounted to Kshs.15,499,065 with some transactions having remained outstanding since 2010. No explanation was provided for failure to clear the long outstanding reconciling items.

In the circumstances, the accuracy of the recurrent bank balance of Kshs.1,324,694,712 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**49.** 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**

**50. Incomplete Pension Records**

Note 7 to the financial statements discloses an amount of Kshs.67,582,563,409 paid as ordinary pensions during the year under review. However, in making the payments, Management did not confirm that the payees were alive as there was no mechanism put in place to remove pensioners from the payroll upon their demise. Further, an amount of Kshs.350,736,433 included in the pension payments relates to pensioners with dummy and unconventional identification numbers. In addition, an amount of Kshs.242,936,971 relates to pension payments to pensioners who are below the age of 18 years.

In the circumstances, the integrity of the pensioners' data used for processing pension payments could not be confirmed.

## REVENUE STATEMENTS OF THE PENSIONS DEPARTMENT

REPORT ON THE REVENUE STATEMENTS

**Unmodified Opinion**

**51.** There were no material issues noted during the audit of the revenue statements.

**Other Matter**

**52. Budgetary Control and Performance**

The statement of receipts and disbursements reflects an amount of Kshs.588,577,979 in respect of total contributions which, as disclosed in Note 12 to the financial statements, exceeded the budget of Kshs.369,993,817 by Kshs.218,584,162 or 159% of the budget. Budgets should be realistic in order to ensure commensurate efforts and resources are geared towards achievement of the set targets.

The over-realisation of contribution from Government employees to social and welfare schemes within Government is an indication of poor budgeting processes.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**53.** 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**

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

## DONOR FUNDED PROJECTS

## FINANCIAL SECTOR SUPPORT PROJECT (IDA CREDIT NO.5627-KE)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**55.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**56. Uncertainty in Sustainability of Services**

The statement of comparison of budget and actual amounts reflects an expenditure on compensation of employees amounting to Kshs.23,001,570 against a budget provision of Kshs.27,537,084 resulting to underexpenditure of Kshs.4,535,515 or 16% of the approved budget. Although Management has explained the underexpenditure was due to delayed project restructuring, available information indicates that the Project Implementation Unit contracted employees' terms lapsed in April, 2022 and they continued to offer services to the Project without compensation. Further, the Project disbursing period lapses in October, 2022 and lack of valid contracts of the Project Implementation Unit staff, exposes the project operations to the risk of external interference and casts doubt on the finalization of the project activities and subsequent closure.

My opinion is not modified in respect of this matter.

**Other Matter**

**57. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,816,346,218 and Kshs.267,192,000 respectively resulting to an underfunding of Kshs.1,549,154,218 or 85% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.1,816,346,220 and Kshs.271,002,735 respectively resulting to an underexpenditure of Kshs.1,545,343,486 or 85% of the budget.

Based on the approved estimates, the underfunding and underexpenditure affected the planned activities and may have impacted negatively on service delivery to the public.

### 58. Pending Bills

Note 9 and Annex 2 to the financial statements indicates that the Project had pending bill of Kshs.3,930,401 as at 30 June, 2022. Management has not explained why the bill was not settled during the year when it occurred. The Project risks incurring significant interest costs and penalties with continued delay in payment.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**59.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**61.** As required by International Development Association (IDA), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND - TO ACCELERATE THE REDUCTION OF TB, LEPROSY AND LUNG DISEASE BURDEN THROUGH PROVISION OF PEOPLE-CENTERED, UNIVERSALLY ACCESSIBLE, ACCEPTABLE AND AFFORDABLE QUALITY SERVICES IN KENYA PROGRA - KEN-T-TNT, GA 1548

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

### 62. Failure to Analyse Counterpart Funding

As previously reported, the statement of receipts and payments reflects Nil balance under transfers from Government (counterpart funding) and a comparative balance of Kshs.387,459,444 for the financial year ended 30 June, 2021 bringing the cumulative

to-date balance from inception to Kshs.637,459,444. Management has however, not provided an analysis to indicate how the balance was built up since the inception of the Program. Further, the amount had previously been omitted from the audited financial statements for previous years and the balances were not marked as restated on the face of the financial statements.

In the circumstances, the accuracy and completeness of the reported cumulative transfers from Government of Kshs.637,459,444 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**63.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**65.** As required by the Global Fund, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements are in agreement with the accounting records and returns.

## INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIPS PROJECT - IDA CREDIT NO.5157-KE

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**66.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**67. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.495,638,120 and Kshs.126,024,642 respectively resulting to an underfunding of Kshs.369,613,478 or 75% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of

Kshs.495,638,120 and Kshs.65,165,272 respectively resulting to an underexpenditure of Kshs.430,472,848 or 87% of the budget.

The underfunding and underexpenditure 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**

**68. Advance to Infrastructure Finance and Public Private Partnerships Project-Additional Financing Cr.6121-KE**

The statement of receipts and payments reflects advance to Infrastructure Finance and Public Private Partnerships Project-Additional Financing Cr.6121-KE of Kshs.20,682,665. Although Management has explained in Note 9 to the financial statements that the amount relates to salary payments for November, 2021, May, 2022 and June, 2022 and was reimbursed from Cr.6121-KE in July, 2022, it was not in the annual program of activities furnished to the Association and proposed for implementation as required under Section E I of schedule 2 of the Project financing agreement between the Republic of Kenya and the International Development Association dated 5 December, 2012.

Management was in breach of the financing agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**69. Lack of Internal Audit Services**

During the year under review, there was no evidence of the Project having been reviewed by The National Treasury's internal audit function contrary to Section 73(1) of the Public Finance Management Act, 2012 requires all government entities to make appropriate arrangements for internal audit function. Further, paragraph 3.2.8 of Infrastructure Finance and Public Private Partnerships Project Implementation Manual provides for Internal Audit and the Audit Committee of The National Treasury to provide internal audit services and oversee the adequacy of internal control mechanisms over the Project.

In the circumstances, it has not been possible to confirm whether the Project has an effective and efficient internal control mechanism to safeguard against loss of public resources.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**70.** As required by International Development Association (IDA), I report based on my audit that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# PUBLIC FINANCIAL MANAGEMENT REFORMS PROGRAM (CREDIT NOS. DANIDA FY06, SIDA 51110081, IDA GESDEK-6133-KE, AFD/CKE 1130 & PASEDE CRISNO:041-658)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**71.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**72. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a receipts budget and actual receipts on comparable basis of Kshs.757,639,703 and Kshs.339,166,280 respectively, resulting in a receipts shortfall of Kshs.418,473,423 or 56% of the budget. Similarly, the statement reflects expenditure budget and actual payments on a comparable basis of Kshs.757,639,703 and Kshs.556,803,181 respectively, resulting in under-absorption of Kshs.200,836,522 or 27% of the approved budget.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**73.** 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**

**74. Lack of a Risk Management Policy and Internal Audits**

During the year under review, it was revealed that the Program's audit services were to be offered by the internal audit of The National Treasury. However, no reports by the Internal Auditor-General on the Program were provided for audit review. As a result, the Program lacks appropriate arrangements for conducting internal audit services as provided in the guidelines by the Accounting Standards Board. Further, review of the internal control processes revealed that Management had not developed risk management strategies to fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

In the circumstances, the existence of an effective internal control mechanism could not be ascertained.

### 75. Failure to Fill Vacant Positions

Review of the staff establishment revealed that the Program had in place twenty-eight (28) members of staff against the authorized establishment of forty-eight (48), resulting in a deficit of twenty (20). The staff shortage, if not addressed, could adversely affect the operations of the Program and service delivery to the public.

In the circumstances, the Program may not achieve its goals due to inadequate human capacity and capabilities.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**76.** As required by DANIDA FY06, SIDA 51110081, IDA GESDEK-6133-KE, AFD/CKE 1130 & PASEDE CRIS NO:041-658 Agreements, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements are in agreement with the accounting records and returns.

## STUDY AND CAPACITY BUILDING FUND PROJECT (GRANT NUMBERS CKE 6015 01K, CKE 1043 01F AND CKE 1047 01K)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**77.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

### 78. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.18,700,000 and Kshs.15,827,126 respectively, resulting to an underfunding of Kshs.2,872,874 or 18% of the budget. Similarly, the Project expended Kshs.15,827,126 against an approved budget of Kshs.18,700,000 resulting to an underexpenditure of Kshs.2,872,874 or 18% of the budget. Management had attributed the underperformance on delay in procurement of process for computers and office furniture.

The underfunding and underperformance 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**

**79. Irregular Termination of Technical Assistant's Contract**

As previously reported, contrary to the provisions of Section 153(1) of the Public Procurement and Asset Disposal Act, 2015, the contract for a Technical Assistant (consultant) was terminated without the approval of the Accounting Officer. Further, no prior written notice was served to the consultant contrary to Clause 13 of the signed contract. The project may incur undetermined cost in form of damages and interests thereof in case of any litigation on the above.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## TECHNICAL SUPPORT PROGRAMME (FINANCING AGREEMENTS NO. KE/FED/2009/021421; NO. KE/FED/023-733 AND NO. KE/FED/037-941)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**81.** There were no material issues noted during the audit of the financial statements of the Programme.

**Emphasis of Matter**

**82. Dormant Project Bank Account**

As reported in the previous year, the Project continues to maintain a local currency account in a local commercial bank which had a balances of Kshs.22,823,152 as at 30 June, 2022. The account did not have any transaction during the year under review. Although Management had stated that it was awaiting the finalization of project verification exercise by the European Union (EU) and subsequent issue of recovery order to transfer unspent funds to the EU, the continued maintenance of the dormant account exposes the Programme to risk of loss of funds.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**83.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**85.** As required by Financing Agreements No. KE/FED/2009/021421, No.KE/FED/023-733 and No. KE/FED/037-941, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Programme and the Programme's financial statements are in agreement with the accounting records and returns.

## MICRO FINANCE SECTOR SUPPORT CREDIT PROJECT (CREDIT NO. CKE 3004 01E AND CKE 6010 01E)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**86.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**87. Amount Withdrawn but Unclaimed**

As reported in the previous year, Part B of the statement of special (designated) account reconciliation for the project reflects Euro 1,152,653.73 (Kshs.142,952,115.59) at the then exchange rate of 1 Euro at Kshs.124.02 as withdrawn but unclaimed as at 30 June, 2022. The amount represents cumulative funds transfers to the local project bank account but whose expenditure returns had not been submitted to The National Treasury by close of the financial year ended 30 June, 2022. Further, an additional Euro 30,000 (Kshs.3,720,600) cash advance to the project reflected in the list of advances which ought to have been justified by 31 December, 2015 was yet to be justified as at 30 June, 2022 under the Grant Facility CKE 6010.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**88. Failure to Close the Project**

According to Clause 10 of the Financing Agreement, the Project was to end on 31 October, 2010 but the closing date was later extended to 31 December, 2014. However, as reported in the previous year, the Project Management is yet to formally prepare and submit the Project closure report. In the circumstances, the existence of the project is therefore not hinged on any formal agreement with Agence Francaise Development (AFD) and the outstanding balance risk being diverted to other purposes.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**90.** As required by Agence Francaise de Development (AFD), I report based on my audit that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

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

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**91.** There were no material issues noted during the audit of the financial statements of the Programme.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**92.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**94.** As required by Financing Agreements No. (IFAD Loan No.814-KE and Grant No.1218-KE), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Programme and the Programme's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND - TO REDUCE MORBIDITY AND MORTALITY CAUSED BY MALARIA IN THE VARIOUS EPIDEMIOLOGICAL ZONES BY TWO-THIRDS OF THE 2015 LEVEL BY 2020 PROGRAM - KEN-M-TNT, GA 1546

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**95. Unsupported Expenditure - Counterpart Funding**

As previously reported, the statement of receipts and payments reflects comparative receipts from the Government of Kenya (Counterpart funding) of Kshs.383,971,795 for the financial year ended 30 June, 2021 and cumulative to-date from inception balance of Kshs.633,971,795. However, Management had not analyzed the expenditure to indicate how the balance had been built up since the inception of the Program. Further, although the amount had previously been omitted in the audited financial statements for previous years, the balances had not been indicated as restated on the face of the financial statements.

In the circumstances, the accuracy and completeness of the reported cumulative receipts from Government of Kenya of Kshs.633,971,795 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**96.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**98.** As required by the Global Fund, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND - TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT AND CARE (NFM 2) PROGRAM - KEN-H-TNT, GA 1547

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**99. Unsupported Expenditure - Counterpart Funding**

As previously reported, the statement of receipts and payments reflects comparative balance for transfer from Government entities (Counterpart funding) of Kshs.1,840,254,274 for the year ended 30 June, 2021 and cumulative to-date from inception balance of Kshs.3,454,700,355. However, Management had not analyzed the expenditure to indicate how the balance was built up since the inception of the Program. Further, although the amount had previously been omitted from the audited financial statements for previous years, the balances were not marked as restated on the face of the financial statements.

In the circumstances, the accuracy and completeness of the reported cumulative transfer from Government entities of Kshs.3,454,700,355 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**100.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**102.** As required by the Global Fund, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements are in agreement with the accounting records and returns.

## INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIPS PROJECT - ADDITIONAL FINANCING (IDA CREDIT NO. 6121-KE)

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**103. Irregular Recruitment of an Advisor**

The statement of receipts and payments reflects expenditure on purchase of goods and services of Kshs.121,590,772 which, as disclosed in Note 4 to the financial statements includes expenditure on consultancy services of Kshs.28,836,511. As reported in the previous year, The National Treasury, through the Project, procured the services of an advisor to the Cabinet Secretary – The National Treasury and Planning vide a contract dated 30 July, 2020 for a period of two (2) years effective 1 August, 2020 to 31 July, 2022 at a salary of Kshs.1,813,029 per month all amounting to Kshs.34,447,551 in addition to other undetermined allowances. It was however noted that the position was not provided for in the approved Project organization structure as outlined in the IFPPP Project Implementation Manual.

Although Management indicated that the advisor was recruited using direct selection method and based on "No objection" communication from the World Bank, the recruitment was contrary to Section 5(2) of the Employment Act, 2007 which state that an employer shall promote equal opportunity in employment and strive to eliminate discrimination in any employment policy or practice.

Further, the advisor's salary was negotiated with a negotiation committee appointed by the Cabinet Secretary and was not subjected to the advisory by the Salaries and Remuneration Commission for salary grading of the officer nor was it pegged on the Public Service or other existing criteria.

The advisor subsequently resigned in February, 2022 before the lapse of the contract period. The circumstances under which the advisor resigned and when the terms of the

contract were changed from employment to consultancy was not explained and the supporting documents for the consultancy services rendered to the project were not provided for audit.

In addition, examination of the terms of reference of the employment contract of the advisor revealed that the scope of service goes beyond the mandate of the project and workplans and progress reports detailing the deliverables of the advisor were not provided for audit verification.

In the circumstances, the Management was in breach of the law and may jeopardize the continued funding by the development partner.

**Other Matter**

**104. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects approved revenue budget of Kshs.529,053,924 and actual amounts realized of Kshs.831,635,238 resulting to an over-funding of Kshs.302,581,314 or 57% of the budget. Similarly, the Project spent Kshs.205, 539,545 out of the approved budget of Kshs.529,053,924 resulting to an under expenditure of Kshs.323,514,379 or 61% of the approved budget. Management has attributed the under expenditure to various delayed project activities.

In the circumstances, under-expenditure 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**

**105.** 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**

**106. Lack of Internal Audit Services**

During the year under review, the Project was not subjected to review by The National Treasury internal audit unit. This was contrary to Section 73(1) of the Public Finance Management Act, 2012 which requires all government entities to make appropriate arrangements for internal audit function. Further, paragraph 3.2.8 of IFPPP Project Implementation Manual provides for Internal Audit and the Audit Committee of The National Treasury to provide internal audit services and oversee the adequacy of internal control mechanisms over the Project.

In the circumstances, the effectiveness of the Project's internal control system and risk management processes were not tested during the year under review.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**107.** As required by International Development Association (IDA), I report based on my audit, that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the Financing Agreement.

## FINANCING LOCALLY-LED CLIMATE ACTION PROGRAM CREDIT NO. IDA 6980; TF B6810 - KE (P173065)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**108.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**109. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.341,150,000 against actual receipts on comparable basis of Kshs.174,123,195 resulting in a shortfall of Kshs.167,026,805 or 49% of total budget.

Similarly, the Program spent a total of Kshs.184,186,961 against an approved budget of Kshs.341,150,000 resulting to an underexpenditure of Kshs.156,963,039 or 46% of the budget.

Management has attributed the under expenditure to delayed conclusion of procurement activities and the Project Coordinator and Project Manager Finance and Strategy having been sent on compulsory leave during the year under review.

The shortfall of receipts and the underexpenditure affected the planned activities of the Program and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**110.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**112.** As required by the International Development Association (IDA) and Credit Facility Agreement No. IDA 6980 - KE dated 10 November, 2021, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## PUBLIC DEBT MANAGEMENT SUPPORT PROJECT - ADB GRANT AGREEMENT NO.5500155013708

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

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

**Other Matter**

**114. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects budgeted total receipts of Kshs.104,000,000 against the actual receipts of Kshs.72,727,976 resulting to an under-collection of Kshs.31,272,024 or 30% of the budget. Similarly, the statement reflects budgeted expenditure of Kshs.104,000,000 against the actual expenditure of Kshs.72,727,976 resulting to an underexpenditure of Kshs.31,272,024 or 30% of the budget.

In the circumstances, the under-collection and the underexpenditure imply that some of the budgeted programs and activities may not have been executed during the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**115.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**117.** As required by African Development Bank (ADB) and African Development Fund, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND - TO REDUCE MALARIA INCIDENCE AND DEATHS BY AT LEAST 75 PERCENT OF THE 2016 LEVELS BY 2023, WORKING TOWARDS A MALARIA-FREE KENYA PROGRAM - KEN-M-TNT, GA 2064

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**118. Unsupported Counterpart Funding Balances**

The statement of receipts and payments reflects an amount of Kshs.407,869,725 with respect to transfer from Government entities (Counterpart funding) and a similar amount with respect to other grants and transfers/payments. The amount relates to the Government Counterpart funds drawn from the ledger as expenditure incurred by The National Treasury on behalf of the Program. However, supporting expenditure returns and schedule for expenditure amounting to Kshs.112,952,484 were not provided for audit.

In the circumstances, the eligibility and accuracy of the counterpart funding and other grants and transfers/payments of Kshs.112,952,484 could not be confirmed.

**Other Matter**

**119. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final total receipts budget of Kshs.671,212,074 against the actual receipts of Kshs.559,372,521 resulting into an underfunding of Kshs.111,839,553 or 17% of the budget. Similarly, the statement reflects budgeted expenditure of Kshs.671,212,074 against the actual expenditure of Kshs.557,199,867 resulting to an underexpenditure of Kshs.114,012,207 or 17% of the budget.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**120.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**122.** As required by the Global Fund, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND - TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT AND CARE PROGRAM - KEN-H-TNT, GA 2065

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**123. Unsupported Counterpart Funding Balances**

The statement of receipts and payments reflects an amount of Kshs.1,245,777,523 with respect to transfer from Government (Counterpart funding) and a similar amount with respect to other capital grants and transfer payments. The amount relates to the Government Counterpart funds which was drawn from the ledger as expenditure incurred by The National Treasury on behalf of the Program. However, expenditure returns and supporting schedule amounting to Kshs.678,541,713 were provided for audit while supporting expenditure returns and schedule for expenditure amounting to Kshs.567,235,810 were not provided for audit.

In the circumstances, the eligibility and the accuracy of the counterpart funding and other grants and transfers/payments of Kshs.1,245,777,523 could not be confirmed.

**Other Matter**

**124. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final total receipts budget of Kshs.6,495,340,220 against the actual receipts of Kshs.5,469,261,414 resulting into an underfunding of Kshs.1,026,078,806 or 16% of the budget. Similarly, the statement reflects budgeted expenditure of Kshs.6,495,340,220 against the actual expenditure of Kshs.5,464,880,474 resulting to an underexpenditure of Kshs.1,030,459,746 or 16% of the budget.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**125.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**127.** As required by the Global Fund, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements are in agreement with the accounting records and returns.

## AFFORDABLE HOUSING FINANCE PROJECT (IDA CREDIT NO.8958-KE)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**128.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**129. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.200,000,000 and Kshs.25,364,260 respectively

resulting to an underfunding of Kshs.174,635,740 or 87% of the budget. Similarly, the Project spent a total of Kshs.20,512,676 against an approved budget of Kshs.200,000,000 resulting to an underexpenditure of Kshs.179,487,324 or 90% of the budget.

The underfunding and underperformance 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**

**130.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**132.** As required by International Bank for Reconstruction and Development Credit No.8958 dated 5 December, 2019, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

## NATIONAL TREASURY CAPACITY STRENGTHENING PROJECT (GRANT NO.5500155013902 ID NO.P-KE-KOO-011)

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**133. Omitted and Unsupported Expenditure - Extraneous Allowances**

During the year under review, a total of Kshs.1,140,000 was paid as extraneous allowances to the Co-ordinating Team for African Development Bank Appraisal Mission between 28 February, 2022 to 24 March, 2022. However, the expenditure was not included in the Project's financial statements and no documentary evidence was provided to justify payment of the extraneous allowances to officers who were performing their normal duties. Management has indicated that the amount was incurred on Public Debt Management Office (PDMO) activities but was erroneously captured under the Project

account. Further, the Project's Management has requested The National Treasury to raise a journal entry to reverse the erroneous expenditure. However, a copy of the Journal entry was not provided for audit review.

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

**Other Matter**

**134. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.13,000,000 and Kshs.8,684,571 respectively, resulting to an underfunding of Kshs.4,315,429 or 33% of the budget. Similarly, the project spent a total of Kshs.6,432,328 against an approved budget of Kshs.13,000,000 resulting to an under expenditure of Kshs.6,567,672 or 51% of the approved budget.

The underfunding and underperformance 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**

**135.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**137.** As required by African Development Bank Grant No.5500155013902 dated 9 February, 2021, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

# GLOBAL FUND - TO ENSURE PROVISION OF QUALITY CARE AND PREVENTION SERVICES FOR ALL PEOPLE IN KENYA WITH TB, LEPROSY AND LUNG DISEASES PROGRAM - KEN-T-TNT, GA 2067

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**138. Unsupported Counterpart Funding Balances**

The statement of receipts and payments reflects an amount of Kshs.351,984,277 with respect to counterpart funding and a similar amount of other grants and transfers/payments. The amount relates to the Government counterpart funds which was drawn from the ledger as expenditure incurred by The National Treasury on behalf of the Program. However, expenditure returns and supporting schedule amounting to Kshs.25,025,377 was provided for audit review while supporting expenditure returns and schedule for expenditure amounting to Kshs.326,958,900 were not provided.

In the circumstances, the eligibility and the accuracy of the counterpart funding and other grants and transfers/payments of Kshs.351,984,277 could not be confirmed.

**Other Matter**

**139. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final total receipts budget of Kshs.446,913,742 against the actual receipts of Kshs.370,996,060 resulting into an underfunding of Kshs.75,917,682 or 17% of the budget. Similarly, the statement reflects budgeted expenditure of Kshs.446,913,742 against the actual expenditure of Kshs.365,055,188 resulting to an under expenditure of Kshs.81,858,554 or 18% of the budget.

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

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**142.** As required by the Global Fund, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements are in agreement with the accounting records and returns.

## OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE NATIONAL TREASURY

## EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (IDA CREDIT NO.5638-KE) – KENYA REVENUE AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**143.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**144. Slow Absorption of Project Funds**

As disclosed under Note 1.7 on the Project information and overall performance, the Project was earmarked to close in December, 2021 but was restructured through an amended Finance Agreement extending the completion to 31 December, 2023. Further, the Projects' funding summary indicates that the Donor had made commitment amounting to Kshs.1,284,347,000 equivalent of USD10,900,000 as at 30 June, 2022. However, actual drawdowns during the Project life amounted to Kshs.316,707,000 equivalent to USD3,072,000 leaving out an amount totalling Kshs.922,374,000 or USD 7,828,000 undrawn. Management has indicated that planned initiatives will be fully implemented and allocated funds fully utilized before closure of the Project.

However, and considering the credit lapse period, the Project's planned deliverables earmarked for completion may not be realized.

**145. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.416,696,000 and Kshs.146,488,000 respectively, resulting to an underfunding of Kshs.270,208,000 or 65% of the budget. Similarly, the Project spent a total of Kshs.142,413,000 against an approved budget of Kshs.416,696,000 resulting to an underexpenditure of Kshs.274,283,000 or 66% of the budget. Management has indicated that construction of Rapid Response Unit (RRU) offices will account for 60% of the proposed budget while the remaining funds will be

utilized in procurement of enforcement equipment, annual training and payment to consultants.

The underfunding and underperformance 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**

**146.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**148.** As required by International Development Association Credit No.5638 dated 20 July, 2015, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

## HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (IDA CREDIT NO. 6768) – KENYA REVENUE AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**149.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**150. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.142,241,000 and Kshs.70,066,000 respectively resulting to an underfunding of Kshs.72,175,000 or 51% of the budget. Similarly, the

Project spent a total of Kshs.297,000 against an approved budget of Kshs.142,241,000 resulting to an underexpenditure of Kshs.141,944,000 or 99% of the budget. Management has attributed the underfunding and underperformance to delayed implementation of the Project due to COVID-19 pandemic and delayed approval of the 'letter of no objection' from the World Bank.

The underfunding and underperformance 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**

**151.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**153.** As required by International Development Association Credit No.6768 dated 7 October, 2020, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

# STATE DEPARTMENT FOR PLANNING - VOTE 1072

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**154.** There were no material issues noted during the audit of the financial statements of the State Department.

**Other Matter**

**155. Pending Bills**

As disclosed in Note 17.2 and Annex 1 to the financial statements, the State Department had pending bills amounting to Kshs.2,789,002 that were not settled during the year under review but were instead carried forward to the 2022/2023 financial year. However, the pending bills lacked the relevant supporting documentation including requisitions, local purchase/service orders, invoices and delivery notes.

No plausible explanation was provided for non-payment of the pending bills before the end of the financial year. This was contrary to Regulation 42(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that debt service payments shall be a first charge in the Consolidated Fund and the Accounting Officer shall ensure this is done to the extent possible that the government does not default on debt obligations.

Further, failure to settle bills during the year in which they relate to adversely affects the budgetary provisions for the subsequent year to which they have to be charged.

**156. 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 indicated that the issues were responded to. However, the issues remained unresolved as Parliament had not met to deliberate on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**157.** 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**

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

## DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR PLANNING

## COORDINATION OF POPULATION POLICY IMPLEMENTATION PROJECT (UNFPA-KEN09POP) - NATIONAL COUNCIL FOR POPULATION AND DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**159.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**160.** 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**

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

## NATIONAL INFORMATION PLATFORM FOR FOOD SECURITY AND NUTRITION PROJECT (FOOD/2017/393-022) - KENYA NATIONAL BUREAU OF STATISTICS

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**162.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**163. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.140,000,000 and Kshs.138,432,660 respectively resulting to underfunding of Kshs.1,567,340 or 1% of the budget. Similarly, the Project

spent an amount of Kshs.82,296,910 against an approved budget of Kshs.140,000,000 resulting to an underexpenditure of Kshs.57,703,090 or 41% of the budget. The underexpenditure affected the Project's planned activities and impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**164.** 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**

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

# THE EXECUTIVE OFFICE OF THE PRESIDENT - VOTE 1011

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**166.** There were no material issues noted during the audit of the financial statements of the Executive Office of the President.

**Emphasis of Matter**

**167. Pending Bills**

As disclosed in Note 20.1 to the financial statements, the Executive Office of the President had pending bills totalling Kshs.15,950,133,545 as at 30 June, 2022 out of which, bills amounting to Kshs.14,814,008,078 related to Nairobi Metropolitan Services (NMS) while the balance of Kshs.1,136,125,467 related to State House and other Departments within the Executive Office of the President. The Nairobi Metropolitan Services pending bills totaling Kshs.14,814,008,078 consisted of amounts of Kshs.553,291,857, Kshs.267,696,314, Kshs.1,361,463,344 and Kshs.12,631,556,563 for the financial years 2018/2019, 2019/2020, 2020/2021 and 2021/2022, respectively.

The bills were not paid during the year under review but were instead carried forward to 2022/2023 financial year. Failure to settle bills during the year to which they relate distorts the budget implementation of the subsequent year as the outstanding bills form a first charge on resources available.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**168. Inadequacies in Projects under Nairobi Metropolitan Services**

Review of the projects implemented under the Nairobi Metropolitan Services revealed the following anomalies:

**168.1 Construction and Equipping of Health Facilities**

During the year under review, the Ministry of Health entered into a contract for construction and equipping of ten (10) level two (2) and nine (9) level three (3) health facilities in Nairobi County at a contract sum of Kshs.869,400,000. The contract was to be implemented within ninety (90) days.

AMREF Health Africa having obtained a license as a procurement agent for the Ministry of Health, appointed a contractor to construct and equip the nineteen (19) health facilities at a cost of Kshs.900,000,000. Subsequently, Nairobi Metropolitan Services entered into a Deed of Assignment with the Ministry of Health for the construction of the nineteen (19) health facilities in Nairobi County.

Although the procuring agent was paid the full cost of Kshs.869,400,000 for constructing the nineteen (19) facilities, four (4) health facilities namely Sinai, Pumwani Majengo, Lucky Summer and Gumba/Mabatini were at 85%, 15%; 10% and 5% completion levels respectively at the time of audit. Further, no contract extension or reasons for the slow progress of work was provided despite full payment of the contract sum.

In the circumstances, it was not possible to confirm whether value for money for the expenditure of Kshs.869,400,000 incurred in the construction of the health facilities was realized.

### 168.2 Irregular Procurement of Street Lights

Examination of documents supporting payment of Kshs.66,576,000 made to a contractor for supply and installation of bulbs along the Nairobi-Thika Super Highway (A2) road revealed that, NMS used a term contract between KeNHA and an electricals Company in the procurement of 150/180W lights. On 8 June, 2020 a requisition was made for 2,000 pcs of 150/180W LED at a cost of Kshs.29,200 each as indicated in the contract obtained from KeNHA. However, NMS received 2,000 pcs at a unit cost of Kshs.33,288 resulting to a price difference of Kshs.4,088 each leading to an overpayment of Kshs.8,176,000.

Further, the contract used for the procurement was a three-year performance-based contract signed on 31 December, 2018 at a contract sum of Kshs.528,599,196, for the maintenance of street lightings on Nairobi-Thika Super Highway (A2) road for a period of thirty-six (36) months. However, at the time NMS was procuring the lights for installation at the Nairobi -Thika Highway, the contract between KeNHA and the electricals Company was still in force and no evidence was provided for audit review to prove that KeNHA had transferred the contracted services to NMS.

In the circumstances, it is not possible to confirm propriety, validity and value for money for the expenditure of Kshs.8,176,000 incurred on procurement of street lights.

### 168.3 Construction of Kamitha Road

Review of procurement records revealed that the Nairobi City County entered into a contract with a construction company for the construction of Kamitha Road, Gatina at a contract price of Kshs.52,786,597 in 2020/2021 financial year. On 27 January, 2021, a Deed of Novation was entered into transferring the contract to NMS. The Project start date was 27 March, 2020 with a completion date 27 March, 2021.

However audit verification of the Project on 9 February, 2022 revealed that, although the contractor laid the inverted block drainage, the drains were silted causing the culverts to block completely while the headwalls did not have plaster finish as provided for in the Bill of Quantities. Further, a road section between World Hope Stadium and the Lavington Estate had fresh asphaltic concrete an indication that the contractor had not properly compacted the base while there were no road makings and road signs.

In the circumstances, value for money on the funds used in the construction of the Kamitha Road could not be confirmed.

### 168.4 Water Sewer Extensions and Street Lighting

Nairobi Metropolitan Services entered into a contract with a contractor in 2021 to expand water sewer and street lighting in Dandora, Kangemi, Kawangware, Dagoretti Corner, Waithaka, Riruta, Kibera, Korogocho, Mathare, Zimmerman, Thome, Githurai 45 Mwihoko, Kasarani and Mwiki at a contract sum of Kshs.4,475,766,419. The contract period was for twelve months starting 25 March, 2021.

Review of records revealed that, a total amount of Kshs.1,640,073,278 had been paid, out of which Kshs.1,192,496,636 was paid in 2021/2022 financial year and an advance of Kshs.447,576,642 in 2020/2021 financial year. However, the average combined progress of work was at 30% as per the Contract Implementation Team (CIT) site meeting held on 27 May, 2022. The contractor was behind schedule and no explanation or evidence of extension of the contract was provided.

In the circumstances, the delayed completion of the Project casts doubt on the realization of value for money incurred in the Project.

### 168.5 Incomplete Rehabilitation of Jevanjee Park

The Nairobi Metropolitan Services initiated the upgrading and maintenance of Jevanjee Park at an estimated cost of Kshs.15,000,000. The works were to be done in-house by NMS and materials were procured for the Project. The Project was to run for four (4) months commencing on 25 February, 2020. However, audit inspection of the Project carried out on 22 November, 2022 revealed that the Project was still incomplete despite NMS having procured materials, some of which were still on site and exposed to theft.

The Project was behind schedule and value for money for the expenditure incurred on the project may not be realized.

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

### Conclusion

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

## DONOR FUNDED PROJECTS

## UNICEF - KENYA GENERATION UNLIMITED (GENU) PROJECT (PROGRAMME NO.2400/A0/A6)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**170.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**171.** 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**

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

## KENYA - EU PARTNERSHIP FOR THE IMPLEMENTATION OF THE NATIONAL STRATEGY TO COUNTER VIOLENT EXTREMISM IN KENYA - NATIONAL COUNTER TERRORISM CENTRE

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**173.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**174.** 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**

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

# STATE DEPARTMENT FOR INTERIOR AND CITIZEN SERVICES - VOTE 1021

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**176. Long Outstanding and Un-Reconciled Bank Balances**

The statement of assets and liabilities reflects bank balances of Kshs.397,763,378 as disclosed in Note 20A to the financial statements. The balances include recurrent bank balance of Kshs.1,647,036. Review of recurrent bank reconciliation statement for June, 2022 revealed various unreconciled items that had been outstanding for more than one (1) year as indicated below;

| Description of Item | Amount (Kshs.) |
|---|---|
| Unpresented cheques | 678,479,199 |
| Receipts in bank not in cash book | 162,608,851 |
| Payments in bank not in cash book | 121,433,488 |
| Receipts in cash book not in bank | 576,458,443 |

In the circumstances, the accuracy and completeness of the bank balances of Kshs.397,763,378 could not be confirmed.

**Emphasis of Matter**

**177. Unsupported Pending Bills**

Note 28 to the financial statements reflects nil balance on pending bills. However, Annex 1 to the financial statements reflects pending bills balance of Kshs.5,508,101,204 resulting to unexplained variance of Kshs.5,508,101,204. Further, Management did not analyze the pending bills contrary to the Public Sector Accounting Standard Board prescribed reporting template for June, 2022.

Failure to settle bills in the year for which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of this matter.

**Other Matter**

**178. Unresolved Prior Year Matters**

In the previous year's audit report, several issues were raised under the Reports on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance. Although

Management had indicated in the progress on follow-up on prior year's auditor's recommendations that the matters were resolved, the matters remained unresolved as the Public Accounts Committee had not made recommendations and resolutions on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**179. Provision of Enhanced Comprehensive Group Life Cover**

The statement of receipts and payments reflects expenditure on use of goods and services of Kshs.33,238,685,883 as disclosed in Note 11 to the financial statements. The expenditure includes insurance costs of Kshs.5,581,452,440. Review of procurement documents revealed that the Ministry of Interior and Coordination of National Government entered into a one-year contract for provision of enhanced comprehensive group life cover for the National Police Service and the Kenya Prisons Service with National Hospital Insurance Fund for the period 1 January, 2021 to 31 December, 2021. The insurance cover was intended to cover principal members and dependents in employment at the commencement of the cover. The total agreed premium was Kshs.2,295,594,440 covering a total population of 131,816 officers. The contract ended on 22 December, 2021 and was extended for a period of three months to cover 1 January, 2022 to 31 March, 2022. However, review of records revealed the following unsatisfactory matters:

**179.1 Non-Provision of Quarterly Reports**

Comprehensive quarterly reports on claims from the service provider were not provided for audit. This was contrary to Clause 3.1.5 of the contract which provided that NHIF shall provide a comprehensive report to the National Police Service and the Kenya Prisons Service on claims under this scheme every three months. The report shall be submitted by the 15th day of the month following the lapse of the three months. It was therefore not possible to evaluate or analyze performance based on the claims paid, pending claims and any outstanding claim against the premiums paid by the State Department.

**179.2 Unpaid Claims under Work Injury Benefits Act (WIBA)**

Review of payment details and claims made to the service provider revealed that NHIF had not paid seventeen (17) employees who had suffered non-fatal injuries, amounting to Kshs.4,856,237 contrary to Clause 13 of the contract which provides that death, illness /injury as a result of occupational causes (Employment -WIBA Act 2007) shall be paid at the rate of gross remuneration of the member for eight (8) years. Further, eighty eight (88) members of staff had not been paid claims on WIBA death that occurred during the year 2021. No explanation was provided for the anomaly.

**179.3 Unpaid Sums for Critical Illness-Group Life Benefit**

Audit verification of the contract document against the data provided by the Kenya Police Service indicated that NHIF had not paid any sums for Critical Illness-Group life benefit contrary to Clause 2.2.9.2 of the contract which states that where a beneficiary is

diagnosed as suffering from critical illness including COVID related illness as certified by a specialist in the field, compensation shall be at a rate of 30% of the group life sum assured subject to a maximum of Kshs.3,000,000.

Further, the contract for Group Life Cover, did not specify benefits under group personal accident such as disability benefit as required by the Public Service Superannuation Scheme Act.

### 179.4 Under Budgeting for Comprehensive Group Life Cover

Review of records maintained by the State Department revealed that NHIF had quoted for a one-year contract for provision of the aforementioned services at an annual premium of Kshs.8,573,590,531 against an annual budget of Kshs.2,295,594,440. Negotiation meeting took place on 16 February, 2022. The total agreed premium after negotiations was Kshs.1,155,559,931 with a total population of 132,876 members as beneficiaries for a further extended period of three months from 1 April, 2022 to 30 June, 2022.

However, the budget allocation of Kshs.2,295,594,440 was not sufficient to cater for the annual premium as evidenced by the amount quoted for the contract in the year under review supported by the service provider quote of the previous financial years. This may affect the quality of services offered to the members of the scheme.

### 179.5 Unsupported Adjustment of Premiums

The National Health Insurance Fund quoted an annual premium of Kshs.8,573,590,531 per annum to provide health insurance cover for both the National Police Service and the Kenya Prisons Service. This translates to Kshs.714,465,878 monthly and therefore for three months the premium for the cover would have been Kshs.2,143,397,633. However, the Department negotiated and the premium agreed was Kshs.1,155,559,931 for a period of three months. However, the negotiated premiums, which would have reduced the annual premium by Kshs.987,837,702 was not factored in the contract.

### 179.6 Unpaid Claims on Last Expense

Review of details of claims made for funeral expenses covered in the Comprehensive Group Life cover in the months of April, 2022 to June, 2022 and up to the time of audit in November, 2022 revealed that one hundred and twelve (112) claims of principal members, spouses and children valued at Kshs.19,250,000 had been submitted to NHIF but had not been paid. This was contrary to Clause 5.2 of the contract agreement which provides that NHIF shall upon written notification of death of a member or dependent while the cover is in force pay to the next of kin or such other person may in writing direct the amount specified for funeral expenses within two (2) days subject to provision of a duly completed claim form and copy of burial permit.

### 179.7 Lack of Standing Committee Reports

The approved list of standing committee members, monitoring and evaluation reports, sensitization programmes reports, and quarterly reports or minutes to the client were not provided for audit. This was contrary to Clauses 13.1 and 13.2 of the contract agreement which provides that parties to the contract shall establish a standing committee for

contract management under terms set out in the contract and shall comprise of representatives drawn from the National Police Service, the Kenya Prisons Service and NHIF. Further, clause 14 provides that the administrative expenses for the scheme shall not exceed 5% of the premium paid by the client. However, report on the administrative expenses was not provided to confirm how much had been spent and whether the expenditure limit was observed.

In the circumstances, the Ministry did not obtain value for money on expenditure for provision of enhanced comprehensive group life cover and expenditure on insurance costs of Kshs.5,581,452,440 could not be confirmed.

### 180. Provision of Comprehensive Medical Cover

The statement of receipts and payments reflects expenditure on use of goods and services of Kshs.33,238,685,883 as disclosed in Note 11 to the financial statements. The expenditure includes insurance costs of Kshs.5,581,452,440. Review of procurement records revealed that, the National Police Service entered into a contract with NHIF for provision of a comprehensive medical cover for one hundred and twenty eight thousands seven hundred and ninety seven (128,797) employees of the National Police Service and the Kenya Prisons Service for the period 1 July, 2021 to 30 June, 2022. The insurance cover was intended to cover principal members in employment at the commencement of the cover and was to be on family-shared basis covering the principal member and dependents at a contract sum of Kshs.4,785,805,560. However, the following matters were noted:

### 180.1 Comprehensive Medical Cover Last Expense Claims

Review of records relating to last expense claims made during the year under review revealed that two hundred and twenty-one (221) claims of principal members and dependent valued at Kshs.34,600,000 were submitted to NHIF for payment but were yet to be paid. This was contrary to Clause 6.2 of the contract which provides that there shall be last expense paid for the principal members and one declared dependent of two hundred thousand (Kshs.200,000) and fifty thousand shillings (Kshs.50,000) respectively. The last expense payment shall be made within seventy-two (72) hours from the time of reporting subject to submission of properly filled claim documents.

### 180.2 Ex-Gratia/Excess of Loss Benefits

Review of the contract documents and payment vouchers provided for audit revealed that the standing committee did not provide approval for payment of any ex-gratia claims for the year under review. This was contrary to Clause 6.21 of the agreement which states that there shall be ex-gratia of Kshs.200,000,000 and the ex-gratia claims shall be approved by the standing committee of the client before any payment is made. Further, NHIF was required to submit detailed quarterly report on all ex-gratia claims including the value, beneficiary, background and status of the claims among others to the standing committee and any unspent amount of ex-gratia at the end of the contract period. However, NHIF did not provide quarterly reports or unspent ex-gratia amount during the year under review.

In the circumstances, the State Department did not obtain value for money on expenditure for provision of comprehensive medical cover of Kshs.4,785,805,560.

### 181. Non-Compliance With One Third Rule on Basic Salary

Review of the Human Resources Management Policy and the payroll provided for audit indicated that a total of one thousand three hundred and twenty-eight (1,328) officers were receiving less than a third of their respective basic salaries. This was contrary to Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service of May, 2016.

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

### 182. Acquisition of Assets

The statement of receipts and payments reflects expenditure on acquisition of assets of Kshs.5,430,216,381 as disclosed in Note 16 to the financial statements. However, the following observations were noted in relation to the expenditure;

### 182.1 Delayed Construction of 100 PAX Hostel Block

The Department entered into a contract with a firm, for the construction of one hundred (100) Pax hostel block at the Kenya School of Adventure and Leadership in Meru County at a contract sum of Kshs.198,109,780. The contract was signed on 20 March, 2020 for a period of two (2) years ending 20 March, 2022. As at 30 June, 2022, the contactor had been paid a total of Kshs.87,858,647.

Examination of the project records revealed that, the project had not been completed as at the time of the audit inspection in July, 2022. Further, inspection reports from the Department of Public Works relating to the certificates raised were not provided for audit. It was not possible to confirm whether the building conforms to the specifications. In addition, the delayed completion of the project may have denied the School the benefit derived from the completed project.

### 182.2 Stalled Construction of Staff Houses

The Department entered into a contract with for the construction of staff houses at the Kenya School of Adventure and Leadership in Meru County at a contract sum of Kshs.24,367,350. The project commenced on 13 February, 2020 with a contract period of thirty-two (32) weeks. As at 30 June, 2022 the contractor had been paid a total amount of Kshs.6,490,978.

However, examination of the project records and audit verification revealed that the project had not been completed as at the time of the audit in July, 2022. Further, the audit verification revealed that construction had stopped at the lintel level and roofing works had not been carried out exposing the walls to damages and deteriorations.

### 182.3 Incomplete Climbing and Rescue Tower

The Department entered into a contract with a firm for the construction of a climbing and rescue tower at the Kenya School of Adventure and Leadership in Meru County at a cost of Kshs.6,462,719. However, audit verification of the project carried out in July, 2022, revealed that the contractor had not completed the external timber cladding. Further,

review of the project records revealed that the contractor had under quoted the cladding cost, and therefore was unable to proceed with the project to its practical completion. As at 30 June, 2022 the contractor had been paid an amount of Kshs.5,963,340.

### 182.4 Stalled Construction of Deputy County Commissioner's Office Block at Tigania Central Meru

Review of documents provided for audit indicated that, Construction of the Deputy County Commissioner's Office Block at Tigania Central Meru was allocated Kshs.30,000,000 on 8 May, 2018. The project commencement date was 6 May, 2019, with a contract period of twenty four (24) weeks ending 21 October, 2019 which was extended to 30 January, 2020. The contractor has been paid Kshs.29,755,000 inclusive of retention money for Certificates No.s 1 to 7. However, a certificate of completion had been issued but the project had not been completed. Further, audit verification carried out in November, 2022 revealed that the building was incomplete and had stalled. No explanation was provided on why the project had stalled for over four (4) years.

### 182.5 Stalled Construction of Tigania East Sub County Office Block at Muriri

The construction of the Deputy County Commissioner office block commenced in 2011 and was carried out in phases. The project had at least five different contractors for the different phases up to the seventh phase. Management did not provide records of payments made to the different contractors up to the seventh phase. Inquiries from Management revealed that the project stalled in 2019. Audit verification in November, 2022 indicated that the ground floor and first floor were complete and in use. However, the remaining works on the second floor and the roof were incomplete. Further, the roofing works which were part of the Bills of Quantities in the sixth and seventh phase was partially carried out.

### 182.6 Incomplete Igembe North Sub County Offices at Laare

The Department entered into a contract with a firm for the construction of Igembe North Sub County Offices on 10 June, 2020 at a contract sum of Kshs.28,234,704 for a period of twenty four (24) weeks. As at 30 June, 2022 the contractor had been paid a total amount of Kshs.25,479,566. However, audit verification conducted in November, 2022 revealed that the project was incomplete with doors and some windows not installed. Further, painting was not complete and the roof was leaking while the contractor was not on site.

### 182.7 Stalled Construction of Staff Houses (4 Units -Two Bedroomed Each)-Kigumo Police Station

The project was allocated Kshs.10,000,000 on 8 May, 2018 and commencement date for the project was 12 June, 2018, with completion date of 12 October, 2018. The records further indicate that an amount of Kshs.6,942,952 was paid and the unused balance of Kshs.3,057,048 returned to The National Treasury. However, inspection of the project in November, 2022 revealed that the project had stalled. Further, there were construction materials on site that were exposed to theft or further deterioration.

### 182.8 Unoccupied County Police Headquarters in Kerugoya

The Department constructed Kerugoya County Police Headquarters in phases at a contract sum of Kshs.9,995,180 and a certificate of practical completion was issued on 25 October, 2021. As at 30 June, 2022 the contractor had been paid a total amount of Kshs.8,432,330. However, audit verification of the project carried out in November, 2022 revealed that the building had not been occupied. Reasons for the non-occupation of the building were not provided casting doubt on the value for money on the expenditure of Kshs.8,432,330 incurred on the project.

### 182.9 Stalled Construction of Kirinyaga West (Ndia East) Sub County Police Station and Offices at Baricho

The first phase of construction of Kirinyaga West (Ndia East) Sub County Police Station at Baricho was awarded to a contractor at a contract sum of Kshs.9,440,155 for a period of 12 weeks. However, physical verification of the project conducted in November, 2022 revealed that although the ground floor had been constructed, finishing works, windows, doors and paintworks had not been carried out. Further, the design of the building included a first floor but the works on the first floor had not commenced. In addition, payment records and certificates issued for payment by works officers on the stalled project were not provided for audit. It was therefore not possible to confirm the amount paid up to the point when the project stalled.

### 182.10 Stalled Construction of Mwea East Sub County Police Station and Offices

Phase one of the construction of Mwea East Sub County Police Station was awarded on 8 June, 2020 at a contract sum of Kshs.9,939,130. However, audit verification of the project carried out in November, 2022 revealed that the project had stalled and no allocation had been made to the project for several financial years. Further, the slab had deteriorated and had visible cracks due to continuous exposure to different weather patterns. In addition, payment records and certificates issued for payment by works officers on the stalled project were not provided for audit.

### 182.11 Delay in Completion of Construction of Mwea West Sub County Headquarters at Kandongu

Review of records provided for audit revealed that phase one of the construction of Mwea West Sub County Headquarters was awarded at a contract sum of Kshs.22,997,670 while phase two works were awarded at a contract sum of Kshs.9,723,140. The contracts were to run for twenty (20) weeks from 14 March, 2022. Payments made for the first and second phase was Kshs.22,997,610 and Kshs.7,516,975 respectively. However, audit verification of the project conducted in November, 2022 revealed that works on the second floor had not been completed, the contractor was not on site and the contract period for second phase of project has already elapsed.

### 182.12 Construction of Mwea West Subcounty Police Station and Offices

Phase four (4) of the construction of Mwea West Subcounty Police Station and Offices was awarded to a contractor at a contract sum of Kshs.19,697,540. The scope of works included electrical, paint, mechanical and external works. However, audit verification carried out in November, 2022 revealed that the although the contract period had elapsed,

the contracted works were incomplete and contractor was still on site. Further, electrical ducts on the walls were left open, ceiling boards had cracks, the roof was leaking and the septic tank had cracks. In addition, payment records and certificates issued for payment by works officers on the stalled project were not provided for audit.

### 182.13 Proposed Renovation, Construction and Completion of Deputy County Commissioner's Office at Balambala Sub County in Garissa County

The Department, through the Deputy County Commissioner- Garissa County, entered into a contract for renovation, construction and completion of Deputy County Commissioner's Office at Balambala Sub County at an estimated cost of Kshs.13,115,000 on 13 April, 2022. As at the time of the audit in November, 2022 the contractor had been paid a total of Kshs.8,093,853. However, review of the project file revealed the following:

(i) The Tender Opening Committee signed a tender opening register that was incomplete and the registers did not include the firm's names and bid amounts.

(ii) The contractor provided an invalid tax compliance certificate number KRAEON0158252021 dated 10 October, 2021.

(iii) Although the expected completion date was 14 September, 2022, audit inspection in November, 2022 revealed that the project had not been completed and there was no recommendation by the Evaluation Committee or approval by the Accounting Officer for extension of the contract period.

(iv) The Deputy County Commissioner did not have deposit account to hold retention sums totalling to Kshs.899,317 which were being held in the recurrent account and were subject to irregular use particularly when there was delay in Exchequer issues.

### 182.14 Construction and Completion of Danyere Assistant County Commissioners Office at Balambala Sub County in Garissa County

The Department, through the Deputy County Commissioner (DCC) Garissa County, entered into a contract for the renovation, construction and completion of the Assistant County Commissioner's Office, Danyere Ward at an initial estimated cost of Kshs.14,990,685 on 13 April, 2022. As at the time of the audit in November, 2020, the contractor had been paid a total of Kshs.9,426,546. However, review of the project file revealed the following:

(i) Tender Opening Committee register dated 29 March, 2022 was incomplete with no names of companies participating and amounts quoted at the point of opening.

(ii) Although the contract period had elapsed, the project was incomplete as at the time of the audit in November, 2022.

(iii) There was no recommendation by the Evaluation Committee or approval by the Accounting Officer for extension of the contract period.

(iv) The office of the DCC did not have a deposit account to hold retention money totalling Kshs.1,047,394 which was held in the recurrent account and was at risk of use on normal operation activities or irregular use.

The land on which the office of the DCC Balambala was built had no title deed or proof of ownership.

### 182.15 Proposed Construction of National Registration Office Block – Kakamega East Sub County

The Department entered into a contract for the construction of the National Registration Office Block in Shinyalu Kakamega East, at an estimated cost of Kshs.4,164,138. The contract was signed on 3 March, 2022 for a period of 24 weeks. Review of documents provided for audit review revealed that payments made against AIE B133492 of 28 September, 2021 was Kshs.3,600,000. However, the project records and inspection carried out in November, 2022 indicated that the project was handed over to the State Department in May, 2022 but as at the time of the inspection, six months after completion, the office block was still not in use. Further, the inspection of the project revealed construction defects and non-adherence to provisions of the Bill of Quantities as detailed below:

(i) Use of ordinary colored iron sheets instead of box profile iron sheets as per BQ specifications.

(ii) Use of blue gum timber instead of cypress timber on trusses as per BQ specifications.

(iii) The contractor did not use steel on the windows and did not install window fasteners.

(iv) The contractor did not use steel doors, cypress frames for the doors and Union mortice locks.

(v) Window curtain holders were not put in place and defects on walling were identified.

### 182.16 Dry Docking of Kenya Coast Guard Vessel

Examination of records at Kenya Coast Guard Service (KCGS) revealed that a contractor was engaged to provide dry docking services for the repair, service and maintenance of M/V KCGS DORIA at a contract price of Kshs.59,930,408. However, as at the time of the audit in November, 2022, the Department paid a total of Kshs.62,245,104 which was beyond the contracted amount. Further, audit verification of assets at the KCGS offices revealed that the vessel was not operational as at the time of audit in November, 2022 and was docked at the Shimoni Station despite the payment to the service provider.

In the circumstances, the Department may not have obtained value for money on expenditure incurred on projects and acquisition of assets expenditure of Kshs.5,430,216,381 could not be confirmed.

**Basis for Conclusion**

### 183. Lack of Ownership Documents for Police Land

Review of records provided for audit indicated that the Kenya Police Service has over three thousand (3,000) parcels of land around the country. However, only approximately four hundred and sixty-four (464) parcels had title deeds which were under the custody of the Deputy Inspector General. The title documents for other parcels of land were said to be in the custody of The National Treasury but their details were not provided for audit. This implies that only approximately 20% of the parcels of land owned by the Kenya Police Services have ownership documents while approximately 80% do not have the same. Further, the Department did not budget for land title processing cost for the year under review.

In the absence of ownership documents, the land is exposed to the risk of encroachment.

### 184. Defective Birth Certificate Booklets

Records at Civil Registration Services indicated that there were birth certificate booklets received from the Government Printer (GP) that were defective since they were double perforated and could easily tear. Further, the register for birth certificate booklets indicated that these booklets were returned to the Government Printer, however there was no records to confirm that the certificates were indeed returned and replaced.

The defective certificates may be irregularly issued to unsuspecting members of the public and therefore loss of revenue.

### 185. Delay in Separation of Electricity Meters

Following the Presidential directive on National Police Service policy framework and strategy for reorganization of the National police Service and provision of decent housing for police officers and integration with the community in September, 2018, a policy change was made which necessitated the separation of electricity meters between the Kenya Police Service and individual police officers who are required to pay their electricity bills. In the financial years 2020/2021 and 2021/2022, the Department paid Kshs.78,000,000 and Kshs.72,000,000 respectively to the Kenya Power and Lighting Company to aid in separating electricity meters from the one common meter paid by the State Department to individual police officers. However, during the year under review, the service provider had only fitted few housing units with separate meters at West Park Estate with prepaid meters in November, 2021 and no other works have been undertaken in other police lines. Explanation on why the separation of meters had not been completed was not provided.

Further, analysis of water and electricity budgetary allocation revealed that the State Department had reduced the budget provision to cater for electricity expenditure from Kshs.722,262,837 before policy change in the financial year 2018/2019 to Kshs.267,975,300 in the financial year 2021/2022. The reduction of the budgetary allocation for utilities was implemented before the meter separation exercise was completed by the State Department of Housing and the bills for the meters that were not

separated were billed to the Kenya Police Service. This has resulted to a pending bill of Kshs.179,000,000 owed to KPLC in regard to institutional houses occupied by police officers. However, a breakdown of the institutional houses and the pending electricity bills were not provided for audit.

In the circumstances, there exists a risk of loss public resources with the delayed separation of the meters.

### 186. Lack of Adequate Storage Space for Food and Ration at the National Police Service"B" Campus Embakasi

Inspection of stores at the National Police Service "B" Campus Embakasi revealed that the stores facilities which were built approximately fifty (50) years ago were still in use and were unable to accommodate food and ration requirement for the College.

In the circumstances, the inadequate storage space could result to inadequate controls and loss of stocks.

### 187. Stations Operating Without AIE Allocations

Review of records and physical verification revealed that forty-nine (49) gazetted police stations and nine (9) Coast Guard field stations were operating without funding (AIE). The stations were meeting their recurrent expenditures through support from the mother stations.

The lack of funding may affect the ability of the stations to adequately deliver services to the public.

### 188. Kenya Coast Guard Service-Assets with no Ownership Documents

The assets register of the Kenya Coast Guard Service (KCGS) revealed that the Service has a total of fifty-nine (59) boats without proof of title ownership despite custody, regular use, repair and maintenance of the vessels by KCGS. In addition, some of the vessels had been transferred to KCGS from other government Agencies without ownership documents or official transfer deed documentation.

In the circumstances, effective control and use of the assets without ownership documents increases the risk of assets loss.

## REVENUE STATEMENTS - STATE DEPARTMENT FOR INTERIOR AND CITIZEN SERVICES

REPORT ON THE REVENUE STATEMENTS

**Basis for Qualified Opinion**

### 189. Long Outstanding Arrears of Revenue

As disclosed in Note 7 to the revenue statements, the statement of arrears of revenue reflects arrears of Kshs.547,823,400 at 30 June, 2022 which includes a total of Kshs.453,872,900 that has been outstanding for over three years as detailed below:

| Description | Amount (Kshs.) |
|---|---|
| Security of Government Buildings | 246,827,500 |
| Kenya Police Service (Nairobi Area) | 517,600 |
| Certificate of Good Conduct (DCI) | 206,527,800 |
| **Total** | **453,872,900** |

Although the matter had been raised in previous audit reports and discussed by the Public Accounts Committee, the Committee recommendations and action taken by Management were not provided.

In the circumstances, the recoverability of the long outstanding arrears of Kshs.453,872,900 owed by various Government Agencies could not be confirmed.

**Other Matter**

**190. Budgetary Control and Performance**

The State Department had budgeted to collect revenue amounting to Kshs.18,676,624,068 in the financial year 2021/2022 as detailed in Notes 1,2,3 and 4 of the revenue statements. However, a total of Kshs.14,423,267,175 was collected resulting to an unrealized revenue of Kshs.4,253,356,893 or 29% of the budgeted amounts.

The under collection of revenue adversely affected Exchequer releases, budget execution and the overall performance of the Government programmes.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**191.** 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**

**192. Manual Collection of Revenue by Civil Registration Service**

As reported in the previous year, inquiry from the Civil Registration Service on the revenue collection from births and deaths revealed that the Service continued to use manual system in the collection and accounting of revenue. In addition, there were no effective controls in place to mitigate against the risk associated with the manual system. For instance, data on the various categories of the certificates issued during the year was not provided for audit in order to confirm the accuracy of the reported revenue.

In the circumstances, it was not possible to confirm the effectiveness of the internal controls system in place.

## NATIONAL COHESION AND INTEGRATION COMMISSION

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**194. Irregular Expenditure on Taskforce Allowance**

During the year under review, the Commission incurred an expenditure of Kshs.2,165,000 on taskforce allowances. However, there was no specific duration of the assignment stated contrary to the guidelines in the appointment and management of taskforce allowances in the public service as provided for in the circular from the Head of Public Service Ref.MSPS.2/1A VOL.XLVIII(119) of 2 August, 2013.

In the circumstances, the Commission was in breach of the provisions of the circular and regularity of the expenditure could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## DONOR FUNDED PROJECT

## TECHNICAL ASSISTANCE TO ENHANCE THE CAPACITY OF THE PRESIDENT'S DELIVERY UNIT (ADB GRANT NO. 5500155012902) PROJECT

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**196.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**197.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**199.** As required by the African Development Bank, I report based on the audit that, I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and Project's financial statements agree with the accounting records and returns.

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**200. Inaccuracies in the Financial Statements**

The statement of receipts and payments reflects total payments of Kshs.28,626,720,359. Review of the Integrated Financial Management System (IFMIS) payment reports processed against the payments made in bank revealed that 605 transactions amounting to Kshs.207,096,701 were paid in bank but not captured in payment details in the IFMIS.

In the circumstances, the propriety, accuracy and completeness of the payments of Kshs.207,096,701 could not be confirmed.

**201. Unsupported Cash and Cash Equivalents**

As disclosed in Note 9A to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.187,143,716 in respect of total cash and cash equivalents. However, the bank reconciliations and cash book presented for audit had the following inaccuracies and inconsistencies;

(i) Payments amounting to Kshs.7,726,653 were made in the bank but not recorded in the cash book with some dating as far back as 9 September, 2021.

(ii) The reconciliation statement for the pending bills account as at 30 June, 2022 reflected unpresented cheques amounting to Kshs.55,157,766, out of which payments of Kshs.10,801,430 related to outstanding payments from previous financial years were yet to be written back to the cash book.

(iii) Unpresented cheques amounted to Kshs.29,718,182, even though the State Department makes payments through Real Time Gross Settlement System (RTGS). No explanation was given for the long outstanding payments.

(iv) The bank reconciliation statement for the pending bills account reflected receipts in the bank statement not recorded in the cash book of Kshs.4,385,459 out of which receipts amounting to Kshs.2,967,744 were related to the previous financial year. It was not explained why these amounts were yet to be recorded in the cash book.

(v) Further, the statement reflected payments in bank not recorded in the cash book amounting to Kshs.27,593,051 indicating that payments may have been made in bank without processing them through IFMIS.

(vi) Review of cash books held at various Sub-County Treasuries revealed an amount of Kshs.2,238,451 which remained unspent as at 30 June, 2022 but was not returned to the exchequer account.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.187,143,716 as at 30 June, 2022 could not be confirmed.

**Other Matter**

**202. Understated Pending Bills**

Disclosed in Note 17.1 and Annexure 1 to the financial statements are pending accounts payable amounting to Kshs.200,444,053. Further, examination of the supporting schedules indicates that the pending accounts payable excludes balances of Kshs.265,331,826 and Kshs.71,251,080 owed to Kenya Revenue Authority (KRA) unpaid PAYE from September, 2014 and suppliers to various correctional facilities, respectively. Although Management had requested for funds from The National Treasury for settlement of the debts owed to KRA, The National Treasury had declined the request.

In addition, as disclosed in Note 17.2 and Annexure 4 to the financial statements, the State Department had contingent liabilities amounting to Kshs.65,822,046 relating to twenty-eight (28) determined court cases whose liabilities have not been settled. Although there were no active appeals filed against the court's determination, Management did not provide any evidence on the measure being taken to clear these outstanding liabilities.

In the circumstances, the accuracy of the reported pending account payables balance of Kshs.200,444,053 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**203. Encroachment on Prisons Land**

Annex 2 to the financial statements on summary of fixed assets register reflects assets with historical total cost of Kshs.3,114,336,538. However, the balance excludes undetermined values of parcels of land spread all over the Country whose details of ownership could not be determined. Audit inspection conducted in July, 2022 revealed various parcels belonging to five sampled correctional facilities of which four measured 2,483.4601 acres while one had unknown value, currently occupied by informal settlers such as people, churches and other Government institutions who continue to use such land for residential and commercial purposes.

Further, Management did not provide a report prepared by the Inter-Ministerial Committee on Narok Prison Land (16.1881 cares) pursuant to the Attorney General advice to the Commissioner General of Prison informal settlers of 7 March, 2022 and evidence of the action taken so far as to evict the illegal occupants in compliance with Government directives among them the PAC directive issued on 28 May, 2022.

In the circumstances, the completeness, ownership and security of the assets of Kshs.3,114,336,538 could not be confirmed.

**204. Poor Maintenance of Motor Vehicles, Plant, Machinery and Equipment in Prisons**

Review of motor vehicle, plant, machinery and equipment record in respect of repairs and maintenance provided for audit revealed that the Service has forty-one (41) departmental owned vehicles which are recorded as economical to repair. However, the vehicles were

grounded due to lack of funds to purchase spare parts, carry out repairs or pay dealers were involved in major repairs. During the financial year under review, an annual procurement plan was prepared detailing various spare parts required for repairs of serviceable grounded vehicles and which are economical to repair at an estimated cost of Kshs.13,975,784.

However, the State Department only funded the repairs totalling to Kshs.6,156,656 during the year representing 44% of the estimated total cost. Further, several leased ambulance vehicles deployed to various stations in Kisii, Eldoret and Bungoma were grounded due to various mechanical problems.

In the circumstances, the inefficiencies in motor repair and maintenance may affect service delivery to both the inmates and other Government agencies that depend on the Prisons Service.

**205. Poor Living Conditions at Various Prisons**

**205.1 Poor Maintenance of Buildings at Nairobi Medium Security and Nairobi Remand Prison**

Audit inspection conducted in September, 2022 revealed that Nairobi Medium Security Prison has inadequate office accommodation for staff. The Prison has three (3) office rooms utilized by the Officer in Charge (OIC), general office and accounts office. It was also observed that the floors to the prisoners' wards are dilapidated with rough floors, potholes, dirty marks on the walls with some sections of the roof leaking when it rains. Further, the prison did not have adequate budget for repairs and maintenance of building, purchase of generator and installation of CCTV cameras for monitoring activities within the prisons.

In the circumstances, lack of adequate budget provision may lead to further deterioration of prisons assets and inefficient service delivery.

**205.2 Poor Sanitation and Lack of Water at Migori Main Prison**

Review of records provided for audit and an audit verification carried out in October, 2022 revealed that, Migori GK Prison is holding approximately 700 inmates and 230 members of staff. The main source of water for the facility is a seasonal unprotected well situated within the Institution and roof catchment with storage reservoirs. Reports of 17 June, 2022 and of 2 March, 2022 by Public Health and NEMA Inspectors respectively indicates that the available source of water for drinking and general use was non-compliant with national standards for safety. Further, the prison does not have in place appropriate safeguards for waste water management.

In the circumstances, the inmates, staff and the community may be exposed to contagious and other water borne diseases.

**206. Stalled Projects**

Physical inspection at various sampled correctional facilities revealed abandoned projects at different levels of completion in nine (9) correctional facilities with contracts sum and payments to date of Kshs.116,655,736 and Kshs.21,889,077 respectively.

In the circumstances, and with lack of adequate budgetary allocation, it was not possible to confirm that these projects will be completed in time to deliver the intended services and value for money.

**207. Poor Construction of a Perimeter Wall at Busia G.K. Prison**

During the year under review, the State Department entered into a contract for the construction of a perimeter wall at Busia G.K Prison at a contract sum of Kshs.20,549,887. The contractor handed over the Project to the State Department without completing the following items in the contract:

i. Counterfort walls had not been done to provide lateral support.

ii. Inaccuracies in the original Bill of Quantities, where ground beams and ring beams were not captured. The said items had a big implication on the overall cost of the Project. The Project implementation team agreed to exchange the plaster work with ground beams and ring beams.

Further, the following deficiencies were noted in the project implementation phase:

i. The Bill of Quantities provided for 300mm wide *75mm thick precast concrete coping bended which was not done.

ii. The Bill of Quantities further provided for application of three coats of crown permacote paint on rendered surface externally which was not done.

iii. The Bill of Quantities provided for two steel double gates of 5000 mm x 2400mm high fabricated on 50 *5000mm R.H.S in framing and box 25mm R.H.S in fills at 100mm centers and with 100*100mm R.H.S side posts coat into mass which was not done.

No approved variations to the contract were provided for audit. Further, the Management did not explain the circumstances under which the above contracted works were omitted at the execution stage.

In the circumstances, the value for money for the expenditure of Kshs.20,549,887 incurred could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**208. Failure to Produce Offenders in Courts on Time**

During the year under review, the Homa Bay Prison Management failed, on several occasions to produce offenders to various courts within Homa Bay County as and when required to do so. This was due to the existing official transport challenges whereby the Prison had one vehicle only to serve seven courts.

In the circumstances, failure to produce offenders in court frustrates the fair administration of justice and denies the offenders their constitutional rights to defend themselves in court.

# STATE DEPARTMENT FOR DEVOLUTION - VOTE 1032

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**209. Unaccounted for District Suspense**

The statement of assets and liabilities and as disclosed in Note 11 to the financial statements reflects accounts receivables-outstanding imprest and clearance accounts balance of Kshs.85,782,292 relating to district suspense. However, no documents in form of returns were provided for audit, to explain the requisition process, evidence of receipt by the respective recipients and the usage.

In the circumstances, the accuracy, validity and completeness of the district suspense balance of Kshs.85,782,292 could not be confirmed.

**210. Non-Payment of Pending Bills**

Note 18.1 and 18.2 to the financial statements reflects pending bills totalling Kshs.1,373,260,296 comprising of pending accounts payables of Kshs.1,034,991,583 and other pending payables of Kshs.338,268,713 respectively as detailed in Annex 1 and 2. Management had not explained why the bills were not settled during the year when they occurred. The State Department is at risk of incurring significant interest costs and penalties with their continued delay in payment. Further, failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

In the circumstances, completeness and accuracy of the pending accounts payables amounting to Kshs.1,373,260,296 could not be confirmed.

**Emphasis of Matter**

**211. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.4,802,396,610 and Kshs.4,336,273,421 respectively resulting to an underfunding of Kshs.466,123,189 or 10% of the approved budget.

The underfunding affected the planned activities and programmes of the State Department which may have impacted negatively on effective service delivery to the public.

My opinion is not modified in respect of this matter.

**Other Matter**

**212. Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2022. Management had not provided reasons for the delay in resolving prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**213. Delay in Completion of the Proposed AFRICITIES Convention Centre**

The statement of receipts and payments and as disclosed in Note 9 to the financial statements reflects acquisition of assets expenditure of Kshs.344,015,400. The expenditure includes an amount of Kshs.280,000,000 for construction of buildings which further includes Kshs.250,000,000 which was paid to a contractor being part-payment for construction of proposed AFRICITIES convention centre in Kisumu County. The contract was awarded at a contract sum of Kshs.890,829,345 for a duration of thirty-eight (38) weeks commencing on 16 July, 2021. An extension period was granted where the contract period was revised to seventy-three (73) weeks with the new completion date of 16 December, 2022.

However, physical verification carried out in the month of November, 2022 revealed that the Project was only fifty-five (55) percent complete. Although Management attributed the delay to lack of funding, the Project was behind schedule.

In the circumstances, the regularity and value for money realized from the expenditure of Kshs.250,000,000 incurred on the delayed Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**214. Lack of Audit Committee and Public Finance Management Committee**

The State Department did not have an independent Audit Committee and Public Finance Management Committee as required by Regulations 174(1) and 18(1) of the Public Finance Management (National Government) Regulations, 2015 respectively. An Audit Committee forms a key component in the governance process by providing an independent expert assessment of the organization's activities, quality of the risk management, financial reporting and management to the top management, while the Public Finance Management Standing Committee provides strategic guidance to the entity on public finance management matters.

In the circumstance, the effectiveness of the internal controls, risk management and overall governance for the State Department could not be confirmed.

**215. Lack of Approved Information Technology Security Policy**

The State Department did not have an approved Information Communication Technology (ICT) Policy for governance and management of its ICT resources. In addition, there is no ICT steering committee in place to assist in the development of ICT policy framework to enable the Department to realize long-term ICT strategic goals. Lack of an approved ICT Policy may result in an unclear direction regarding maintenance of information

security across the organization and safeguarding the Department`s ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

In the circumstances, the strength of governance systems around the Information Communication Technology could not be confirmed.

## DONOR FUNDED PROJECTS

## INSTRUMENTS FOR DEVOLUTION ADVICE AND SUPPORT (IDEAS) CREDIT NO.KE/FED/024-230

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**216. Double Payments for Supplies**

The statement of receipts and payments reflects transfers to other Government entities expenditure of Kshs.100,438,873 as disclosed in Note 4 to the financial statements which includes an amount of Kshs.31,676,176 transferred to Kisumu County. However, review of contract documents revealed the following anomalies:

i. The contract for the supply and delivery of tractor, trailer and 3-Disc plough was awarded to a Company on 5 May, 2021. Payment were made vide PV NO.5060 dated 23 February, 2022 of Kshs.4,548,462 and PV No.5060 dated 13 October, 2021 of Kshs.5,276,216, resulting to double payments for the same supply.

ii. In addition, a proforma invoice from the Company attached to the payment voucher was for Kshs.5,276,210 and dated 20 September, 2021. The bank statement of the project confirmed that two payments were made to the Company on 14 February, 2022 of Kshs.4,548,462 for Local Purchase Order (LPO) Number 10778 and on 13 April, 2022 of Kshs.4,548,462 for the same LPO Number 10778.

iii. Further, another payment of Kshs.510,703 was made to the Company on 21 June, 2022 being refund of 16% VAT deducted. However, the supporting documents to confirm that withholding tax was deducted and remitted to the relevant authority were not provided for audit.

iv. Audit verification of the assets revealed that, a trailer was missing and no explanation was provided for the anomaly.

In the circumstances the propriety, accuracy and completeness of the expenditure of Kshs.10,335,381 incurred could not be confirmed.

### 217. Unapproved Expenditure on Transfers to Other Government Entities

The statement of receipts and payments reflects transfers to other Government entities of Kshs.100,438,873 as disclosed in Note 4 to the financial statements. However, review of the approved budget revealed Kshs. Nil amount for transfers to other Government entities resulting to an over expenditure of Kshs.100,438,873. No documents were provided for audit to explain the reallocation of funds.

Failure to specify the expenditure in the budget as estimates is a contravention of the provision of Section 72(6) of the Public Financial Management (National Government) Regulations, 2015 which states that National Government shall ensure grants are factored in the budgets and counterpart funds appropriated accordingly.

In the circumstances, the propriety and approval of the expenditure of Kshs.100,438,873 transferred to other Government entities could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

### 218. Delay in Completion of Projects

Review of documents revealed that the European Union (EU) had transferred a cumulative total of Kshs.1,251,492,628 to fifteen (15) Counties in two (2) tranches for the implementation of seventeen (17) Local Economic Development (LED) Projects as at 30 June, 2022. However, out of the 17 Projects, four (4) Projects worth Kshs.440,000,000 had not been completed and commissioned while seven (7) Projects valued at Kshs.660,000,000 did not receive the second tranche due to failure to adhere to the conditions of the Financing Agreement which included poor workmanship, utilization of funds in ineligible expenditure and misuse of the funds.

In the circumstances, the regularity and value for money realized from the expenditure of Kshs.1,100,000,000 incurred on the eleven (11) delayed Projects could not be confirmed.

### 219. Failure to Transfer Grants to Specific Project Account in Wajir County

The statement of receipts and payments reflects transfers to other government entities expenditure of Kshs.100,438,873 as disclosed in Note 4 to the financial statements. The expenditure includes transfers to Wajir County of Kshs.19,908,166 which further includes an amount of Kshs.784,381 allocated for a milk project. However, review of supporting documents provided revealed that the money was not transferred to the specific project account. This was contrary to the provisions of Section 74(5) of Public Finance Management (County Governments) Regulations, 2015 which states that monies received for specified projects which have been paid into the County Revenue Fund, shall be released when required to the appropriate project bank account.

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

## 220. Irregular Procurement of Construction of Camel Slaughter House

The statement of receipts and payments reflects transfers to other Government entities expenditure of Kshs.100,438,873 as disclosed in Note 4 to the financial statements . The expenditure includes transfers to Wajir County of Kshs19,908,166 which further includes the amount of Kshs.2,912,242 which was paid to a Company for the construction of a camel slaughter house including holding pen, concrete pathway and the rehabilitation of an alternative slaughter area. However, the slaughter house had a poor disposal system for by-products from slaughtered camels which might be an indication of poor workmanship.

Further, purchase of construction materials were not supported with adequate relevant procurement documents such as stores register, goods received and issued vouchers, bin cards, procurement professional opinion, invoices, receipts, delivery notes, inspection and acceptance committee report and the stores ledger.

In the circumstances, the regularity and value for money realized from the expenditure of Kshs.2,912,242 incurred could not be confirmed.

## 221. Irregular Procurement of Dairy Cows

The statement of receipts and payments reflects transfers to other Government entities expenditure of Kshs.100,438,873 as disclosed in Note 4 to the financial statements. The expenditure includes transfers to Kisumu County of Kshs.31,676,176 which further includes an amount of Kshs.2,900,000 incurred on purchase of dairy cows. However, review of contract documents revealed that a Company was paid Kshs.2,900,000 for supply and delivery of sixteen (16) dairy cows. However, audit verification conducted revealed that there were twelve (12) dairy cows and seven (7) calves as opposed to sixteen (16) dairy cows stated in the bill of quantities, delivery note, invoice, and inspection and acceptance committee minutes resulting to variance of four (4) dairy cows. No explanation was provided for the anomaly.

In the circumstances, the regularity and value for money realized from the expenditure of Kshs.2,900,000 incurred could not be confirmed.

## 222. Irregular Procurement of Goods and Services

The statement of receipts and payments reflects transfers to other Government entities expenditure of Kshs.100,438,873 as disclosed in Note 4 to the financial statements. The expenditure includes transfers to Kisumu County of Kshs.31,676,176 which further includes an amount of Kshs.11,588,565 incurred on purchase of assorted office items, farm equipment and electricity services at Muhoroni Milk Plant. However, the electricity connection to the Project had not been done despite the full payment of connection fees.

Further, procurement documents supporting purchase of farm equipment were not provided for audit. In addition, Information Communication Technology equipment had not been delivered.

In the circumstances, the regularity and value for money from the expenditure of Kshs.11,588,565 incurred could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**224.** As required by the Financing Agreement between the European Commission and the Government of the Republic of Kenya, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## KENYA COOPERATION AND PARTNERSHIP FACILITY (KCPF) PROJECT NO. KE/FED 2019/041-712, CREDIT NO.FED/2021/423-175

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**225. Inaccuracies in the Statement of Receipts and Payments**

Review of the financial statements revealed variances between the figures reflected in the statement of receipts and payments with the ledgers and supporting documents as indicated below:

| Component | Financial Statements Amount (Kshs.) | Ledgers Amount (Kshs.) | Variance (Kshs.) |
|---|---|---|---|
| Purchase of Goods and Services | 4,594,500 | 4,686,835 | 92,335 |
| Compensation of Employees | 5,425,901 | 7,096,717 | 1,670,816 |
| **Total** | **10,020,401** | **11,783,552** | **1,763,151** |

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

**Other Matter**

**226. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.30,000,000 against actual receipts of Kshs.31,534,900 resulting to overfunding of Kshs.1,534,900 or 5% of the approved budget. Similarly, the Project expended an amount of Kshs.10,020,401 against final budget expenditure of Kshs.30,000,000 resulting to under expenditure of Kshs.19,979,599 or 67% of the budget.

The underperformance affected the planned activities and programmes which may have impacted negatively on service delivery to the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**227.** 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**

**228. Lack of Internal Audit Unit and an Audit Committee**

The Project does not have in place an Internal Audit Unit and Audit Committee contrary to the provisions of Section 73(1) and (5) of the Public Finance Management Act, 2012 which requires every public entity to have arrangements in place for internal audit unit for the purpose of carrying out in depth reviews of Management operations and internal controls. As such the Project did not benefit from the assurance and advisory services from the internal audit unit as well as oversight from the Audit Committee.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**229.** As required by the Financing Agreement between the European Development Fund and the Government of the Republic of Kenya, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AN AGENCY UNDER THE STATE DEPARTMENT FOR DEVOLUTION

## KENYA SYMBIOCITY PROGRAMME - PROJECT NO. SIDA 51110060 - COUNCIL OF GOVERNORS

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**230. Unverified Assets**

Note 5 to the financial statements reflects acquisition of non-financial assets cumulative balance of Kshs.9,592,060. However, analysis of the assets register reflected that fifteen

(15) laptops and seven (7) projectors with a combined value of Kshs.1,444,100 held by the various County Governments and Project Programme Officers could not be physically verified during an audit inspection carried out in the month of October, 2022.

In the circumstances, the existence and ownership of the fixed assets totalling to Kshs.1,444,100 could not be confirmed .

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**231. Irregular Procurement of Laptops and Printers**

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects an expenditure of Kshs.1,129,200 in respect to acquisition of non-financial assets which includes an amount of Kshs.969,200 which was incurred on purchase of laptops and printers. However, review of procurement documents revealed that two (2) bidders who did not pass the technical evaluation stage were allowed to proceed to the financial evaluation stage. Further, the winning bidder supplied laptops and printers whose specifications differed with the specificantions contained in the quotation.

In the circumstances, the regularity and value for money realized from the expenditure of Kshs.969,200 could not be confirmed.

**232. Purchase of Goods and Services**

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects purchase of goods and services expenditure of Kshs.97,466,233. However, the following anomalies were noted in procurement:

**232.1 Irregular Procurement of Consultancy Services**

Review of the contract documents revealed that Kshs.199,800 was paid in respect of consultancy services for Environmental and Social Impact Assessment (ESIA) for the proposed Butere Multi-purpose Eco Park in Kakamega County. However, the procurement was undertaken through request for quotation instead of request for proposal method. Further, technical proposals submitted by bidders were not provided for audit to ascertain the validity of the award.

**232.2 Inconsistencies in Procurement of Metal Containers for Market Stalls**

Review of the contract documents revealed that an amount of Kshs.18,543,319 was paid for procurement of metal containers in Mbita - Homabay County. However, the approved budget for the works was Kshs.10,256,701 while the actual expenditure was Kshs.10,678,892 leading to an over expenditure of Kshs.422,191 of the approved budget. This was contrary to the provisions of Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015. Further restricted tender method was used instead of open tender method which was indicated in the procurement plan and the contractor failed to provide performance security. This was contrary to Section 142(1) and (3) of the Public Procurement and Asset Disposal Act, 2015 which states that a successful tenderer shall

submit a performance security equivalent to not more than ten per cent of the contract amount before signing of the contract.

### 232.3 Unprocedural Procurement of Air Tickets

Included in domestic travel and subsistence expenditure of Kshs.6,272,730 was an amount of Kshs.541,030 which was paid for purchase of air tickets for various officers. However, the award was skewed in favour of a single service provider since there was no rotation of service providers despite the Project having prequalified a total of twenty-nine (29) firms for the provision of air ticketing services. This was contrary to the provisions of Section 91(5) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the rotation of service providers while sending request for quotations.

### 232.4 Irregular Purchase of Fuels and Lubricants

Review of the expenditure documents revealed that an amount of Kshs.375,000 was paid for purchase of fuels and lubricants. The fuel and lubricants were drawn from National Oil Corporation Kenya (NOCK) through fuel cards and payments were made in advance. However, the contract agreement between the National Oil Corporation of Kenya and the Council of Governors was not provided for audit review.

In the circumstances, the regularity and value for money realized from the expenditure of Kshs.375,000 could not be confirmed.

### 232.5 Construction of Modern Mixed - Use Integrated Market

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects purchase of goods and services expenditure of Kshs.97,466,233 which includes an amount of Kshs.77,541,491 in respect to Change Project - Consultancy which further includes an amount of Kshs.20,843,743 which was paid in respect of proposed construction of a modern mixed - use integrated market in Ontulili Town, Meru County (Phase 1). However, review of tender documents revealed that the Contractor had provided performance bond of Kshs.2,045,671 dated 7 October, 2021 which was four (4) months after the receipt of letter of acceptance and over one (1) month after the signing of the contract. This was contrary to the provisions of Section 142(1) of the Public Procurement and Asset Disposal Act, 2015 which requires the performance security to be provided by the contractor before signing of the contract.

### 232.6 Construction of Drainage Works at Jewathu Settlement

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects purchase of goods and services expenditure of Kshs.97,466,233 which includes Change Project - Consultancy fees amounting to Kshs.77,541,491. The expenditure further includes an amount of Kshs.14,111,582 which was paid in respect to construction of proposed drainage works at Jewathu settlement in Njoro Sub County, Nakuru County. However, review of the tender documents revealed an over expenditure of Kshs.1,706,901 since the approved annual procurement plan had a budget of Kshs.12,404,681 for the works. This was contrary to the provisions of Section 45(3a) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that all

procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**234.** As required by the Financing Agreement between the Government of Sweden and the Government of the Republic of Kenya, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# STATE DEPARTMENT FOR DEVELOPMENT OF THE ARID AND SEMI-ARID LANDS (ASALS) - VOTE 1035

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**235. Unsupported Expenditure**

The statement of receipts and payments and as disclosed in Note 3 to the financial statements reflects use of goods and services expenditure of Kshs.1,118,267,287. The expenditure includes the amounts of Kshs.28,493,878, Kshs.157,539,125 and Kshs.2,626,886 for routine maintenance-vehicles and other transport equipment, routine maintenance-other assets and printing and advertising respectively all totalling Kshs.188,659,889 which were not supported with adequate relevant documents.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.188,659,889 on use of goods and services could not be confirmed.

**236. Unsupported Accounts Payables**

The statement of assets and liabilities and Note 7 to the financial statements reflects accounts payables retention balance of Kshs.7,714,520 relating to retention for construction contracts. However, details of the constructions undertaken and their contracts that form the basis of the balance were not provided for audit. Further, no explanation was provided for the delay to refund the outstanding balances, some dating back to March, 2014.

In the circumstances, the accuracy, completeness and validity of the accounts payable balance of Kshs.7,714,520 could not be confirmed.

**Other Matter**

**237. Pending Accounts Payable**

Note 12.1 to the financial statements reflects pending accounts payables of Kshs.30,632,211 and other pending payables of Kshs.7,714,520 both totalling Kshs.38,346,731 which were not settled during the year but instead carried forward to 2022/2023 financial year. Management has not explained why the bills were not settled during the year they occurred. Further, pending bills reflected in Note 12.1 to the financial statements was at variance with Annex 1 to the financial statements which reflects pending accounts payable amount of Kshs.29,703,310. The variance of Kshs.8,643,421 was explained.

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

### 238. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2022. Management has not provided reasons for the delay in resolving prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**239.** 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**

### 240. Lack of an Effective Internal Audit Function

The State Department does not have an effective internal audit function and an active Audit Committee contrary to the provisions of Section 73(1) and (5) of the Public Finance Management Act, 2012 which requires every public entity to have arrangements in place for internal audit function and Audit Committee for the purpose of carrying out in depth reviews of Management operations and internal controls.

In the circumstances, the State Department did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

## DONOR FUNDED PROJECT

## KENYA DEVELOPMENT RESPONSE TO DISPLACEMENT IMPACTS PROJECT (KRDIP) IDA CREDIT NO.6021-KE AND GRANT NO. TFOA 7762-KE

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

### 241. Inconsistencies in the Financial Statements

The statement of comparison of budget and actual amounts reflects miscellaneous receipts balance of Kshs.1,503,027,234. However, the amount has not been disclosed in both the statement of receipts and payments and statement of cashflows for the year under review. In addition, there was no note in the financial statements to show the breakdown or composition of the miscellaneous receipts balance.

In the circumstances, the accuracy and completeness of the miscellaneous receipts of Kshs.1,503,027,234 reflected in the statement of comparison of budget and actual amounts could not be confirmed.

**242. Unsupported Compensation of Employees Expenditure**

The statement of receipts and payments reflects compensation of employees' expenditure of Kshs.620,893,048 as disclosed in Note 3 to the financial statements. The expenditure includes an amount of Kshs.284,277,134 which was paid to temporary employees working under the Labour Intensive Public Works (LIPW) Program in Turkana West, Wajir South and Garissa. However, Needs Assessment Reports, Workplans, Soil Texture Tests, Site History Reports, Soil Fractional Tests or Jar Test Reports and Distribution of Seedlings Reports were not provided for audit review to confirm the effectiveness of the activities.

Further, the visited land reclaimed areas had invasive Prosopis and other overgrown invasive vegetation and the irrigation schemes have not been implemented due to heavy reliance on rains which had not materialized causing lack of any visible tangible agricultural activity on the sites.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.284,277,134 incurred could not be confirmed.

**Other Matter**

**243. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.3,878,239,137 against actual receipts of Kshs.5,049,358,103 resulting to overfunding of Kshs.1,171,118,966 or 30% of the approved budget. Similarly, the Project expended an amount of Kshs.3,524,340,128 against the final budget of Kshs.3,878,230,137 resulting to under expenditure of Kshs.353,899,009 or 9% of the budget. No explanation was provided for failure to spend all the available funds.

In addition, compensation of employees had a final budget of Kshs.338,452,188 against actual expenditure of Kshs.620,893,048 leading to an over expenditure of Kshs.282,440,860 which was not explained nor accounted for. This is non-compliance with the budget.

The underperformance 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**

**244. Lack of Monitoring and Evaluation of the Community Groups**

The statement of receipts and payments reflects purchase of goods and services expenditure of Kshs.1,795,961,678 as disclosed in Note 4 to the financial statements. The expenditure includes capital grants to community groups totalling to

Kshs.1,156,852,378 which further includes an amount of Kshs.315,000,000 which was disbursed to community groups in Turkana County. However, the audit revealed that there were no regular meetings and monitoring and evaluation reports were not provided for audit.

Further, the community groups could not be verified since most of them are pastoralists and were not available for engagement and thus it could not be confirmed whether the Project had a social and economic impact to them.

This is contrary to the provisions of the Community Operational Manual, which states that the Community Groups should receive livelihood grants after adhering to five core group principles which are regular meetings, proper record keeping, inter-loaning and regular repayments and thereafter approval of their business plans.

In the circumstances, the Project's Management was in breach of the Community Operational Manual and the value for the funds spent could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**245. Lack of an Approved Information Communication Technology Policy**

Review of the Information Communication Technology (ICT) systems revealed that the Project did not have an approved ICT Policy for governance and management of its ICT resources. In addition, there is no ICT Steering Committee in place to assist in the development of ICT Policy framework to enable the Project to realize long-term ICT strategic goals. Lack of an approved ICT Policy may result in an unclear direction regarding maintenance of information security across the organization and safeguarding the Project`s ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

In the circumstances, the security, confidentiality and integrity of the Project's data could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**246.** As required by the Financing Agreement between the International Development Association and the Government of the Republic of Kenya, I report based on my audit that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# MINISTRY OF DEFENCE - VOTE 1041

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**247.** There were no material issues noted during the audit of the financial statements of the Ministry.

**Other Matter**

**248. Pending Bills**

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

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

**249. Contingent Liabilities**

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**250. Unbudgeted Expenditure Incurred on Projects**

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

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

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

Further, although physical verification done in the month of October, 2022 confirmed that the projects were completed, the unpaid amounts totalling to Kshs.1,429,858,358 were not included as pending bills as at the end of the financial year. Ministry of Defence had continuously requested for the outstanding balances from the respective Ministry/Agency without success due to unavailability of funds. However, Management did not disclose how the extra expenditure of Kshs.1,429,858,358 committed by the Ministry would be funded in the absence of an approved budget.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## REVENUE STATEMENTS - MINISTRY OF DEFENCE

REPORT ON THE REVENUE STATEMENTS

**Unmodified Opinion**

**252.** There were no material issues noted during the audit of the revenue statements of the Ministry.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**253. Irregular Transfer of Revenue**

The statement of receipts and disbursements reflects total tax receipts of Kshs.4,417,951,213 for the year ended 30 June, 2022. The statement also reflects disbursements of Kshs.496,791,300 and Kshs.3,921,159,913 to MOD Escrow Account and Exchequer Account, respectively. However, the disbursement of Kshs.496,791,300 to the Escrow Account was contrary to the provisions of Article 206(1) of the Constitution of Kenya, 2010 which established a Consolidated Fund, "into which shall be paid all money raised or received by or on behalf of the National Government, except when reasonably excluded from the Fund by an Act of Parliament and payable into another public fund established for a specific purpose; or under an Act of Parliament, retained by the State organ that received it for the purpose of defraying the expenses of the State organ".

Although Management provided authorization from the National Treasury for opening and operating the escrow account at the Central Bank of Kenya, there was no enabling legislation to support the transfer of revenue into an account other than the Consolidated Fund Account.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

# MINISTRY OF FOREIGN AFFAIRS - VOTE 1052

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**255. Long Outstanding Reconciling Items**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.1,737,179,819 which includes bank balances totalling Kshs.1,736,879,371 as disclosed in Note 11A to the financial statements. Review of the Ministry's bank reconciliation statements for the month of June, 2022 revealed long outstanding reconciling items which include; payments in cash book not in bank statements of Kshs.233,210,044, receipts in bank statements not in cash book of Kshs.50,815,226, payments in bank statement not in cash book of Kshs.280,157,533 and receipts in cash book not in bank statement of Kshs.13,030,179. No documentary evidence was provided for audit to confirm efforts made by Management to clear these long outstanding reconciling items.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,737,179,819 as at 30 June, 2022 could not be confirmed.

**Other Matter**

**256. Pending Bills**

Note 19.2 to the financial statements reflects pending accounts payables totalling Kshs.701,161,995 as at 30 June, 2022. These bills were not paid during the year under review but were instead carried forward to the financial year 2022/2023.

Failure to settle bills during the year to which they relate distorts the budget implementation of the subsequent year as the outstanding bills form a first charge on resources available.

**257. Contingent Liabilities**

Disclosed in Note 19.4 to the financial statements are contingent liabilities totalling Kshs.112,013,123 arising from court cases and awards against the Ministry. Review of the Ministry's records indicate that the Government of Kenya through the missions abroad had been sued by local staff employed by the missions. Further, in some cases the Ministry was yet to pay the court awards and has not appealed the decision of the courts.

In the circumstances, the court cases may attract further charges which may lead to loss of public funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**258.** 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**

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

# STATE DEPARTMENT FOR VOCATIONAL AND TECHNICAL TRAINING - VOTE 1064

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**260. Unsupported Other Revenues**

The statement of receipts and payments reflects other revenues amounting to Kshs.4,676,474,119 being Appropriations-In-Aid collected by Vocational and Technical Training institutions. However, no supporting documents were provided to confirm the revenue earned, received and reported in the financial statements. Further, the amounts captured were extracted from the budget estimates and not the actual revenue from the institutions. In addition, no evidence was provided to show that revenue collected was surrendered to the Receiver of Revenue as required.

In the circumstances, the accuracy and completeness of other revenues amounting to Kshs.4,676,474,119 for the year ended 30 June, 2022 could not be confirmed.

**261. Unsupported Procurement of Equipment under Kenya-China Project**

The statement of receipts and payments reflects proceeds from foreign borrowings amounting to Kshs.895,820,309 as disclosed in Note 3 to the financial statements. The Government of Kenya through the then Ministry of Education, Science and Technology entered into a contract with a firm for supply of equipment. The project was for establishment of Technical and Vocational Training (TVET) workshops through an addendum dated 25 May, 2016 that includes an amount of Kshs.149,799,955 paid under the Kenya China Project for the installation of low voltage boards in fifteen (15) TVET institutions. However, Management did not provide the disbursement schedule, payment vouchers and information on how the firm was identified, selected and awarded, casting doubt on whether the payments were actually made and received. Further, no information was provided on how the beneficiary institutions were identified.

In the circumstances, the accuracy, completeness and regularity of the expenditure of Kshs.149,799,955 for the year ended 30 June, 2022 could not be confirmed.

**262. Loss of Cash Through Use of Duplicate Bank Account Details in the IFMIS System**

The statement of assets and liabilities reflects a bank balance of Kshs.84,898,890 as disclosed in Note 10 to the financial statements. However, review of IFMIS details, bank reconciliations and cash books revealed that the State Department lost a total of Kshs.356,000 due to an account in IFMIS created under an individual's name. No explanation was provided on how the account was created under the shared name without authority and how the State Department planned to recover the lost funds.

In addition, recovery of the amount is in doubt. Further, key processes and internal controls put in place to mitigate against theft, embezzlement, fraud or errors could be weak.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.84,898,890 as at 30 June, 2022 could not be confirmed.

### 263. Expenditure on Rent Made Without Valid Lease Agreements

The statement of receipts and payments reflects use of goods and services amounting to Kshs.867,132,447 as disclosed in Note 6 to the financial statements. Included in this amount is Kshs.52,317,911 in respect of rentals of produced assets. The amount includes Kshs.50,052,418 in respect of rent of office space for the various Departments whose lease agreements did not indicate the lease period and date signed.

In the circumstances, the accuracy and validity of the rent amounting to Kshs.50,052,418 could not be confirmed.

### 264. Long Outstanding Accounts Receivables - District Suspense

The statement of assets and liabilities and Note 11 to the financial statements reflects accounts receivables of Kshs.856,570 relating to the district suspense which was not supported with the relevant supporting documents or schedules. Further, excluded from the balance is a district suspense balance of Kshs.1,012,351 brought forward in respect of disbursements to the districts to support their operations. However, the respective districts did not account for the amounts disbursed.

In the circumstances, the validity, accuracy, completeness and recoverability of the accounts receivables balance of Kshs.856,570 as at 30 June, 2022 could not be confirmed.

### Emphasis of Matter

### 265. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.23,053,129,473 and Kshs.20,412,015,477 respectively, resulting to an underfunding of Kshs.2,641,113,996 (or 11%) of the budget. Similarly, the State Department spent Kshs.20,494,170,177 against an approved budget of Kshs.23,053,129,473 resulting to an underabsorption of Kshs.2,558,959,297 (or 11%) of the budget.

The underfunding and underabsorption 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.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

### 266. Lack of Public Finance Management Standing Committee

Review of documents provided for audit revealed that the State Department did not have a Public Finance Management Standing Committee in place as required by Regulation

18(1) of the Public Finance Management (National Government) Regulations, 2015 that would have provided strategic guidance on Public Finance Management matters.

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

### 267. Mentorship Program and Construction of New Technical and Vocational Colleges

The State Department initiated construction of thirty (30) new Technical and Vocational Colleges (TVC's) across the Country to enhance technical training. To oversee these constructions, a number of existing institutions were appointed to mentor the new institutes. Review of financial and contractual records as well as physical verification of these projects in the month of November, 2022 revealed the following unsatisfactory matters:

#### 267.1 Construction of the Kakrao Technical Training Institute (TTI)

Records examined at Rongo University College indicated that a contract was signed on 24 October, 2014 between the College and a local contractor for construction of the proposed Kakrao Technical Training Institute at a contract sum of Kshs.48,720,833 for a period of 52 weeks ending on 14 October, 2015. Physical verification of the Project in September, 2022 revealed that although the Project was handed over, it was still incomplete. Further, no explanation was provided for the significant delay in completion of the Project.

#### 267.2 Kilifi North Technical Vocational College

The contract was awarded to a firm on 30 September, 2019 at a contract sum of Kshs.59,062,876 for construction and completion of twin workshop, classrooms and office block - 2 storey under the mentorship of Kenya Coast National Polytechnic. The agreed contract period was 52 weeks. At the time of audit, the amount paid was Kshs.44,421,301 and the project had stalled at 60% completion.

#### 267.3 Matuga Technical Vocational College

The contract was awarded to a firm on 17 May, 2019 at a contract sum of Kshs.57,794,573 for a period of 52 weeks. The total amount paid as at the time of audit was Kshs.45,487,514. The project had stalled at 70% completion as the contractor was waiting for funds to enable him proceed with the remaining part of the project. Further, the provisional sum of Kshs.2,072,000 paid to the contractor was not justified as required by Section 139(2)(e) of the Public Procurement and Asset Disposal Act, 2015 which provides that an Accounting Officer of a procuring entity, on the recommendation of an Evaluation Committee, may approve request for use of prime cost, provisional sum and contingencies which request shall be accompanied by a certificate from the tenderer making a justification for such cost.

#### 267.4 Igembe Central Technical Vocational College

The mentor institution for this project was Mukiria Technical and Vocational Training College. The construction and completion of a two storey twin workshop, classrooms and

office block at Igembe Central TVC had received development funds from the Ministry amounting to Kshs.33,097,400 from inception. Further, the National Government Constituencies Development Fund had contributed Kshs.10,000,000 for the Project, bringing the total receipts to Kshs.43,097,400. The Project was 50% complete and had stalled for 2 years due to delayed funding from the National Government. The Project Manager complained of defects noted due to poor workmanship. In addition, the financial evaluation for the contractor awarded this contract was also in doubt since works could only proceed once payments were received.

### 267.5 Kisii National Polytechnic

The Kisii National Polytechnic mentors South Mugirango and Kitutu Chache South (KIAMWASI) technical and vocational colleges.

#### 267.5.1 South Mugirango Technical and Vocation Training College

South Mugirango Technical and Vocation Training College construction project was awarded at a contract sum of Kshs.55,241,205. The Kisii National Polytechnic had paid Kshs.45,241,205 by the time the Project stalled at 60% completion level. At the time of the audit, the contractor was not on site. Further, the building was dilapidated, infested with weeds, site was not fenced which made the building prone to vandalism and rain water was dripping on the walls and the floor slab.

#### 267.5.2 Kitutu Chache South Technical and Vocation Training College

Kitutu Chache South Technical and Vocation Training College project was awarded at a contract sum of Kshs.57,053,885 out of which an amount of Kshs.47,053,885 was paid. Audit verification revealed that works had stalled with floor, electrical works, ceiling, staircase, septic tank and soak pits, internal wooden doors, landscaping, and parking not completed.

In the circumstances, value for money may not be realized from the incomplete projects.

### 268. Excess Disbursements to Mentor Institutions

The statement of receipts and payments and Note 7 to the financial statements reflects transfers to other Government units amounting to Kshs.12,559,152,267. Included in the amount is Kshs.927,500,000 disbursed as development grants to various Technical Training Institutions and Technical Vocational Mentor Centers. It was however, noted that an amount of Kshs.11,300,600 out of a total of Kshs.927,500,000 disbursed to three (3) mentor institutions was above the Ministry's contribution to the projects. Further, no documents were provided to prove that the excess amount was recovered from the respective three (3) Mentor Institutions.

In the circumstances, value for money and regularity of the excess disbursement of Kshs.11,300,600 could not be confirmed.

### 269. Allocation of Capital Grants to Non-Existent Technical and Vocational Centres

The statement of receipts and payments and Note 7 to the financial statements reflects an amount of Kshs.12,559,152,267 in respect of transfers to other Government units.

Included in this amount was capital disbursement to twelve (12) Technical Institutes of Kshs.271,500,000 out of which Sigalagala National Polytechnic and Nairobi Technical Training Institute received Kshs.20,000,000 each for the construction of mentee institutions namely Emalulu and Mathare Technical and Vocational Colleges respectively. However, audit verifications carried out in the month of November, 2022 revealed that the sites for construction were yet to be identified and therefore, the amounts sent for the two (2) institutions were not utilized. Further, the State Department did not provide evidence that funds were retained for future use.

In the circumstances, value for money may not be realised on the transfer of Kshs.40,000,000 for the construction of mentee institutions.

**270. Failure to Enforce One Third Rule on Basic Salary**

Review of compensation of employees documents revealed that in the month of June, 2022, seven (7) officers earned less than one-third ($^1/_3$) of their basic salaries. This was contrary to Section 19(3) of the Employment Act, 2012 which provides that the total amount of all deductions that may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds ($^2/_3$) of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

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

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

**Basis for Conclusion**

**271. Processing of Payments**

**271.1 Voided Transactions**

Analysis of the system payments indicated that twenty-seven (27) transactions of Kshs.405,309,396 were voided during the year 2021/2022. No approval was given from the Controller of Budget approving the payments and the voiding.

**271.2 Transactions in System Payments not Processed in Payment Details**

Analysis of the IFMIS system payment reports processed against the payments made, revealed sixty-nine (69) transactions amounting to Kshs.63,953,049 that were paid but not captured in IFMIS payment details as at 30 June, 2022.

In the circumstances, the effectiveness of key processes and internal controls put in place to process payments could not be confirmed.

**272. Failure to Update Pending Bills Annexure**

During the year under review, there were no pending bills disclosed in the financial statements except for an amount of Kshs.58,702,226 which was disclosed in Note 12 as deposits. However, IFMIS data indicated accounts payable of Kshs.161,095,556

(recurrent accounts Kshs.1,393,888 and development accounts Kshs.159,701,668) that were not disclosed in the financial statements and whose supporting documents were not provided for audit review.

In the circumstances, the effectiveness of the key processes and controls put in place to capture accurately the accounts payables could not be confirmed.

## DONOR FUNDED PROJECTS

## KENYA ITALY DEBT FOR DEVELOPMENT PROGRAM

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**273. Unsupported Prior Year Adjustments**

The statement of financial assets reflects a prior year adjustment amounting to Kshs.442,821. However, this has not been disclosed in the Notes to the financial statements on the nature of the error that relates to the prior period and the fact that comparative information has been restated or that it is impracticable to do so. Further, the cash at the beginning of the period has not been adjusted by the amount of error and journal entries signed by the Accounting Officer or an officer designated by him.

This was contrary to Regulation 103 of the Public Finance Management (National Government) Regulations, 2015 which provides that journal entries prepared for all adjustments to be authorised by the accounting officer or an officer designated by him or her before posting them in a financial record. Further, the Regulations requires that the journal vouchers to be supported by sufficient explanations, authorisations, and documentation to facilitate accounting adjustments to be understood.

In the circumstances, the accuracy and completeness of the prior year adjustments balance of Kshs.442,821 could not be confirmed.

**274. Unsupported Domestic Travel and Subsistence**

The statement of receipts and payments reflects purchase of goods and services amount of Kshs.6,348,978 as disclosed in Note 2 to the financial statements. Included in this amount is an amount of Kshs.6,319,400 in respect of domestic travel and subsistence allowances on monitoring and evaluation activities for the project. However, Management did not provide work plans and an imprest register for audit. Further, Note 2 to the financial statements reflects domestic travel and subsistence cumulative to date comparative amount of Kshs.28,904,902 which was at variance with the previous year audited amount of Kshs.24,015,759 resulting in an unreconciled variance of Kshs.4,889,143.

In the circumstances, the accuracy, completeness and regularity of domestic travel and subsistence expenditure amount of Kshs.6,319,400 and the cumulative to-date amount of Kshs.35,224,302 for the year ended 30 June, 2022 could not be confirmed.

**275. Omitted Donor Commitment**

The project information and overall performance reflect the source and application of funds on pages vii and viii. The summary does not reflect the donor commitment, amounts received, amounts undrawn and unutilized balances, and amounts received to date in donor currency as prescribed by the reporting template by the Public Sector Accounting Standards Board.

In the circumstances, the annual report and financial statements for the year ended 30 June, 2022 are not fairly stated in respect of the source and the application of funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Conclusion**

**276.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**278.** As required by the Agreement in the Form of Exchange of Letter-Kenya Italy Debt for Development Program, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements are in agreement with the accounting records and returns.

## SUPPORT TO TECHNICAL AND VOCATIONAL EDUCATION AND TRAINING FOR RELEVANT SKILLS DEVELOPMENT PROJECT-PHASE II (LOAN NO.2100150033295)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**279.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**280. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a final budget and actual receipts on a comparable basis of Kshs.848,500,000 and Kshs.790,803,552 respectively, resulting to an underfunding of Kshs.57,696,448 (or 7%) of the budget. Similarly, the Project spent an amount of Kshs.790,803,552 against an approved budget of Kshs.848,500,000, resulting to an underexpenditure of Kshs.57,696,448 (or 7%) of the budget.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**281. Delay in Completion of Training Institutes**

The statement of receipts and payments reflects acquisition of non-financial assets amount of Kshs.541,222,628 as disclosed in Note 4 to the financial statements. The expenditure includes an amount of Kshs.426,222,628 in respect of overhaul, refurbishment of construction, and civil works for training institutions for contracts engaged in the year 2016/2017 whose performance bonds had expired. Review of these projects revealed that construction works in four (4) Institutions with a combined contract cost of Kshs.798,608,059 and payments of Kshs.629,578,884 had not been completed. The Project is scheduled to come to an end on 30 December, 2022 by which time the projects will be incomplete and not put to the intended use.

In the circumstances, value for money has not been realised.

**282. Delay in Supply, Delivery, Installation, Commissioning, Learning and Training Assistive Devices and Equipment**

The Project Management entered into a contract for supply, delivery, installation, and commissioning of learning and training in the use of assistive devices and equipment to four (4) Special Technical Training Institutes at a contract sum of Kshs.119,989,397 in August, 2017. However, records to confirm receipt of the devices and equipment by the receiving institutions were not provided for audit.

In the circumstances, it was not possible to confirm whether value for money was achieved in the procurement.

**283. Failure to Open and Maintain a Separate Project Bank Account**

The Project Management did not maintain a specific project bank account as funds received were credited to the Ministry's development bank account instead of a separate project account. It was therefore not possible to trace the receipts to the cash book and in the bank statement. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides for the purpose

of disbursement of project funds, there shall be opened and maintained a project account for every project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**285.** As required by African Development Fund, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the financial statements are in agreement with the accounting records and returns.

## EAST AFRICA SKILLS FOR TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (EASTRIP) IDA LOAN CREDIT NO.6334-KE

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**286.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**287. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.700,000,000 and Kshs.87,107,119 resulting in an under expenditure of Kshs.612,892,881 (or 88%) of the budget.

The underperformance 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

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

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

**Basis of Conclusion**

**289. Failure to Tag Assets**

The summary of the fixed assets register reflects fixed assets valued at Kshs.30,632,223 as disclosed in Annex 2 to the financial statements. Included in this balance is Kshs.6,315,200 and Kshs.11,065,423 in respect to office equipment, furniture and fittings, and ICT equipment, software and other ICT assets respectively. Verification of the assets revealed that the assets had not been tagged or serialized for ease of identification and management.

In the circumstances, the security and custody of the assets may not be assured raising the likelihood of misuse, theft and loss.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**290.** As required by International Development Association, based on the audit procedures performed, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## PROMOTION OF YOUTH EMPLOYMENT AND VOCATIONAL TRAINING IN KENYA (TVET PHASE I) PROJECT LOAN REFERENCE: BMZ NO.2016 67 211 & BMZ NO.2016 65 298 AND PROJECT GRANT REFERENCE NO.1930 05 527

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**291.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**292. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a final budget and actual receipts on a comparable basis of Kshs.633,000,000 and Kshs.135,196,299 respectively, resulting in an underfunding of Kshs.497,803,701 (or 79%) of the budget. Similarly, the Project spent an amount of Kshs.135,196,299 against an approved budget of Kshs.633,000,000, resulting in an underexpenditure of Kshs.497,803,701 (or 79%) of the budget.

The underfunding and underperformance 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**293. Slow Pace of Project Implementation**

The Financing Agreement dated 21 February, 2020 indicated that Phase I of the Project had twelve (12) activities. The activities were meant to construct, equip and upgrade three (3) Institutions identified as Centres of Excellence through training of trainers on the use and maintenance of equipment, development, and procurement of teaching, learning and assessment materials and tools as well as provision of scholarships to disadvantaged youths. However, the project is at the third activity, an indication that nine (9) activities had not been implemented as of the time of the audit in October, 2022. Further, the Project has only fourteen (14) months remaining before the expiry of the three (3) year period casting doubt on the completion of the project.

In the circumstances, value for money may not be realized in the implementation of the project due to the slow implementation.

**294. Irregular Procurement and Payment for Consultancy Services**

As previously reported, the State Department requested assistance from the Development Partner in undertaking the procurement of a consultant on 22 August, 2017. The consultancy service contract was awarded at a contract sum of Kshs.446,041,869 on 9 September, 2020. However, this was done before the Project financier was identified.

The following anomalies were also noted: -

i. A Tender Agent based in Germany was engaged on an unidentified date to undertake the evaluation on behalf of the State Department;

ii. The terms of engagement of the Tender Agent including the contract, procurement process, appointment, remuneration if any, and the contractual obligations were not provided for audit review;

iii. The engagement with KfW to assist in the procurement of the consultant was on 22 August, 2017 which was more than two years before the signing of the Financing Agreement on 21 February, 2020;

iv. The notification of the award was made on 17 July, 2018 to the successful consultant based in Germany while the contract was signed on 9 September, 2020 which was more than two years after the notification of the award;

v. The contract was signed between the State Department and a locally incorporated company that was not part of the bidding consortium and which was not the one notified of the award; and,

vi. The payments were made to the local Company that did the invoicing even though they were not a party to the contract and there was no apparent contractual obligation.

In the circumstances, the Project Management and the State Department were in breach of the law on procurement and value for money has not been realised. Further, the payments made were irregular as the Company was not part of the consortium at bidding for the service.

**295. Failure to Open and Maintain a Separate Project Bank Account**

The Project Management did not maintain a specific project account as funds received were credited to the Ministry's development bank account instead of a separate project account. It was therefore, not possible to trace the receipts to the cash book and in the bank statement. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

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

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

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**297.** As required by the Kreditanstalt fur Wiederaufbau (KfW), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# PROMOTION OF YOUTH EMPLOYMENT AND VOCATIONAL TRAINING PHASE II IN KENYA LOAN NO.BMZ 2018 65 120

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**298.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**299. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a final budget and actual receipts on a comparable basis of Kshs.217,000,000 and Kshs.14,559,774, respectively, resulting in an underfunding of Kshs.202,440,226 (or 93%) of the budget. Similarly, the Project spent an amount of Kshs.14,559,774 against an approved budget of Kshs.217,000,000 resulting in an underexpenditure of Kshs.202,440,226 (or 93%) of the budget.

The underfunding and underperformance 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**300. Failure to Open and Maintain a Separate Project Bank Account**

The Project Management did not maintain a specific project bank account as funds received were credited to the Ministry's development bank account instead of a separate project account. It was therefore not possible to trace the receipts to the cash book and in the bank statement. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account. Further, the receipts were not supported with respective itemized exchequer issue notifications and receipt vouchers to confirm the receipt of funds.

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

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

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**302.** As required by the Kreditanstalt fur Wiederaufbau (KfW), I report based on my audit that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## SUPPORT TO TECHNICAL AND VOCATIONAL EDUCATION TRAINING AND ENTREPRENEURSHIP (TVETE PROJECT PHASE III) (LOAN NO. 2100150042254)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**303.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**304. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a final budget and actual receipts on a comparable basis of Kshs.445,000,000 and Kshs.52,749,532 respectively, resulting in an underfunding of Kshs.392,250,468 (or 88%) of the budget. Similarly, the Project spent an amount of Kshs.52,749,532 against an approved budget of Kshs.445,000,000, resulting in an underexpenditure of Kshs.392,250,468 (or 88%) of the budget.

The underfunding and underperformance 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**305. Failure to Open and Maintain a Separate Project Bank Account**

The Project Management did not maintain a separate Project bank account instead funds received were credited to the Ministry's development bank account. This is contrary to

Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that, for the purpose of disbursement of Project funds, there shall be opened and maintained a Project account for every Project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the Project for which it is opened and each Project shall maintain only one bank account.

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

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

**Basis for Conclusion**

**306. Failure to Constitute Procurement Committees**

Review of documents revealed that during the year, the accounting officer did not establish ad hoc opening and evaluation Committees to open, evaluate and record the procurement proceedings. This is contrary to Section 44(1) and 2(b) of the Public Procurement and Asset Disposal Act, 2015 which states that, In the performance of the responsibility under subsection (I), an accounting officer shall constitute all procurement and asset disposal committees within a procuring entity in accordance with the Act.

In the circumstances, governance systems of the Project were not effective.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**307.** As required by African Development Fund, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR VOCATIONAL AND TECHNICAL TRAINING

## EAST AFRICA SKILLS FOR TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (EASTRIP) (IDA LOAN NO.6334-KE) - MERU NATIONAL POLYTECHNIC

REPORT ON THE FINANCIAL STATEMENTS

**Basis of Qualified Opinion**

**308. Inaccuracies in the Financial Statements**

**308.1 Statement of Cash Flows**

The statement of cash flows reflects net cash flow from operating activities of Kshs.61,625,064 which is incorrectly stated due to the following;

i. Increase in accounts receivables of Kshs.2,815,000 which ought to be subtracted was added to payments from operating activities.

ii. Recomputation of net cash flows from operating activities revealed that the increase of accounts receivables of Kshs.2,815,000 was not included in the total of Kshs.61,625,064.

iii. The statement reflects Nil balance on change in accounts payable. However, Note 17 reflect increase in accounts payable of Kshs.13,483,335.

**308.2 Changes in Accounts Receivables**

Note 16 to the financial statements reflects changes in accounts receivables which was wrongly described as follows;

i. Opening receivables as at 1 July, 2021 was wrongly described as deposit and retentions as at 1 July, 2021.

ii. Closing accounts receivables as at 30 June, 2022 was wrongly described as closing accounts payable as at 30 June, 2022.

iii. Change in receivables of Kshs.2,815,000 was wrongly described as change in payables.

**308.3 Changes in Accounts Payable**

Note 17 to the financial statements reflects Kshs.13,483,335 in respect of changes in accounts payable. However, recomputation revealed a balance of Kshs.13,904,223 resulting to a variance of Kshs.420,888 which was not reconciled or explained.

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2022 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**309. Cost Variation to the Construction Project**

Management advertised for works in June, 2021 for the construction of Building Technology Flagship Center and other facilities where a contract was signed on 8 October, 2021 at a contract sum of Kshs.444,473,290 with a project duration of eighteen (18) months. However, review of site meeting minutes of the Project Implementation Team dated 10 June, 2022 revealed that the progress of works was behind schedule and the contractor was advised to provide project status report and give recovery plan for the lost time, which was not provided for audit verification.

Further, the Quantity Surveyor for the project at the same meeting, acknowledged receipt of cost variation claims from the contractor amounting to Kshs.96,372,034 which was a variation of 21.67 % of the original contract sum. The Quantity Surveyor indicated that the claim was being reviewed for onward transmission to the client. However, it was not possible to confirm what percentage of the claim was payable.

In addition, audit verification carried out in October, 2022 revealed that the works were progressing at a slow pace since the contractor appeared to have slowed down the works awaiting the decision from the Project Management on the cost escalation claims.

Further, there was no evidence to show that the cost variation was reviewed by the Project Implementation Team and submitted through the head of procurement function to the Project Coordinator for approval as required by law.

In the circumstances, value for money expended on the Project could not be confirmed.

**310. Non-Compliance with Ethnicity and Regional Distribution**

Review of personal files revealed that all Project employees were from the same ethnic community. This was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**311. Failure to Insure Project Assets**

During the year under review, the Project Management only procured insurance services for two Project vehicles but did not insure ICT equipment, office equipment and furniture

and fittings all appearing in the assets register and valued at Kshs.17,084,714 as required by law and EASTRIP risk policy.

In the circumstances, the safety and security of the Project assets could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**312.** As required by International Development Association, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## EAST AFRICA SKILLS TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (EASTRIP) GRANT/CREDIT NO.IDA 6334-KE - KISUMU NATIONAL POLYTECHNIC

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**313.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**314. Budgetary Control and Performance**

Section 1.2 of the financial statements on project information and overall performance indicates that the Project duration is five (5) years or 60 months from 2020 to 2024, with a donor commitment of EUR 9,280,000 equivalent to Kshs.1,080,000,000. However, as at 30 June, 2022, the Project had received EUR 2,715,517 equivalent to Kshs.315,000,000 or 29% of total budgeted funds despite 30 months or 50% of the project timeline having lapsed. Further, out of the Kshs.315,000,000 total amount received as at 30 June, 2022 only Kshs.274,390,015 had been spent on project activities representing 25.4% of the donor project commitment amount of Kshs.1,080,000,000 and an 87% absorption rate of the received funds.

This was an indication of delay in project implementation and Management had not explained interventions that were put in place to recover the lost time.

Further, the statement of comparison of budget and actual amounts reflects nil actual receipts against budgeted amount of Kshs.509,122,906 resulting to a 100% underfunding. Similarly, the statement reflects an actual expenditure of Kshs.158,681,506 against budgeted amount of Kshs.509,122,906 resulting to under expenditure of Kshs.350,441,401 or 69% of the budget. Although, the Management attributes the underfunding and under absorption to the effects of COVID-19 pandemic, it is an indication that the goals and objectives of the Project may not have been achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**315.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**317.** As required by International Development Association and the Project Grant/Credit Number IDA-6334-KE, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## EAST AFRICA SKILLS TRANSFORMATION AND REGIONAL INTEGRATION PROJECT (CREDIT NUMBER 6334 – KE) – KENYA COAST NATIONAL POLYTECHNIC

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**318.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**319. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.300,000,000 and nil respectively resulting to a 100% under funding. Similarly, the Project spent Kshs.46,907,550 against the budgeted expenditure of Kshs.300,000,000 resulting to underexpenditure of Kshs.253,092,450 or 84% of the budget. Management attributed the underfunding and related under expenditure to lengthy approval and contract signing process for acquisition of equipment.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**320.** 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**

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

# STATE DEPARTMENT FOR UNIVERSITY EDUCATION AND RESEARCH - VOTE 1065

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**322. Unsupported Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.251,964,581 as disclosed in Note 7 to the financial statements. Included in the amount is an expenditure of Kshs.14,964,580 which was not supported with relevant records and documents including receipts, minutes, committee appointment letters, back-to-office reports, invitations and travel documents. Further, an amount of Kshs.2,286,800 was spent on payment for tea, snacks, security and training and Management had not explained how the expenditure relates to scholarships and other educational benefits.

In the circumstances, the regularity of the expenditure of Kshs.17,251,380 for the year ended 30 June, 2022 could not be confirmed.

**323. Failure to Prepare Bank Reconciliations**

The statement of financial assets reflects a bank balance of Kshs.182,274,170 as disclosed in Note 10A to the financial statements. Review of records revealed that the State Department did not prepare monthly bank reconciliations for deposit and recurrent accounts except for the month of June, 2022. Further, the bank reconciliation statements for the month of June, 2022 reflects payments in the recurrent and development cash books not in the bank statements of Kshs.166,163,553 and Kshs.84,413,082 respectively whose dates of clearance by the bank was not indicated.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.182,274,170 as at 30 June, 2022 could not be confirmed.

**324. Undisclosed Foreign Travel**

The statement of receipts and payments reflects use of goods and services amount of Kshs.136,047,476 as disclosed in Note 5 to the financial statements. The amount includes Kshs.8,774,221 in respect of foreign travel and subsistence which was not captured in the financial year's expenditure work plan.

In the circumstances, the accuracy and completeness of foreign travel and subsistence expenditure of Kshs.8,774,221 for the year ended 30 June, 2022 could not be confirmed.

**325. Other Operating Expenses**

**325.1 Expenditure not Disclosed as a Pending Bill**

The statement of receipts and payments reflects Kshs.136,047,476 in respect to use of goods and services as disclosed in Note 5 to the financial statements. Included in the expenditure is an amount of Kshs.5,117,748 in respect of other operating expenses out

of which Kshs.814,320 was for the provision of garbage collection and disposal for the months of July, 2020 to June, 2021. However, the amount was not disclosed as a pending bill in the 2020/2021 financial year.

### 325.2 Expenditure Wrongly Classified

Included in other operating expenses are transactions amounting to Kshs.621,890 wrongly classified and posted under other operating expenses instead of conference facilities and domestic travel.

In the circumstances, the validity and accuracy of other operating expenses amounting to Kshs.5,117,748 could not be confirmed.

## 326. Compensation of Employees

The statement of receipts and payments reflects Kshs.258,008,361 in respect of compensation of employees as disclosed in Note 4 to the financial statements. The expenditure increased from Kshs.209,477,209 in previous year to Kshs.258,008,361 by Kshs.48,531,152 (or 23.2%) which was not explained. Further, the verified payment vouchers total was Kshs.244,939,158 resulting into an unreconciled and unexplained variance of Kshs.13,069,203. In addition, the statement of comparison of budget and actual amounts reflects employee compensation over-expenditure of Kshs.16,408,361 that was not supported by an approved budget contrary to Regulation 43(2) of Public Finance Management (National Governments) Regulations, 2015 which states that National Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the Contingencies Fund, or supplementary estimates.

In the circumstances, the accuracy, completeness and regularity of compensation of employees expenditure of Kshs.258,008,361 could not be confirmed.

## 327. Transfers to Other Government Entities

### 327.1 Current Grants to Government Agencies and Other Levels of Government

The statement of receipts and payments reflects transfers to other Government units of Kshs.85,016,468,678 as disclosed in Note 6 to the financial statements. The amount includes Kshs.78,128,307,412 in respect of current grants to Government Agencies and other levels of Government. Included in the amount is a transfer of Kshs.42,057,700 to Biosafety Appeals Board whose supporting documents was not provided for audit.

Further, the board is not functional as a separate entity and was also not included in the authorized schedule for disbursements to Semi-autonomous Government Agencies (SAGAS).

Transfer to other government units also includes a total of Kshs.448,473,444 disbursed to two (2) Institutions in which the institutions only acknowledged receipts amounting to Kshs.363,629,885 resulting in an unexplained and unreconciled variance of Kshs.84,843,559. In addition, the transfers included an expenditure of Kshs.11,290,000

in respect of the procurement of motor vehicles whose log books were not provided for audit.

### 327.2 Unsupported Capital Grants to Government Agencies

The statement of receipts and payments reflects transfers to other Government units of Kshs.85,016,468,678 as disclosed in Note 6 to the financial statements. Included in the transfers is Kshs.3,513,369,663 in respect to capital grants to Government Agencies. Review of the transfers revealed that an amount of Kshs.412,933,116 was disbursed to Kenya Advanced Institute of Science and Technology (KAIST) and Eastern and Southern Africa Higher Education Centres of Excellence (ACE II) projects. However, the Project's financial statements for the year ended 30 June, 2022 reflected receipts of Kshs.97,521,005 and Kshs.313,477,533 respectively totalling to Kshs.410,998,538 resulting to an unexplained and unreconciled variance of Kshs.1,934,578.

Further, the supporting schedule provided indicated that an amount of Kshs.170,594,181 was used by the State Department to purchase a motor vehicle, subsistence allowances, hire of conference facilities, purchase of air tickets, purchase of fuel, and other unrelated expenses and not disbursed to Government agencies. This was contrary to Section 43(1)(b) of the Public Finance Management Act, 2012 which prohibits the reallocation of funds appropriated for capital expenditure.

### 327.3 Unsupported Transfers to Private Universities

The statement of receipts and payments reflects Kshs.85,016,468,678 in respect of transfers to other Government units which as disclosed in Note 6 to the financial statements includes Kshs.3,374,791,603 in respect of transfers to private universities. However, the following anomalies were noted: -

i. Kshs.265,301,319 was disbursed to five (5) universities. However, no acknowledgment letters and receipts from the universities were provided to confirm receipt of the funds.

ii. An amount of Kshs.198,500,261 was disbursed to three (3) universities which confirmed to have only received a total of Kshs.183,339,074 resulting in an unreconciled and unexplained variance of Kshs.15,161,187;

iii. An amount of Kshs.22,591,680 was disbursed to thirteen (13) universities for 404 students. However, analysis of the supporting schedules revealed that these students had been duplicated in the schedules resulting to an overpayment of Kshs.22,591,680;

iv. A transfer to private universities of Kshs.136,295,811 was made for 3,357 students who had graduated by November, 2021 and, therefore, Management may have disbursed funds for students who had already completed studies and exited the Universities;

v. An amount of Kshs.376,990,032 was disbursed for a total of 8,964 students who were not active in the period July, 2021 to June, 2022 as they had not registered to sit for the scheduled exams in their respective Universities. Management may have disbursed funds for students who had deferred or quit the universities; and,

vi. An amount of Kshs.337,207,284 was disbursed for a total of 7,828 students who had been in the Universities for more than four (4) years which is the normal period undertaken for most undergraduate programs. Management may have paid tuition fees to non-existent students in private universities.

In the circumstances, the accuracy, completeness and regularity of transfers to other Government units of Kshs.85,016,468,678 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**328. Lack of an Audit Committee**

The State Department did not have an Audit Committee in place. Further, the internal audit reports were not provided for review. This was contrary to Section 73(5) of the Public Finance Management Act, 2012 which provides that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations.

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

**329. Non-Compliance with One-Third Basic Pay Rule**

Review of monthly payrolls revealed that fifteen (15) officers had committed their salaries over and above the required two-thirds of the basic pay contrary to the policy on payment of salaries. This was contrary to Section 19(3) of the Employment Act, 2012 which provides that the total amount of all deductions that may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds (2/3) of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry

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

**330. Lack of Fixed Asset Register**

Annex 2 on fixed assets schedule reflects historical cost of assets amounting to Kshs.6,305,853,289. However, Management did not provide a detailed asset register to support the balance of Kshs.6,305,853,289 and confirm the existence of the assets. This was contrary to Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015 which requires that the Accounting Officer be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**331. Non-Conformity to the Staff Establishment**

Examination of the State Department`s approved staff establishment revealed that it had a capacity of one hundred and fifteen (115) officers in sixty-one (61) cadres. However, there were variations between the staff in post and the approved establishment. The State Department exceeded the approved staff establishment in various cadres by ninety-eight (98) staff and understaffed other cadres by seventeen (17) staff. No justifiable explanation was provided for the overstaffing and understaffing of staff.

In the circumstances, internal controls on staffing were not effective.

**332. Employees in Biodata but not in Payroll**

Review of payroll and the biodata revealed that names of forty-five (45) officers appeared in the biodata but were not in the IPPD payroll system. No explanation was provided for the anomaly.

In the circumstances, controls over the complement control are weak and may expose the State Department to fraud and other irregularities.

## DONOR FUNDED PROJECTS

## SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION, SCIENCE AND TECHNOLOGY PROJECT (ID NO. P-KE-IAD-001-LOAN AGREEMENT NO.2100150027993)

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**333. Inaccuracies in the Financial Statements**

Review of statement of receipts and payments for the year ended 30 June, 2022 revealed comparative cumulative to date balances that are at variance with the balances reflected in the audited financial statements for the year ended 30 June, 2021 as here under:

| Item | Financial Statements | | Variance (Kshs.) |
|---|---|---|---|
| | 2021/2022 (Kshs.) | 2020/2021 (Kshs.) | |
| Loan from External Development Partners | 3,757,627,736 | 3,576,020,397 | 181,607,339 |
| Acquisition of Non-Financial Assets | 3,364,346,908 | 3,182,739,569 | 181,607,339 |

Further, review of Note 1.7A of the funding summary under the Project Information and Overall Performance revealed current year's cumulative donor receipts balance of

27,270,803 unit of accounts equivalent to Kshs.3,757,627,740 which is at variance with the respective previous year's balance of 27,270,803 unit of accounts equivalent to Kshs.3,576,020,397 which should otherwise have remained constant since no funding was received during the year under review. Management has not given any explanation for the discrepancies.

In absence of any restatement of balances, the accuracy of the financial statements could not be ascertained.

**334. Defects and Delays in Delivery of Equipment to Various Universities**

As previously reported, the Project entered into supply contracts with various vendors for supply of specialized science and engineering equipment to selected public universities. Under the terms of the contracts, the vendors were to receive advance payments of 20% of their respective contract values upon submission of bank guarantees of equivalent amounts. A further 60% of the contract sum was to be paid after the equipment was shipped and relevant documents submitted to Management. The remaining 20% was to be paid upon receipt and acceptance of the items supplied.

As at 30 June, 2022, the Project's cumulative expenditure from 2013/2014 financial year on procurement of specialized plant, equipment and machinery totalled Kshs.2,799,042,159. However, records provided for audit revealed that the project was expected to end by 31 December, 2021 and that equipment totalling Kshs.112,598,346 were rejected by the respective inspection and acceptance committees.

The Project Management explained that the State Department finalized the status of delivery and acceptance of equipment and wrote to the Attorney General in July and August, 2021 seeking for an advisory on payment of any outstanding balances due to the suppliers, refund of advance guarantees recovered and levying of liquidated damages from any payments to the suppliers. The State Department is awaiting the final advisory on the mode of recovery of the liquidated damages from the Office of the Attorney General.

In view of the defective and unfulfilled supplies, the validity of the cumulative expenditure of Kshs.2,799,042,159 at Note 4 to the financial statements reported under purchase of specialized plant, equipment and machinery could not be confirmed. Further, value for money has not been realised on the project.

**335. Uncorrected Prior Periods Error on Recall of Performance Securities**

Review of records revealed that sums of Kshs.138,568,038 for performance bonds for the project were recovered from several suppliers for breach of contract and were deposited at Central Bank of Kenya in an account owned by the State Department for University Education on 17 September, 2019. These transactions have not been disclosed in the statement of financial assets as at 30 June, 2020, 30 June, 2021 and 30 June, 2022. Management did not make any correction in the financial statements for these prior periods' errors. Further, explanation for the errors and their adjustment have not been included in the notes to the financial statements as indicated below;

| Contract Date | Contract Number | Supplier | Amount Recovered (Kshs.) |
|---|---|---|---|
| 08 January, 2015 | ICB/HEST/17/2013-2014 | Limited Company | 13,985,209 |
| 14 October, 2013 | ICB/HEST/08/2012-2013 | Trading Company | 25,164,584 |
| 23 October, 2013 | ICB/HEST/07/2012-2013 | Trading Company | 27,002,395 |
| 23 October, 2013 | ICB/HEST/06/2012-2013 | Aviation Company | 15,500,422 |
| 14 October, 2013 | ICB/HEST/17/2012-2013 | Services Company | 22,896,093 |
| 28 November, 2013 | ICB/HEST/26/2012-2013 | Limited Company | 10,315,262 |
| 23 October, 2013 | ICB/HEST/13/2013-2014 | Commercial Agencies | 12,425,613 |
| 23 October, 2013 | ICB/HEST/14/2013-2014 | Commercial Agencies | 11,278,458 |
| **Total** | | | **138,568,037** |

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

### 336. Undisclosed Pending Accounts Payables

During the year under review, the Project Management entered into a contract for consultancy services with two firms at a contract cost of Kshs.15,532,287. However, review of the financial statements submitted for audit revealed that these pending accounts payables had not been disclosed in the financial statements.

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

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

### 337. Late Submission of Financial Statements

The financial statements were submitted to the Auditor General on 29 November, 2022. This was contrary to Section 47(1) of the Public Audit Act, 2015 which requires that financial statements should be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

### 338. Irregular Signing of Contract

The State Department for University Education entered into a contract for the provision of consultancy services on the conduct of end-of-project evaluation. The validity period for the said tender was 120 days starting from 12 May, 2021. The Project Management entered into a contract on 22 October, 2021 while the validity in respect of this tender lapsed on 9 September, 2021. This was contrary to Clause 12.1 of the Request for Proposal Document and Section 135(3) of the Public Procurement and Asset Disposal Act, 2015. Further, in the absence of a valid contract, disputes arising will not be legally enforceable.

In the circumstances, the regularity of the contract entered into could not be confirmed.

### 339. Failure to Open and Maintain a Separate Project Bank Account

The Project Management did not maintain a specific project bank account as funds received were credited to the Ministry's development bank account instead of a separate project account. It was therefore not possible to trace the receipts to the cash book and in the bank statement. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**341.** As required by the African Development Fund and financing agreement, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## ESTABLISHMENT OF KENYA ADVANCED INSTITUTE OF SCIENCE AND TECHNOLOGY PROJECT NO KEN-4

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

### 342. Unsupported and Unaccounted for Expenditure on Fuel and Lubricants for Motor Vehicles

The statement of receipts and payments reflects an amount of Kshs.86,231,005 in respect of purchase of goods and services as disclosed in Note 3 to the financial statements. Included in the amount is Kshs.499,999 in respect of fuel and lubricants for motor vehicles. However, the following anomalies were noted: -

i. The fuel was not recorded in the Project's motor vehicle work tickets;

ii. A number of work tickets for vehicles used by the Project were not provided for audit in support of the expenditure; and,

iii. The contract between the Project Management and the service provider was not provided for audit review.

In the circumstances, the regularity of the expenditure of Kshs.499,999 in respect of fuel and lubricants for motor vehicles could not be confirmed.

**343. Payment for Undelivered Goods and Irregular Charge of Unrelated Expenditure**

The statement of receipts and payments reflects acquisition of non-financial assets - purchase of vehicles and other transport equipment amounting to Kshs.11,290,000 as disclosed in Note 4 to the financial statements which had not been delivered and could not be physically verified. Further, as previously reported, the Project incurred an expenditure of Kshs.25,030,000 on the purchase of vehicles and other transport equipment which had not been delivered to the Project. However, available information revealed that the vehicles were being used by Ministry officials for non-project activities.

In the circumstances, the regularity of the expenditure of Kshs.36,320,000 on purchase of vehicles and other transport equipment could not be confirmed and value for money may not have been realized.

**344. Lack of Fixed Asset Register and Ownership Documents**

The statement of receipts and payments reflects the acquisition of non-financial assets cumulative expenditure amounting to Kshs.1,934,423,523 as disclosed in Note 4 to the financial statements. However, the Management did not provide for audit review a fixed asset register and logbooks for the two vehicles owned by the project.

In the circumstances, the existence, ownership, and valuation of assets with a cumulative balance of Kshs.1,934,423,523 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**345. Delayed Construction Works**

The Project's financial records indicate that the project has been ongoing for five (5) years since the loan agreement was signed on 28 December, 2017. The project has recorded an accumulated expenditure on the acquisition of non-financial assets amounting to Kshs.1,934,423,523 with the summary of fixed assets register reflecting buildings and structures of Kshs.1,897,510,523 for which the value of work done has not been measured. Further, the project Management ought to have made four (4) semi-annual consecutive repayments of the loan on February, 2020, August, 2020, February, 2021, and August, 2021 in compliance with the provisions of Article 1 Section 1.02 on general terms and conditions of the loan agreement. The project therefore continues to attract interest on the unutilized amounts.

In the circumstances, value for money has not been realised in the implementation of the project. In addition, the project continues to attract interest on the unspent amounts.

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

**Basis for Conclusion**

**346. Lack of Internal Audit on the Project**

Review of internal audit function revealed that no audit was carried out. Further, the Audit Committee did not sit to deliberate on matters relating to the project.

In the circumstances, the project did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**347.** As required by Economic Development Cooperation Fund Loan Agreement No.KEN-4 I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the financial statements are in agreement with the accounting records and returns.

## EASTERN AND SOUTHERN AFRICA HIGHER EDUCATION CENTRES OF EXCELLENCE (ACE II) PROJECT (CREDIT NO.5798-KE)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**348.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**349. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.360,000,000 and Kshs.313,477,533 respectively, resulting in an underfunding of Kshs.46,522,467 (or 13%) of the budget. Similarly, the Project spent Kshs.313,477,533 against an approved budget of Kshs.360,000,000 resulting in an underperformance of Kshs.46,522,467 (or 13%) of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public for the year ended.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Basis of Conclusion**

**350. Failure to Open and Maintain a Separate Project Bank Account**

The Project Management did not maintain a specific project bank account as funds received were credited to the Ministry's development bank account instead of a separate project account. It was, therefore, not possible to trace the receipts to the cash book and in the bank statement. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

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

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

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**352.** As required by International Development Association, based on the audit procedures performed, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. In my opinion, adequate accounting records have been kept by the project, so far as appears from the examination of those records and the Project's financial statements are in agreement with the accounting records and returns.

# OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR UNIVERSITY EDUCATION

## AFRICA CENTER OF EXCELLENCE IN SUSTAINABLE USE OF INSECTS AS FOOD AND FEEDS PROJECT (IDA CREDIT NO.5798-KE) - JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**353. Unsupported Adjustments in the Financial Statements**

The statement of receipts and payments reflects purchase of goods and services expenditure amounting to Kshs.110,825,981 which, as disclosed in Note 11.5 to the financial statements includes an amount of Kshs.28,628,210 relating to domestic travel and allowances. However, the ledger relating to domestic travel and allowances reflects an amount of Kshs.29,167,834, resulting to a variance of Kshs.539,624, which was explained as a reversal of amounts paid but expenditure recognized fully. Management has not explained why the revised amount was not updated in the ledger.

In the circumstances, the completeness and accuracy of the amount of Kshs.28,628,210 under purchase of goods and services could not be confirmed.

**354. Ineligible Expenditure**

The statement of receipts and payments reflects an amount of Kshs.110,825,981 under purchase of goods and services and which, as disclosed in Note 11.5 to the financial statements includes amounts of Kshs.28,628,210, Kshs.12,173,652 and Kshs.29,269,897 in respect of domestic travel and subsistence, training expenses and research expenses, respectively. However, examination of records revealed that amounts of Kshs.10,565,694, Kshs.6,832,510 and Kshs.9,783,762 in respect of domestic travel and subsistence, training expenses and research expenses, respectively which did not directly relate to the Project. The relevance of the expenditure to the Project were not demonstrated and no evidence was provided to indicate that the expenditures were in the annual work plan and had been budgeted for.

In the circumstances, the regularity of the expenditure amounting to Kshs.27,553,123 under research expenditure could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**355. Non-Compliance with the Public Finance Management Regulations, 2015 - Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.144,731,861 and Kshs.225,609,176, respectively resulting to an over-funding of Kshs.80,877,315 or 56% of the budget. The Management attributed the increased actual receipts to receipt of Kshs.87,051,520 towards the tail end of the financial year which could not be absorbed and receipt of more foreign grants as a result of MOU'S that had been signed in the previous year but funds remitted in the current year under review.

Similarly, the Fund expended Kshs.136,408,010 against an approved budget of Kshs.231,783,381 resulting to an underexpenditure of Kshs.95,375,371 or 41 % of the budget. The Project therefore had a deficit budget of Kshs.6,174,205. Management has not indicated how it intended to finance the deficit. This is contrary to Regulation 33(c) of the Public Finance Management Regulations, 2015 which stipulates that the budget must be balanced.

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

**356. Delays in Project Implementation**

The Project was to run for 83 months from 1 February, 2017 to 31 December, 2023. As at 30 June, 2022, the project had been in existence for 65 months or 78.3% of the set timelines. The Project total commitment amounted to Kshs.809,504,563. However, Table B on application of funds reflects total utilization balance of Kshs.399,996,877 implying that the Project had only utilized 49.42% of the committed funds, an indication that it had achieved less than 50% of its intended purpose.

Management indicated that financing is based on target given in form of Deliverable Linked Results (DLR) segregated into DLR1.1 to DLR 4.2, and the Center has received 65.8% withdrawal of the financier's funds and has utilized 92% of the withdrawn amount. Although the Project has achieved some of its deliverables, the Project remains behind schedule. No efforts appear to have been made to ensure that the Project timelines and set objectives are fast tracked.

In the circumstances, the Project is behind schedule and value for money may not be realised.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**358.** As required by Financing Agreement with International Development Association (IDA), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## AFRICA CENTRE OF EXCELLENCE (ACE II) IN PHYTOCHEMICALS, TEXTILES AND RENEWABLE ENERGY (PTRE) PROJECT (IDA CREDIT NO.5798-KE) – MOI UNIVERSITY

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**359.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**360. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.338,676,806 and Kshs.176,046,197 respectively resulting to an underfunding of Kshs.162,630,609 or 48% of the budget. Similarly, the Project expended Kshs.124,306,288 against an approved budget of Kshs.338,676,806 resulting to an underexpenditure of Kshs.214,370,518 or 63% of the budget.

The underfunding and underperformance 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**

**361. Acquisition of Non-Financial Assets - Renewable Energy Equipment**

The statement of receipts and payments reflects an amount of Kshs.31,180,248 under acquisition of non-financial assets as disclosed in Note 11.5 to the financial statements. Included in this amount is Kshs.30,442,348 for strengthening research capacity excellence which in turn includes Kshs.21,634,514 that was paid to a firm for supply, installation, commissioning and acceptance of renewable energy equipment. However, the asset register and the delivery note did not indicate the serial numbers of the equipment delivered.

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

**362. Imprests and Advances**

The statement of financial assets reflects imprests and advances balance of Kshs.4,299,583 as disclosed in Note 11.7 to the financial statements. However, a total of Kshs.1,196,970 held by five (5) payees remained unsurrendered or unaccounted for as at the time of audit in October, 2022. No evidence of recovery action or other appropriate disciplinary action taken on the defaulting officers was provided, contrary to Regulation 93(10) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to take such action.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**364.** As required by loan agreements signed between the Republic of Kenya and International Development Association (IDA Credit No.5798 - KE), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Program and the Program's financial statements agree with the accounting records and returns.

# STATE DEPARTMENT FOR EARLY LEARNING AND BASIC EDUCATION – VOTE 1066

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**365. Unsupported Revenue from Registration and Re-Registration of Schools**

The statement of receipts and payments reflects total receipts of Kshs.100,010,099,685 which includes an amount of Kshs.2,662,400 in respect of revenue from registration and re-registration of schools. However, Management did not provide supporting documents on how many schools were registered and re-registered during the year. Further, the revenue from registration and re-registration of schools was not included in the approved budget for the 2021/2022 financial year.

In circumstances, the accuracy and completeness of the total receipts amount of Kshs.100,010,099,685 for the year ended 30 June, 2022 could not be confirmed.

**366. Inaccuracies in Cash and Cash Equivalents - Holding/Suspense Accounts**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.205,020,777 as disclosed in Note 12A and 12B to the financial statements. However, review of the cash and cash equivalents for the year ended 30 June, 2022 revealed that the State Department maintained nine (9) holding/suspense accounts with various commercial banks for disbursements of subsidies, grants and transfers to other government entities. As at 30 June, 2022, the nine (9) holding/suspense accounts had a balance of Kshs.98,176,499 which was not included in the bank balances of Kshs.205,020,777 as at 30 June, 2022.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.205,020,777 as at 30 June, 2022 could not be confirmed.

**367. Misclassification and Payment of Rent without Valid Lease Agreements**

The statement of receipts and payments reflects an expenditure of Kshs.5,815,120,762 under use of goods and services which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.147,262,641 in respect of rentals of produced assets. The expenditure includes an amount of Kshs.60,960,113 being rent of office space for various State Department offices in the Counties whose lease agreements had expired.

In addition, analysis of the expenditure reflects that transportation costs amounting to Kshs.16,161,628 was excluded from expenditure on use of goods and services - rentals of produced assets and charged on grants and transfers to other Government entities against the Government budget classification and chart of accounts issued by The National Treasury.

In the circumstances, the accuracy and regularity of the expenditure of Kshs.60,960,113 incurred on rentals of produced assets could not be confirmed.

## 368. Irregular Disbursements of Free Primary Education Funds

The statement of receipts and payments reflects an expenditure of Kshs.30,546,359,898 under transfers to other Government units which, as disclosed in Note 8 to the financial statements, includes an amount of Kshs.19,971,035,325 in respect of transfers to National Government Entities. The transfers include an amount of Kshs.9,062,694,606 relating to funds disbursed for free primary schools during the year. However, analysis of the Free Primary Education data revealed the following anomalies;

### 368.1 Disbursements of Free Primary Education Funds to Schools with Duplicate Bank Accounts

Review of the disbursements revealed that thirty-eight (38) schools shared bank accounts and received disbursements totalling Kshs.1,557,119.

### 368.2 Disbursements of Free Primary Education Funds to Schools Sharing Registration Numbers (TSC Codes)

Review of the Free Primary Education bank disbursements schedule revealed twenty-four thousand one hundred and nineteen (24,119) schools sharing TSC registration numbers. The schools received disbursements amounting to Kshs.737,669,134 during the year under review.

### 368.3 Disbursements of Free Primary Education Funds to Schools Without TSC Codes

Review of the Free Primary Education bank disbursements schedule provided revealed that four hundred and thirty-six (436) schools did not have TSC registration numbers/Codes. The schools received a total disbursement of Kshs.14,664,414 during the year under review.

### 368.4 Disbursements of Free Primary Education Funds to Schools with Unknown TSC Codes

Review of the Free Primary Education bank disbursements schedule provided revealed that three thousand four hundred and eighty six (3,486) schools were assigned a TSC code with different code formats from those provided by the State Department. The schools received disbursements amounting to Kshs.102,329,013.

In the circumstances, the accuracy and authenticity of the disbursements of Kshs.9,062,694,606 for free primary education funds for the year ended 30 June, 2022 could not be confirmed.

## 369. Irregularities in Free Day Secondary School Education Subsidies Disbursements

The statement of receipts and payments reflects an amount of Kshs.62,560,672,721 in respect of subsidies as disclosed in Note 7 to financial statements. Review of the National Education Management Information System (NEMIS) system in relation to the capitation disbursements schedule to secondary schools revealed the following anomalies: -

### 369.1 Disbursements of Day Secondary Schools Subsidies Through Duplicate Bank Accounts

Review of the schools lists on capitation per quarter reports revealed instances where schools shared bank accounts. An amount Kshs.6,281,741 was disbursed through the shared banks accounts. It was not clear why the duplicate bank accounts continued to recur in subsequent disbursements without being detected and corrected.

### 369.2 Bank Account used to Receive Operations and Tuition Capitation

Review of the schools lists on capitation per quarter reports revealed six (6) schools that operated one bank account for both operations and tuition funds with total payments of Kshs.40,927,074.

In the circumstances, the accuracy and authenticity of the subsidies totalling Kshs.47,208,815 for free day secondary school education could not be confirmed.

### 370. Misstatement of Reported Imprests and Advances

The statement of assets and liabilities reflects a balance of Kshs.94,508,522 in respect of accounts receivables which, as disclosed in Note 13 to the financial statements, includes amounts of Kshs.1,814,630, Kshs.220,178 and Kshs.92,473,714 in respect of Government imprests to staff, domestic debtors and advances, and district suspense respectively. However, analysis of imprest register provided indicated that the Management issued imprest totalling Kshs.329,381,044. The payment details of transactions made during the year indicated that the Management paid a total of Kshs.345,309,425 on temporary and standing imprests resulting in an unexplained variance of Kshs.15,928,380.

Further, reported as district expenses are amounts owed by the Sub-County and County Directors of Education totalling Kshs.1,890,168 that related to 2020/2021 financial year but were still outstanding during the year under review.

In the circumstances, the accuracy, completeness, presentation and disclosure of the imprest and advances balance of Kshs.94,508,522 for the year ended 30 June, 2022 could not be confirmed.

### 371. Unsupported Long Outstanding Accounts Payables

The statement of assets and liabilities reflects an accounts payables balance of Kshs.117,319,416 whose nature and supporting documents were not provided for audit. Further, payables amounts of Kshs.64,881,834 have been outstanding for over eight (8) years. Management did not provide explanations on why they have not been settled.

In the circumstances, the accuracy and completeness of the accounts payables balance of Kshs.117,319,416 could not be confirmed.

### 372. Unauthorized Reallocation of Funds for Construction of CBC Classrooms

The statement of receipts and payments reflects an expenditure of Kshs.30,546,359,898 in respect of transfers to other government units which, as disclosed in Note 8 to the financial statements, includes an amount of Kshs.19,971,035,325 that relates to transfers to National Government entities. The transfers to other Government entities amount

included an expenditure of Kshs.4,476,068,016 incurred on construction of Competency Based Curriculum (CBC) classrooms against an approved expenditure budget of Kshs.2,692,000,000 resulting in an unapproved over-expenditure of Kshs.1,784,068,016 or (66%) whose approval was not provided for audit.

In the circumstances, the accuracy, completeness, validity and regularity of the expenditure amounting to Kshs.1,784,068,016 could not be confirmed as a proper charge to public funds.

**Emphasis of Matter**

**373. Budgetary Control and Performance**

The summary statement of appropriation development reflects final receipts development budget and actual on a comparable basis of Kshs.14,099,945,379 and Kshs.7,528,073,544, respectively resulting in an underfunding of Kshs.6,571,871,835 (or 47%) of the budget. Similarly, the State Department spent Kshs.10,469,124,573 against an approved development budget of Kshs.14,099,945,379 resulting in an underexpenditure of Kshs.3,630,820,806 (or 26%) of the budget.

In the circumstances, the underfunding and underperformance 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**

**374. Pending Bills**

The State Department had pending accounts payable of Kshs.429,299,232 as at 30 June, 2020. Management did not explain why the bills were not settled during the year when they occurred. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

**375. Unresolved Prior Year 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 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

**Basis for Conclusion**

**376. Irregularities in the Procurement and Construction of Competency Based Curriculum Classrooms**

The statement of receipts and payments reflects an expenditure of Kshs.30,546,359,898 in respect of transfers to other Government Units which includes an amount of Kshs.19,971,035,325 in respect of transfers to National Government entities out of which

Kshs.4,476,068,016 was used in the construction of Competency Based Curriculum (CBC) classrooms. However, the following anomalies were observed: -

### 376.1 Unsupported Procurement Method

The State Department Management did not provide for audit explanations and documentation on the procurement method used on the tenders for the construction of the CBC classrooms and how the various contractors were identified.

### 376.2 Irregular Pricing of Construction of CBC Classrooms

The State Department Management tendered for the construction of the CBC classrooms at a cost of Kshs.709,398 for each classroom across the country. It was, however, not clear how the amount was arrived at taking into consideration the terrain and topographical layout across the country making it impossible to have a standard rate. Management did not also provide for audit Bills of Quantities, market surveys, and status reports on the construction of the classrooms.

Further, the procurement and payments of the contractors were made outside the e-procurement system. This was contrary to Regulation 49(2) of the Public Procurement and Assets Disposal Regulations, 2020 which provides that the conduct of e-procurement procedures for the supply of goods works and services shall be carried out by a procuring entity using an e-procurement system which is integrated to the State Portal.

In the circumstances, Management was in breach of the law in the procurement and award of the contract for the construction of the CBC classrooms.

## 377. Unsupported Procurement and Supply of Desktop Computers

Note 20.1 to the financial statements reflects a pending bills amount of Kshs.429,087,117 out of which an amount of Kshs.189,072,000 relates to the supply of two thousand and twenty (2,020) desktop computers to one hundred and ninety six (196) Secondary Schools across the forty-seven (47) Counties. Review of the procurement process reflects the following anomalies: -

i. The computers were delivered on 20 June, 2022, twenty (20) days after the lapse of the contract. The liquidated damage was at the rate of 0.5% per week, which would translate to about Kshs.2,836,080 and which was not charged as per the contract agreement;

ii. The signed contract related to SEQUIP Contract No. MOE/SEQUIP/NCB /04/2021-2022 as titled and not the State Department while the award and professional opinion relates to tender No. MOE/SDELBE/NCB/04/2021-2022 on supply of computers;

iii. There were no appointment letters to the Inspection and Acceptance Committee and there was no report on the inspection attached to the pending bill voucher. It is not clear whether an Inspection and Acceptance Committee had been constituted at the point of delivery despite the computers being delivered in schools;

iv. In addition, the contract for the supply of the desktop computers did not specify what tests were to be carried out to confirm the functioning of the machines;

v. No documentary evidence was provided on negotiations that actually took place and what tests were agreed upon; and,

vi. The procurement inspection and acceptance certificate attached did not give any remarks on the quality of the desktop computers received. It is not clear how the certificate was issued without a complete inspection and acceptance report.

In the circumstances, the validity of the contract as signed and implemented could not be confirmed.

### 378. Irregularities in the Implementation of the School Feeding Programme

The statement of receipts and payments reflects an amount of Kshs.30,546,359,898 in respect of transfers to other Government Units. The expenditure includes an amount of Kshs.19,971,035,325 in respect of transfers to National Government entities out of which an amount of Kshs.1,196,296,000 was spent on the purchase of various foodstuffs for the school feeding programme. However, the following anomalies were noted: -

### 378.1 Lack of an Inventory Management System

The State Department had not invested in an Inventory Management System to track and account for the inventory movement. There were no stock sheets or store records to record the movement of stock. The supplies were received and distributed manually which exposes the process to loss, manipulation, and other inaccuracies.

In the circumstances, the tracking and distribution of the foodstuff procured could not be ascertained.

### 378.2 Irregular Procurement of School Feeding Supplies

Review of the professional opinion dated 9 November, 2021 revealed that the required quantities for the school feeding programme had been pre-determined. The desired quantities are tabulated below:-

| Item | Quantity |
|---|---|
| Rice | 107,000 bags (47,000 bags - Ahero Sindano and 60,000 bags of Pishori rice) |
| Beans | 25,749 bags of 90 Kgs |
| Vegetable Oil | 12,780 Jerricans of 20 Litres |
| Salt | 5112 bales of 20 Kgs |
| Corn Soya Blend | 194,421 bags of 25 Kgs |

However, the State Department adopted a framework contract from Public Works and requested quotations from only one firm for supply of corn soya from a list of twenty-eight suppliers, three firms for supply of salt and five firms for supply of vegetable oil. This was contrary to provisions of Section 114(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that a procuring entity may enter into a framework

through open tender if the procurement value is within the thresholds prescribed under regulation to this Act; the required quantity of goods, works or non-consultancy services cannot be determined at the time of entering into the agreement; and a minimum of seven alternative vendors are included in each category.

### 378.3 Failure to Deliver the Required Quantities of Corn Soya and Beans

Included in the expenditure of Kshs.1,196,296,000 is an amount of Kshs.14,462,500 for the purchase of Corn Soya. However, review of the contract revealed that the supplier was to supply 25Kg bags of Corn Soya at a unit cost of Kshs.3,250 whenever required. The supplier was issued with four LPOs which were partly delivered and some cancelled by the State Department as indicated below:-

| LPO No. | Date of LPO | Quantity | Amount (Kshs.) | Status |
|---|---|---|---|---|
| 1981 | 16 November, 2021 | 39,564 | 128,583,000 | Cancelled |
| 1983 | 16 November, 2021 | 39,564 | 128,583,000 | Cancelled |
| 2143 | 21 February, 2022 | 39,563 | 128,579,750 | Partly delivered 4,450 Bags |
| 2142 | 21 February, 2022 | 39,563 | 128,579,750 | Cancelled |
| **Total** | | | **514,325,500** | |

However, the following anomalies were observed: -

i. Through a letter dated 12 May, 2022 from the supplier, the vendor stated that they were unable to process Local Purchase Order No. 1981 and 1983 valued at Kshs.257,165,000 but committed to deliver Local Purchase Orders No.2142 and 2143. However, out of the 79,126 bags that were to be supplied, the supplier managed to deliver only 4,450 bags at Kshs.14,462,500. It was also observed that clause 3.17.1 on liquidated damages was not effected when paying for the part delivery of Local Purchase Order 2143. The contractor communicated one month later after receiving the Local Purchase Orders and it is not clear at what point the cancellation of orders was effected or by whom.

ii. Local Purchase Orders No.1981 and 1983 dated 16 November, 2021 were issued to suppliers on 3 March, 2022 and 1 March, 2022 after the expiry date of the contract. This was contrary to Section 53 of the Public Procurement and Asset Disposal Act, 2015 which provides that the validity period of LPO is thirty (30) days. It is also not clear whether the State Department appointed a Contract Implementation Committee to report on the way forward with regard to the implementation of the contract.

iii. In addition, four (4) firms had been recommended for the supply of beans and had entered into contracts with the State Department but failed to supply. Minutes of a meeting held on 10 January, 2022 stated that the delay had led to undocumented dropout of learners from the arid and semi-arid areas.

iv. The State Department did not take any action against the suppliers after failure to deliver besides cancellation of their Local Purchase Orders as required by circular

dated 20 April, 2021 from the State Department of Public Works which stated that, "complaints with regard to improper fulfillment of contract terms should be made in the first instance with the contractor. In case no satisfactory solution is obtained from the contractor; the Ministry should refer the matter in writing to the Principal Secretary Public Works who will take up the matter." It was noted that the State Department did not escalate the matter to the State Department of Public Works after the contractors failed to perform.

In the circumstances, failure to deliver the required food ration is an indication of inefficiencies in the procurement process within the State Department which negatively impacted on the school feeding programme and thus affected the performance of students in school due to absenteeism.

### 378.4 Failure to Provide Performance Security on Contract

Included in the expenditure of Kshs.19,971,035,325 in respect of transfers to National Government entities is an amount of Kshs.1,196,296,000 which relates to the school feeding programme. However, the framework contracts signed made provisions for performance security, referring to the special conditions of the contract for specifics of the performance security. Review of the contract documents revealed that the special conditions of the contract had no provisions for performance security. There was no evidence that any of the contracted firms presented the State Department with performance security. Additionally, there was no evidence that the compensation from the performance bonds had been effected for the suppliers who failed to deliver, an indication that due diligence was not undertaken when signing the contracts.

In the circumstances, the State Department Management was in breach of the law in failing to implement the framework contracting process thereby locking out other potential suppliers. Further, value for money may not have been realized in the redistributed foodstuffs as the redistribution affected the nutritional value as planned.

### 379. Irregular Procurement of Tyres

The statement of receipts and payments reflects an expenditure of Kshs.5,815,120,762 in respect of use of goods and services which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.50,725,322 for routine maintenance - vehicles and other transport equipment. Review of procurement documents revealed that the State Department incurred an expenditure of Kshs.1,972,672 on the purchase of tyres. However, the cost of the same tyres within framework agreement was Kshs.850,772. The evaluation report did not provide any justification for the selection of the winning companies with higher quotes over the other listed suppliers whose quotes were cheaper. The State Department engaged various Agencies that were not from the prequalified list adopted from the State Department for Public Works.

In the circumstances, value for money was not realized in the expenditure of Kshs.1,972,672 on the purchase of tyres.

### 380. Use of Suppliers not in the List of Pre-Qualified Suppliers

The statement of receipts and payments reflects an expenditure of Kshs.2,988,658 in respect of the acquisition of assets as disclosed in Note 11 to the financial statements. Review of the sampled payment vouchers amounting to Kshs.2,469,100 revealed that firms invited to bid for the supply of computers, printers, UPS units and related items were not pre-qualified by the State Department. This was contrary to Section 95(3) of the Public Procurement and Asset Disposal Act, 2015 which provides that a procuring entity shall invite tenders from only approved person who have been pre-qualified. Further, there were no documents provided to indicate that the firms were subjected to a procurement process before the invitation to submit quotations.

The absence of pre-qualification process denied fairness, equitability, transparency, cost-effectiveness and competition among those who may wish to submit their applications.

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

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

**Basis for Conclusion**

### 381. Incomplete Asset Register

The annual consolidated inventory of assets (assets register) provided by the State Department disclosed all movable and immovable assets that the State Department has in its possession. However, it was observed that seventy-five (75) motor vehicles owned by the State Department were not included in the assets register.

In the circumstances, the completeness, existence, ownership and condition of the motor vehicles could not be confirmed.

### 382. Failure to Hold Minimum Number of Audit Committee Meetings

During the year under review, the Audit Committee met only twice i.e. on 24 March, 2022 and on 28 October, 2021 as per the minutes provided for audit. This was contrary to Regulation 179 of Public Finance Management (National Government) Regulations, 2015 which requires that the Audit Committee meet at least once every three months (quarterly).

In the circumstances, the State Department did not benefit from the assurance and advisory, and oversight services from the Audit Committee.

### 383. Use of Non-Official Email Addresses in Official Communication

During the year under review, it was observed that the State Department's staff used personal emails especially google email application for official business communication. This was contrary to Public Service Commission circular number SH/ADM/23(1) dated 14 June, 2022 on use of personal email addresses for official Government business. All Ministries, State Departments and Semi-Autonomous Government Agencies were required to have their staff members boarded onto the Government domain email

addresses provided by the ICT Authority. The circular stated that any email communication that is non-compliant will be considered non-official.

In the circumstances, the use of personal emails may compromise the State Department's data and potentially exposes the entity and the Government in matters of National security and National interests.

### 384. Lack of an IT Steering Committee

The State Department does not have an IT Steering Committee in place. This was contrary to Section 6.2 of the IT Governance Standard by the ICT Authority on ICT Governance direct that all Ministries, County, Departments and Agencies shall establish two ICT Governance Committees namely; an IT Strategy Committee to provide strategic advice on ICT initiatives and investments to the Management and an IT Steering Committee to define the IT mission and goals aligned with the strategic direction of the organization, to authorize and direct the development of the services and operation plans.

Lack of an ICT Steering Committee exposes the State Department to the risk of unclear direction regarding the maintenance of information security and safeguard of ICT Assets across the State Department.

### 385. Lack of Anti-Fraud Policy

Review of the internal control processes and risk management measures revealed that State Department did not have an Anti-Fraud Policy in place. Further, there was no Risk Register. This was in contravention of Regulation 165(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that the National Government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

Lack of Anti-Fraud Policy exposes the State Department to embezzlement, fraud, loss of assets which may negatively impacted on the financial, material or reputation of the State Department.

## DONOR FUNDED PROJECTS

## KENYA PRIMARY EDUCATION DEVELOPMENT PROJECT (GRANT NO. TFO18863)

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

### 386. Failure to Maintain an Updated Assets Register

Annex 2 to the financial statements - summary of fixed asset register reflects assets with a cumulative historical cost of Kshs.715,138,466. The balance includes assets valued at

Kshs.475,353,633 brought forward and additional assets acquired at a cost of Kshs.239,784,833. The register provided for audit was compiled on 6 January, 2017 and was not updated, which may lead to loss of assets. Further, the assets had not been identified by any tag and therefore the completeness of the record provided could not be verified.

In the circumstances, the accuracy, completeness, ownership, and existence of assets valued at Kshs.715,138,466 could not be confirmed.

**387. Unreconciled Special Account Statement**

The statement of receipt and payments reflects proceeds from domestic and foreign grants of Kshs.783,683,539 as disclosed in Note 12.2 to the financial statements. However, the corresponding account balance reflected in the special account statement is Kshs.783,952,872 made up of Kshs.306,180,000 in respect of Disbursement Linked Indicator designated account, Kshs.283,862,621 in respect of withdrawals and Kshs.193,910,251 in respect of direct payments resulting in an unexplained variance of Kshs.269,333.

In the circumstances, the accuracy and completeness of the proceeds from domestic and foreign grants amounting to Kshs.783,683,539 could not be confirmed.

**Other Matter**

**388. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects the final expenditure budget and actual on a comparable basis of Kshs.1,538,783,671 and Kshs.1,121,849,455, respectively resulting in an underexpenditure of Kshs.416,934,416 (or 27%) of the budget.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**389. Irregularities in the Procurement Procedures**

The statement of receipts and payments as disclosed in Note 12.4 to the financial statement reflects an amount of Kshs.137,764,077 for purchase of goods and services which includes an amount of Kshs.16,721,142 in respect of hospitality services. However, review of expenditure on hospitality services revealed that Local Purchase Orders (LPOs) were issued after invoicing in the following instances: -

i. The Project Management paid Kshs.1,490,000 through payment voucher No.831. Review of the supporting local purchase order revealed that the LPO is dated 7 December, 2021 while the Invoice No.3324 is dated 3 December, 2021;

ii. The Project Management paid Kshs.618,000 through payment voucher No.321. Review of the supporting local purchase order revealed that the LPO is dated 14 October, 2021 while the Invoice No.2101 is dated 1 October, 2021;

iii. The Project Management paid Kshs.1,233,000 through payment voucher No.834. Review of the supporting local purchase order revealed that the LPO is dated 7 December, 2021 while the Invoice No.3276 is dated 25 November, 2021;

iv. The Project Management paid Kshs.303,000 through payment voucher No.830. However, the Local Purchase Order was dated 22 December, 2021 while Invoice No.2245 of the same amount was dated 15 December, 2021;

v. The Project Management paid Kshs.78,000 through payment voucher No.847 against a Local Purchase Order 1812838 dated 25 December, 2021 while Invoice No. INV190000001577 of the same amount was dated 30 November, 2021;

vi. The Project Management paid Kshs.579,000 through payment voucher No.849 of against Local Purchase Order 1812842 dated 29 December, 2021 while Invoice No. INV190000001615 of the same amount was dated 20 December, 2021;

vii. The Project Management paid Kshs.579,000 through payment voucher No.832 against Local Purchase Order 1812837 dated 22 December, 2021 while Invoice No.2229 of the same amount was dated 2 December, 2021; and,

viii. The Project Management incurred an expenditure of Kshs.576,000 on the procurement of airtime for GPE/PRIEDE Project Coordination Unit (PCU) staff for the month of October to December, 2021. This was made against a Local Purchase Order (LPO) No.3756157 dated 31 December, 2021 while the invoice was dated 30 December, 2021 a day before the LPO was issued.

In the circumstances, the regularity of the expenditure of Kshs.5,456,000 in respect of hospitality services could not be confirmed.

**390. Unsurrendered Project Assets**

The Project ended on 31 December, 2021. However, the Project Management had not prepared the statement of assets for handing over to the Accounting Officer, ten (10) months after the closure of the Project. This was caused partly by the failure to maintain an updated asset register. This is contrary to Regulation 74(6) of the Public Finance Management (National Government) Regulations, 2015 which stipulates; an Accounting Officer of a National Government entity shall ensure that whenever projects are completed, the project assets including buildings, plant, motor vehicles, furniture, fitting, and equipment are properly recorded and handed over to the accounting officer in accordance with the financing agreement. Further, the Regulation provides that when no time frame is provided for the project, the assets are handed over within three (3) months from the date of closure of the project; and in absence of any instructions to the contrary, any unexpended balance standing in the credit of the projects is paid into the Consolidated Fund.

In the circumstances, the Project Management was in breach of the law and risk loss of assets.

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

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**392.** As required by the Financing Agreement between the International Development Association and the Government of the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

## GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**393. Inaccuracies Presentation of the Annual Report and Financial Statements**

Review of the annual report and financial statements presented for audit revealed the following inaccuracies: -

i. Details on the program grant/credit number were not indicated on the title page of the financial statements;

ii. The financial statements do not include the Statement of Performance Against the Project's Predetermined Objectives, and the Environmental and Sustainability Reporting;

iii. The Project Funding Summary does not reflect the donor commitment and amount received in donor currency as prescribed by the report template by the Public Sector Accounting Standards Board;

iv. The table of contents included notes to the financial statements however, three (3) reports namely Significant Accounting Policies, Other Important Disclosures, and Annexes were missing from the submitted financial statements;

v. Page v of the financial statement reflects a subtitle (ref 1.6) as Project Governance which contradicts the revised financial reporting template which indicates the same reference as Roles and Responsibilities; and,

vi. The annual report and financial statements do not include the names, title/designation, key qualifications, and responsibilities of the key persons working in the Project.

In the circumstances, the annual report and financial statements do not comply with the requirements of the reporting template as prescribed by the Public Sector Accounting Standards Board in line with the International Public Sector Accounting Standards (IPSAS Cash Basis).

**394. Inaccuracies in the Cash and Cash Equivalents**

The statement of financial assets reflects cash and cash equivalents balance of Kshs.1,077,215 as disclosed in Note 8.6 to the financial statements. However, the bank reconciliation statement reflects payment in the bank not recorded in the cash book of Kshs.503,350 which occurred in the year 2016. The amount was not recorded in the cash book resulting to an overstatement of the cash and cash equivalents.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,077,215 could not be confirmed.

**395. Unaccounted for Accumulated Surplus**

The statement of receipts and payments reflects accumulated surplus balance of Kshs.325,249,171 which was not included in the fund balance of Kshs.1,077,215 in the statement of financial assets. The Project Management did not provide explanations on how the surplus was treated.

In the circumstances, the accuracy, occurrence and completeness of the accumulated surplus balance of Kshs.325,249,171 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**396. Failure to Transfer Unspent Funds**

The statement of financial assets reflects a cash and cash equivalents balance of Kshs.1,077,215 as disclosed in Note 8.6 to the financial statements. The amount was not paid into the Consolidated Fund and remained unspent for three (3) consecutive years. This was contrary to Regulation 74(6)(d) of the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer of a national government entity shall in the absence of any instructions to the contrary, ensure that any unexpended balance standing in the credit of the project account is paid into the Consolidated Fund.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## SECONDARY EDUCATION QUALITY IMPROVEMENT PROJECT (CREDIT NO.61380-KE)

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**398. Non-Itemization of Budget Line Items**

Review of the approved budget for the financial year 2021-2022 indicated that the allocations were based on activities, however, there were no budget line items linked with the activities to enable comparison with the format of the financial statements and the Government Chart of Accounts. This was contrary to the International Public Sector Accounting Standards (IPSAS) 24 on the presentation of budget information in financial statements.

In the circumstances, the accuracy of the budget as approved and the allocation to the various line items could not be confirmed.

**399. Unreconciled Special Account Statements**

The statement of receipts and payments reflects proceeds from external development partners amount of Kshs.971,196,695 as disclosed in Note 1 to the financial statements. However, the corresponding account balance in the special account statement reflected a withdrawal amount of Kshs.972,195,810 resulting in an unreconciled and unexplained variance of Kshs.999,115. Further, the special deposit accounts movement schedule reflects an amount of Kshs.326,452,939 being the total amount withdrawn in respect of the special account which was at variance with the corresponding nil withdrawal in the special account statement as at 30 June, 2022 resulting in an unexplained variance of Kshs.326,452,939.

In the circumstances, the accuracy and completeness of the special deposit account of Kshs.971,196,695 could not be confirmed.

**400. Undisclosed Bank Account Balance**

The statement of financial assets reflects a bank balance of Kshs.83,308,697. However, review of the Equity Group Foundation bank statements revealed that the account had a balance of Kshs.17,923,635 as at 30 June, 2022 which was not disclosed in the Project's financial statements. Further, the Project Management did not provide information and

documents on the scholarship beneficiaries and a list of those who did not receive the scholarships, or the reasons for the failure to remit the scholarship funds.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.83,308,697 could not be confirmed.

### 401. Irregularities in the Operation of the Elimu Scholarship Fund

The statement of receipts and payments reflects cumulative other grants and transfers and payments amounting to Kshs.3,009,313,011 as disclosed in Note 6 to the financial statements in respect of SEQIP transfers to Equity Group Foundation. The following anomalies were noted: -

### 401.1 Unsupported List of Beneficiaries

The Project Management did not provide an approved list of beneficiaries against which the transfers were made. In the absence of the approved list by the Ministry, the audit could not establish whether the Foundation disbursed funds to bona fide students.

### 401.2 Unapproved Change of Contract Terms

Review of contract documents revealed that the Project Management entered into an agreement the Foundation for Consultancy Services for the Design and Support, Implementation of Scholarship, Mentorship, Gender Sensitization, and Social Support Programme for secondary students under the Secondary Education Quality Improvement Project (SEQIP) through contract-MOE/SEQIP/NCB/07/2017-2018 dated 21 November, 2019. The contract did not provide for the transfer of funds to the Foundation for onward transfer to Schools and the Procurement of School kits. The Project Management did not provide evidence to prove that the transfer of roles by the Ministry to the Foundation was approved by The National Treasury, World Bank, and the Cabinet Secretary for the Ministry of Education.

### 401.3 Unauthorized Opening and Operation of Project Bank Account

The Project Management transferred an amount of Kshs.2,102,385,727 to the Foundation during the year under review. However, the Project Management did not provide the following for audit verification: -

i. Approval from The National Treasury to open the account in accordance with Section 28(1) of the Public Finance Management Act, 2012;

ii. Details of the signatories to the account;

iii. Monthly reports reconciling payments from the account with the recipient school in the list of approved Elimu Scholarship beneficiaries;

iv. Monthly reports of uncleared amounts detailing the intended recipients which should be verified and approved by the client to ensure funds are allocated to the relevant cost centre;

v. A sample of payments amounting to Kshs.2,347,473,772 analyzed from an extract in the Foundation Account revealed payments for which the Project Management

did not provide supporting documents with details on the payee and bank details to which these payments were made. Further, the Project Management did not provide evidence of interest earned while the funds remained in the account;

vi. Review of the bank statements reflected transfers to other bank accounts. However, the monthly returns indicating the details of the transferee, purpose of the transfers, the intended beneficiary, and acknowledgement by the schools or students were not provided for audit; and,

vii. Bank credit with different particulars such as unutilized transfers and transport, banked cheques, bank transfers were noted. However, the intended recipient/source and reasons for the credit entries were not provided for audit review.

### 401.4 Unapproved Procurement and Distribution of School Kits

Review of the approved budget revealed that Kshs.938,286,789 was allocated for procurement of school kits for Elimu Scholarship Beneficiaries Cohort 1 and Cohort 2 as per the approved annual work plan. The procurement was made by the Equity Group Foundation without a contract and was based on an addendum made to the original contract. The Project Management did not obtain approval from The National Treasury, The World Bank, and the Cabinet Secretary - Ministry of Education authorising the procurement to be conducted by the Equity Group Foundation. Further, field verification conducted during the month of November, 2022 revealed the following anomalies: -

i. Bank charges for the card management were born by the student which was affecting the transport of some of the students as transport is based on actual charges;

ii. Some students had their approved transport reduced without any explanation, while other students were not provided with sufficient amount to take them to school and back home;

iii. During monitoring and evaluation by the Project Management, it was noted that the school kits had items that were reduced or omitted as follows; books, ream papers, slippers, sugar, blue band, shoe brush, cocoa, and revision books. The reduction of the items had material implications on the contract sum and support to the students. However, no contract variation was made to cater for the reduction in the school kit;

iv. Form three (3) students interviewed raised concerns that there were important materials like set books, geometrical sets, calculators, mathematical tables, and trips not provided for;

v. Most of the schools were sending the students home for Parent Teachers Association (PTA) fees, development fees or other fees not paid for. This was contrary to circular reference No. MOE/HQS/3/10/18 of 12 July, 2022 exempting the students from paying any other fees;

vi. Three (3) students in Makueni Girls Secondary School had visual impairment which was affecting their studies and needed medical attention. However, the

Project had not factored in medical issues affecting the scholars which could have impacted on their studies;

vii. Most of the students in Form three (3) did not receive the second pair of uniforms and Physical Education (PE) kits;

### 401.5 Students Benefiting from More than One Scholarship Programme

Review of sampled fees statement on students under Elimu Scholarship revealed that some students had fees overpayment amounting to Kshs.1,300,760 as a result of benefiting from more than one scholarship programme. This was especially noted in Kwale County where the County Government of Kwale sponsors students who qualify for National Schools on full scholarship. It was noted that the Elimu Scholarship Programme did not have structures in place to prevent multiple scholarships which may disadvantage other needy students.

### 401.6 Indiscipline and Poor Performance of Students under Elimu Scholarship Programme

The Project Management did not set the benchmark to be used in appraising compliance with the requirements in the Project Appraisal Document which stipulates that a scholar would continue to enjoy programme benefits until she/he completed Form Four (4), subject to satisfactory school attendance, behavior and academic performance. Interviews with the Teacher Gender Champions of the various sampled schools indicated that the performance of some of the students under the Elimu Scholarship Programme was deemed poor with cases of indiscipline.

### 401.7 School Fees Arrears for Form One Students

Field verification in sampled schools revealed that school fees had not been paid for Form 1 students for the whole year. This was contrary to the SEQIP Project Appraisal Document which provides that the second intervention, a secondary school scholarship program combined with child-specific mentorship, would support deserving primary school graduates in the targeted sub-counties who did not have the means to continue their education. The children eligible for the scholarship were to be selected from Grade 8 cohorts in the targeted areas in the first and second years of the Project. Scholarship recipients were to have their school fees (including boarding fees) paid for at the beginning of Form 1 at schools to which the students were admitted.

In the circumstances, the accuracy, occurrence, regularity, and validity of the expenditure of Kshs.2,102,385,727 in respect of other grants and transfers and payments for the Elimu Scholarship Fund could not be confirmed. Further, the contract for the disbursement of funds through Equity Group Foundation and procurement of the school kits was irregular.

## 402. Funding Summary

The Project's information and overall performance and funding summary at Note 1.7 reflects cumulative IDA amount received totalling Kshs.99,578,085, which differs with cumulative to date amount of Kshs.6,741,465,535 shown in the statement of receipts and payments. The difference was not explained or supported.

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

**Emphasis of Matter**

**403. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects the final receipts budget and actual on a comparable basis of Kshs.3,700,000,000 and Kshs.971,176,695 respectively resulting in an underfunding of Kshs.2,728,823,305 (or 74%) of the budget. Similarly, the Project expended an amount of Kshs.3,304,971,376 against an approved budget of Kshs.3,700,000,000 resulting in an underexpenditure of Kshs.395,028,624 (or 11%) of the budget. Further, the revised budget and annual work plan for the financial year ended 30 June, 2022 reflects an amount of Kshs.4,541,385,469 while the final budget as reported in the statement of comparison of budget and actual amounts reflected a balance of Kshs.3,700,000,000 resulting in an unexplained and unreconciled variance of Kshs.841,385,469.

The underfunding and underperformance 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**

**404. 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, the Management had not resolved the issues nor given any explanation for the failure to implement the recommendations.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**405. Failure to Return Unspent Funds for Re-Voting**

The SEQIP implementing Agencies - Kenya National Examination Council (KNEC) and Kenya Institute of Curriculum Development (KICD) had balances of Kshs.150,076,157 and Kshs.247,433,842 respectively. This resulted in cumulative unspent funds of Kshs.397,509,999 as at 30 June, 2022. The funds were not returned to the Project account for re-voting. This was contrary to Regulation 117 of the Public Finance Management (National Government) Regulations, 2015 which stipulates that an A.I.E holder should ensure that the funds are re-voted for the Project in the following financial year.

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

**406. Irregular and Highly Priced Consultancy Services**

Review of records revealed that the Project had entered into an agreement with Equity Group Foundation for consultancy services for design and support, implementation of

scholarship, mentorship, gender sensitization and social support programme for secondary students through contract-MOE/SEQIP/NCB/07/2017-2018 dated 21 November, 2019 at a sum of Kshs.1,131,568,762. The Project total cost was estimated at Kshs.4,955,050,000 at the time the contract was signed and aimed at enhancing transition and retention of poor and vulnerable learners in secondary education. This is as outlined in subcomponent 2.2: of the SEQIP Project Appraisal Document.

The single contract price is 22.83% of the total cost of the Project. This casts doubt on whether public resources have been applied in an effective, efficient and economical manner while determining the cost of the Equity Group Foundation consultancy services.

In the circumstances, the effectiveness and economy in the use of public resources could not be established.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## KENYA GPE COVID-19 LEARNING CONTINUITY IN BASIC EDUCATION PROJECT (GRANT ID. P174059 AND CREDIT NO. TFB03336)

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

### 408. Irregular Expenditure on Fortified Meals

The statement of receipts and payments reflects cumulative expenditure to date of Kshs.874,718,669 in respect of transfers to other Government entities as disclosed in Note 11.5 to the financial statements. Included in this amount is the expenditure of Kshs.199,998,500 being transfers to the Directorate of Primary Education for purchase of fortified meals under the Covid-19 Learning Continuity Basic Education Project. However, the following anomalies were noted: -

### 408.1 Inconsistencies in the List of Enrolment for Beneficiary Schools

Examination of documents provided for audit revealed a list of two hundred and eighty thousand, three hundred and thirty-one (280,331) students in the beneficiary schools which was used as a basis for the purchase of the 61,525 bags of corn soya blend. However, the enrolment numbers in the beneficiary schools and the enrolment as per the approved list had material variances. In all the sampled schools, the enrolment was higher than the numbers quoted in the contract. The basis of the enrolment list used to do the procurement could not be confirmed.

### 408.2 Irregularities in Procurement and Distribution of Fortified Meals

The Project Management made a request for procurement of food commodities on 27 September, 2021. The Principal Secretary approved the purchase of 53,751 bags of 25kg each at a cost of Kshs.3,665 amounting to Kshs.196,997,415 on the procurement of corn soya blend. This was adjusted in the revised budget to 60,615 bags of 25kg each at a cost of Kshs.3,250 per bag amounting to Kshs.196,998,750. The Project Management did not provide justification for the adjustments for audit. The Project Management procured the food commodity through the State Department for Public Works framework contracts. However, the following irregularities were noted:

#### 408.2.1 Inadequacies in the Purchase of Corn-Soya

The following anomalies were noted: -

i. The Project Management invited bids from only one contractor despite having a list of twenty-eight suppliers who had framework contracts with the State Department of Public Works. This was contrary to Section 114(3)(b) of the Public Procurement and Assets Disposal Act, 2015 which provides that a procuring entity should invite mini-competition among persons that have entered into the framework agreement in the respective category;

ii. The procurement for the blended meals was entered into the procurement plan on the same day that the vendor was awarded the contract for supply of the blended corn-soya mealie;

iii. The list of schools identified to benefit from the project was amended to include other schools that were not in the initial list.

iv. Variances were noted in the approved supply list and the actual number of bags supplied;

v. The Project Management did not provide the schools with clear instructions on the usage. This led to some schools issuing the food stuff to parents for use at home instead of having it prepared in schools;

vi. The basis of distribution was not provided. Field verification revealed that some schools were given more than the required amounts leading to the fortified meals expiring before use;

vii. Documentation on deliveries of the fortified meals were not provided in most of the schools;

#### 408.2.2 Irregular Supply of Fortified Meals to Counties

Field inspection conducted in Kajiado, Machakos, Makueni, Kisumu, Homabay, Siaya, Isiolo, Tharaka Nithi, and Meru Counties revealed the following anomalies: -

#### 408.2.2.1 Kajiado and Machakos Counties

The Project Management delivered fortified food amounting to Kshs.2,030,569 and Kshs.1,209,544 to Kajiado and Machakos Counties on 28 and 29 June, 2021 respectively. However, the County Director of Education, Kajiado County was not able to confirm receipt of corn-soya blend received in his County and a visit to sampled schools revealed that no flour was delivered to the primary schools. The delivery to Machakos County Offices vide waybill No.10351 obtained from the CDE office Machakos County was not supported by any distribution list to confirm the distribution of the fortified food. Verification of the identified schools also confirmed the fortified food was not delivered to the schools.

#### 408.2.2.2 Isiolo County

The Project Management delivered 917 bags of fortified food worth Kshs.2,833,266 to Isiolo County. However, data obtained from the County Director of Education at Isiolo County revealed that a total of 845 bags were received resulting in a difference of seventy-two (72) bags.

#### 408.2.2.3 Kisumu County

The Project Management delivered 1,372 bags at a total cost of Kshs.5,028,772 to Kisumu County. However, the deliveries made could not be confirmed since no documentation was provided for review. Further, the Sub County Directors of Education were not aware of the program as the corn-soya blend flour was directly distributed to schools.

### 408.3 Failure to Provide Performance Security for the Contract

Clause 3.7.1 of the framework agreement between the winning bidder and the State Department required the tenderer to furnish performance security to procuring entity within thirty (30) days of notification of award or as per the special conditions of contract. Further, Section 142 of the Public Procurement and Asset Disposal Act, 2015 requires the tenderer to provide performance security equivalent to not more than ten percent of the contract amount before signing of the contract. However, there was no performance security for this contract to cover the procuring entity in case of any failure of the contract not being fully executed.

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

## 409. Irregular Expenditure on Purchase of Electronic News Gathering and Field Production Equipment

The statement of receipts and payments reflects an amount of Kshs.100,762,639 in respect of acquisition of non-financial assets as disclosed in Note 11.4 to the financial statements. Included in the amount is the expenditure of Kshs.11,916,880 on purchase of electronic news gathering and field production equipment. However, the contract agreement had not been signed. Further, discrepancies were noted on the local service order, which was dated 25 October, 2021 whilst the delivery notes were dated

16 September, 2021, 23 September, 2021 and 24 September, 2021 respectively, an indication that deliveries were made before issue of local service order.

In the circumstances, regularity, occurrence and validity of the expenditure of Kshs.11,916,880 could not be confirmed.

**410. Unreconciled Special Account Statement**

The statement of receipt and payments reflects proceeds from domestic and foreign grants of Kshs.238,265,907 as disclosed in Note 11.1 of the financial statements. However, the corresponding account balance reflected in the special account statement reflects an amount of Kshs.238,499,099 resulting in an unexplained variance of Kshs.233,192.

In the circumstances, the accuracy and completeness of the proceeds from domestic and foreign grants amounting to Kshs.238,265,907 could not be confirmed.

**Other Matter**

**411. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects the final expenditure budget and actual on a comparable basis of Kshs.564,661,708 and Kshs.516,064,278 respectively resulting in an underexpenditure of Kshs.48,597,430 (or 9%) of the budget which has not been explained by way of a footnote.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**412. Unsupported Contract Period Extension**

The Project Management entered into a contract for consultancy to provide blended online and face-to-face psychosocial support services at a contract price of Kshs.81,545,886 for a period of sixteen (16) weeks. Later the contract was extended by four (4) weeks from the initial sixteen (16) weeks through a request by the Project Coordinator on 28 September, 2021. However, the approvals by the International Development Association (IDA) and the Accounting Officer were not provided for audit. Further, a revised work plan and performance security for the extended period was not provided for audit.

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

**413. Alterations of Procurement Records**

The Project Management entered into a contract for consultancy to provide blended online and face-to-face psychosocial support services at a contract price of

Kshs.81,545,886. However, it was observed that the evaluation documents provided for audit for the provision of psychosocial consultancy services with a contract sum of Kshs.81,545,886 had score sheets containing arithmetical errors and alterations. The alterations were not countersigned making it difficult to ascertain if they were due to error or fraud. This is contrary to Regulation 102(3) of the Public Finance Management (National Government) Regulations, 2015 which provides that an Accounting Officer shall satisfy himself or herself that, where an alteration of a financial record requires the authorization, approval and, or deletion of any transaction or data whether electronic or manual by any means other than in writing, that there is sufficient audit trail which shall identify the person who approved the transaction.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**414. Lack of Internal Audit on the Project**

Review of Internal Audit Unit revealed that no audit was carried out on the Project and was planned for the subsequent year. Further, the Audit Committee of the Ministry did not sit to deliberate on matters relating to the Project in the year under review.

In the circumstances, the Project did not benefit from the assurance and advisory services from the Internal Audit Unit as well as oversight from the Audit Committee.

# STATE DEPARTMENT FOR POST TRAINING AND SKILLS DEVELOPMENT – VOTE 1068

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**415. Inaccuracies in the Financial Statements**

Review of the financial statements revealed the following unsatisfactory matters: -

i. The bank reconciliation statement in the annexures as at 30 June, 2022 discloses a bank certificate balance of Kshs.4,944,061 but the certificate of bank balance reflects a balance of Kshs.33,641,402 resulting into unexplained variance of Kshs.28,697,341. Further, the reconciliation was not approved by the responsible officer;

ii. The statement of assets and liabilities reflects Nil balance in respect to cash which was at variance with the reported IFMIS balance of Kshs.65,244,093;

iii. The statement of assets and liabilities reflects a balance of Kshs.690,000 in respect to accounts payables - deposits which was at variance with the reported IFMIS balance of Kshs.61,013,031 resulting in an unreconciled and unsupported difference of Kshs.60,323,031, and;

iv. The statement of cash flows reflects net cash flows from operating activities amounting to Kshs.27,773,354 which was at variance with the IFMIS generated statement of cash flows which disclosed Kshs.88,096,386 resulting in unreconciled difference of Kshs.31,505,003.

In the circumstances, the accuracy and completeness of the balances reflected in the statement of assets and liabilities and the statement of cash flows could not be confirmed.

**416. Irregular Advance Payments**

The statement of receipts and payments reflects acquisition of assets expenditure of Kshs.22,870,170 as disclosed in Note 5 to the financial statements which includes Kshs.8,080,000 in respect to purchase of a motor vehicle. Review of records revealed that the payment for a vehicle was made in advance, but the vehicle could not be physically verified. This was contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that no works, goods or services contract shall be paid for before they are executed or delivered and accepted by the Accounting Officer.

In the circumstances, the propriety and value for money on the acquisition of assets expenditure totalling to Kshs.8,080,000 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**417.** 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**

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

# STATE DEPARTMENT FOR IMPLEMENTATION OF CURRICULUM REFORMS – VOTE 1069

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**419.** There were no material issues noted during the audit of the financial statements of the State Department.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**420. Non-Adherence to Procurement Procedures**

During the year under review, the State Department irregularly awarded five (5) tenders worth Kshs.4,452,500 to suppliers who did not have valid tax compliance certificates. This was contrary to Public Procurement Oversight Authority Circular No.1/2011 which requires bidders to submit valid tax compliance certificates.

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

**421. Failure to Maintain a Fixed Asset Register**

Annex 4 to the financial statements on summary of fixed assets reflects an amount of Kshs.16,515,260. However, a fixed asset register detailing the assets, asset category, asset value and identification number of the assets was not provided for audit. Further, physical verification of the assets revealed that they were not tagged. This was contrary to Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer of a National Government entity to take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage, and misuse and that movement and conditions of assets can be tracked.

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

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

**Conclusion**

**422. Lack of Risk Management Policy and Strategy**

The State Department Management had not put in place a Risk Management Policy, strategies, and Risk Register to mitigate against risk. It was, therefore, not clear how the risk exposures were managed. This was in contravention of Regulation 165(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that the National Government entity develops

risk management strategies, which include fraud prevention mechanism; and the County Government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of the internal controls, risk management and overall governance could not be established.

### 423. Lack of an Audit Committee

The State Department has not established an Internal Audit Unit and an Audit Committee of the Board. This was contrary to Section 73 of the Public Finance Management Act, 2012 which provides for the establishment of an Audit Committee of the Board.

In the circumstances, the State Department did not benefit from the assurance and advisory services from the Audit Committee.

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**424. Misclassification of Expenditure**

The financial statements presented for audit contained the following misclassifications;

| Item | Classification in Financial Statements | Correct Classification | Amount (Kshs.) |
|---|---|---|---|
| Lease of land intended for construction of a level three (3) hospitals | Transfer to another government entity | Rentals of Produced Assets | 16,299,222 |
| Financial support towards the international hybrid conference on harmonization of the curriculum and training of health professional | Facilitation of procurement of family planning commodities | Training | 15,000,000 |
| Payment to Kenyatta National Hospital | Social security benefits | Transfer to Other Government agencies | 99,999,999 |
| Server to KHPOA | Maintenance of motor vehicles | Purchase of Computers, Printers and other IT Equipment | 1,430,000 |
| Conference facilities for KHHRAC | Maintenance of motor vehicles | Hospitality Supplies and Services | 285,400 |
| Conference fees | Maintenance of motor vehicles | Hospitality Supplies and Services | 340,000 |
| Transfer to KEMRI as expenditure in Research Studies, Project Preparation, Design and Supervision | Asset additions in summary of fixed asset register | Transfer to Other Government Units | 151,195,000 |
| Refurbishment of buildings | Asset additions in summary of fixed asset register | Acquisition of Assets | 41,044,534 |
| **Total** | | | **325,594,155** |

In the circumstances, the classification, accuracy and completeness of the above balances included in these financial statements could not be confirmed.

**425. Unsupported Other Operating Expenses**

The statement of receipts and payments reflects use of goods and services of Kshs.12,183,660,271 as disclosed in Note 7 to the financial statements. The amount includes other operating expenses balance of Kshs.2,070,212,450 out of which an

amount of Kshs.24,200,000 was paid to a Company being 1st installment for consultancy services on public awareness campaigns to reduce Covid-19 vaccine hesitancy. However, Management did not provide for audit the bidders' documents for the eight (8) companies that tendered to offer the services.

In the circumstances, the proprietary, accuracy and completeness of operating expenses balance of Kshs.24,200,000 could not be confirmed.

**426. Unsupported Specialized Materials and Services**

Note 7 to the financial statements reflects specialized materials and services amount of Kshs.1,733,665,386 which includes Kshs.104,328,000 that was captured as adjustment for items wrongly charged in Governance for Enabling Service Delivery and Public Investment in Kenya (GESDEK). However, no payment vouchers or journal vouchers to support these expenditures were provided for audit. In addition, the supporting schedule reflects credit entries of Kshs.1,750,637 whose respective payment vouchers and other documents were not provided for audit.

In the circumstances, the proprietary, accuracy and completeness of specialized materials and services amount of Kshs.104,328,000 and Kshs.1,750,637 both totalling Kshs.106,078,637 could not be confirmed.

**427. Unreleased Deposit Amounts**

The statement of assets and liabilities reflects accounts payable – deposits of Kshs.243,197,236 as disclosed in Note 14 of the financial statements. Included in the amount is Kshs.109,105,844 due for payment which had been outstanding for more than six (6) months and after the lapse of defect liability period.

In circumstances, accuracy and completeness of accounts payable – deposits of Kshs.243,197,236 could not be confirmed.

**428. Unsupported Credit Entry**

The statement of receipts and payments reflects payment of other grants and transfers of Kshs.2,168,422,341 as disclosed in Note 9 to the financial statements. The amount includes Kshs.2,164,269,767 for emergency relief and refugee assistance whose ledger revealed a credit entry of Kshs.106,959,911 which was not supported by journal vouchers.

In the circumstances, the accuracy and completeness of credit entry of Kshs.106,959,911 could not be confirmed.

**429. Unsupported Disbursements**

The statement of receipts and payments reflects transfers to other Government units of Kshs.77,155,075,338 as disclosed in Note 8 to the financial statements. The amount includes current grants to Government Agencies and other level of government of Kshs.49,519,739,794 out of which Kshs.2,848,630 was disbursed to an International Company for settlement of outstanding amounts for a vector control project and a further Kshs.10,499,556 to the health attaches office in Geneva which were not supported. In

addition, Kshs.37,845,650 was transferred to the same office without detailed explanations on purpose of the funds.

In the circumstances, the proprietary, accuracy and completeness of transfers to other Government units of Kshs.2,848,630; Kshs.10,499,556 and Kshs.37,845,650 all totalling Kshs.51,193,836 could not be confirmed.

**430. Unconfirmed Commitments of Goods, Works and Services**

The statement of comparison of budget and actual amounts reflects actual expenditure of Kshs.107,345,805,714. Review of the budget revealed negative commitments of Kshs.769,494,918. However, an analysis indicating the description of the goods, works and services and the respective dates of commitments was not provided for audit.

In the circumstances, the accuracy and completeness of negative commitments balance of Kshs.769,494,918 could not be confirmed.

**431. Unsupported Contingent Liabilities - Court Awards**

Annex 6 to the financial statements reflects contingent liabilities amount of Kshs.39,613,135,462 after partial settlement of court awards amounting to Kshs.934,304,623. However, a breakdown of this settlement indicating details of Court awards, date of award and breakdown of each award were not provided for audit.

In the circumstances, the accuracy and completeness of contingent liabilities settlement amount of Kshs.934,304,623 could not be confirmed.

**432. Undisclosed Asset Disposals**

The summary of fixed asset register in Annex 3 reflects historical cost amount of Kshs.4,198,764,838 with no disposals during the year under review. However, Note 4 to the financial statements indicates proceeds from sale of assets of Kshs.10,742,319,287. Further, the details of specific items disposed were not provided for audit.

In the circumstances, the accuracy and completeness of assets' historical cost of Kshs.4,198,764,838 could not be confirmed.

**433. Delayed Construction of Kisii Cancer Centre**

The statement of receipts and payments reflects acquisition of assets amount of Kshs.2,000,223,435 as disclosed in Note 11 to the financial statements. The amount includes construction of buildings of Kshs.1,088,277,999 out which Kshs.6,420,100 was a payment on behalf of the donor by the Ministry of Health but there was no evidence of its refund after renewal of the contract. In addition, a payment of Kshs.3,210,500 for consultancy services was not supported by payment voucher and other supporting documents. Further, the project duration was six (6) years from 10 August, 2016 to 10 August, 2022 but the construction had not commenced by 30 June, 2022.

In the circumstances, the proprietary and value for money of Kshs.6,420,100 and Kshs.3,210,500 both totalling Kshs.9,630,600 could not be confirmed.

### 434. Unaccounted for Expenditure on Construction of Paediatric Emergency Centre and Burns

The statement of receipts and payments reflects acquisition of assets balance of Kshs.2,000,223,435 as disclosed in Note 11 to the financial statements. The amount includes Kshs.1,088,277,999 for the construction of buildings out of which an amount of Kshs.40,655,752 was paid for construction of paediatric emergency centre and burns management centre. However, payment vouchers, procurement file detailing how the contractor was identified and to show the bills of quantities were not provided for audit. In addition, physical inspection carried out revealed that no works were ongoing at the centre.

In the circumstances, proprietary and value for money of Kshs.40,655,752 could not be confirmed.

**Other Matter**

### 435. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.130,469,107,784 and actual on comparable basis of Kshs.107,376,446,249, resulting to underfunding of Kshs.23,092,661,535 or 17% of the budget. Similarly, the Ministry spent an amount of Kshs.107,345,805,714 out of the approved expenditure budget of Kshs.130,469,107,784, resulting in an under expenditure of Kshs.22,123,302,070 or 17% of the budget.

The underfunding and underperformance may have affected the Ministry's key mandate of coordinating health policy, health regulations, National Referral Health Facilities, capacity building and providing technical assistance to the counties.

### 436. Variances Between Financial Statements and Vote Book

The financial statements presented for audit contained the following variances;

i. The summary statement of appropriation recurrent reflects actual payments of Kshs.65,617,522,427 while the vote book reflects Kshs.65,729,576,464 resulting to a variance of Kshs.112,054,037.

ii. The summary statement of appropriation development reflects final budget amount of Kshs.63,808,568,046 while the vote book reflects Kshs.63,861,568,258 resulting to a variance of Kshs.53,000,212.

iii. The summary statement of appropriation development reflects actual payments of Kshs.41,728,283,288 while the vote book reflects Kshs.42,771,351,525 resulting to a variance of Kshs.1,043,068,237.

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

### 437. Undisclosed Pending Bills

Note 19 to the financial statements reflects pending bills amount of Kshs.106,671,192. However, the Ministry's pending bills report for financial year 2021/2022 dated

26 July, 2022 reflects outstanding amounts of Kshs.45,899,794,836 resulting to an undisclosed pending bills of Kshs.45,793,123,644.

In the circumstances, the accuracy and completeness of pending bills amount of Kshs.106,671,192 could not be confirmed.

**438. 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 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**

**439. Failure to Operationalise Institutions**

The following institutions have been created but not fully operationalised as detailed below;

| No. | Institution | Breached Law |
|---|---|---|
| 1 | Mathari Teaching and Referral Hospital | Health Act, 2017 |
| 2 | Kenya Health Human Resource Advisory Council | Health Act, 2017 |
| 3 | Kenya Health Professions Oversight Authority | Health Act, 2017 |
| 4 | Tobacco Control Fund | Tobacco Control Act, 2007 |

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

**440. Unremitted National Social Security Fund (NSSF) Contributions**

Review of Ministry's Integrated Personnel and Payroll Data base records revealed that Management did not deduct and remit an amount of Kshs.93,359,823 to the National Social Security Fund. This was contrary to Section 19(1) and Section 20(1) (a)(b) of the National Social Security Fund Act, 2013.

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

**441. Delayed Closure of Donor Funded Projects**

The following donor projects had not been closed despite them not having any transactions or activities during the year under review;

i. Support of the Health Financing Strategy-Output Based Approach Programme (OBA);

ii. Ministry of Health - United Nations Population Fund - (UNFPA);

iii. East Africa Public Health Laboratory Networking Project (KEMSA);

iv. Health Sector Services Fund (HSSF) Grant No.4771-Ke and TF-16027;

v. Health Sector Support Project (KEMSA); and,

vi. Support of the Health Financing Strategy - Output Based Approach - Reproductive Health (OBA-RH) No 20106- 5853

This is contrary to Regulation 74(6)(c) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer of a National Government entity to ensure that the assets are handed over within three months from the date of the closure of the project.

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

**442. Unremitted Pension Contributions**

Review of Integrated Personnel and Payroll Data base records revealed that Management did not deduct Kshs.2,245,580 pension contribution for employees below the age of 45 years who were engaged on permanent and pensionable terms.

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

**443. Irregular Use of Low Value Procurement**

Note 7 to the financial statements reflects routine maintenance – vehicles and other transport equipment of Kshs.23,319,869 out of which Kshs.8,723,434 relates to repair of vehicles paid through cash advances to employees. This is contrary to second schedule of the Public Procurement and Asset Disposal Regulations, 2020 which sets the maximum low value procurement at Kshs.50,000 per item per financial year.
In the circumstances, Management was in breach of the regulation.

**444. Upgrading of Kigumo Sub-County Hospital**

The statement of receipts and payments reflects grants and transfers to other Government entities balance of Kshs.77,155,075,338 as disclosed in Note 8 to the financial statements. The amount includes capital grants to government agencies and other level of Government amount of Kshs.15,537,403,394 out of which Kshs.23,375,738 was paid on account of an interim payment certificate No. 2 from contract sum of Kshs.383,242,795. However, procurement records of tender advertisement, bid documents, tender opening, evaluation and comparison minutes, professional opinion, notification and acceptance of the award letters, schedules and summary of the other principal terms and conditions of the tender were not provided for audit. In addition, the Project had a start date of 23 June, 2021 and completion date 21 December, 2022, but the contractor has sought for extension by twenty-four (24) weeks which had not been granted.

In the circumstances, value for money, the procurement process and competitiveness of the award could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**445. Weaknesses on Compensation of Employees**

The statement of receipts and payments and reflects compensation of employees amount of Kshs.13,712,918,331 as disclosed in Note 6 to the financial statements. However, one hundred and sixty-eight (168) had their net pay less than a third of their basic pay and eight (8) employees shared bank accounts. In addition, an amount of Kshs.54,253,428 was paid to interns and clinical officers outside the IPPD system as well as salary paid under AFD projects of Kshs.6,544,585. Further, two thousand two hundred and ninety-six (2,296) employees were paid Kshs.93,987,280 as basic pay and Kshs.58,880,866 as special salary which was not explained.

In the circumstances, the controls on compensation of employees could not be confirmed.

**446. Failure to Maintain Fixed Assets Register**

The Ministry did not maintain a fixed asset register to record the assets indicating their nature, date of purchase, amount, unique identifier, depreciation among other details.

Further, details of assets acquired and those disposed were not recorded.

In the circumstances, the effectiveness of controls on management of Ministry fixed assets could not be confirmed.

## DONOR FUNDED PROJECTS

## HEALTH SECTOR SUPPORT PROJECT - SWAp SECRETARIAT - IDA CR NO. 4771 - KE AND CR. NO. 5367 - KE

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**447.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**448.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**450.** As required by Financing Agreements dated 10 February, 2012 and 21 January, 2014, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## EAST AFRICA'S CENTRE OF EXCELLENCE FOR SKILLS AND TERTIARY EDUCATION IN BIOMEDICAL SCIENCES - PHASE 1 (LOAN NO.2100150031997) PROJECT

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**451.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**452. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget of Kshs.1,160,000,000 and actual on comparable basis of Kshs.554,331,070, resulting in an under-funding of Kshs.605,668,930 (or 52%) of the budget. Similarly, the Project spent Kshs.551,755,580 out of the approved expenditure budget of Kshs.1,160,000,000, resulting in an under-absorption of Kshs.608,244,420 (or 52%) of the budget.

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

**453. Unutilized Balance**

The project information and overall performance underfunding summary at paragraph 1.7 reflects total commitment of Kshs.3,674,000,000 and amount received to date (30 June, 2022) of Kshs.1,908,278,502 resulting to a difference of Kshs.1,765,721,498 (or 48%). Meaning the Project had attained 52% performance level with project end date indicated as 31 December, 2022.

In the circumstances, the primary objective of focusing on public health problems affecting the country, including infectious diseases, use of scientific evidence for policy formulation and program implementation may not be realized.

My opinion is not modified in respect of these matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**454.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**456.** As required by Financing Agreement dated 17 December, 2014 between African Development Fund and the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND TUBERCULOSIS PROJECT GRANT/CREDIT NO.KEN-T-TNT-1548

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**457.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**458. Long Outstanding Imprests and Advances**

As previously reported, the statement of financial assets reflects imprest and advances balance of Kshs.3,238,374 as disclosed under Note 8A to the financial statements. The

amount relates to long outstanding imprest and advances some dating back to financial year 2012/2013. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Further, Regulation 93(6) provides 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 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**460.** As required by Grant Agreement NO.KEN-T-TNT-1548 dated 15 December, 2017, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## SUPPORT OF THE HEALTH CARE FINANCING STRATEGY - REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH PROJECT (CREDIT BMZ NO. KENYA 201065853)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**461.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**462. Lack of Financing Plan for Payables**

The statement of financial assets reflects bank balance of Kshs.967,833 as disclosed in Note 11A to the financial statements. However, pending accounts payable balance of Kshs.4,436,435 as disclosed under other important disclosures would not be fully settled by the bank balance. The resulting difference of Kshs.3,468,602 was not explained how it will be financed. In addition, other important disclosures reflect court cases with

estimated contingent liabilities of Kshs.11,775,142 which were not explained how they will be financed if they crystalize.

In the circumstances, the financing of pending accounts payable of Kshs.4,436,435 and estimated claims arising from the court cases of Kshs.11,775,142 could not be confirmed.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**463. Avoidable Bank Charges**

The statement of receipts and payments reflects purchase of goods and services of Kshs.59,099 as disclosed in Note 6 to the financial statements. The amount is composed of bank charges of Kshs.31,277 and exchange losses/gains (net) of Kshs.27,822 resulting from failure to close the project bank accounts and which continue to reduce the bank balance.

In the circumstances, value for money on continued operations of the Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**465.** As required by the Financing Agreement dated 07 October, 2011, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## TRANSFORMING HEALTH SYSTEMS FOR UNIVERSAL CARE (THS-UC) PROJECT GRANT IDA CREDIT NO.5836 – KE, TFOA2561, TFOA2792, AND CR. P152394

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**466.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**467. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget of Kshs.4,516,799,990 and actual on comparable basis of Kshs.3,549,922,407 resulting to underfunding of Kshs.966,877,583 or 21% of the budget. Similarly, the Project spent an amount of Kshs.3,388,832,347 out of the approved expenditure budget of Kshs.4,516,799,990 resulting to an under expenditure of Kshs.1,127,967,643 or 25% of the budget.

In the circumstances, the primary objective of improving utilisation and quality of primary health care services with focus on reproductive, maternal, new-born, child and adolescent health care may not be realised in light of the budget underperformance.

My opinion is not modified in respect of this matter.

**Other Matter**

**468. Delay in Disbursement of Funds**

The statement of receipts and payments reflects transfers to other government entities of Kshs.2,878,953,881 as disclosed in Note 11.6 to the financial statements. Included in the amount is Kshs.1,445,456,881 in respect to transfers to County governments that were disbursed late in June, 2022. In the circumstances, implementation of the county governments annual work plans was delayed which impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**469. Pending Bills**

Other important disclosures reflect pending bills of Kshs.1,262,926 that were outstanding at the closure of the financial year. This was contrary to section 53(8) of the Public Procurement and Assets Disposal Act, 2015 which requires an accounting officer not to commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in approved budget estimates.

In the circumstances, Management was in breach of the law

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**471.** As required by Financing Agreement dated 04 July, 2016, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND HIV AIDS PROGRAM GRANT NO. KEN-H-TNT GA 1547

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**472.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**473. Unresolved Prior Year Matters**

In the audit report of 2020/2021 financial 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 all the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**474. Unliquidated Commitments**

Other important disclosures reflect pending accounts payables of Kshs.5,818,699. However, the amount was outstanding for more than six months period allowed by Global Fund to liquidate commitments. This was contrary to paragraph 24 of Global Fund guidelines for grant budgeting, 2019 which states six months after the start of the new Implementation Period, Principal Recipients will be required to report the final available cash balance from the previous allocation period (after all financial commitments are fully paid). Any unliquidated commitment remaining at the end of the six-months period will be considered closed by the Global Fund unless otherwise approved in writing by the Global Fund.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**476.** As required by Financing Agreement dated 01 January, 2018, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## COVID-19 HEALTH EMERGENCY RESPONSE PROJECT GRANT/CREDIT NO.6598-KE

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**477. Unsupported Compensation of Employees**

The statement of receipts and payments reflects compensation of employees balance of Kshs.241,631,465 as disclosed in Note 11.2 to the financial statements. However, the Project paid consultants varying monthly allowances of between Kshs.75,000 and Kshs.120,000 without stating the basis of arriving at these allowances. Further, contracts for the period January, 2022 to June, 2022 were not provided for audit and payments made were not supported by invoices and reports from consultants.

In the circumstances, the accuracy and completeness of compensation of employees balance of Kshs.241,631,465 could not be confirmed.

**478. Undisclosed Retention Fees**

The statement of receipts and payments reflects acquisition of non-financial assets balance of Kshs.265,226,611 as disclosed in Note 11.4 to the financial statements. Included in the amount is Kshs.139,860,111 for rehabilitation and renovation of plant, equipment and machinery out of which an amount of Kshs.100,817,680 was spent on gas installation in various hospitals. However, the 10% retention fees balance of Kshs.10,081,768 withheld was not disclosed in the financial statements.

In the circumstances, the accuracy and completeness of acquisition of non-financial assets - retention fees of Kshs.10,081,768 could not be confirmed.

**479. Inaccuracy in Cash and Cash Equivalents**

The statement of financial assets reflects bank balance of Kshs.62,433,792 as disclosed in Note 11.7A to the financial statements. However, the bank reconciliation statement included unreconciling items of Kshs.1,674,315 and stale cheques of Kshs.967,109 which were not adjusted in the cash book.

In the circumstances, the accuracy and completeness of bank balance of Kshs.62,433,792 could not be confirmed.

### 480. Undisclosed Imprests and Advances

The statement of financial assets reflects accounts receivables - imprests and advances balance of Kshs.4,668,877 as disclosed in Note 11.8 to the financial statements. However, analysis of the imprest register and supporting schedules revealed un-surrendered imprest amounting to Kshs.43,671,525 resulting to unreconciled variance of Kshs.39,002,648.

In the circumstances, the accuracy and completeness of accounts receivables - imprests and advances of Kshs.4,668,877 could not be confirmed.

**Emphasis of Matter**

### 481. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.6,972,534,981 and actual on comparable basis of Kshs.2,074,941,263, resulting to underfunding of Kshs.4,897,593,714 (or 70%) of the budget. Similarly, the Project spent an amount of Kshs.1,922,271,387 out of the approved expenditure budget of Kshs.3,340,840,724, resulting in an under expenditure of Kshs.1,418,569,337 (or 42%) of the budget.

The underfunding and underperformance may have affected the Project's key objective of preventing, detecting and responding to the threat posed by Covid-19 and strengthening national systems for public health preparedness.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**482.** 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**

### 483. Failure to Update Imprest Register

Note 3 to the financial statements reflects purchase of goods and services of Kshs.986,444,389. The amount includes domestic travel and subsistence of Kshs.293,082,937 out of which Kshs.40,294,650 issued as imprest was not recorded in the imprest register.

In the circumstances, the effectiveness on controls on issuance and recording of imprest could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**484.** As required by Financing Agreements dated 03 April, 2020, I report based on my audit, that I have obtained all the information and explanations which, to the best of

my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND TUBERCULOSIS PROJECT GRANT/CREDIT NO. KEN-T-TNT-2067

REPORT ON THE FINANCIAL STATEMENTS

### Unmodified Opinion

**485.** There were no material issues noted during the audit of the financial statements of the Project.

### Emphasis of Matter

### 486. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.775,488,451 and Kshs.694,370,519 respectively, resulting to underfunding of Kshs.81,117,932 or 10% of the budget. Similarly, the Project spent an amount of Kshs.553,841,711 against the approved expenditure budget of Kshs.775,488,451 resulting to an under expenditure of Kshs.221,646,740 or 29% of the budget. The underfunding and underperformance may have affected negatively the planned activities of reducing tuberculosis deaths by 90% and tuberculosis incidence rate by 80%.

### 487. Unsupported Pending Bills

Annex 3(a) to the financial statements reflects analysis of pending bills of Kshs.30,555,233 out of which Kshs.20,839,853 relates to commitments of goods and services from various suppliers. However, the amounts were not supported with invoices, purchase orders and details on how the suppliers were engaged. In the circumstances, the accuracy and completeness of pending bills of Kshs.30,555,233 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

### 488. Suboptimal Use of GeneXpert Machines

Records provided for audit indicated that one hundred and eighty six (186) GeneXpert machines were issued across various health facilities in the country. However, physical verification in six (6) counties in September 2022 revealed inadequate supply of cartridges which caused the machines to produce 238,187 tests against optimal capacity of 714,240 tests resulting to underperformance of 476,053 tests (or 67%). In addition, there was shortage of Community Health Volunteers (CHVs) to perform contact tracing and there were minimal referrals which led to inefficient use of GeneXpert machines.

In the circumstances, the effective use of GeneXpert machines could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**489. Unsupported Selection of Drug Resistance Tuberculosis (DRTB) Patients**

Note 4 to the financial statements reflects specialized materials and services of Kshs.5,391,000 out of which Kshs.539,000 relates to insurance cover for seventy-seven (77) DRTB patients. However, there are a total of one thousand five hundred and two (1,502) DRTB patients in various health facilities in the country and Management did not explain and provide details of the criteria used to identify and include the seventy-seven (77) patients in the National Hospital Insurance Fund cover. In addition, these patients did not receive services for nine (9) months from July, 2021 to March, 2022.

In the circumstances, the effectiveness of internal controls of identifying DRTB patients and propriety of insurance expenditure of Kshs.539,000 could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**490.** As required by Global Fund Tuberculosis Grant Credit No. KEN-T-TNT-2067 dated 14 June, 2021, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## GLOBAL FUND HIV AIDS PROGRAM GRANT NO. KEN-H-TNT GA 2065

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**491. Unsupported Bank Balance**

The statement of financial assets reflects bank balance of Kshs.158,324,015 as disclosed in Note 5.A to the financial statements. However, the bank reconciliation statement for the month of June, 2022 reflects payments in bank statements not yet recorded in cash book amounting to Kshs.612,500 which were not supported by payment vouchers.

In the circumstances, the accuracy and completeness of bank balance of Kshs.158,324,015 could not be confirmed.

**Emphasis of Matter**

**492. Failure to Receive Initial Grant**

The funding summary Paragraph 1.7 indicates approved budget of USD.19,420,319 equivalent to Kshs.2,101,252,823 for a duration of three (3) years starting from

01 July, 2021 to 30 June, 2024. Included in the amount is USD.4,680,571 equivalent Kshs.506,431,590 for financial year 2021/2022 as disclosed in the statement of comparison of budget and actual amounts but which was not received.

In the circumstances, the Project may not absorb the entire amount of USD.19,420,319 equivalent to Kshs.2,101,252,823 thereby not achieving the objectives of reducing new HIV, STI and viral hepatitis infections, reducing morbidity and mortality due to HIV, scaling up treatment of STIs and HCV and increasing access to ART treatment.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**493. Failure to Include Pending Payables in the Grant's Budget**

Other important disclosures reflect pending accounts payables of Kshs.7,451,470. The amount includes opening balance of Kshs.29,842,515 being payables from the closed grant KEN-T-TNT 1547. However, there was no evidence of negotiation to include this amount in the budgeting and programmatic planning in grant KEN-T-TNT 2065 being the next grant as required in Paragraph 23 of Global Fund guidelines for grant budgeting, 2019.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

**494. Lack of an Asset Register**

During the year under review, Management did not provide a fixed asset register but presented an asset verification report which did not include details of dates of purchase and prices. In addition, fixed assets items were aggregated without giving details of the individual asset name, tag number and location.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**495.** As required by Financing Agreement dated 14 June, 2021, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## RESILIENT SUSTAINABLE SYSTEMS FOR HEALTH (RSSH) KEN-T-TNT 2067 - SUB RECEIPT

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**496.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**497. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.319,584,334 and actual on comparable basis of Kshs.297,231,093, resulting to underfunding of Kshs.22,353,241 (or 7%) of the budget. Similarly, the Project spent an amount of Kshs.76,461,592 out of the approved expenditure budget of Kshs.319,584,334, resulting in an under expenditure of Kshs.243,122,743 (or 76%) of the budget.

The underfunding and underperformance may have affected the Project's key objectives of building resilient and sustainable systems for health and enhancing the fight against new pandemics.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**498.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**500.** As required by Financing Agreement dated 14 June, 2021, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# GLOBAL FUND MALARIA NEW FUNDING MODEL (NFM) KEN-M-TNT-1546

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**501.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**502. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget of Kshs.175,678,920 and actual on comparable basis of Kshs.1,519,678, resulting to underfunding of Kshs.174,159,242 (or 99%) of the budget. Similarly, the Project spent an amount of Kshs.705,685,455 out of the approved expenditure budget of Kshs.175,678,920, resulting in an over expenditure of Kshs.530,006,535 or approximately 302% of the budget. The excess amount was utilized from the opening cash and cash equivalent balance of Kshs.704,165,777.

The budget mismatch was indicative of delay in executing the planned activities and payment to respective suppliers during the grant period.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**503.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**505.** As required by Financing Agreement dated 01 January, 2018, I report based on my audit, that I have obtained all the information and explanation which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# GLOBAL FUND MALARIA NEW FUNDING MODEL (NFM) KEN-M-TNT-2064

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**506.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**507. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget of Kshs.837,474,120 and actual on comparable basis of Kshs.652,243,566, resulting to underfunding of Kshs.185,230,554 (or 22%) of the budget. Similarly, the Project spent an amount of Kshs.592,101,529 out of the approved expenditure budget of Kshs.837,474,120, resulting in an under expenditure of Kshs.245,372,591 (or 29%) of the budget

The underfunding and underperformance affected the planned project's activities and may have impacted negatively on service delivery.
My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**508.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**510.** As required by Financing Agreement dated 14 June, 2021, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# DANIDA PRIMARY HEALTHCARE (PHC) SUPPORT PROGRAM

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**511.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**512. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.433,648,750 and actual on comparable basis of Kshs.325,986,258 resulting to underfunding of Kshs.107,662,492 (or 25%). Similarly, the Project spent an amount of Kshs.324,361,266 out of the approved expenditure budget of Kshs.433,648,750 resulting in an under expenditure of Kshs.109,287,484 (or 25%).

In the circumstances, the Project's key objectives of improving primary health care with focus on reproductive, maternal, new-born, child and adolescent health care may not be achieved.

My opionion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**513.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**515.** As required by Financing Agreement dated 14 December, 2020, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF HEALTH

## KENYA HEALTH SECTOR PROGRAMME SUPPORT III (DANIDA REF. 104.KENYA.810.300 – GRANT) – COUNTY GOVERNMENT OF KISII

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**516.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**517. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.134,672,861 and Kshs.67,206,909 respectively resulting to an underfunding of Kshs.67,465,952 or 50% of the budget. The shortfall in revenue by Kshs.67,465,952 or 50% implies that the Programme could not undertake all the planned activities. Similarly, the Programme had an approved expenditure budget of Kshs.134,672,861 and actual expenditure of Kshs.49,725,445 resulting in an underexpenditure of Kshs.84,947,416 or 63% of the budget.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**518.** 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**

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

# HEALTH SECTOR SUPPORT PROJECT (CREDIT NO.4771-KE) - KENYA MEDICAL SUPPLIES AUTHORITY (KEMSA)

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**520. Unaccounted Transfer of Funds**

The statement of financial position reflects Kshs. Nil cash and cash equivalents. However, analysis of bank statements for the project bank account revealed that an amount of Kshs.42,299,522 was transferred to another bank account in the same bank on 21 March, 2022. Management has not explained this transfer or provided supporting documents.

In the circumstances, the regularity of transfer of Kshs.42,299,522 could not be confirmed.

**521. Unsupported Transfer of Accumulated Surplus and Liabilities**

The statement of changes in net assets reflects transfer from accumulated surplus to Kenya Medical Supplies Authority (KEMSA) Kshs.3,996,628 and Note 5 to the financial statements reflects transfer of liability of Kshs.38,474,884. However, both transfers were not explained, supported or acknowledged by KEMSA.

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

**Other Matter**

**522. Delayed Project Closure**

The financing agreement indicated Project's effectiveness date was on 21 January, 2014 with expected end date of 31 December, 2016 but extended to 30 June, 2018. However, Management did not provide any evidence of formal request to the International Development Association (IDA) for Project extension beyond 30 June, 2018 or explain failure to close the project which reported a surplus of Kshs.1,651,961 during the year under review.

In the circumstances, the transactions in the project account are without donor's approval.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**523.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**525.** As required by Financing Agreement dated 21 January, 2014 between the International Development Association and the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING (EAPHLN) PROJECT CREDIT NO.4732 - KE - KENYA MEDICAL SUPPLIES AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**526. Unpaid Retention Money**

The statement of financial position reflects trade and other payables from exchange transaction of Kshs.602,712 which, as disclosed in Note 7 to the financial statements relates to unpaid retention money. However, Management has not explained failure to pay the retention money some of which dates back to financial year 2018/2019 or continued disclosure as payable.

In the circumstances, the ownership and obligation of trade and other payables from exchange transaction of Kshs.602,712 could not be confirmed.

**527. Unexplained Reversal of Interest Expense**

The statement of changes in net assets reflects accumulated surplus balance of Kshs.18,240,726 which includes reversal of interest expense amounting to Kshs.11,343,918 that was payable to The National Treasury during the financial year 2020/2021. However, the reversal is not in line with International Public Sector Accounting Standard (IPSAS) 3 which requires all prior year adjustments to be effected through the previous period balances.

In the circumstances, the accuracy and completeness of above balances reflected in the financial statements could not be confirmed as at 30 June, 2022.

**Other Matter**

**528. Unresolved Prior Year Matters**

In the audit report of 2020/2021 financial 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 all the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**529. Failure to Transfer Bank Balance**

The statement of financial position reflects cash and cash equivalent of Kshs.18,843,438 as disclosed in Note 5 to the financial statements. The amount relates to bank balance in relation to a project whose end date was 30 September, 2020 but has not been closed. Failure to close the project contravenes Regulation 74(6)(c) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer of a National Government entity to ensure that the assets are handed over within three months from the date of the closure of the project.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**531.** As required by Financing Agreement Credit No.4732 - KE dated 05 July, 2010, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## A CASE STUDY ON INTEGRATED DELIVERY OF SELECTED NON-COMMUNICABLE DISEASES IN KENYA (PHGF GRANT NO. TFOA5636) - MOI TEACHING AND REFERRAL HOSPITAL

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**532.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**533. Budgetary Control Analysis**

The statement of comparative budget and actual amounts reflects budget and actual receipts from domestic and foreign grants on comparable basis of Kshs.135,915,138 and Kshs.133,585,330 respectively resulting to an underfunding of Kshs.2,329,808 or 2% of the budget. The Project expenditure was limited to the amount realised.

Based on the approved estimates, underfunding affected the planned activities and may have impacted negatively on service delivery to the public.

**534. Physical Verification of Projects**

Three (3) projects and twenty-one (21) procurements with a total contract sum of Kshs.10,010,281, were verified in September, 2022. The verification revealed that, the projects which related to renovation works at various pharmacies were complete and in use. Further, the twenty-one (21) procurements related to delivery and installation of ICT and medical equipment to various medical facilities within Busia and Trans Nzoia counties. However, two (2) machines delivered to Busia County Referral Hospital and one (1) machine delivered to Kitale County Referral Hospital were not in use.

In the circumstances, the unutilized machines may not be providing services to the public.

**535. Proceeds from Domestic and Foreign Grants**

The statement of receipts and payments reflects an amount of Kshs.56,740,000 for the year and cumulative to date totalling to Kshs.265,061,010 under proceeds from domestic and foreign grants as disclosed in Note 2 to the financial statements. Although the World Bank had extended the Project end date of the Grant to 31 January, 2022, a balance of Kshs.2,318,966 as disclosed in Annex 3B to the financial statements had not been disbursed by The National Treasury as at the time of audit in October, 2022. In addition, the Management of the Project had not started the process of project closure.

In the circumstances, delayed disbursement by The National Treasury may have delayed completion of planned Project activities which may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**536. Failure to Report use of Direct Procurement to Public Procurement and Regulatory Authority**

The statement of receipts and payments reflects an amount of Kshs.58,940,151 under purchase of goods and services which in turn includes other operating payments amount of Kshs.4,035,207 as disclosed in Note 6 to the financial statements. Included in the amount of Kshs.4,035,207 are payments totalling to Kshs.2,884,000 in respect to consultancy services on how to implement the costing components of the study protocol in order to determine the cost effectiveness of the primary integrated model of the non-communicable diseases.

Examination of the documents provided for audit revealed that the supply chain department requested for approval from the Chief Executive Officer to use direct procurement which was approved and tender awarded at a Contract sum of Kshs.2,884,000.

However, the procuring entity did not report the details of the direct procurement to Public Procurement and Regulatory Authority within fourteen days after the award of the tender contrary to Regulation 90(1)(b) of the Public Procurement and Asset Disposal Regulations, 2020. In addition, there was no evidence of negotiation between the procuring entity and the tenderer for the direct procurement as required by Regulation 90(1)(d) of the Public Procurement and Asset Disposal Regulations, 2020.

In the circumstances, the Project Management breached the law.

**537. Failure to Adhere to Executive Order No. 2 of 2018**

The statement of receipts and payments reflects total payments amounting to Kshs.133,585,330. The amount includes Kshs.58,940,151 in respect to purchase of goods and services as disclosed in Note 6 to the financial statements. However, review of the procurement records revealed that the Management did not publish a complete information of all tenders awarded, a separate comprehensive list of all registered suppliers, contractors and consultants in the various specific categories of goods, works and services as required by Presidential Executive Order No. 2 of 2018.

In the circumstance, the Project Management was in breach of the Executive Order.

**538. Non-Payment of Audit Fees**

As reported previously, Annex 3A reflects nil pending payables and therefore excludes external audit fees provided for under parts 3.01 and 3.02 of Article III of the subsidiary grant agreement signed on 27 February, 2018. Although the Management has explained through undated, unsigned Financial Management Implementation Support and Supervision Report – December, 2019 that the item should not be budgeted for since the services will be provided by the Office of the Auditor-General, the validity and legality of this argument could not be confirmed.

In the circumstance, the Project Management is in breach of the financing agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## GLOBAL FUND HIV/AIDS PROJECT GRANT NUMBER KEN-H-TNT-2065 – NATIONAL AIDS CONTROL COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**540.** There were no material issues noted during the audit of the financial statements of the Project.

**Emphasis of Matter**

**541. Budgetary Control and Performance**

The statement of comparative budget and actual amount reflects final payment budget of Kshs.304,276,734 against actual expenditure of Kshs.99,370,872 resulting to under expenditure of Kshs.204,905,862 (or 68%).

The underperformance 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**542. Irregular tax on Global Funds**

The statement of receipts and payments reflects miscellaneous income of Kshs.6,402,480 as disclosed in Note 11.2 to the financial statements out of which an amount of Kshs.249,089 was excise duty charged on Global Funds. However, charging of excise duty is contrary to article 3.5(1) of the Global Fund grant Regulations, 2014 which states that for each program, the Grant funds are made available by the Global Fund for the purposes of implementing respective program activities, and the Grant Agreement and the purchase and/or import of any goods or services using the Grant funds shall be exempt from relevant taxation applicable in the host country, including, but not limited to, (a) customs duties, import duties, taxes or fiscal charges of equal effect levied or otherwise imposed on the health products imported into the host country under the Grant Agreement or any related sub-recipient or supplier contract, and (b) the value-

added tax levied or otherwise imposed on the purchases of goods and services using Grant funds.

In the circumstances, Management was in breach of Global Fund Regulations, 2014.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**544.** As required by Financing Agreement dated 14 June, 2021, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**545. Unsupported Payments on Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.672,594,265 as disclosed in Note 8 to the financial statements. However, review of records revealed that the following payments did not relate to the expense items where they were accounted for and lacked supporting documents for justification.

(i) Utilities, supplies and services payments of Kshs.23,719,520 include payments totalling Kshs.6,426,032 described as journal import that were not supported.

(ii) Communication, supplies and services payments of Kshs.3,102,724 include an amount of Kshs.350,000 paid to staff.

(iii) Foreign travel and subsistence amount of Kshs.1,171,220 includes payments totalling Kshs.370,000 paid to staff.

(iv) Training payments of Kshs.366,717,384 include transfer of Kshs.16,708,187 described as transfer of revenue funds to Horn of Africa Gateway Development Project deposit account whose justification was not provided.

(v) Insurance costs of Kshs.3,389,760 include unrelated expenditure described as supply of blockboards amounting to Kshs.928,800 and purchase of toners amounting to Kshs.2,460,960.

(vi) Specialized materials and services expenditure of Kshs.31,014,184 include Kshs.879,039 described as journal import whose supporting documents were not provided.

In the circumstances, the accuracy and completeness of the use of goods and services expenditure of Kshs.672,594,265 could not be confirmed.

**546. Unsupported Payments on Acquisition of Assets**

The statement of receipts and payments reflects acquisition of assets amount of Kshs.12,433,018,607 as disclosed in Note 11 to the financial statements. However, review of records revealed that the following payments did not relate to the expense items where they were accounted for and lacked supporting documents for justification.

(i) Construction of building expenditure of Kshs.186,311,102 includes an amount of Kshs.47,035,513 incurred on purchase of furniture, equipment, stationery and other items not related to this expenditure item.

(ii) Refurbishment of buildings expenditure of Kshs.91,021,541 include amounts totalling Kshs.56,640,147 described as journal import whose supporting documents were not provided for audit.

(iii) Construction of civil works includes an amount of Kshs.21,643,005 transferred to Kenya Wildlife Services which is a self-reporting entity. The amount should have been reflected as transfers to other government entities. Management did not explain the nature of the payment transfer or the service rendered by KWS. No contract and other supporting documents were provided for audit.

(iv) Purchase of specialized plant, equipment and machinery includes an amount of Kshs.8,000,000 described as journal import whose supporting documents were not provided.

(v) Rehabilitation and renovation of plant and machinery includes an amount of Kshs.10,000,000 described as journal import whose support documents were not provided for audit.

In the circumstances, the accuracy and completeness of acquisition of assets amount of Kshs.12,433,018,607 could not be confirmed.

**547. Compensation of Employees-Payments Outside IPPD**

The statement of receipts and payments and Note 7 to the financial statements reflects compensation of employees' amount of Kshs.1,154,471,942 which includes payment of salaries amounting to Kshs.10,099,678 which were paid outside IPPD system. Management did not justify the payment of salaries and allowances outside the payroll system.

In the circumstances, the validity of amounts paid outside the IPPD system of Kshs.10,099,678 could not be confirmed.

**548. Inaccuracies in Outstanding Imprest Balance**

The statement of financial position reflects outstanding imprests and advances balance of Kshs.3,855,969. However, a review of the bank reconciliation statements as at 30 June, 2022 indicates that payments totalling to Kshs.44,318,901 were made to staff on 30 June, 2022 but were not reflected as outstanding imprest as at the close of the year. In addition, payments made during the year for both development and recurrent cash books indicated imprests paid to officers totalling to Kshs.95,316,918 in respect of domestic travel and allowance. However, review of the imprest schedules revealed that the officers may have been in the field for more days than the work schedules could accommodate and exceeded the working days available in a year.

In the circumstances, the accuracy and completeness of the outstanding imprest balance of Kshs.3,855,969 could not be confirmed.

**549. Unsupported Bank Balances**

Note 12A to the financial statements reflects bank balance of Kshs.240,178,204. However, analysis of the three (3) bank reconciliation statements for recurrent, development and deposits balances for June, 2022 revealed receipts in cash book not recorded in the bank statement amounting to Kshs.19,273,304,637 described as PS SDINFRA whose nature and supporting documents were not provided.

In the circumstances, the accuracy of the bank balance of Kshs.240,178,204 could not be confirmed.

**Other Matter**

**550. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.230,588,817,513 and Kshs.200,570,982,073 respectively resulting to an underfunding of Kshs.30,017,835,440 or 13% of the budget. Similarly, the State Department spent Kshs.200,561,818,766 against an approved budget of Kshs.230,588,817,513 resulting to an underexpenditure of Kshs.30,026,998,747 or 13% of the budget.

The underfunding and underexpenditure affected the planned activities of the State Department and impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**551. Failure to Surrender Temporary Imprest**

Note 13 to the financial statements reflects imprests and advances balance of Kshs.3,855,969 which includes imprests issued on 5 January, 2022 to two officers totalling to Kshs.3,441,924. The imprest was due for surrender on 1 February, 2022 but had not been accounted for as at the time of the audit in November, 2022 contrary to Section 93 of the Public Finance Management Regulations, 2015.

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

**552. Long Outstanding Deposits and Retentions**

The statement of assets and liabilities and Note 14 to the financial statements reflects third party deposits and retentions balance of Kshs.233,616,998 with an opening balance of Kshs.208,979,604.

Information provided indicate that the opening balance of Kshs.208,979,602 includes balances totalling Kshs.180,000,000 that remained unclaimed after the transition period from direct implementation of contracts by the State Department to implementation of road contracts by road agencies between 2010 and 2015. It was not clear why these deposits had not been paid into the Consolidated Fund as required by Section 106 of the Public Finance Management Regulations, 2015 which states that unless otherwise exempted by an Act of Parliament, any deposit which has remained unclaimed for 5 years may, with the approval of the Cabinet Secretary, be paid into Consolidated Fund and thereafter the Accountant-General may refund the deposit to any person entitled thereto, if he or she is satisfied that the claim is authentic.

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

### 553. Earnings Below the Statutory Minimum

Review of the Integrated Payroll and Personnel Database (IPPD) for the State Department, revealed that some employees' net payments were below 1/3 of their basic salary. Analysis for the month of February, 2022 indicated that one hundred and eleven (111) officers received less than one third of their basic salaries. This was contrary to Section C.1 (3) of the Human Resource Policies and Procedures Manual for the Public Service, of May, 2016 which states that public officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries.

In the circumstances, Management was in breach of the public service policies and procedures.

### 554. Failure to Comply with the Approved Staff Establishment

Review of the human resource records indicated that the State Department had an approved establishment of two hundred and thirty-six (236) staff members across all cadres. However, the actual number of staff was six hundred and fifty-eight (658) leading to an over establishment of four hundred and twenty-four (424) staff. This is contrary to Section A.15 of the Human Resource Policies and Procedures Manual for Public Service, May 2016, which states that the functions of Ministerial Human Resource Management Advisory Committees (MHRMAC) entail making recommendations to the Authorized Officer regarding: - inter alia (viii) establishment and complement control.

In the circumstances, Management was in breach of the public service policies and procedures.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Basis for Conclusion**

### 555. Audit Committee and Internal Audit

Review of records revealed that the Audit Committee of the State Department met only twice during the year contrary to Section 179(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the audit committee shall meet at least once in every three months.

In the circumstances, the effectiveness of the audit committee and the internal audit function could not be confirmed.

## DONOR FUNDED PROJECTS

## EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT CR NO. 5638-KE IDA

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**556. Unsupported Prior Year Adjustment**

As disclosed under Note 8 to the financial statements, the statement of financial assets reflects prior year adjustments balance of Kshs.2,831,556 made up of adjustment for outstanding imprest receivables balance of Kshs.1,336,335 and retention accounts payables balance of Kshs.4,167,891. Management has however not supported the movement in these balances with relevant documentation. In addition, the prior year adjustment movement schedule on Note 8 of the financial statement shows an adjusted balance brought forward of Kshs.1,780,720 for accounts payables which was not reflected on the statement of financial assets.

In the circumstances, the accuracy of prior year adjustments balance of Kshs.2,831,556 as at 30 June, 2022 could not be confirmed.

**557. Unsupported Expenditure**

The statement of receipts and payments reflects expenditure totalling to Kshs.49,532,918 comprising of compensation of employees amounting to Kshs.6,137,438, training expenses of Kshs.9,645,480 and purchase of three (3) motor vehicles amounting to Kshs.33,750,000. However, there was no approved workplan and budget provided in support of this expenditure. Further, there was no evidence that the activities undertaken relate to the Project.

In the circumstances, the accuracy and validity of the expenditure totalling to Kshs.49,532,918 for the year ended 30 June, 2022 could not be confirmed.

**Other Matter**

**558. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts indicates that the Project had budgeted to receive an amount of Kshs.150,000,000 during the year. The Project however received a total of Kshs.11,279,289 resulting in total underfunding of Kshs.138,720,711 or 92% of the budget. Similarly, the Project had budgeted to spend an amount of Kshs.150,000,000 but only spent Kshs.15,782,918 resulting in total under expenditure of Kshs.134,217,082.

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

### 559. Undrawn Loan Balance

Article II (2.03) of the financing agreement provides for a charge rate payable by the recipient on unwithdrawn financing balance at 0.5% per annum. Further, review of the funding summary at paragraph 1.7 of the annual report indicates that the Project started in June, 2015 and is expected to end by 31 December, 2023. Donor commitment for the Project translates to Kshs.1,652,015,000. However, for the seven years the Project has been implemented, a total of Kshs.760,659,410 has been drawn from the donor commitment, leaving an undrawn balance of Kshs.891,355,590 for the remaining one-year period.

The absorption rate of funds is slow, an indication that the Project may not be completed within the one-year remaining period. Further, and as per Article II (2.03) of the financing agreement, the loan will continue to attract penalty on the undrawn balance.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**560.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**562.** As required by International Development Association, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## EAST AFRICA SKILLS FOR TRANSFORMATION AND REGIONAL INTEGRATION PROJECT - IDA 6334-KE

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

### 563. Lack of Ownership Documents for Motorable Transport Equipment

Annex 2 to the financial statements in respect to summary of fixed assets register reflects an amount of Kshs.69,064,000 relating to five (5) motorable transport equipment. However, the ownership documents were not provided for audit.

In the circumstances, the ownership of the motorable transport equipment valued at Kshs.69,064,000 could not be confirmed.

**Other Matter**

**564. Budgetary Control and Performance**

The statement of comparative of budget and actual amounts reflects final receipts budgets of Kshs.420,000,000 and nil actual receipts on comparable basis resulting in underfunding to Kshs.420,000,000 or 100% of the budget. Similarly, the statement reflects final expenditure budget of Kshs.420,000,000 against actual expenditure on comparable basis amount of Kshs.137,623,274 resulting in an under expenditure of Kshs.283,376,726 or 67% of the budget.

The underfunding and under-expenditure may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**565. Project Implementation - Low Absorption Rate**

Section 1.7 of the annual report and financial statements on funding summary indicates that the project duration is 6 years or 72 months from 2018 to 2024, with an approved budget of EUR9,280,000 equivalent to Kshs.1,086,168,320. As at 30 June, 2022, the project had received EUR1,802,658.68, equivalent to Kshs.196,822,567 or 18% of total budgeted funds, with lapsed project duration of 42 months equivalent to 58% of the total project duration, an indication that the project is behind schedule. Management has not demonstrated how the shortfall will be covered with the remaining timeline of thirty months.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO. 4926-KE AND NO. 5410-KE)

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**567.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**568. Project Closure Report**

The Project information and overall performance for the year ended 30 June, 2022 indicates that the Project was started on 24 August, 2011 and was to end on 31 December, 2019. However, a project closure report had not been prepared and submitted for audit three years after the closure period of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**569.** 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**

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

## HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT CREDIT NUMBER 6768-KE

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**571.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**572. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on comparable basis of Kshs.155,000,000 and Kshs.117,251,593 respectively resulting in an underfunding of Kshs.37,748,407 or 24% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.155,000,000 and Kshs.119,947,614 respectively, resulting in an under expenditure of Kshs.35,052,386 or 23% of the budget.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**573. Management of Imprest**

As disclosed in Note 5 to the financial statements, the statement of financial assets reflects a balance of Kshs.3,441,923 in relation to outstanding imprest due from two officers that ought to have been surrendered by 28 April, 2022. However, the imprest remained outstanding as at the time of the audit in October, 2022 contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station.

In the circustances, the Project Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**575.** As required by International Development Association, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR INFRASTRUCTURE

## SUPPORT TO ROADS SECTOR POLICY:10TH EDF RURAL ROADS REHABILITATION PROJECT IN KENYA (AGREEMENT NO.KE/FED/023/-571) - KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**576.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**577. Lack of HIV/AIDS Awareness by the Contractor**

Project inspection carried out for Lot 5 on 14 October, 2022 revealed that the contractor did not carry out HIV/AIDS awareness as provided for by paragraph 25-50-001(a) of the tender documents. The contractor was required to take steps to make continuous awareness to the workers and the general public about HIV/AIDS via public displays at the project site and on the project vehicles. The contract had a provision of Kshs.720,000 in the Bill of Quantities to cater for the HIV/AIDS awareness.

The Contractor was therefore in breach of the requirements of paragraph 25-50-001(a) of the tender documents.

**578. Construction of Kivandini-Kango-Kakalia-Kali Road (Lot 4)**

Kenya Rural Roads Authority awarded tender for construction of 15.9 Kilometers of Kivandini-Kango-Kakalia-Kali Road in Machakos County to a contractor at a contract sum of Kshs.301,251,357. Project inspection carried out on 14 October, 2022 revealed that the drifts constructed along the road lacked demarcation points to indicate width and length of the drifts for the safety of the road users. Road markings were partially done for about 5Kms while road furniture were not done.

It was also noted that the entire stretch of the road lacked speed bumps around towns and steep sections of the road prompting locals to erect informal bumps thus risking the lives of the road users. At Ikiwe drift, a section which has experienced fatal accidents in the past, there was a protruded stone that the contractor did not uproot or carry out any specific works on it to avert future accidents. It was further noted that the contractor was not on site thus casting doubt on whether the remaining works would be completed.

In the circumstances, value for money spent in the Project could not be confirmed.

**579. Construction of Katuaa-Kee-Nunguni Road (Lot 5)**

Kenya Rural Roads Authority awarded tender for construction of 20.5 Kilometers of Katuaa-Kee-Nunguni road in Makueni County to a contractor at a contract sum of Kshs.362,001,255. Project inspection conducted on 13 October, 2022 revealed that only staggered sections of the road had been tarmacked to approximate ten (10) Kilometers. Road markings and furniture works had not been done on the tarmacked sections of the road. It was further noted that the contractor was not on-site casting doubt on the completion of the works before the scheduled Project closing date of 9 September, 2023.

In the circumstances, value for money spent in the Project could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**581.** As required by the European Commission, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## NUNO-MODOGASHE ROAD PROJECT – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**582. Presentation and Disclosure of the Financial Statements**

The financial statements did not include other important project background information and key qualifications for the officials involved in the implementation of the project as required by the Annual Financial Reporting Template for projects (Revised 30 June, 2022). Further, prior year auditor recommendations were not appended to the financial statements under progress on follow-up of prior year auditor's recommendations as required by the Financial Reporting Template.

In the circumstances, the presentation of the financial statements did not comply with the Annual Financial Reporting Template for projects (Revised 30 June, 2022).

**583. Cash and Cash Equivalents**

The statement of financial assets reflects nil cash and cash equivalents balance. However, Management did not provide bank statements, bank balance certificate and board of survey certificate to support the balance.

In the circumstances, it was not possible to confirm the accuracy of the nil cash and cash equivalents balance.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**584. Outstanding Payment of Approved Land Compensation**

Review of the contract agreement and a letter Ref. No. NLC/VAL1534/Vol. (15) dated 14 October, 2019 from the National Land Commission to the Management of Kenya National Highways Authority revealed that the Authority had approved payment of land compensation amounting to Kshs.147,594,798 to Project Affected Persons (PAPs). It was, however, noted that as at 30 June, 2022 a balance of Kshs.135,891,795 was

outstanding as disclosed under Other Important Disclosures at paragraph 12 of the annual reports. The Management did not provide plans put in place to settle the outstanding debt.

In the circumstances, the delay in payment of the compensation dues may lead to loss of public funds in case of litigations instituted by the Project Affected Persons.

**585. Interest on Delayed Payments**

Review of summarised payment certificates revealed that the Authority paid a contractor an amount of Kshs.604,563,073 as interest charged on delayed payments. Management did not provide reason for the late payment which resulted in payment of huge interest and thus leading to loss of public funds.

In the circumstances, the value for money amounting to Kshs.604,563,073 could not be confirmed.

**586. Payment of Value Added Tax**

Review of summarised payment certificates revealed that the Authority paid a contractor a cumulative amount of Kshs.7,362,473,084 for the certified works which included an amount of Kshs.918,294,823 charged as Value Added Tax (VAT) by the contractor for works which were not vatable. However, as at 30 June, 2022, the Authority had recovered Kshs.148,474,743 from the retentions account of the contractor leaving outstanding balance of Kshs.769,820,080. Management did not provide details of measures instituted to ensure full recovery of the outstanding balance.

In the circumstances, it was not possible to confirm value for money held by the contractor.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## KENOL-SAGANA-MARUA HIGHWAY IMPROVEMENT PROJECT (P-KE-DBO-037) CREDIT NOs.5050200000901 AND 2000200004504 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**588. Lack of a Project Bank Account**

The statement of receipts and payment reflects transfer from Government entities amount of Kshs.2,168,858,374 and total payments controlled by the entity of Kshs.2,168,858,374. However, review of records revealed that the Project does not have a separate project

bank account with the Central Bank of Kenya as required by the law. Instead, Management utilises a local bank belonging to the Kenya National Highways Authority (KENHA). This makes it difficult to trace transactions (receipts and payments) that relate to the Project.

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

**589. Non-Disclosure of Accounts Payable - Retention**

The statement of financial assets reflects a nil payables-retentions balance and as disclosed in Note 11.5 to the financial statements. However, Note 12.2, Note 12.3 and Annex 5 to the financial statements indicate that during the year under review, the accounts payables - retentions account had an opening balance of Kshs.49,834,635 brought forward from financial year 2020/2021 and a closing balance of Kshs.424,826,921. No explanation was provided for the failure to disclose the accounts payables – retentions balance of Kshs.424,826,921 in the statement of financial assets. In the circumstances, the accuracy and completeness of the accounts payable - retentions Nil balance could not be confirmed.

**Other Matter**

**590. Pending Bills**

Note 12.1 of the financial statements reflects pending accounts payable totalling to Kshs.1,360,045,476, as disclosed in Annex 3 to the financial statements which comprises of Kshs.108,751,146 relating to road construction and Kshs.1,251,294,330 relating to acquisition of land. These bills were not paid during the year under review but were instead carried forward to the financial year 2022/2023.

Failure to clear pending bills in the year to which they relate distorts the budget of the following year as they constitute a first charge on that budget.

**591. Lack of an Itemized Project Budget**

The statement of comparison of budget and actual amounts reflects a final budgeted expenditure of Kshs.6,810,000,000 and actual expenditure of Kshs.8,277,234,749 comprising of purchase of goods and services expenditure of Kshs.33,463,606 and acquisition of non-financial assets expenditure of Kshs.8,277,234,749. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

In the circumstances, the completeness of the budgeted expenditure amount of Kshs.6,810,000,000 could not be confirmed.

**592. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.6,810,000,000 and Kshs.8,310,698,355 respectively resulting to an over-funding of Kshs.1,500,698,355 or 22% of the budget. Similarly, the Project spent Kshs.8,310,698,355 against an approved budget of

Kshs.6,810,000,000 resulting to an over-expenditure of Kshs.1,500,698,355 or 22% of the budget. Management has explained that the over-funding and over-expenditure was as a result of funds budgeted for in the prior year being received and expensed in the current financial year. However, it was not clear why the budgeted receipts and expenditure, although included in the previous year's budget, were not included in the financial year 2021/2022 budget.

In the circumstances, the over-funding and over-expenditure was not budgeted for and thus not supported by way of a budget as required by the Regulations.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**593. Irregularities in Project Implementation**

**593.1 Lot 1-Dualling of Kenol-Sagana (A2) Road – 48 Km**

A contract for the dualling of Kenol-Sagana (A2) road (48Km) was awarded to an international contractor at a contract sum of Kshs.8,496,537,833 on 05 August, 2020 vide contract No.KeNHA/CS/D/3023/2020 for a period of thirty-six (36) months. The commencement date of the contract was 07 October, 2020 with an expected completion date 06 October, 2023.

Review of the monthly progress report for October, 2022 revealed that the percentage of weighted overall work completed (physical progress) stood at 64%. Further, the amount works certified for the contract was Kshs.6,429,082,437 while the amount paid to date was Kshs.6,004,418,257 (or 71% of the contract sum).

Audit inspection exercise carried out in the month of November, 2022 revealed that although the unit designs and estimates for twenty-nine (29) No. motorcycle (bodaboda) sheds and five (5) No. modern market sheds were completed in November, 2021 and submitted to the Project Management and the locations for the market and bodaboda sheds identified, no works on the sheds had commenced.

Further, twenty-four (24) No. of access roads totalling to approximately 23.7 Km identified for construction and the contractor furnished with instructions for commencement of works on Mitiini-Santamore, Makuyu Girls and Ciumbu centre access roads had not commenced.

In addition, one (1) No.50 meters long foot bridge at Kenol centre (0+123 Km) had not been completed although the geotechnical survey had been completed and the setting out done. The detailed designs and the bills of quantities for the Sagana trauma centre had been completed but the works on the same were yet to commence.

**593.2 Lot 2: Dualling of the Sagana-Marua (A2) Road Section - 36KM**

The Government of Kenya awarded a contract for the dualling of Sagana-Marua (A2) road (36km) to an international contractor on 30 July, 2020 at total sum of Kshs.6,115,038,571 vide contract No. KeNHA/RD/D3022/2020 for a period of thirty-six (36) months. The

commencement date was 19 October, 2020 with an expected completion date being 18 October, 2023.

Review of the quarterly progress report for July to September, 2022 revealed the percentage of weighted overall work completed (physical progress) stood at 59% against the programmed or planned physical progress of 61%. Further, the works certified to date amounted to Kshs.4,196,928,957 while the amount paid was Kshs.3,991,067,773 (or 65% of the contract sum). In addition, the time elapsed was 23.36 months or 65% of the completion period.

Included in the Project scope was the construction of one (1) No. interchange at Marua, construction of two (2) No. roundabouts at Karatina, construction of market sheds, construction of access roads and the construction of motor-cycle (boda-boda) sheds. Physical inspection of the Project carried out in the month of November, 2022 revealed that the works had not commenced.

Further, it was noted that there was delayed acquisition of affected land and property on some sections of the road which resulted to the delayed relocation of affected water pipelines and power lines and delay in making payments to the contractor for some Interim Payment Certificates (IPCs) which has caused slow rate of progress of work.

In addition, there were insufficient aggregates especially for construction of Dense Bitumus Macadam (DBM) and Asphalt Concrete (AC) layers and frequent breakdowns of Asphalt Concrete mixing plant, with the most recent one having been from 01 September, 2022 to 27 September, 2022.

In the circumstances, the delay in implementation of the various project works may contribute to overall delay in the delivery of the Project by the two contractors.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**595.** As required by African Development Bank (ADB), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# NAIROBI OUTER RING ROAD IMPROVEMENT PROJECT - KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**596.** There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**597. Failure to Settle Pending Accounts Payable**

Annex 3a to the financial statements reflects Kshs.885,199,462 in respect of pending accounts payables. This was an increase of Kshs.469,659,124 from the balance of Kshs.415,540,338 reported in the previous year.

Clauses 14.7.1(b), 14.8.2 and14.8.3 of the Project contract between the Construction Company and Kenya Urban Roads Authority provides specific conditions regarding delayed payment to the contractor. Clause 14.8.1 states that the Contractor shall be entitled to receive financial charges compounded monthly on the amount unpaid during the period of delay. Clause 14.8.2 states that the charge as result of delayed payment shall be calculated at the annual rate of three percentage points above the discount of the central bank in the country of the currency of payment, or if not available, the interbank offered rate, and shall be paid in such currency. Clause 14.8.3 states that the Contractor shall be entitled to this payment without formal notice or certification, and without prejudice to any other right or remedy.

In the circumstances, the Project was at risk of incurring additional cost in form of interest and penalties for failure to settle the pending bills.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**599.** As required by the Financing Agreement Loan No.2100150030144 and Grant No.2100155026117, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# UPGRADING OF KIBWEZI-MUTOMO-KITUI ROAD PROJECT - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**600. Unsupported Expenditure**

The statement of receipts and payments and Note 4 to the financial statements reflects an expenditure of Kshs.46,932,465 on acquisition of non-financial assets made by third parties. However, no documentary evidence was provided for audit review to confirm the disbursement of these payments.

In the circumstances, it was not possible to confirm the accuracy, validity and completeness of the Kshs.46,932,465 incurred on acquisition of non-financial assets.

**601. Interest on Delayed Payments**

Annex 3 to the financial statements reflects pending bills totalling to Kshs.3,566,237,990. Review of interim payment certificates relating to the pending bills revealed that the Company which was awarded the contract charged interest on delayed payments amounting to Kshs.338,775,822.

The interest was levied on the Project after all the committed funds had been received and paid out. This was a cost which could have been avoided had Management made the payments as and when they were due considering that the Project had adequate funding at the time.

In the circumstances, the interest payable charged to the Project is an irregular charge to public funds.

**602. Inaccuracy of the Financial Statements**

The statement of receipts and payments reflects comparative receipts and payments controlled by the entity amount of Kshs.796,772,220 and Kshs.945,910,929 respectively resulting to a deficit of Kshs.149,138,709. Although Note 7 to the financial statements indicates that Kshs.149,138,709 was used to pay retention monies, it is not clear how the funds were obtained and disbursed.

In the circumstances, it was not possible to confirm the accuracy of the deficit of Kshs.149,138,709.

**Other Matter**

**603. Delayed Payments to Persons Affected by the Project**

Annex 3 to the financial statements reflects pending bills balance of Kshs.3,566,237,990 as at 30 June, 2022 which includes a balance of Kshs.1,643,235,886 for acquisition of land from Project Affected Persons (PAPs). Review of the project file revealed complaints by the PAPs and legal cases filed against the Authority due to delayed compensations, as detailed below;

i. A complaint by four (4) PAPs with regard to compensation for four (4) parcels of land at Kisasi/Mosa, which had been gazetted by the National Land Commission (NLC) on 28 August, 2020. It was not clear whether the funds for compensation were transferred to the NLC since the four (4) beneficiaries had not been compensated as at the end of the financial year.

ii. Compensation for compulsory acquisition of parcels of land from residents of Ikutha village in Kitui County. On 12 January, 2018, NLC through the Kenya Gazette Notice No. 177 of 2018 published its intention to acquire fifty (50) parcels of land in Ikutha/Mbitini. Through a letter to KeNHA, the residents complained about delayed payments which had not been paid by the end of 2020/2021 financial year.

iii. A local firm of advocates, acting on behalf of the residents, issued letter to KeNHA and NLC indicating that the parcels of land acquired were valued and awards given to individual proprietors, and that some awards were later revised downwards without any justification. According to the letter, the residents decided to pursue the matter through an advocate since they had not been compensated by the time of this audit.

iv. Five (5) PAPs were to be compensated for their parcels of land. However, due to delays in compensation, the five (5) PAPs issued a 14-days-notice of legal action against the Authority, if the compensation would not have been paid within the 14 days. However, there was no evidence of payment of the compensation, by the time of this audit.

v. Annex 3 on pending bills reflect an amount of Kshs.280,930,790 as compensation to PAPs to date. However, the schedule for beneficiaries was not provided for audit review, therefore it was not possible to confirm the validity of the payment.

In view of disputes between the Authority and PAPs, the Project risks losing funds through award of damages, penalties and interest, which are costs that can be avoided.

**604. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.490,000,000 and Kshs.90,650,930 respectively, resulting to an underfunding of Kshs.399,349,070 or 81% of the budget. Similarly, the Project spent Kshs.90,650,930 against an approved budget of Kshs.490,000,000, resulting to an under expenditure of Kshs.399,349,070 or 81% of the budget.

The underfunding and under performance may have affected the implementation of planned activities for the Project and this may have impacted negatively on service delivery to the public.

**605. Pending Bills**

Annex 3 to the financial statements reflects pending bills of Kshs.3,566,237,990 as at 30 June, 2022 which were not settled during the financial year 2021/2022 but were instead carried forward to 2022/2023 financial year. However, the project information

reflected under the funding summary showed that all the project committed funds by both the financier and Government of Kenya were fully received and paid out. Further, the pending bills of Kshs.3,566,237,990 includes an amount of Kshs.1,915,289,734 which relates to 2020/2021 and earlier years.

Failure to settle bills in the year to which they relate affects the budget for the subsequent year on which they form a first charge. This also affects the efficiency with which the project is implemented.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**606. Variation of Contract without an Approved Budget**

Review of sources of funds for the Project revealed that the Bank and the Government of Kenya committed Kshs.15,644,154,921 and Kshs.3,435,361,592 respectively, for the Project. The funds were received and utilized towards the Project. Further review of records provided for audit revealed that the Authority amended the Project's commercial contract by increasing the contract sum payable to the Contractor from Kshs.18,404,888,139 to Kshs.21,545,912,343, an increment of Kshs.3,141,024,204. This amendment of the contract, which was done on 28 April, 2021, was based on an unsigned letter dated 23 April, 2021 from the Permanent Secretary, The National Treasury.

In the circumstances, it was not possible to confirm validity of the variation of the contract sum.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## DUALLING OF MAGONGO ROAD (A109L): PHASE II (FIDIC EPC/TURNKEY BASED) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**608. Inaccurate Comparative Balances**

The financial statements reflect a comparative Nil opening fund balance in the current financial year while the closing audited fund balance in the 2020/2021 financial year was Kshs.8,690,882.The movement in the balance has neither been explained nor reconciled.

### 609. Variance in Disclosed Retention

The interim payment certificate Number 8 issued on 1 July, 2021 and paid on 10 June, 2022 indicates the total retention amount to date as Kshs.93,015,748 while the financial statements reflects an amount of Kshs.72,999,502 resulting to an unreconciled variance of Kshs.20,016,246.

**Other Matter**

### 610. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.385,000,000 and Kshs. 95,930,985 respectively, resulting to an underfunding of Kshs.287,069,015 or 75%. Similarly, Kshs.95,930,985 was spent on the Project against an approved budget of Kshs.385,000,000, resulting to an under expenditure of Kshs.289,069,015 or 75%.

Further, review of records provided for audit revealed that the Project had a total approved budget and actual receipts of Kshs.2,697,004,754 and Kshs.1,356,927,820 for acquisition of land which was to be funded by the Government of Kenya resulting to underfunding of Kshs.1,340,076,934. This resulted in limited right of way due to land compensation challenges, which further resulted in delay of the Project completion and attracted prolongation cost claim of Kshs.2,851,043,577. In addition, it was not possible to confirm the completion of the Project within time and without cost overruns, against the initial cost of Kshs.1,100,042,519.

In the circumstances, the underfunding and under performance affected the implementation of planned activities, which may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

### 611. Failure to Budget for Pending Bills

Note 12 to the financial statements - other important disclosures and the corresponding analysis at Annex 3, reflects pending bills of Kshs.1,810,729,098. These pending bills are made up of consultancy services Kshs.17,715,072, civil works Kshs.447,385,527 and land compensation Kshs.1,356,927,820.

As reported in the previous years, Management liaised with The National Treasury to obtain adequate budgetary allocation to pay the pending bills. However, review of the approved budget for the year 2021 - 2022 revealed that Management did not budget for them, contrary to the provisions of Regulation 31(2) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to budget for and obtain approval for all services which can be foreseen.

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

### 612. Delay in Completion of the Project

As previously reported, the Project commenced on 1 May, 2018 for a period of twenty-four (24) Months ending 1 May, 2020. The contractor was later granted extension with the expected completion date of 20 August, 2021. According to the project implementation briefs as at August, 2022 the works were still ongoing with an overall progress of approximately 86% and time covered of fifty-two (52) months or 131% of the projected time. However, there was no evidence of any further extension of the contract period. Further, according to the contractor's interim claim No.14 of 30 June, 2022 the delay attracted prolongation claim of Kshs.2,851,043,577, which is approximately 118% of the initial project contract sum of Kshs.2,420,327,630. The claim is yet to be evaluated by the Management who attribute the delay to inadequate budgetary allocation and disruption of the contractor's sequence of work arising from the long time taken by the National Land Commission to compensate the Project Affected Persons (PAPs).

In the circumstances, the underfunding and under performance affected the implementation of planned activities, which may have impacted negatively on service delivery to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## KAPCHORWA-SUAM-KITALE AND ELDORET BYPASS ROADS PROJECT (KENYA) ID NO.P-Z1-DBO-183 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

### 614. Inaccuracies in the Financial Statements

### 614.1 Transfers from Government Entities

The statement of receipts and payments reflects transfers from Government entities of Kshs.124,011,058 for the year ended 30 June, 2022. However, the statement of comparison of budget and actual amounts reflects an actual transfer from Government entities amount of Kshs.132,973,110 resulting to unexplained and unreconciled variance of Kshs.8,962,052.

In the circumstances, the accuracy of the transfer from Government entities amount of Kshs.124,011,058 could not be confirmed.

### 614.2 Understated Pending Bills

Note 12.1 to the financial statements reflects pending accounts payable balance of Kshs.536,860,151. The balance includes an amount of Kshs.495,142,419 for construction of civil works. However, Annex 3 to the financial statements is the summary of the fixed assets register. The correct annex to support the pending accounts payable should be Annex 2A to the financial statements.

Further, the status report at page ix of the annual report and financial statements indicates that total amount paid to the contractor under Lot 1 – construction of Eldoret town by-pass road project as at 30 June, 2022 is Kshs.4,340,201,240 against a certified amount of Kshs.4,928,574,206 resulting in pending accounts payable of Kshs.588,372,966. However, review of the analysis of the pending accounts payable provided revealed that pending bills for the Lot 1 contract as at 30 June, 2022 was Kshs.307,597,421 thereby resulting into unexplained variance of Kshs.280,775,545.

In addition, under Lot 2 – upgrading of Kitale-Endebess-Suam (C45), the contractor had been paid a total of Kshs.2,439,470,196 as at 30 June, 2022, against the certified amount of Kshs.1,988,265,262 resulting to pending bills of Kshs.451,204,933. However, review of the analysis of the pending accounts payable provided revealed that pending bills for the Lot 2 contract as at 30 June, 2022 was Kshs.263,659,940 thereby resulting to unexplained variance of Kshs.187,544,993.

This therefore means that the total pending bills amount as per the status report totalled to Kshs.468,320,538 which differs with the balance of pending bills indicated in Note 12.1 to the financial statements of Kshs.495,142,419 by an unexplained variance of Kshs.26,821,881.

In the circumstances, the accuracy and completeness of the pending accounts payable balance of Kshs.536,860,151 could not be confirmed.

### 614.3 Deficit for the Year

The statement of receipts and payments reflects a deficit for the year of Kshs.8,401,552 while the statement of financial assets indicates a nil deficit amount thereby resulting in an unexplained variance of Kshs.8,401,552 between the two statements.

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

### 615. Failure to Maintain a Project Cash book and Account

The statement of receipts and payments indicates an amount of Kshs.124,011,058 received by the Project as transfer from Government entities through the parent Ministry (State Department for Infrastructure). However, the receipts to the Project could not be confirmed to the bank statements and the Project cash book since the Authority does not maintain a project specific bank account and cash book.

In the circumstances, the accuracy and completeness of the transfer from Government entities of Kshs.124,011,058 could not be confirmed.

### 616. Irregular Re-Allocation of Expenditure

The statement of receipts and payments reflects purchase of goods and services amount of Kshs.33,049,633 as disclosed in Note 3 to the financial statements, which includes a printing, advertising and information supplies amount of Kshs.31,261,083. However, review of the payment schedules provided revealed that the amount included expenditures of Kshs.13,641,672 and Kshs.15,687,361 all totalling Kshs.29,329,033 incurred on domestic travel and subsistence and consultancy respectively and had therefore irregularly been included and disclosed as printing, advertising and information supplies. Management did not provide any authority or approval to support the reallocation from the expenditure item to domestic travel and subsistence and consultancy expenditures.

In the circumstances, the regularity of the use of goods and services expenditure of Kshs.29,329,033 could not be confirmed.

### 617. Unsupported Bank Balance

Note 5A to the financial statements reflects retention balance held in a local bank of Kshs.3,576,201 as at 30 June, 2022. However, bank reconciliation statement and bank confirmation certificate were not provided for audit verification.

In the circumstances, the accuracy and completeness of retention bank balance of Kshs.3,576,201 could not be confirmed.

**Other Matter**

### 618. Pending Bills

Note 12.1 to the financial statements reflects pending accounts payable balance of Kshs.536,860,151 which includes Kshs.495,142,419 for construction of civil works and Kshs.41,717,732 for supply of services. The Note also indicates an opening balance of Kshs.883,093,393 under land compensation and a payment during the year under review of Kshs.883,093,393 and a nil closing balance. However, Management did not provide evidence to support the payment of Kshs.883,093,393. Further, the Project risks incurring additional cost in terms of interest due to non-adherence to the contractual terms and delay in payments.

Failure to clear pending bills in the year to which they relate distorts the budget of the following year as they constitute a first charge on that budget.

### 619. Lack of Project Detailed Budget

The statement of comparison of budget and actual amounts reflects approved expenditure budget of Kshs.2,835,000,000 and actual total expenditure of Kshs.2,089,417,912. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

In the circumstances, it was not possible to conduct budget performance analysis on budgeted and actual expenditure.

**620. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,835,000,000 and Kshs.2,081,016,360 respectively resulting to an underfunding of Kshs.753,983,640 or 27% of the budget. Similarly, the project spent Kshs.2,089,417,912 against an approved budget of Kshs.2,835,000,000 resulting to an underexpenditure of Kshs.745,582,088 or 26% of the budget.

The underfunding and underperformance affected the planned activities of the Project and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**621. Delayed Project Implementation - Lot 2: Upgrading of Kitale-Endebess-Suam(C45) Road Project**

The contract for the upgrading of Kitale-Endebess-Suam Road was awarded to a contractor on 17 August, 2017 and the commencement date of the contract was 26 February, 2018 with an expected completion date of 25 February, 2021 hence the contract period was forty-eight (48) months. The contract sum was set at Kshs.4,474,991,403 and the amount certified for payment as at 30 June, 2022 was Kshs.2,783,819,290 and actual amount paid was Kshs.2,439,470,196.

Further, review of the June, 2022 progress report provided revealed that the weighted physical progress stood at 80% compared to 52 months or 108% of the contract period elapsed. This implies the contractor is working behind schedule hence the slow progress of the work. Similarly, Management did not provide evidence to confirm whether the contract period for this project has been extended to a further date given that the original contract period was expected to have lapsed on 25 August, 2022 which is an indicator that the contractor might be working without a valid contract.

In addition, review of records revealed that under project risks and constraints, it was indicated that there was slow relocation of utilities within the road corridors, which included delays in relocating sewer and water lines and Kenya Power and Lighting Company Limited electricity poles.

In the circumstances, the delay in the project completion may result in additional costs due to cost escalation as a result of inflationary pressures.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**623.** As required by African Development Fund (ADF) and African Development Bank (AfDB), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## MOMBASA PORT AREA ROAD DEVELOPMENT PROJECT - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**624. Inaccuracy in the Financial Statements**

The statement of receipts and payments reflects surplus for the year of Kshs.38,890,330. However, the statement of financial assets reflects a nil fund balance as the surplus has not been recognized as part of the fund balance.

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

**625. Lack of Project Bank Account and Cash book**

The statement of receipts and payments relects transfer from Government entities through the parent Ministry of Kshs.158,571,686 which was partly paid out in the year under review. The receipts could however not be confirmed since the Authority did not maintain separate bank account and cash book for the project.

In the circumstances, the accuracy and completeness of the transfer from other Government entities of Kshs.158,571,686 could not be confirmed.

**626. Unsupported Expenditure on Purchase of Goods and Services**

The statement of receipts and payments reflects purchase of goods and services expenditure of Kshs.12,692,977. As disclosed at Note 3 to the financial statements, the expenditure is mainly in respect to travel and subsistence allowance. However, this expenditure was not supported by a detailed and approved project work plan to confirm whether the activities undertaken were part of the work plan for the year. In addition, the expenditure includes an amount of Kshs.2,343,000 that was paid to persons not employed by the Authority and was not supported by documentation to evidence receipt of the money by the recipients.

In the circumstances, the accuracy and validity of purchase of goods and services expenditure of Kshs.12,692,977 could not be confirmed.

### 627. Unsupported Expenditure on Acquisition of Non-Financial Assets

The statement of receipts and payments reflects acquisition of non-financial assets expenditure of Kshs.7,142,083,276. This expenditure includes expenditure on construction of roads totalling to Kshs.74,488,379 for which the supporting schedule provided did not have details of the payee and the reason for payment.

In the circumstances, the accuracy and validity of the expenditure totalling to Kshs.74,488,379 could not be confirmed.

### 628. Nugatory Expenditure

Annex 3 to the financial statements reflects a pending bills balance of Kshs.6,223,468,827 which includes Kshs.866,447,567 relating to interest charged, which arose from delayed payments.

The payment of interest as a result of delayed payments leads to loss of Government funds which could have been avoided.

### 629. Unsupported Bank Balance

Note 5A to the financial statements reflects cash and cash equivalents balance of Kshs.121,581,544 as at 30 June, 2022. However, since no separate cash book is maintained for the project, the supporting reconciliation statement provided for audit reflected a cash book balance of Kshs.183,962,682 as at 30 June, 2022 which made it difficult to isolate the correct balance for the Project.

In the circumstances, it was not possible to confirm the accuracy of cash and cash equivalents balance of Kshs.121,581,544 as 30 June, 2022.

### 630. Unsupported Payables – Deposits and Retentions Balance

The statement of financial assets reflects payables - deposits and retentions balance of Kshs.121,581,544 as at 30 June, 2022. However, no supporting schedule indicating details of the contractors owed and the respective amounts retained was not provided to support the balance of Kshs.121,581,544.

In the circumstances, the accuracy of payables – deposits and retentions balance of Kshs.121,581,544 as at 30 June, 2022 could not be confirmed.

### Other Matter

### 631. Delay in Project Completion

Review of progress reports for the contract's packages 2 and 3 revealed that as at 30 June, 2022, package 2 was at 56% completion against 57%-time lapse. Similarly, package 3 was at 93% completion against 138%-time lapse. The delay in completion was attributed to delays in land compensation with Kshs.3,640,011,232 out of the Kshs.6,223,468,827 as captured at Annex 3 to the financial statements on pending bills still outstanding.

In addition, the funding summary at section 1.7 of the annual report reflects an undrawn balance of Kshs.5,101,540,612 as at 30 June, 2022. Considering the outstanding pending bills of Kshs.6,223,468,827 as at 30 June, 2022, it is not clear how the remaining works especially for package 2 will be financed.

Delayed project implementation may lead to additional cost due to inflation and resultant interest payable to beneficiaries.

**632. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on comparable basis of Kshs.9,736,000,000 and Kshs.7,193,666,583 respectively resulting in an underfunding of Kshs.2,542,333,417 or 26% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.9,736,000,000 and Kshs.7,154,776,253 respectively, resulting in an under expenditure of Kshs.2,581,223,747 or 27% of the budget.

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

**633. Lack of Project Detailed Budget**

The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs.9,736,000,000. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

It was therefore not clear how the budget figures in the statement of comparison of budget and actual amounts were arrived at.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**634.** 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**

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

# MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT PHASE II (MARSABIT-TURBI ROAD) ID NO. P-Z1-DB0-027 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**636.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**637. Pending Bills**

As disclosed under Note 12.1 and Annex 3 to the financial statements, the project had outstanding pending bills balance of Kshs.62,165,683 as at 30 June, 2022. Review of the project's records indicate that no bills were settled during the year under review and the entire balance of Kshs.62,165,683 was brought forward from the previous year. The Project therefore runs the risk of incurring significant unquantified interest costs and penalties with the continued delay in settling invoiced bills.

**638. Project Closure Report**

The Project information at Section 1.2 of the annual report and financial statements reflects the project end date as 30 November, 2017. However, the project closure report was not provided for audit, being almost five (5) years after the expiry of the closure period.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**639.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**641.** As required by African Development Fund (ADF), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT PHASE III (TURBI-MOYALE) NO.P-ZI-DB0-095 LOAN NO.21001500255546 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**642. Unsupported Cash and Cash Equivalents Balance**

The statement of financial assets and as disclosed in Note 5 to the financial statements reflects a bank balance of Kshs.50,627,902 for the retention bank account held at a local bank as at 30 June, 2022. However, bank reconciliation statements in support of this balance were not provided for audit. Further, the certificate of bank balance provided reflects a balance of Kshs.1,042,912,466 as at 30 June, 2022 which is the retention balance for all the projects under the Authority.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.50,627,902 could not be confirmed.

**Other Matter**

**643. Project Closure Report**

The Project information in the financial statements provided for audit revealed that the project was to end on the 11 October, 2015. However, the project closure report was not provided for audit, being more than seven (7) years after the expiry of the closure period. In the circumstances, Management did not adhere to the Project closure procedures.

**644. Pending Bills**

Annex 3 to the financial statements reflects pending bills balance of Kshs.17,533,871. However, included in the balance is an amount of Kshs.16,819,558 which relates to a different project. Management has not provided explanation on why the bills have been included in this project. In addition, bills amounting to Kshs.714,313 has been outstanding since the financial year 2016 out of which an amount of Kshs.326,173 relates to interest and penalty incurred.

Failure to clear pending bills in the year to which they relate distorts the budget of the following year as they constitute a first charge on that budget and may result to interest and penalties charges.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**645.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**647.** As required by the African Development Fund (ADF), I report based on my audit that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## MOMBASA-MARIAKANI HIGHWAY PROJECT (LOT 1 - MOMBASA - KWA JOMVU) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**648. Lack of a Project Bank Account**

The statement of receipts and payments and Note 1 to the financial statements reflect Kshs.100,000,000 in respect to transfers from other Government entities. However, as previously reported, the amount could not be confirmed as the Authority does not maintain a separate bank account for the Project. It was therefore, not clear how the Management determined the receipts attributable to the Project.

In the circumstances, the accuracy and validity of Kshs.100,000,000 in respect to receipts from other Government entities could not be confirmed.

**649. Accuracy of the Financial Statements**

The statement of financial assets reflects nil amounts under both fund balance brought forward and surplus for the year. However, the statement of receipts and payments reflects Kshs.710,824 and Kshs.15,743,968 as surplus for the year and cumulative surplus respectively which should have also been included in the statement of financial assets.

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

**650. Unsupported Cash and Cash Equivalents**

The statement of financial assets and Note 5 to the financial statements reflect a balance of Kshs.15,743,968 for the Retention bank account held at a local bank as at 30 June, 2022. However, the bank reconciliation statement provided in support of this

balance reflects a balance as per the cash book of Kshs.183,962,682 as at the same date resulting in unexplained variance of Kshs.168,218,714.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.15,743,968 could not be confirmed.

**Other Matter**

**651. Lack of Project Detailed Budget**

The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs.1,535,000,000. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

It was therefore not clear how the budget amounts in the statement of comparison of budget and actual amounts were arrived at.

**652. Delayed Project Completion**

Kenya National Highways Authority entered into a 42 months contract for construction of Mombasa-Mariakani Project with Third Engineering Bureau of China in July, 2016 at a revised contract sum of Ksh.8,538,736,334. The works commenced on 4 February, 2017 with an initial contract period of 30 months and was later extended by 13 months to bring the revised completion date to 3 September, 2022. However, physical verification of the project site, which was carried out in November, 2022 after the lapse of revised completion date, revealed that works were still ongoing with overall progress approximated at 95.10% an indication that little progress was realized in the year under review. Further, there was no evidence that a contract extension period had been approved to warrant the contractor being on site.

In the circumstances, implementation of the Project was behind schedule which may lead to costs escalation and delayed realization of the expected benefits of the Project.

**653. Lack of Site Access Due to Legal Disputes**

Physical verification of the Project carried out in November, 2022 revealed that, works in a section of the road namely, Kwa - Jomvu interchange had stalled since the year 2016 due to two on-going Court cases. The first Court case No.157 of 2015 was filed by a local company which led to stoppage of construction of interchange reinforced earth wall, ramp, the main road and slip road while another Court case No.106 of 2015 was filed by another Investment Company which stopped demolition of walling structures encroaching on the road reserve.

In the circumstances, completion of road works in the affected sections is doubtful which undermines realization of benefits from the Project and could also lead to additional costs in form of claims by the contractor due to lack of access to the construction site.

**654. Pending Bills**

Note 12.1 to the financial statements reflects pending bills amounting to Kshs.448,259,325 as at 30 June, 2022 and as analysed in Annex 3 to the financial statements. Although Management has explained that it was liaising with the line Ministry

and The National Treasury to secure adequate budgetary allocation and exchequer releases to enable prompt payments of the pending bills, there is a risk of incurring additional significant costs in terms of interest and penalties due to continued delay in settlements of Project obligations.

Failure to clear pending bills in the year to which they relate distorts the budget of the following year as they constitute a first charge on that budget.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**655.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**657.** As required by the African Development Fund, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## EPC/TURN KEY CONSTRUCTION OF FIVE FOOTBRIDGES AND T-MALL FLYOVER ON MOMBASA AND LANGATA ROAD (PROJECT LOAN CREDIT NO. KEN-01001-19 AND KEN-02001-19) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Unmodified Opinion**

**658.** There were no material issues noted during the audit of the financial statements of the Project.

**Other Matter**

**659. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,510,000,000 and Kshs.953,936,126 respectively, resulting to an underfunding of Kshs.556,063,874 or 37%. Similarly,

Kshs.953,936,126 was spent on the Project against an approved budget of Kshs.1,510,000,000, resulting to an under expenditure of Kshs.556,063,874 or 37%.

The underfunding and under performance affected the implementation of planned activities, which may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**660. Failure to Prepare Separate Financial Statements for Each Project**

Records provided for audit indicated that the Authority has two (2) Financing Agreements. One of the agreements was No. KEN-01001-19 dated 12 November, 2019 with donor funding commitment of EUR23,250,000 approximately Kshs.2,812,975,650 for the T-Mall Flyover project design, supply and installation of a steel flyover for vehicles in Nairobi. The other Financing Agreement was No. KEN-02001-19 dated 17 January, 2020 with donor funding commitment of EUR12,430,000 approximately Kshs.1,503,883,326, for works referred to as EPC/Turn Key Construction of Five-Foot Bridges along Mombasa and Lang'ata roads. However, the two projects described above were combined and accounted for in one set of financial statements, instead of accounting for each project in separate financial statements. This is contrary to the provisions of Regulation 77 of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer for a project to maintain a record of all receipts, disbursements and actual expenditure on a monthly basis in respect of every project and sub-project for which he is accountable.

In the circumstances, it was not possible to confirm that the two financing agreements and related projects were accounted for in the manner and format provided for under Regulation 77 of the Public Finance Management (National Government) Regulations, 2015.

**661. Lack of Separate Project Bank Accounts**

Review of documents provided for audit revealed that Project No. KEN-01001-19 relating to construction of T-Mall Flyover for vehicles and Project No. KEN-02001-19 relating to construction of Five-Foot Bridges have no bank account in Central Bank of Kenya. This was contrary to the provisions of Regulation 76(1) of the Public Finance Management Regulations, 2015 which requires that such a bank account is opened and maintained in the Central Bank of Kenya (CBK), for the purpose of disbursement of project funds. According to the Regulation referred to above, such a bank account must be opened and maintained, unless the Project is exempted by the Cabinet Secretary in writing. In addition, according to the Regulation, all project funds shall be received, kept and transacted through this bank account, which shall bear the name of the project for which it is opened. Further, each project shall maintain only one bank account.

There was no written evidence, that the Project was exempted by the Cabinet Secretary from opening and operating a project bank account.

In the circumstances, Management is breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

## IMPROVEMENT OF RURAL ROADS AND MARKET INFRASTRUCTURE IN WESTERN KENYA PROJECT CREDIT NO.BMZ 2007-65 123 (KFW) - KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**663. Unconfirmed Cash and Cash Equivalents**

The statement of financial assets and as disclosed in Note 6 to the financial statements reflects bank balance of Kshs.131,730,504 as at 30 June, 2022, comprising of balances for nine (9) bank accounts and two (2) short term deposit accounts. However, fixed deposit certificate and bank balance certificate of Kshs.57,000,000 as at 30 June, 2022 were not provided for audit review.

In the circumstance, the accuracy and completeness of bank balance of Kshs.131,730,504 reflected in the statement of financial assets could not be confirmed.

**664. Unsupported Accounts Payable**

The statement of financial assets reflects accounts payable balance of Kshs.13,043,977 being a decrease of Kshs.9,375,092 from Kshs.22,419,069 as at 30 June, 2021. However, there were no ledgers to support the decreased amount of Kshs.9,375,092.

In the circumstances, the accuracy and completeness of accounts payable balance of Kshs.13,043,977 as at 30 June, 2022 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**665.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**667.** As required by the Kreditanstalt Fur Wiederaufbau (KFW), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## KENYA - SOUTH SUDAN LINK ROAD PROJECT (REF. NO. 2020 62 065 AND BMZ NO.202083939) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**668. Lack of Project Bank Account and Cash book**

The statement of receipts and payments reflects transfer from Government entities of Kshs.2,211,600 which was fully expensed in the year under review. However, the Authority did not maintain a separate Project bank account and cash book and as such none of the transactions could be confirmed.

In the circumstances, the accuracy and completeness of receipts from transfers from other Government entities of Kshs.2,211,600 could not be confirmed.

**669. Unsupported Expenditure on Domestic Travel and Subsistence**

As disclosed in Note 11.3 to the financial statements, the statement of receipts and payments reflects expenditure on domestic travel and subsistence amounting to Kshs.2,211,600. However, this expenditure was not supported with approved detailed workplan for the year under review. In the circumstances, the accuracy and validity of domestic and subsistence expenditure of Kshs.2,211,600 could not be confirmed.

**Other Matter**

**670. Delay in Project Implementation**

The project information at Note 1.2 to the financial statements indicates that the Project started in 2017 and is expected to end in 2025. According to the funding summary at Note 1.7, total donor and GOK commitments amount to Kshs.12,609,334,071 out of which Kshs.12,604,345,250 was to be received from KfW Frankfurt am Main ("KfW"). However,

as at 30 June, 2022, only Kshs.82,487,630 had been drawn despite the Project having been in existence for over five years.

Further, review of project information and overall performance indicated that construction work on rehabilitation/upgrading of the seventy-five (75) kilometers road had not started and only the road design and prequalification of bidders had been done.

In the circumstances, the Project is at risk of not being implemented as scheduled due to continued delay in the draw down and in view of Section 3.2 of the Loan Agreement which gives right to the financier to decline disbursements after 31 December, 2021.

**671. Pending Bills**

Note 12.1 to the financial statements and Annex 3 to the financial statements reflect pending accounts payable balance of Kshs.6,024,205 as at 30 June, 2022. Review of the financial statements indicate that the entire pending bills balance was contracted during the year under review. The Project therefore runs the risk of incurring significant unquantified interest costs and penalties with the continued delay in settling invoiced bills.

Failure to clear pending bills in the year to which they relate distorts the budget of the following year as they constitute a first charge on that budget.

**672. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.574,000,000 and Kshs.59,590,874 respectively resulting in an underfunding of Kshs.514,409,126 or 90% of the budget. Similarly, the Project spent Kshs.59,590,874 against an approved budget of Kshs.574,000,000 resulting to an underexpenditure of Kshs.514,409,126 or 90% of the budget.

The underfunding and under expenditure affected the planned activities of the Project and impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**673. Unapproved Variation of Contract Period and Amount**

The Management awarded an international contractor for consultancy services for design, finalization of safeguard documents, procurement support, construction supervision and contract administration of the Kenya – South Sudan Road Link (Kitale-Morpus Road) at a total sum of approximately Kshs.562,962,721 (Euro 4,404,560 - exchange rate of Kshs.125 plus Kshs.12,392,721) on 15 October, 2019. This was vide contract No. KENHA/1871/2018 with the original expected completion date of 9 July, 2025.

Review of Addendum No.1 dated 30 July, 2021 on the contract revealed that the original contract sum was varied from Kshs.562,962,721 (Euro 4,404,560 plus Kshs.12,392,721) to Kshs.617,399,617 (Euro 4,786,485 - exchange rate of Kshs.125 plus Kshs.19,088,992)

thus resulting in a variation of Kshs.54,436,896 (Euro 381,925 - exchange rate of Kshs.125 and Kshs.6,696,271) or 10%. Further, the contract expected completion date was also extended by twelve (12) months from 09 July, 2025 to 09 July, 2026.

However, Management did not provide evidence of the approval of the contract period and amount variation by the Authority and the donor (KfW, Frankfurt am Main).

This is contrary to Section 139(1) of the Public Procurement and Asset Disposal Act, 2015 which states that an amendment or a variation to a contract resulting from a procurement proceeding is effective only if - the variation or amendment has been approved in writing by the respective tender awarding authority within a procuring entity; and any contract variations or amendments for goods, works and services shall be as prescribed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**675.** As required by KfW Frankfurt am Main ("KfW"), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## TIMBOROA-ELDORET ROAD REHABILITATION PROJECT NO. P-KE-DBO-019 (LOAN NO. 2100150023344) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Disclaimer of Opinion**

**676. Presentation of the Financial Statements**

The financial statements did not contain the following information as required in the Annual Financial Reporting Template, (Revised 30 June, 2022) for projects reporting issued by the Public Sector Accounting Standards Board:

i) Key qualifications for the officials involved in the implementation of the project;

ii) Physical progress based on outputs, outcomes, and impacts since project commencement;

iii) The absorption rate for each year since the commencement of the project;

iv) The implementation challenges and recommended way forward;

v) The heading for Annex 2 on page 18 of the financial statements is incorrectly indicated as Reconciliation of Inter-Entity Transfer instead of Summary of Fixed Assets.

In the circumstances, the financial statements are not compliant with the Annual Financial Reporting Framework prescribed by the Public Sector Accounting Standards Board.

**677. Inaccuracies in the Financial Statements**

The schedule on application of funds under project information and overall performance reflects amount received and cumulative amount paid as at 30 June, 2022 of Kshs.5,415,940,409 and Kshs.5,397,171,964 respectively. The audited financial statements for the year ended 30 June, 2021 reflects amount received and cumulative amount paid of Kshs.5,399,454,880 and Kshs.5,390,782,291 respectively. However, the statements of receipts and payments for the year ended 30 June, 2022 reflects nil amounts received as loan and transfer from Government entities. Similarly, the statement reflects nil expenditure balance for the year. The movement of Kshs.16,485,529 and in the amount received and the movement in the amount paid of Kshs.6,389,623 during the year ended 30 June, 2022 has not been explained or reconciled.

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

**678. Cash and Cash Equivalents**

The statement of assets as disclosed in Note 7 to the financial statements reflects bank balance of Kshs.18,768,445 as at 30 June, 2022. However, the supporting documents including cash book, monthly bank reconciliation statements, bank statements and bank balance certificate as at 30 June, 2022 were not provided for audit review. Further, the Management did not give an explanation for the failure to surrender the unutilized funds to The National Treasury considering that the project ended in July, 2016.

In the circumstance, the accuracy of bank balance of Kshs.18,768,445 as at 30 June, 2022 could not be confirmed.

**679. Unsupported Receipts**

Note 3 to the financial statements reflects interest income of Kshs.790,172. However, supporting documents including bank statements, cash book and ledgers were not provided for audit.

In the circumstances, it was not possible to confirm the accuracy and completeness of a receipt balance of Kshs.790,172.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**680.** 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**

**681.** 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.

## NAIROBI - THIKA HIGHWAY IMPROVEMENT PROJECT LOT I AND II (CREDIT NO.2100150015544) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**682. Unsupported and Misstated Bank Balances**

The statement of financial assets reflects a bank balance of Kshs.11,333,783 which as disclosed in Note 5A to the financial statements includes a balance of Kshs.4,000,000 held in Central Bank of Kenya for which the bank balance confirmation certificate was not provided for audit. Further, the balance includes retention account bank balance of Kshs.7,333,783 for which the supporting bank reconciliation statement reflected a cash book balance of Kshs.183,962,682 resulting in an unreconciled variance of Kshs.176,628,899.

In the circumstances, the accuracy and completeness of the reported bank balance of Kshs.11,333,783 could not be confirmed.

**683. Unsupported Pending Bills**

Note 12 to the financial statements reflects a pending bills balance of Kshs.428,623,554 in respect of acquisition of land. However, detailed analysis of the pending bills including the names of the payees and the reasons for non-payment were not provided. Further, the entire balance of Kshs.428,623,554 was brought forward from the prior year and the Project's records indicated that no bill was settled during the financial year 2021/2022. In the circumstances, the accuracy of the reported pending accounts payable could not be confirmed. In addition, the Project runs the risk of incurring significant and unquantified interest costs and penalties associated with delays in settling the invoiced bills.

**Other Matter**

**684. Project Closure Report**

As provided under the Project Information and Overall Performance section of the Annual Report and Financial Statements, the Project was to end on 22 July, 2015. However, as previously reported, the Project Closure Report was not provided for audit, being more than seven (7) years after the lapse of the Project period.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**685.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**687.** As required by the African Development Fund (ADF), I report based on my audit that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## ROADS 2000 PHASE TWO PROJECT (AFD CREDIT NO. CKE 101201B, CREDIT NO. CKE 104601J AND CREDIT NO. CKE 109401 M) - KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**688. Un-supported Accounts Payable-Retention**

The statement of financial assets reflects accounts payable balance of Kshs.61,085,161. However, Note 10 to the financial statements reflects accounts payable (retention/contractors owed) balance of Kshs.61,272,662 which differs with the balance of Kshs.61,085,161 by an unexplained variance of Kshs.187,501. Further, the movement from the brought forward accounts payable balance of Kshs.96,981,429 to the carried forward amount of Kshs.61,272,662 has not been supported or reconciled. In addition,

the current retentions have not been matched with the bills payments amounting to Kshs.136,651,094 as reflected at Note 6 to the financial statements.

In the circumstances, the existence and accuracy of the accounts payable balance of Kshs.61,085,161 could not be confirmed.

**Other Matter**

**689. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.421,000,000 and Kshs.15,780,653 respectively resulting in an underfunding of Kshs.405,219,347 or 96% of the budget. Similarly, the Project expended Kshs.190,855,743 against an approved budget of Kshs.421,000,000 resulting to an underexpenditure of Kshs.230,144,257 or 55% of the budget.

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

**690. Unresolved Prior Year Audit Matters**

In the audit report of the previous year, several issues were raised. However, although the Management has indicated that all the prior year issues were resolved, no evidence has been provided to support this assertion.

In the circumstances, the matters remain un-resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**691.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**693.** As required by the Agence Francaise De Development (AFD), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# MULTINATIONAL ARUSHA-HOLILI/TAVETA-VOI ROAD CORRIDOR DEVELOPMENT PROJECT PHASE I – LOAN NO.2100150028894 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**694. Unsupported Nil Cash and Bank Balances**

The statement of financial assets reflects a nil bank balance as at 30 June, 2022. However, the cash and bank balances in respect of several projects were held in one account maintained by the Authority, which had a balance of Kshs.5,305,453,396 as at 30 June, 2022. However, the breakdown of cash book to show cash balances attributable to individual projects were not provided for audit review thus the nil balance held in the account could not be confirmed. In addition, there were no separate cash books maintained to record cash received for the project and payments against the project funds over the project implementation period. As a result, it was not possible to confirm total cash receipts and payments in respect of the Project.

In the circumstances, the accuracy and completeness of the nil bank and cash balances for the Project could not be confirmed.

**695. Pending Bills**

According to Note 12.1 to the financial statements on other important disclosures, the Project had pending bills amounting to Kshs.25,023,499 as at 30 June, 2022. Review of the pending bills listing and related documents revealed the following anomalies:

**695.1 Long Outstanding Payables – Unbudgeted Pending Bills**

The pending bills balance included Kshs.13,985,986 in respect of outstanding land compensation to various Project Affected Persons (PAPs). The amount ought to have been settled before the project commencement as per the conditions set out in the Loan Agreement. Further, pending bills amounting to Kshs.11,037,513 relating to consultancy services that were billed in 2018 were still outstanding as at the end of the year. Management explained that the non-payment of the bills was due to the lapse of the Financing Agreement prior to conclusion of all the Project components. Management's explanation for not making budgetary provision to cover the bills over the last four years was not justifiable.

In the circumstances, the Project is at risk of incurring significant interest costs and penalties due to the continued delay in payment.

**695.2 Ineligible Pending Bills**

The pending bills balance includes Kshs.7,343,038 which was due to Government institutions comprising Kenya Prisons and Deputy Commissioner - Taveta for land compensation under Project Affected Persons (PAPs). However, there was no record of

land acquired or structures moved or demolished in the parcels to pave way for the road construction and instead, a restitution was done.

In the circumstances, the accuracy and authenticity of the pending bills balance of Kshs.25,023,499 could not be confirmed.

**Other Matter**

**696. Absorption of Project Funds**

As disclosed under Note 1.2 of the Project information, the Project was earmarked to close on 31 December, 2019. However, Note 1.7 of funding summary indicates that the Donor had made commitment amounting to UA 75,000,000 which is equivalent to Kshs.10,660,050,000 as at 30 June, 2022. However, actual drawdowns during the project life amounted to UA 54,459,635 equivalent to Kshs.7,740,565,739 leaving out Kshs.2,919,484,261 undrawn. The credit thus lapsed without being fully utilized and the Project's planned deliverables earmarked for completion using the funding may not be realized.

In addition, Management did not provide the Project closure report for audit review, being more than three (3) years after the expiry of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**697.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**699.** As required by financier and financing agreement, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

# PORT REITZ/MOI INTERNATIONAL AIRPORT ACCESS (C110) ROAD (FIDIC EPC/TURNKEY BASED) PROJECT - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**700. Unsupported Cash and Cash Equivalents**

The statement of financial assets reflects nil cash and cash equivalents balance. However, Management did not provide bank statements, bank balance certificate and board of survey certificate to support the balance.

In the circumstances, it was not possible to confirm the accuracy of the nil cash and cash equivalents balance.

**Other Matter**

**701. Unbudgeted For and Unsupported Pending Bills**

Note 12 to the financial statements reflects pending accounts payable balance of Kshs.822,548,139 as at 30 June, 2022. The balance is made up of previous year's pending accounts payable of Kshs.29,624,000 and additions of Kshs.792,924,139 during the year under review. However, Management did not provide documents to support the additions of Kshs.792,924,139. In addition, an accounts payable register was not maintained as required by The National Treasury Circular No.5/2020 of 25 February, 2020 which requires accounts payable balances in the financial statements to be supported with accounts payable register as per the format prescribed in the Circular.

Further, Management did not make a provision in the approved budget for settlement of the pending bills.

In the circumstances, the Project is at risk of incurring additional cost in form of interest and penalties for the failure to settle the pending bills.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**702.** 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**

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

# EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (IDA CREDIT NO.4148-KE) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**704. Inaccuracies in the Financial Statements**

The statement of receipts and payments reflects a deficit of Kshs.9,826,146 for the year ended 30 June, 2022. However, the statement of financial assets reflects a surplus of Kshs.510,978 for the same period resulting in an unexplained difference of Kshs.10,337,124.

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

**705. Unsupported Cash and Cash Equivalents**

The statement of financial assets and Note 8 to the financial statements reflects cash and cash equivalents balance of Kshs.33,149,666 which includes an unsupported retention account balance of Kshs.21,012,749.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.33,149,666 could not be confirmed.

**Other Matter**

**706. Pending Bills**

Note 12.1 and Annex 3 to the financial statements reflects pending accounts payable in respect of road contractors totalling to Kshs.43,964,093.

The project's total donor and counterpart funds commitment amounted to Kshs.4,712,287,134 as indicated in the statement of sources of funding. Further, as per the application of funds statement all the committed funds were received and paid out except for an amount of Kshs.33,149,666 which includes Kshs.21,012,749 relating to retention monies leaving a balance of Kshs.12,136,917 for settlement of pending bills. The reported pending bills balance of Kshs.43,964,093 is more than the cash balance of Kshs.12,136,917 available for settlement of pending bills.

Further, the origin of the pending bills was not explained since the project was fully funded.

In the circumstances, the Project therefore runs the risk of incurring significant unquantified interest costs and penalties with the continued delay in settling invoiced bills.

**707. Project Closure Report**

The Project information at Section 1.2 of the annual report and financial statements indicate that the project ended on 30 October, 2015. However, the project closure report

was not provided for audit, being almost seven (7) years after the expiry of the closure period.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**708.** 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**

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

## SIRARI CORRIDOR ACCESSIBILITY AND ROAD SAFETY IMPROVEMENT PROJECT: ISEBANIA-KISII-AHERO – (A1) ROAD REHABILITATION - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**710. Accuracy of Financial Statements**

The statement of receipts and payments reflects an amount of Kshs.24,654,959 in respect of acquisition of non-financial assets payments controlled by the entity. However, there was no commensurate receipts to cover the payment and funding of these payments were explained as the Project appeared to only hold a retention account and no cash book was maintained for the Project.

In the circumstances, the accuracy of the financial statements as at 30 June, 2022 could not be confirmed.

**711. Authenticity of Land Payments**

Annex 3A to the financial statements reflects analysis of pending bills on land compensation balance of Kshs.537,676,282. However, the compensation schedule issued to the Kenya National Highways Authority (KENHA) by the National Land Commission (NLC) for payments was not supported with official search, land valuation reports and beneficiaries' identification criteria for the Project Affected Persons (PAPs).

In the circumstances, it was not possible to confirm the authenticity, propriety and accuracy of the pending bills of Kshs.537,676,282 reflected in the financial statements.

## 712. Unsupported Transfer from Government Entities

The statement of receipts and payments reflects transfer from Government entities of Kshs.2,328,376 as analyzed in Note 11.1 to the financial statements. However, no Exchequer notifications or any other support documentations were provided for audit review to confirm the completeness of the receipts.

In the circumstances, it was not possible to confirm the accuracy and completeness of the transfers from Government entities balance of Kshs.2,328,376, reflected in the financial statements.

## 713. Irregular Payment of Imprest and Air Tickets to Interns

The statement of receipts and payments and Note 4 to the financial statements reflects purchase of goods and services amount of Kshs.609,100, in respect of payment of per-diem which includes per-diem paid to three (3) interns amounting to Kshs.309,000. However, the policy guideline on the rates governing payment of per-diem to interns, was not provided for audit verification. In addition, examination of imprest surrender documents revealed that the interns travelled by air. However, no expenditure for air tickets was disclosed in the financial statements. Further, the approval for use of air transport, to confirm whether the interns qualified for use of air transport, was not provided for audit review.

In the circumstances, it was not possible to confirm the accuracy and validity of the use of goods and services expenditure of Kshs.609,100.

## 714. Irregularities in Acquisition of Non-Financial Assets

The statement of receipts and payments and Note 5 to the financial statements reflects acquisition of non-financial assets current year and cumulative amount of Kshs.1,917,603,641 and Kshs.20,052,965,638 respectively. Review of Project records revealed that three contractors issued suspension of work notices due to pending payments amounting to Kshs.2,048,366,971. An interview with the Project Engineer and physical verification in the month of November, 2022 revealed that the works had already been suspended. However, there was no evidence provided to confirm the dates when these works were suspended.

In addition, the financing agreement indicated that there were other components to the road construction. However, no contract agreements for these components were provided for audit review.

Further, Note 5 to the financial statements disclose purchase of equipment and machinery of Kshs.62,684,459. However, documents supporting the payments such as contract documents, payment vouchers, delivery notes, store receipt vouchers and store issue vouchers were not provided for audit review. In addition, there was no evidence provided to confirm that staff were trained on the use of the equipment.

Moreover, the contract that was implemented by an engineering company expired on 03 January, 2022. An application requesting for no objection was raised. However, no signed approval for this request was provided for audit review.

In the circumstances, ownership, existence, completeness, validity and value for money could not be confirmed.

### 715. Accounts Payable - Retention

The statement of financial assets and as disclosed in Note 7 to the financial statements reflects retention monies balance of Kshs.47,380,885. However, the Management did not maintain a deposit register in respect of the project. Further, retentions Kshs.443,798,918 reflected under Note 12(2) to the financial statements had no supporting analysis.

In the circumstances, it was not possible to confirm the accuracy and completeness of the retentions reflected in the financial statements.

### 716. Fund Balance Brought Forward

The statement of financial assets reflects a Fund balance brought forward of Kshs.27,771,750 which as disclosed in Note 8 to the financial statements has been described as bank accounts. The Management did not explain the purpose for these funds, which were held in a local bank account and not used in any way for a period of over three years. Holding the funds in the bank account may have resulted in avoidable bank charges, and denied the Project interest income which could have been earned had these funds been invested in interest earning financial instruments.

In addition, the fund balance brought and carried forward has remained the same and not taken into account the deficit for the period amounting to Kshs.22,935,683.

In the circumstances, the accuracy of the fund balance of Kshs.27,771,750 could not be confirmed.

### Other Matter

### 717. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.3,100,000,000 and Kshs.1,895,277,058 respectively, resulting to an underfunding of Kshs.1,204,722,942 or 39%. Similarly, Kshs.1,918,212,741 was spent on the Project against an approved budget of Kshs.3,100,000,000, resulting to an under expenditure of Kshs.1,181,787,259 or 38%.

The underfunding and under performance affected the implementation of planned activities, which may have impacted negatively on service delivery to the public.

### 718. Payment of Pending Bills Not Forming First Charge

Note 12 to the financial statements reflects pending bills of Kshs.2,623,642,869 as at 30 June, 2022 which were not settled during the financial year 2021/2022 but were instead carried forward to 2022/2023. Included in this balance are pending bills of Kshs.1,781,929,830 which relates to 2020/2021 and earlier financial years. Further, interest charges on late payments was Kshs.79,280,825 and Kshs.68,080,610 for Interim Payment Certificate (IPC) 48 and IPC 31 respectively, totalling to Kshs.147,361,435 as at 30 June, 2022.

Management has committed to liaising with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payment of the pending bills in the subsequent financial year.

The delays in the payment of pending bills may result in significant penalties and interest costs.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**719.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**721.** As required by Africa Development Bank, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR DEVELOPMENT PROJECT: (ISIOLO/MERILLE/MOYALE ROAD)

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**722. Unsupported Cash and Cash Equivalents Balance**

As reported in the previous year, the statement of financial assets reflects Kshs.18,682,650 in respect of cash and cash equivalents held in one (1) commercial bank account which was not supported with bank statements confirming transfer of the funds from project bank account to the Kenya National Highways Authority (KeNHA) main account on 16 October, 2014 after completion of the Project.

Consequently, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.18,682,650 as at 30 June, 2022 is fairly stated.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

**723.** 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**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**725.** As required by ADF and the Financing Agreement, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

## NORTHERN CORRIDOR REHABILITATION PROGRAMME PHASE III - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**726. Unsupported Cash and Cash Equivalents**

The statement of financial assets reflects nil cash and cash equivalents balance. However, Management did not provide bank statements, bank balance certificate and board of survey certificate to support the balance.

In the circumstances, it was not possible to confirm the accuracy of the nil cash and cash equivalents balance.

**Other Matter**

**727. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts revealed that the project did not have any budgetary provisions for both revenue and expenditure despite the outstanding pending bills. Project Management did not explain why there was no provision in the budget to cater for the outstanding pending bills.

Failure to make provision for settlement of pending bills may expose the project to unnecessary costs and delay in closure of the projects.

**728. Project Closure Report**

As disclosed under paragraph 1.2 of Project Information and Overall Performance, the Project commenced on 26 November, 2010 with a closure date of 31 October, 2015. However, the Project closure report was not provided for audit review. Further, Management did not provide an explanation for the failure to close the project, seven (7) year after the closure date.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Basis for Conclusion**

**729. Pending Bills**

Note 12.1 to the financial statements reflects pending bills balance of Kshs.4,101,454 as at 30 June, 2022. Management attributed the non-payment to the failure by the consultant to pay withholding taxes and provide compliance certificates. However, there was no evidence to prove that the Management requested the consultant for the required information and whether adequate budgetary allocation was sought from The National Treasury for settlement of the bills in the subsequent financial year considering that the Project was expected to end on 13 August, 2015. This was contrary to The National Treasury Circular No.10/2020 of 16 June, 2020 which requires pending bills to be settled during the 1st Quarter of the subsequent year.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Financing Agreement, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

# KENYA TRANSPORT SECTOR SUPPORT PROJECT (CREDIT NO.4926 KE AND NO.5410 KE) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

**Basis for Qualified Opinion**

**731. Inaccuracies in the Financial Statements**

The statement of receipts and payments reflects a deficit of Kshs.184,934,985. However, the statement of financial assets reflects a surplus for the year of Kshs.325,548 resulting in unexplained variance of Kshs.185,260,533.

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

**732. Comingling of Project Funds**

The statement of financial assets and Note 7 to the financial statements reflects cash and cash equivalents balance of Kshs.769,681,605. However, two (2) bank confirmation certificates (2) attached in support of the cash and cash equivalents balance relate to the Authority's bank accounts holding balances totalling to Kshs.1,071,589,264. The relationship between the balances held in the Authority's bank accounts and the Project financial statements has not been explained. This situation amounts to comingling of projects funds.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.769,681,605 could not be confirmed.

**Other Matter**

**733. Delay in Project Implementation**

As previously reported, the financing agreement indicates that the Project lifespan was from 23 May, 2011 to 31 December, 2018. Paragraph 1.7 of the financial statements on funding summary reflects an approved budget of donor funds of Kshs.29,495,071,705, all of which had been received. In addition, paragraph 1.8 of the financial statements on summary of overall project performance revealed that, as at 30 June, 2022, actual payments totaled to Kshs.2,743,477,906 out of a budget of Kshs.3,312,559,529 or 83% performance. Further, four (4) road projects were not complete while three (3) projects had their contracts terminated.

In the circumstances, the delayed contract execution impacts negatively on the project costs and the attainment of the objectives of the Project.

**734. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.3,312,559,529 and Kshs.2,558,542,921

respectively resulting to an underfunding of Kshs.754,016,608 or 23% of the budget. Similarly, the Project spent Kshs.2,743,477,906 against an approved budget of Kshs.3,312,559,529 resulting to an underexpenditure of Kshs.569,081,623 or 17% of the budget. Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

It was therefore not clear how the budget figures in the statement of comparison of budget and actual amounts were arrived at.

The underfunding and under expenditure affected the planned activities of the Project and impacted negatively on service delivery to the public.

**735. Pending Bills**

Note 12 and Annex 3 to the financial statements reflects pending bills amounting to Kshs.5,924,411,035 as at 30 June, 2022. Review of records revealed several issues as indicated below:

**735.1 Unsupported Pending Bills**

Included in the pending bills balance are pending payments in respect of supervision services amounting to Kshs.293,026,448 which include unexplained and unsupported negative movements of Kshs.29,227,892. Annex 3 to the financial statements reflects opening balance for supervision services of Kshs.282,934,200 while supporting documents reflect a balance of Kshs.293,026,448 upon taking into account the payments to date. The recomputed amount of the opening balance should have been Kshs.332,633,449 resulting to an unexplained variance of Kshs.49,699,249.

Further, included in the pending bills balance are pending payments of Kshs.876,649,634 due to a contractor arising from the determination of High Court ruling on a case of 2018. Annex 3 to the financial statements reflects an original amount of the pending bill as Kshs.1,276,649,634. However, the accounting records provided for audit indicated that the original balance payable for this bill was Kshs.1,291,376,941 resulting to an unexplained variance of Kshs.14,727,307.

In addition, Annex 3 to the financial statements reflects total original pending bills amount of Kshs.11,042,079,990 which includes an amount of Kshs.3,372,323,314 being the original amount payable to a contractor in respect to awards granted by the Dispute Resolution Board. However, review of records maintained by the legal department of the Authority revealed that the original amount payable to the contractor was Kshs.3,804,526,291 resulting in an un-explained difference of Kshs.432,202,977.

**735.2 Unexplained Land Compensation Valuation Differences**

Included in the pending bills is a balance of Kshs.823,379,197 in relation to land compensation which reduced by Kshs.345,387,044 from Kshs.1,168,766,241 in the 2020/2021 financial. Review of records provided revealed that the National Land Commission revalued an initial land compensation award to a brokerage firm from Kshs.596,221,387 to Kshs.148,217,710, vide a letter dated 5 January, 2022, thereby reducing the valuation by Kshs.448,003,677. However, this reduction differs with the year-

to-year movement reported in the financial statements of Kshs.345,387,044 by Kshs.102,616,633. Management did not provide an explanation for the difference. The project runs the risk of incurring significant and unquantified interest costs and penalties.

In the circumstances, the accuracy of the pending bills balance of Kshs.5,924,411,035 could not be confirmed.

### 735.3 Nugatory Expenditure

Included in the pending bills balance of Kshs.5,924,411,035 as disclosed under Annex 3 to the financial statements is Kshs.419,930,283 relating to interest charged, which arose from delayed payments.

The payment of interest on defrayment of delayed payments is a loss of public funds which could have been avoided.

### 736. Project Closure Report

Review of the financing agreement for the Project revealed that the Project was to end on 31 December, 2018. However, as previously reported, the Project closure report was not provided for audit review, being more than three and a half (3½) years since the Project closing date.

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

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Basis for Conclusion

### 737. Irregular Purchase of Goods and Services

The statement of receipts and payments and Note 4 to the financial statements reflects purchase of goods and services balance of Kshs.16,989,450 relating to domestic travel and subsistence. However, a detailed work plan to confirm that the activities paid for related to the project was not provided for audit purposes.

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

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

### Conclusion

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**739.** As required by International Development Association (IDA) and financing agreements, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the

purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

## MERILLE – MARSABIT ROAD REHABILITATION PROJECT (KE/001/09) LOAN AGREEMENT NO. KE/FED/2009/021-655 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

### Basis for Qualified Opinion

### 740. Unsupported Cash and Bank Balances

The statement of financial assets reflects a Nil bank balance. However, the cash and bank balances in respect of the project was consolidated with other funds in one account maintained by the Authority for all projects, which had a balance of Kshs.5,305,453,396 as at 30 June, 2022. Therefore, cash balances attributable to individual projects held in the account could not be confirmed. In addition, there was no separate cash books maintained to record cash received for the project and payments against the project funds over the project implementation period. As a result, it was not possible to confirm total cash receipts, payments and cash balance in respect of the project.

In the circumstances, the accuracy of the Nil bank and cash balances for the Project could not be confirmed.

### 741. Pending Bills

The statement of receipts and payments reflects acquisition of non-financial assets of Kshs.200,000,000. Expenditure ledger indicated that payments totalling to Kshs.198,407,500 were paid to a contractor to settle pending bills in respect of civil works. However, the amount paid exceeded Kshs.141,566,761 disclosed as pending bills for the contractor in prior financial years 2019/2020 and 2020/2021. The variance of Kshs.56,840,239 between the amount paid in the year under review and the previously reported amount was not explained.

In addition, the reported pending bills as at 30 June, 2021 and as at 1 July, 2022 as per the certified financial statements amounted to Kshs.141,566,761 while the brought forward balance as on Note 12.1 of the financial statements was Kshs.292,165,074. However, Management did not provide documents in support of additional pending bills amounting to Kshs.150,598,313 and part of which was also paid for in the year under review.

In the circumstances, the accuracy and completeness of acquisition of non-financial assets expenditure of Kshs.200,000,000 could not be confirmed.