

REPUBLIC OF KENYA

REPORT

OF THE

AUDITOR-GENERAL

ON THE

FINANCIAL STATEMENTS

FOR

NATIONAL GOVERNMENT

FOR THE

YEAR 2015/2016

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1. General

1.1. Legal Mandate of the Office of the Auditor-General

- Office of the Auditor- General is established as an Independent Office under Article 248(3) of the Constitution of the Republic of Kenya.
- The Auditor-General is appointed in accordance with Article 229 of the Constitution.
- The statutory duties and responsibilities of the Auditor-General are given in Article 229(4) (5) (6) and (7) of the Constitution and Public Audit Act, 2015.

I have already issued my audit reports to the respective accounting officers for the financial statements for 2015/2016 of their respective Ministries, Agencies, Departments and Funds.

This report provides detailed audit findings of the financial statements of the National Government of the Republic of Kenya for the financial year ended 30 June 2016.

The scope of the audit in National Government includes Ministries, Government Departments, Agencies, Funds and Development Partners' funded Projects.

1.2. Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit, 2015.

1.3 Auditor-General's Responsibility

I carried out my audit in accordance with International Standards of Supreme Audit Institutions. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting policies used and significant estimates made by Management, as well as evaluating the overall presentation of the financial statements. Further, it includes procedures to determine whether public money has been applied lawfully and in an effective way.

I considered the public entities' internal control systems in order to determine my auditing procedures for the purpose of expressing an opinion on their financial statements. To ensure that the execution of the National Budget was in conformity with the provisions of existing laws, regulations and prescribed procedures, the audit essentially covered authorization and approval of expenditure, budget procedures, management of bank accounts and a review of the internal control systems set up by the audited public entities.

The detailed Audit Report for each National Government entity audited is provided below:

THE NATIONAL TREASURY

FINANCIAL STATEMENTS FOR VOTE 1071

Basis for Qualified Opinion

1. Unaccounted for Fuel for Leased National Police Service Vehicles

Note 13 to the financial statements indicates an amount of Kshs.8,981,231,224 under other operating expenses which includes an amount of Kshs.678,717,318 and Kshs.5,074,184,043 in respect of fuel and lease of motor vehicles respectively, paid by the National Treasury for provision of fuel and leased vehicles for the National Police Service.

An audit inspection carried out in some fifteen (15) County headquarters, however, revealed various discrepancies between the monthly fuel invoices and the volume of fuel allocation as reflected in the motor vehicle records. As a result, fuel worth Kshs.20,004,118 was not properly accounted for. Under the circumstances, the propriety of expenditure amounting to Kshs.20,004,118 incurred on provision of fuel for leased National Police Service vehicles could not be ascertained.

2. Pending Bills

The statement of receipts and payments reflects total payments amounting to Kshs.92,071,238,493 as at 30 June 2016. The amount excludes bills amounting to Kshs.1,420,834,713 relating to 2015/2016 which were not settled during the year under review, but were instead carried forward to 2016/2017 financial year. Had the bills been settled in the year under review, the statement would have reflected a deficit of Kshs.1,364,262,034. Failure to settle the bills in the year to which they relate adversely affects the following year's provision to which they have to be charged.

3. Outstanding Imprests

The statement of assets reflects an outstanding imprests balance of Kshs.1,661,284 which ought to have been recovered or accounted for on or before 30 June 2016. No reasons have, however, been provided for failure to surrender or account for the imprests as of 30 June 2016.

NATIONAL EXCHEQUER ACCOUNT

Emphasis of Matter

I wish to draw your attention to note 5.7 in the statement of receipts into and issues from the National Exchequer Account for the year ended 30 June 2016 which reflects an Exchequer balance of Kshs.203,491,419 brought forward from 2014/2015

financial year. However, and as indicated in the Auditor's Report for 2014/2015, the receipt of net proceeds from commercial financing (Sovereign/Euro Bond) of Kshs.215,469,626,036 accounted for in 2014/2015 financial year could not be ascertained as investigation into the receipts, issues, accounting and utilization of the funds related to the Sovereign/Euro Bond was still on-going as at 30 June 2016. Under the circumstances, the accuracy of the Exchequer balance of Kshs.203,491,419 brought forward from 2014/2015 may be affected by the outcome of the on-going special audit on Euro Bond.

STATEMENT OF OUTSTANDING LOANS

Basis for Qualified Opinion

4. Outstanding Loans Balance

The statement of outstanding loans as at 30 June 2016 reflects total loans issued of Kshs.588,006,269,460, which includes new loans in 2015/2016 totalling Kshs.366,713,195,274. An amount of Kshs.15,757,419,831 of the loans issued had been repaid, leaving a balance of Kshs.572,248,849,628 outstanding as at that date. The total outstanding loans balance of Kshs.572,248,849,628 as at 30 June 2016 represents an increase of Kshs.375,395,966,593 or approximately 191% of total outstanding balance of Kshs.196,852,883,036 reported as at 30 June 2015. However, the accuracy of the outstanding loan balance of Kshs.196,852,883,036 as at 30 June 2015 could not be confirmed as some thirty three (33) institutions/parastatals with a total loan balance of Kshs.187,118,801,653 reflected in the statement differed with the loan balance of Kshs.154,311,620,199 independently confirmed by these institutions/parastatals as at the same date. The resultant variance of Kshs.32,807,181,453 was not reconciled or explained casting doubt on the accuracy of the outstanding loan balance of Kshs.196,852,883,036 carried forward to 2015/2016 financial year.

5. Non-repayments of Loans

The total outstanding loans balance of Kshs.572,248,849,628 reflected in the statement of outstanding loans as at 30 June 2016 includes loans amounting to Kshs.15,802,665,652 issued to the various institutions. However, these institutions have not made any efforts to repay their respective loans upon maturity as shown below:-

Institution	Amount Lent (Kshs)	Effective Year of Repayment
Agricultural Settlement Fund & Central Lands Board	70,717,700	Various
Associated Sugar Factory Ramisi	15,818,960	Various

Coffee Board of Kenya	752,510,309	Various
Cotton Lint & Seed Co.	22,632,020	Various
East African Sugar Industries Ltd	177,123,100	Various
Eldoret Municipal Council	1,058,673,824	1993
Halal Meat Products	27,701,420	1979
ICDC	89,230,500	Various
Kenya Co-operative Creameries Ltd	36,251,040	Various
Kenya Industrial Estates	423,950,484	Various
Kenya Meat Commission	940,241,100	Various
Kenya National Federation of Co-Operatives (KNFC) Ltd	5,595,600	Terms not specified
KPLC Ltd	312,479,508	31/09/2006
Kenya Torray Mills	2,982,480	1970
KTDC	48,000,000	01/07/1991
Kenya Urban Transport	40,706,140	1994
Local Government Loans Authority	7,594,273,720	Terms not specified
Miwani Outgrowers Ltd	22,600,020	Various
Miwani Sugar Mills	78,088,180	Various
Moi University	231,250,000	2010
Mombasa Pipeline Board	22,964,980	1976
Mumias Outgrowers	16,517,400	Various
Nairobi City Council	102,333,760	-
National Water Conservation & Pipeline Corporation	2,460,874,897	Various
Nzoia Sugar	158,510,100	Various
P.J. Products	2,036,820	Terms not specified
Pyrethrum Board	863,368,270	2008
South Nyanza Sugar	199,027,420	Various
Uplands Bacon	26,205,900	Various
Total	**15,802,665,652**	

REVENUE STATEMENT

Basis for Qualified Opinion

6. Balance Carried Forward

The statement of revenues and transfers reflects a balance carried forward of Kshs.3,570,991,332 which includes an amount of Kshs.2,995,232,115 brought forward from 2014/2015 and previous years. No satisfactory explanation has been provided for

failure to remit to the Exchequer Account, by 30 June 2016 the significant balance of Kshs.3,570,991,332.

7. Arrears of Revenue

The statement of arrears of revenue reflects revenue receipts totaling Kshs.380,600,178,374 as due and uncollected as at 30 June 2016 compared to Kshs.194,951,716,541 reported as at 30 June 2015. The balance of Kshs.380,600,178,374 is made up of arrears for PAYE and Other Income Tax of Kshs.295,096,178,722, arrears for VAT and Excise Taxes of Kshs.47,717,166,529, arrears for loan redemptions of Kshs.13,003,682,478 and arrears for loan interests of Kshs.24,783,150,645. Besides failure to collect the arrears, the National Treasury has not explained satisfactorily how it is addressing the persistent increase in arrears of revenue.

DEVELOPMENT REVENUE

Unqualified Opinion

There were no material issues noted during the audit of this development revenue.

EQUALISATION FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

PETROLEUM DEVELOPMENT LEVY FUND

Basis for Adverse Opinion

8. Unreconciled Balances

The statement of financial position as at 30 June 2016 reflects a net financial asset balance of Kshs.5,724,613,631 comprised of cash with P.M.G balance brought forward of Kshs.5,137,458,103 and bank balance (surplus for the year) of Kshs.587,155,528. The net financial assets balance of Kshs.5,724,613,631 differs from the bank (cash book) balance of Kshs.1,649,028,601 by Kshs.4,075,585,028 of which the difference has not been explained. Further, the statement of cash flows reflects a cash and cash equivalents balance as at 30 June 2016 of Kshs.1,952,167,790 while the Fund's cash book (bank balances) shows an amount of Kshs.1,649,028,603 as at the same date thus resulting in an unexplained difference of Kshs.303,139,187. Consequently the validity and accuracy of the net financial assets balance of Kshs.5,724,613,631 shown in the statement of financial position as at 30 June 2016 cannot be ascertained.

CONTINGENCIES FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

RAILWAY DEVELOPMENT LEVY FUND

Basis for Adverse Opinion

9. Accuracy of the Financial Statements

As indicated in the previous year's Report, the National Treasury did not prepare and submit for audit the financial statements for the Railway Development Levy Fund for the year ended 30 June 2014. The source and accuracy of balances brought forward to the financial year 2014/2015 could not be confirmed. Consequently, the opening balances for the financial year 2015/2016 were not ascertained and therefore the financial statements as a whole for 2015/2016 could not be confirmed.

10. Unexplained Receipts Variation between Financial Statements and Kenya Revenue Authority Records

The statement of receipts and payments for the year ended 30 June 2016 reflects total receipts from the Kenya Revenue Authority of Kshs.17,060,928,683 during the year, while records maintained at the Kenya Revenue Authority shows a total amount of Kshs.17,273,369,562 as having been collected and transferred to the National Treasury during the period. The resultant difference of Kshs.212,440,879 between the two sets of records has not been reconciled or explained.

Consequently, the accuracy of the receipts figure of Kshs.17,060,928,683 for the year ended 30 June 2016 could not be confirmed.

11. Unsupported Transfers

The statement of receipts and payments also reflects transfers to the State Department of Transport of Kshs.14,353,521,932 made during the year under review. However, minutes of the Railway Development Levy Fund Advisory Committee approving the transfers were not made available for audit review.

RURAL ENTERPRISE FUND

Basis for Disclaimer of Opinion

12. Uncleared Balances

Following the winding up of the Rural Enterprise Fund through Legal Notice No. 97 dated 29 June 2012, outstanding cash balances in the Fund were to be paid into the Consolidated Fund. However, the National Treasury has not yet closed the Fund's books of account despite the Legal Notice and has continued to prepare and submit the Fund's financial statements for audit. The Fund's statement of financial position as at 30 June 2016 presented for audit continue to reflect a total balance of Kshs.397,908,774 under financial assets made up of balances of Kshs.394,559,879 and Kshs.3,348,895 against Account Receivables-Loanees and Bank Balances respectively. The Bank Balances, according to Note (1) to the financial statements, are represented by Cash with DC (Loans Repaid)- Kshs.1,951,921, Cash with DC (Interest on Loans)- Kshs.108,840 and Cash in the DC'S Miscellaneous Deposit Account- Kshs.1,288,135. However, bank certificates and cashbook records to confirm the balances as at 30 June 2016 were not provided for verification.

13. Unresolved Prior Years Matters

A review of the unsatisfactory matters highlighted in the report for 2014/2015 revealed that they remained unresolved during the year 2015/2016 as indicated below:

13.1 Loan Beneficiaries

The statement of assets and liabilities as at 30 June 2013 and 2014 respectively reflected a loan balance of Kshs.394,559,879, which included an amount of Kshs.220,013,037 that had not been analyzed to show the names of borrowers, amounts borrowed and those outstanding. Consequently, and in absence of the analysis, the completeness and correctness of the balance of Kshs.394,559,879 as at 30 June 2013 and 2014 could not be ascertained. Further, no interest on the loans outstanding as at 30 June 2013 and 2014 was accrued in the accounts.

13.2 Unbanked Cash

The statement also reflected unbanked cash balances totalling Kshs.3,348,895, brought forward from 2012/2013 and earlier years. According to information available, the total amount comprised Kshs.1,951,921 representing cash with DC (Loans Repaid); Kshs.108,840 Cash with DC (Interest on Loans); and Kshs.1,288,135 relating to Cash in the DC'S Miscellaneous Deposit Account.

Further, there was no evidence to confirm actual existence of the balance of Kshs.3,348,895 at the DC's Office. In addition, the balance of Kshs.1,951,921 under DC (Loans Repaid) included advances amounting to Kshs.207,344 in form of IOUs issued from the Fund to some five officers working at the DC's Office, Kisumu in 1997/1998. The IOUs had not, however, been surrendered as at 30 June 2014.

13.3 Unreconciled Balance

The statement of assets and liabilities for deposits 07 as at 30 June 2013 reflected a debit balance of Kshs.1,828,388 in respect of the Fund, while the Fund Accounts for the same year reflected a balance of Kshs.397,908,774 against the item. The significant difference of Kshs.396,080,387 between the two sets of records has not been reconciled or explained.

STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND

Basis for Disclaimer of Opinion

14. Accuracy of the Financial Statements

The State Officers and Public Officers Motor Car Loan Scheme Fund was established through Legal Notice No. 195 dated 8 September 2015 under the Public Finance Management Act, 2012. Information available indicates that the initial capital of the Fund of Kshs.1,000,000,000 appropriated by Parliament in the financial year 2014/2015 was credited into the Fund account held at the Central Bank of Kenya on 25 August 2015. An additional amount of Kshs.985,000,000 was credited into the Fund account on 23 May 2016 bringing the total amount to Kshs.1,985,000,000. However, the receipts are not reflected in the statement of income and expenditure which instead reflects nil receipts for the year ended 30 June 2016. Similarly, the statement of changes in equity for the year ended 30 June 2016 reflect a balance brought forward on 1 July 2015 of Kshs.1,000,000,000. However, as observed above, this amount was transferred to the Fund account on 25 August 2015. The accuracy of the financial statements prepared and submitted for audit is, therefore, doubtful.

15. Unsupported Bank Balance

The statement of financial position reflects cash and cash equivalents (bank) balance of Kshs.1,985,000,000 as at 30 June 2016. However, the balance has not been supported by a bank reconciliation statement and certificate of bank balance as at 30 June 2016. Under the circumstances, the completeness, existence and accuracy of the balance of Kshs.1,985,000,000 cannot be confirmed.

16. Failure to adhere to the Guidelines

The statement of financial position submitted does not bear the signatures of the Accounting Officer and the Administrator of the Fund. This is contrary to the guidelines issued by the Public Sector Accounting Standards Board pursuant to the provisions of Section 194 of the Public Finance Management Act, 2012.

GOVERNMENT CLEARING AGENCY FUND

Basis for Disclaimer of Opinion

17. Unsupported Debtors and Creditors Balances

The statement of financial position as at 30 June 2016 reflects balances of Kshs.300,931,776 and Kshs.52,973,897 under Accounts Receivables - Debtors and Accounts Payables - Creditors respectively. However, these balances have not been supported with verifiable records and documents including debtors and creditors registers. Specifically, the creditors' balance has not been supported with contracts, local purchase/service orders, invoices and delivery notes with the result that the accuracy, completeness and validity of the balance could not be ascertained. Further, the debtors balance of Kshs.303,931,776 is net of a Clearance Account balance of Kshs.654,000,000 which, has also not been supported with any verifiable documents making it difficult to ascertain what it represents.

18. Unsupported Fund and Paymaster General Balances

The statement of financial position also reflects a brought forward Fund balance of Kshs.2,147,492 and a Paymaster General (PMG) overdraft balance of Kshs.245,810,387 which, as in the previous instance, have not been supported with verifiable documents including a bank balance confirmation certificate and bank reconciliation statement. As a result, the accuracy and validity of the balances cannot be confirmed.

THE TREASURY MAIN CLEARANCE FUND

Basis for Qualified Opinion

19. Accounts Receivables- Debtors

The Treasury Main Clearance Fund statement of financial position as at 30 June 2016 reflects an accounts receivables-debtors balance of Kshs.12,503,607,446, which includes an amount of Kshs.2,332,170,394 (as summarized below), that has not been analyzed:

Description of Account	Balance (Kshs)
003- National Treasury	7,913,690
013- Police Headquarters	170,879
019-O.O.P-Imigration Department	433,000
021- Pension Department	(21,572,020)
032- Remittance to Crown Agent	2,341,896,518
049- Ministry of Planning	1,712,109

054-Remittance to Karachi Agent	132,319
055-Remittance to Bombay Agent	454,920
058-Flourspar Company Ltd	1,028,978
Total	**2,332,170,394**

Consequently, the completeness and accuracy of the balance could not be ascertained. Further, no reason has been provided for the inordinate delay in recovery of debts totalling Kshs.12,503,607,446 which have been due for many years.

20. Accounts Payables- Creditors

The statement of financial position also reflects an accounts payables- creditors balance of Kshs.12,490,478,941, which includes amounts of Kshs.523,686 under PMG Special Account, Kshs.2,285,511,054 under Advance Deposits, Kshs.29,963,831 under Advance Deposits – Ministry of Information and Communications and Kshs.93,455 under JCF Interest all brought forward from 2014/2015 and earlier years. However, and as reported in the previous years, these amounts have not been analyzed or supported with relevant documents. Consequently, the completeness and accuracy of the creditors balance of Kshs.12,490,478,941 as at 30 June 2016 could not be ascertained.

21. Deficit Balance Brought Forward

The statement of financial position further reflects a brought forward balance of Kshs.(871,495) which as reported in the previous year differs from the calculated balance of Kshs.2,949,863 being the difference between the amounts received totalling Kshs.10,174,386,915 and the payments made totalling Kshs.10,171,437,051 captured in underlying records. The difference has not been reconciled or explained thus casting doubt on the accuracy of the Treasury Main Clearance Fund statement of financial position as at 30 June 2016.

22. Winding Up of the Fund

Although the Treasury Main Clearance Fund is in the process of being wound up in line with the Public Accounts Committee recommendations and Treasury instructions on the requirement to wind up dormant Funds, evidence showing the extent, to which the winding up process of the Fund had reached as at 30 June 2016 was not presented for audit. As a result, it has not been possible to ascertain the status of the Fund.

DONOR FUNDED PROJECTS

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

Basis for Adverse Opinion

23. The statement of receipts and payments reflects payments totalling Kshs.39,359,013 which differ from the National Treasury's ledger expenditure of Kshs.48,785,710 and the total expenditure balance of Kshs.39,414,281 reflected by

payment vouchers for the year ended 30 June 2016. The differences between the three set of records have not been reconciled or explained.

24. The statement of financial assets reflects under Note 8.2 a bank balance of Kshs.111,223,370 as at 30 June 2016 which differs from the bank's certificate balance of Kshs.124,770,240 and the cash book bank balance of Kshs.101,040,133 reflected on the same date. The differences between the three set of records have, similarly, not been reconciled or explained.

GLOBAL FUND PROGRAM TO STEER THE COUNTRY TOWARDS ACHIEVEMENT OF THE TB MILLENNIUM DEVELOPMENT GOALS IN LINE WITH THE GLOBAL STOP TB STRATEGY (GRANT NO. KEN- S11- G12-T) PROJECT

Unqualified Opinion

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

INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIPS PROJECT (IDA CREDIT NO.5157 KE)

Unqualified Opinion

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

PUBLIC FINANCIAL MANAGEMENT REFORMS PROGRAM

Unqualified Opinion

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

GLOBAL FUND PROGRAM FOR EXPANDING HIV PREVENTION, CARE AND TREATMENT SERVICES TO REACH UNIVERSAL ACCESS (80% COVERAGE) TO REDUCE BOTH INCIDENCE AND THE ASSOCIATED IMPACT (GRANT NO. KEN-H-MOF)

Basis for Qualified Opinion

25. The statement of receipts and payments reflects under other grants and transfers an expenditure of Kshs.27,420,217 being amount transferred to the Kenya Country Coordinating Mechanism. However, expenditure returns showing how the amount was utilized by the recipient were not made available for audit verification. Under the circumstances, the propriety of the expenditure of Kshs.27,420,217 could not be confirmed.

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

Unqualified Opinion

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

TECHNICAL SUPPORT PROGRAMME PROJECT (KE/FED/2009/021421)

Unqualified Opinion

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

KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CREDIT NO.5526-KE)

Basis for Qualified Opinion

26. The statement of financial assets reflects a bank balance of Kshs.12,745,464 as at 30 June 2016 which differs with the bank's certificate balance of Kshs.14,817,131 and the cashbook bank balance of Kshs.11,956,622 as at the same date. The differences between the three set of records have not been reconciled or explained casting doubt on the accuracy of the financial statements.

MICRO FINANCE SECTOR SUPPORT CREDIT PROJECT (CREDIT NO. CKE 300401 E)

Basis for Qualified Opinion

27. The statement of receipts and payments reflects an expenditure of Kshs.4,680,740 under purchase of goods and services in respect of an amount paid to a local firm for provision of impact assessment consultancy services which were contracted on 23 February 2012 at a sum of Kshs.5,850,924. The expenditure of Kshs.4,680,740 comprised of 30%, 40% and 10% of the contract sum of Kshs.5,850,924 in respect of inception report, first and second progress reports respectively by the consultant. However, details showing how the consultant was identified and the fees determined were not made available for audit verification. Further, the first and second progress reports upon which the 30% and 40% payments of the contract sum of Kshs.5,850,924 were based have not been provided for audit review. Under the circumstances, the propriety of the expenditure of Kshs.4,680,740 could not be confirmed.

GLOBAL FUND FOR SCALING UP MALARIA CONTROL INTERVENTIONS FOR IMPACT PROJECT (GRANT NO. KEN-011-G13-M)

Unqualified Opinion

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

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

Unqualified Opinion

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

CONSOLIDATED FUND SERVICES

CONSOLIDATED FUND SERVICES - PUBLIC DEBT - VOTE R-050

Basis for Adverse Opinion

28. Unexplained Differences

The statement of receipts and payments, under the finance cost-loan interest item reflects payments amounting to Kshs.167,885,514,356, which includes interest on domestic borrowings (Non-Government units) of Kshs.124,779,531,719. The trial

balance, however reflects a balance of Kshs.124,283,147,016 under the same item. The resultant difference of Kshs.496,384,703 has not been reconciled or explained.

In the circumstances, the accuracy and completeness of the interest on domestic borrowings (Non-Government Units) included in the finance costs could not be ascertained.

29. Prior Year Adjustments

The statement of financial position as at 30 June 2016 reflects comparative balances which have been restated and therefore differs from those reflected in the audited financial statements for 2014/2015. The restated balances are analyzed below.

No.	Item Description	Audited Financial Statement Balances 2014/2015	Balance as at 30.06.2016	Adjustment Difference
1	Finance costs	172,693,199,416	152,447,586,634	20,245,612,782
2	Principal Repayment	245,463,328,931	264,016,325,854	(18,552,996,923)
3	Other Payments	0	1,174,271	(1,174,271)
4	Bank Balance	(37,871,353)	126,415,953	(164,287,306)
5	Receivables	0	91,565,685,447	(91,565,685,447)
6	Accounts Payable	0	27,654,564,640	(27,654,564,640)
7	Fund balance Brought Forward	(257,687,919)	86,445,236,805	(86,702,924,724)
8	Deficit for the Year	(1,922,097,175)	(230,655,587)	(1,691,441,588)
9	Prior Year Adjustments	257,687,919	(22,177,044,458)	(22,434,732,377)
10	Difference	1,884,225,822	0	1,884,225,822

The management has however not provided analysis of the prior year adjustments and supporting documents to justify the re-stated figures as indicated in the table above. The accuracy of the restated balances could not therefore be ascertained.

30. Bank Balance

The statement of financial position and the reconciliation statement reflect bank balance of Kshs.757,875,107 as at 30 June 2016. The bank reconciliation statement, however, includes items which have been outstanding for long and have not been cleared, as detailed below.

(i) Payments in Cashbook not in Bank Statement

The reconciliation statement shows payments in cashbook not in the bank statement of Kshs.35,248,811,289. Included in the amount are payments which have not been presented to the bank for more than six months, totalling Kshs.4,127,641,248, and are therefore not payable as analyzed below.

Date	Reference	Particulars	Amount Kshs.
23.02.2015	CBK Redemption	Direct Debit	2,239,955
30.06.2015	CBK Call up	Direct Debit	115,783
09.09.2015	CBK Call up	Direct Debit	4,121,866,924
09.11.2015	CBK Call up	Direct Debit	1,351,004
30.11.2015	Adverts No. 016	Direct Debit	1,888,392
29.06.2015	PA 101514	Direct Debit	179,190
		Total	**4,127,641,248**

The payments also include cashbook under cast of Kshs.2,000,000 which has not been adjusted.

(ii) Payments in the Bank Statement not in the Cashbook

The bank reconciliation statement also reflects payments in the bank statement not in the cashbook totalling Kshs.33,251,179,668. Included in the balance are payments totalling Kshs.8,793,521,733 which relate to 2014 and 2015 financial years. The particulars of each transaction are either CBK direct debt or account transfers. The transactions have not been identified and recorded in the cashbook.

31. Un-supported Balances

(i) The statement of financial position, under the comparative balances, reflects receivables balance of Kshs.91,565,685,447 which relates to exchequer under-issues accumulated over the years. The amount was cleared during the period under review. However, the clearance of the balance has not been supported or explained.

(ii) Further, the statement of financial position reflects accounts payable (deposits and retentions) balance of Kshs.27,652,471,202. The analysis of the balance, showing the composition was provided but no documentary evidence was availed to support the items in the analysis to enable audit verification. As such, the accuracy of the accounts payables (deposits and retentions) balance could not be confirmed.

32. Differences between Financial Statements and Loan Register Balances

Comparisons of the balances as at 30 June 2016 reflected in the statement of outstanding public debt and the loans register in respect of three hundred and ninety (390) loans shows that the amounts in the two records do not tally. According to the

financial statements, balances totalling Kshs.1,545,345,244,346 listed in the statement of public debt differs with the total of Kshs.15,031,630,560 recorded in the loans register as outstanding against these loans by unexplained difference of Kshs.1,530,313,613,786.

33. Un-reconciled Balances

(i) As reported in the previous year, the statement of outstanding debt as at 30 June 2015 reflected a balance of Kshs.26,615,000,000 relating to Pre-1997 Government Overdraft debt. The opening balance for this item was Kshs.28,273,000,000 as at 1July 2014, and a repayment of Kshs.1,110,000,000 was made during 2014/2015 as per the loan agreement between Government of Kenya and the Central Bank of Kenya. The closing balance as at 30 June 2015, therefore, ought to have been Kshs.27,163,000,000 and not Kshs.26,615,000,000. The resultant difference of Kshs.548,000,000 has not been explained to date.

(ii) In addition, the statement of outstanding public debt, as at 30 June 2015 showed treasury bills balance of Kshs.318,928,150,000 The recalculated balance was, however, Kshs.290,059,760,051 as indicated below resulting into a difference of Kshs.28,868,389,949, which has not been investigated nor explained to date.

Description	**Amount Kshs.**
Opening Balance	299,406,150,000
Proceeds in 2014/2015	426,416,160,051
Total	**725,822,310,051**
Less Repayments	435,762,550,000
Recalculated Balance	290,059,760,051
Statement Balance	318,928,150,000
Difference	**28,868,389,949**

Other Matter

34. Growth in Public Debt

The statement of public debts as at 30 June 2016 reflects an outstanding public debt of Kshs.3,385,910,449,825 representing an increase of Kshs.711,104,085,630 or 26.6% of 2014/2015 outstanding debts balance of Kshs.2,674,806,364,195 as at 30 June 2015.

As in the previous year, the net increase of Kshs.711,104,085,630 has been attributed mainly to disbursements of new loans to the Government by various development partners and additional borrowing from the domestic market through treasury bonds and treasury bills.

35. Ken-Ren Chemical and Fertilizer Company-Loan Repayment

The statement of outstanding public debt reflects principal loan amounts of Kshs.1,855,689,653 and Kshs.3,583,397,947 in respect of Government guaranteed debts incurred in 1970 on account of Ken-Ren Chemical and Fertilizer Company. The loans were advanced by the Government of Australia and the Government of Belgium respectively. The total principal of Kshs.5,439,087,600 plus interest amount of Kshs.887,348,232 were fully repaid in the financial year 2014/2015. It is a matter of concern that a total amount of Kshs.6,326,435,833 was incurred on a project which did not take off and against which no value for money was achieved.

THE STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE KENYA GOVERNMENT

Basis for Adverse Opinion

36. Presentation of the Financial Statement

Contrary to the guidelines prescribed by the Public Sector Accounting Standards Board, the statement of outstanding obligations guaranteed by the Government of Kenya as at 30 June 2016 prepared and submitted for audit does not comply fully with the requirements of the International Public Sector Accounting Standards (Cash Basis). The single statement submitted does not include comparative balances for the previous year, accounting policies used in its preparation and other explanatory notes.

37. Long Outstanding Balances

The statement of outstanding obligations guaranteed by the Kenya Government as at 30 June 2016 reflects long outstanding contingent liabilities totalling Kshs.164,132,746 made up of Kshs.11,814,920 and Kshs.152,317,825 relating to Kenya Railways Corporation and Cereals and Sugar Finance Corporation, respectively. Settlement of these liabilities appears to be uncertain because the National Treasury has indicated that their clearance is dependent on redemption of bonds issued by Kenya Railway Corporation and completion of winding up process of the Cereals and Sugar Finance Corporation.

KENYA LOCAL LOANS SUPPORT FUND

Basis for Disclaimer of Opinion

38. Inaccurate Financial Statements

The statement of financial assets as at 30 June 2016 reflects total cash and cash equivalents balance of Kshs.5,000,000 while the statement of cashflows reflects a nil

balance in respect of the same item as at that date. No explanation has been provided for this anomaly.

39. Un-supported Balances

The balances reflected in the statement of assets under accounts receivable-investment cost (CSFC), accrued interest, bank balance and fund balance of Kshs.10,410,374, Kshs.71,595,406, Kshs.5000,000 and Kshs.87,005,780, respectively have not been supported by notes, analyses and other documentary evidence. Therefore the accuracy of the balances cannot be ascertained.

40. Comparative Balances

The comparative balances for 2014/2015 reflected in the financial statements for the year under review differ with the balances shown in the audited financial statements for 2014/2015 as follows:

Item Description	Comparative balance 2014/2015 (Kshs)	Audited financial statement 2014/2015 (Kshs)
Receipts	0	660,000
Bank/Cash balance	5,000,000	67,355,406
Accrued interest	71,595.406	9,240,000
Fund Account	87,005,780	5,000,000

No explanation and disclosures have been provided for the retrospective adjustment of these prior period balances.

41. Failure to Redeem Stocks

In the reports for previous years, reference was made to stocks valued at Kshs.10,430,700 which were past their redemption dates with the last redemption date for a sum of Kshs.17,400 having been on 6 February 2010. The National Treasury had explained in the past that the stocks were redeemed some years ago but erroneously accounted for as revenue. However, records to confirm the erroneous accounting for receipts and subsequent correction in the books of account were not presented for audit during the year under review.

42. Winding Up of the Fund

According to information available, the Kenya Local Loans Support Fund is in the process of being wound up in line with the recommendations of the Public Accounts Committee and instructions issued by the National Treasury that all dormant funds are wound up. However, the process had not been completed as at 30 June 2016.

CONSOLIDATED FUND SERVICES - PENSION AND GRATUITIES - VOTE R-051

Basis for Qualified Opinion

43. Un-reconciled Ledger and Trial Balance Figure

The statement of receipts and payments reflects total expenditure of Kshs.51,250,699,449 for the year ended 30 June 2016. The amount includes civil pension payments totalling Kshs.19,503,027,865 which agree with the trial balance figure as at 30 June 2016. The ledger, however, shows a balance of Kshs.19,505,843,028 under the same item as at 30 June 2016. The difference of Kshs.2,815,163 between the two set of records which should ordinarily agree has not been explained or reconciled.

44. Unsupported Payments-Crown Agent

The statement of receipts and payments reflects total expenditure of Kshs.51,250,699,446 for the year ended 30 June 2016. The amount includes payments of pension through Crown Agent to dependents residing in United Kingdom totalling Kshs.24,427,260. The expenditure has not been supported by any schedule showing the payee and their respective pension amount. In the absence of the supporting documents, it has not been possible to confirm the propriety of this expenditure.

45. Cash and Cash Equivalent

(i) Bank Balance

The statement of financial assets and liabilities reflects a bank balance of Kshs.246,703,998 as at 30 June 2016 while the cashbook, bank reconciliation and board of survey report reflect a balance of Kshs.3,184,293 as at 30 June 2016. The resulting difference of Kshs.243,519,705 has not been reconciled or explained.

(ii) Bank Reconciliation Statement for CFS Cashbook-Account No 01-010- R050

a) Payments in Cashbook not in Bank Statement

The bank reconciliation statement as at 30 June 2016 shows payments in cashbook not reflected in the bank statement of Kshs.993,199,715. The payments included amounts paid to the Chief Accountant of Kshs.5,056,541. The pensions department has not explained why payments to the Chief Accountant have not been effected in the bank statement. The reconciliation also shows tax recovered (PAYE) from pensioners and income tax department totalling Kshs.3,299,730 and Kshs.104,531,554 respectively paid in the cashbook but not reflected in the bank statement. No explanation has been provided for non-remission of the said taxes.

b) Receipts in Bank Statement not in Cashbook

The bank reconciliation as at 30 June 2016 reflects receipts in the bank statement not posted to the cashbook totalling Kshs.147,667,377. The receipts include direct credits with some dating back to year 2009 as analyzed below.

Year	Amount Kshs.
2009	5,307,518
2010	46,718,600
2011	16,060,150
2012	7,887,184
2013	28,784,218
2014	21,872,703
2015	10,396,182
2016	10,640,823
Grand Total	**147,667,377**

No explanation has been provided as to why the receipts were not posted to the cashbook by 30 June 2016.

c) Payments in the Bank Statement not in the Cashbook

The bank reconciliation statement reflects payments in the bank statement not in the cashbook totalling Kshs.61,038,785 in respect of cheques fraudulently paid by pension's department employees and third parties. The payments relate to period between July 2008 and May 2016. Further, the reconciliation includes items described as fake cheques, unpaid cheques, payment to individuals, FT drawer signature and TRFS of Kshs.12,423,395, Kshs.792,940, Kshs.7,829,921, Kshs.544,631 and Kshs.27,666,778 respectively. Management has not provided explanations as to what some of the payments represent and why they have remained outstanding for long without being recorded in the cashbook.

d) Receipts in the Cashbook not in the Bank Statement

The bank reconciliation statement reflects receipts in the cashbook not in bank statement as analyzed below.

Year	Amount Kshs.
2007	58,076

2008	4,140
2010	42,720,886
2011	16,392,275
2012	14,293,699
2013	5,585,712
2014	8,794,163
2015	24,552,052
2016	42,013,884
Grand Total	**154,414,888**

No reconciliations have been provided for these receipts. The accuracy of the bank balance of Kshs.246,703,998 reflected in the financial statements could therefore not be ascertained.

46. Payables

46.1 Re-credited Cheques

The statement of financial assets and liabilities reflects account payables balance of Kshs.2,853,521,960 as disclosed under Note 8.4. This is the amount returned unpaid due to various reasons such as incorrect bank accounts, closed bank accounts and incorrect bank codes. Although the pensions department has implemented several measures like encouraging pensioners to give correct information, obtaining mobile telephone numbers for pensioners or dependents as contacts and having inbuilt bank codes in the Pension Management Information System (PMIS) among others, the balance of re-credited cheques continues to increase significantly each year and the measures implemented to ensure subsequent payment of the returned pension appears ineffective. The year 2014/2015 balance was Kshs.2,300,281,209.

46.2 Deposit Bank Account

The returned pension is receipted in the Pension Department Recurrent Vote Account and recorded in the books of accounts as payables. The returned pension is not supported with schedules indicating the beneficiaries whose pension was returned nor a deposit bank account balance of the returned pension.

47. Funds Transferred to Public Trustee

47.1 Unpaid Death Gratuity

The total expenditure reflected in the statement of receipts and payments of Kshs.51,250,699,446, includes death gratuities payments totalling Kshs.1,195,249,583 paid during the year under review. The responsibility of paying death gratuities is vested in the Regional Public Trustees. Verification carried out during the year to confirm receipt of the death gratuities by beneficiaries revealed that an amount of Kshs.245,075,026 had not been paid to the beneficiaries. The amount outstanding per region is as indicated below.

	Region	Amount
1	Embu	16,476,061
2	Nyeri	42,580,143
3	Machakos	14,870,278
4	Mombasa	19,172,351
5	Kisumu	31,537,125
6	Kakamega	23,019,513
7	Eldoret	53,877,301
8	Nakuru	36,295,379
9	Kisii	7,246,875
	Total	**245,075,026**

It is not clear why the gratuities transferred to the Public Trustees take long to be paid to the beneficiaries.

47.2 Failure to Provide Records

The Public Trustees offices in various regions did not provide death gratuities files under their custody for audit as indicated below.

Region	Number of Files	Amount Kshs.
Embu	112	105,345,909
Machakos	112	97,185,197
Total	**224**	**202,531,106**

It is therefore not possible to authenticate the payments of Kshs.202,531,106.

47.3 Unsupported Payment

The estate/trustee files in Embu and Nyeri regional offices indicated that gratuities totalling Kshs.3,400,830 were disbursed without letters to confirm the beneficiaries of the deceased estate from the respective authorities as per the provisions of the Pensions Act Cap 189. It is therefore not clear how the files indicated below were processed and paid without the required supporting documents.

Regional Office	File No	Amount Kshs.
Embu	GC0000253742	1,978,543
Nyeri	47 of 2015	1,422,287
Total		**3,400,830**

REVENUE STATEMENT - PENSIONS DEPARTMENT

Basis for Adverse Opinion

48. Un-supported Balances

48.1 Revenue Collected

The statement of revenue reflects total revenue of Kshs.459,421,435 which as disclosed under Note 5 includes 31% Contribution and Cap Deductions of Kshs.455,812,435 and Kshs.3,609,255 respectively. The amounts represent collection during the period under review. The analysis for the amounts showing details of the contributors were not, however, provided for audit review.

48.2 Revenue Balance

The statement of revenue reflects a nil balance as at 30 June 2016. The amount collected totalling Kshs.459,421,435 was apparently transferred to the National Exchequer during the period under review. The bank statement, bank certificate and bank reconciliations were not, however, provided. The accuracy of the balance could not, therefore, be confirmed.

49. Un-resolved Issues for 2014/2015 Financial Year

49.1 Un-supported Balance

The statement of revenue under the notes reflected General Deposit-PMG account balance of Kshs.1,051,602,039 which was not supported by trial balance figures and analyses.

49.2 Comparative Figures for 2013/2014

Note 4 to the statement of revenue also reflects other suspense balance of Kshs.1,971,533 relating to overpayments of pension made over the years. However, the balance was not analyzed. In addition, no indication was given regarding how Pensions Department intended to recover the amounts overpaid to the pensioners.

49.3 Financial Position

The accumulated actual revenue balance of Kshs.2,125,593,875 disclosed under Note 4 to the statement and nil balance carried forward as at 30 June 2015 reflected in the statement were not supported by related cashbook balances or bank records. In addition, no bank reconciliation statements or statement of financial position as at 30 June 2015 for the revenue were prepared and submitted for audit.

PROVIDENT FUND

Basis for Qualified Opinion

50. Missing Investment Certificates

The statement of financial assets and liabilities reflects investment in shares of Kshs.45,860,478 representing the gross book value of ordinary share investments in two publicly quoted companies. Out of this balance, a sum of Kshs.14,807,299 represents 7,540,140 ordinary shares held in the East African Breweries Company Limited. However, only share certificates for 1,960,118 shares relating to the company valued at Kshs.9,547,660 were presented for audit. Therefore it has not been possible to confirm whether the balance of 5,580,022 shares valued at Kshs.5,259,639 invested in the company exist. In view of these discrepancies, it has not been possible to confirm the completeness, value and accuracy of the net investment balance of Kshs.45,860,478 reflected in the statement of financial assets and liabilities.

51. Cash Deposit – Cereals and Sugar Finance Corporation

The statement of financial assets and liabilities also reflects other receivables balance of Kshs.3,796,226 representing a cash deposit held in the insolvent Cereals and Sugar Finance Corporation. As reported previously, the Cabinet gave approval on 13 September 2007 for the winding-up of the Corporation and directed the National Treasury to take over its assets and liabilities. However the winding up process had not been finalized as at 30 June, 2016. In the circumstance, realization of the balance of Kshs.3,796,226 is still doubtful.

52. Un-analyzed Balance

The statement of financial assets and liabilities also reflects other pending payables balance of Kshs.9,715,111 made up of Kshs.9,622,726 and Kshs.92,385 relating to surplus cash remitted by departments and interest due from National Government entities respectively. These balances have repeatedly been brought forward from previous years but without any supporting analyses. In the absence of analyses, it has not been possible to confirm the accuracy, validity and completeness of the balances.

EUROPEAN WIDOWS AND ORPHANS PENSION SCHEME FUND

Basis for Qualified Opinion

53. Unsupported Dividend Income

The statement of receipts and payments as at 30 June 2016 reflects dividend income of Kshs.6,920,900 earned from investment in Kenya Power and Lighting Company. However, dividend income amounting to Kshs.2,599,186 out of the total amount reflected has not been confirmed by the Company or supported by any documentary

evidence. In the circumstances, it is not possible to confirm the accuracy of receipts of Kshs.6,920,900.

54. Understatement of Investment

The statement of financial assets reflects investments balance of Kshs.25,516,933 as at 30 June 2016. The share certificates provided for audit revealed that 8,643,429 shares with a book value of Kshs.38,415,240 were held as at that date. The resulting difference of Kshs.12,898,307 has not been reconciled or explained. In the circumstances, the investments balance of Kshs.25,516,933 is not fairly stated.

55. Investment Held in Insolvent Cereals and Sugar Finance Corporation

As similarly reported in the previous years, the statement of assets and liabilities reflects a receivables balance of Kshs.16,900,000 relating to a cash investment held in the Cereals and Sugar Finance Corporation. The Corporation is technically insolvent and according to available information the Government has approved its winding up, with a further requirement that the National Treasury takes over its assets and liabilities. The recoverability of the amount of Kshs.16,900,000 is therefore doubtful.

56. Un-invested Proceeds from Redeemed Stock

As highlighted in the report for 2014/2015 and earlier years, the National Treasury holds cash proceeds from the redemption of 11% Kenya Stock 2000 totalling Kshs.9,000,000. The stocks were redeemed in July 2001 and the proceeds were expected to be re-invested immediately but are still being held in a deposit account to date. Failure to re-invest the funds for the last fifteen years has denied the Fund income that would finance the payment of pensions due to its beneficiaries.

ASIAN OFFICERS FAMILY PENSION FUND

Basis for Qualified Opinion

57. Investment Held in Insolvent Cereals and Sugar Finance Corporation

The statement of assets and liabilities as at 30 June 2016 reflects a receivables balance of Kshs.93,221,691 which includes an amount of Kshs.15,200,000 relating to cash deposited in the Cereals and Sugar Finance Corporation. The Corporation is technically insolvent and according to available information Government has approved its winding up, with a further requirement that the National Treasury takes over its assets and liabilities. The recoverability of the amount of Kshs.15,200,000 is, therefore, doubtful.

58. Irregular Pension Payments

The Pensions Department made payments totalling Kshs.519,800 from 2007 to June 2015 and a further Kshs.42,000 from July 2015 to January 2016 in respect of two deceased beneficiaries. The families of the two beneficiaries notified the Pensions

Department in September 2007 and February 2008 respectively of their demise on 16 August 2007 and 28 December 2007. However, the payments were only stopped in February 2016. Out of the total payments made, Kshs.418,710 was returned by the Bank leaving balance of Kshs.143,090 unaccounted for. The payment of the pension to deceased beneficiaries has led to loss of Government funds.

59. Failure to Provide Records for Verification

The statement of receipts and payments reflects an expenditure of Kshs.1,328,196 being pension payments made during the period under review. The amount includes Kshs.144,000 paid to four beneficiaries but whose files were not provided for audit verification. It has, therefore, not been possible to confirm the validity and propriety of the balance of Kshs.144,000 paid to the four beneficiaries.

60. Un-supported Balances

The statement of financial assets and liabilities reflects a receivables balance of Kshs.93,221,691 relating to cash owed by the Joint Consolidated Fund. The balance has, however, not been supported by deposit certificates. Further, the statement reflects a capital account and members contributions of Kshs.122,295,935 and Kshs.37,680,778 respectively. Detailed analyses have, however, not been provided for these balances. The accuracy of the balances cannot, therefore, be confirmed.

ASIATIC WIDOWS AND ORPHANS PENSION FUND

Emphasis of Matter

As similarly reported in the previous years, the Fund has been dormant since June 2002 when the only surviving beneficiary died. Further, the Cabinet through a memorandum dated 26 June 2012 authorized the Attorney General, Minister of State for Public Service and the Minister for Finance to initiate the process of winding up of the Fund. According to the task force appointed by the National Treasury on winding up of the dormant Fund's report dated August 2015, a draft Legal Notice has been prepared in conjunction with the State Law Office for degazzettement of the Fund. However, the Legal Notice has not been made available for audit to confirm the final action taken. My opinion is not qualified in respect of this matter.

CONSOLIDATED FUND SERVICES - SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES - VOTE R-052

Basis for Adverse Opinion

61. Unexplained Differences in the Financial Statements

The statement of receipts and payments reflects compensation of employees in form of salaries and allowances of Kshs.2,742,288,074 while the ledgers show payments totalling Kshs.2,867,959,567 for the same item for the year ended 30 June 2016. The difference of Kshs.125,671,493 between the two sets of records, which should ordinarily agree, has not been explained.

Further, the payroll summaries and off payroll payments for the period from July 2015 to June 2016 also reflect salaries and allowances expenditure totalling Kshs.2,612,293,004, which differs with the amount of Kshs.2,742,288,074 reflected in the statement of receipts and payments by Kshs.129,995,070. The difference has similarly not been explained.

62. Variances between ledger and the payroll

In addition, the ledger and the payroll expense for the year ended 30 June 2016 for the Heads indicated below are at variance and the National Treasury has not carried out reconciliation or given any explanation.

Head	Institution	Ledger Amount as at 30.06.2016	Payroll Amount as at 30.06.2016	Variance
971	Office of the President	148,523,298	36,630,035	111,893,263
979	Former Presidents' Benefits	51,502,696	37,620,055	13,882,641
991	Commission on Implementation of Constitution	189,478,933	59,488,515	129,990,418

63. Unsupported Payments under Guaranteed Loans Act

The statement of receipts and payments reflects expenditure of Kshs.96,085,835 and Kshs.954,122,778 in respect of loan interest and redemption respectively, incurred during the year ended 30 June 2016, under Guaranteed Loans Act. The loans were guaranteed by the Government of Kenya on behalf of two parastatals and paid during the year under review as follows.

Organization	Principal Amount Kshs.	Interest Amount Kshs.	Total Kshs.
Tana Delta Irrigation	265,176,300	31,570,658	**296,746,958**

Kenya Broadcasting Corporation	688,946,478	64,516,526	**753,463,004**
Total	**954,122,778**	**96,087,185**	**1,050,209,962**

As similarly reported in 2014/2015, the terms and conditions under which the Government took over these loans have not been made available for audit review, and as a result, it has not been possible to establish whether or not the defaulting institutions were required to reimburse the Government, the principal and interest it paid on their behalf. It has not been possible in the circumstance to ascertain whether or not the repayment had complied with the terms and conditions of the take-over.

64. Prior Year Adjustments

The statement of financial position as at 30 June 2016 reflects an amount of Kshs.8,883,205,334, which is referred to as prior year adjustments. Further, fund balance brought forward have been re-stated to Kshs.8,848,051,762 from Kshs.397,382,932 reflected in the financial statements as at 30 June 2015. The National Treasury has not explained or provided details of the said adjustments.

Consequently, the accuracy of the balances reflected in the financial statements cannot be ascertained.

65. Omitted Expenditure and Receipts

Some receipts and expenditures reflected in the ledger for June 2016 have not been captured in the financial statements as disclosed below:

Expenditure	**Kshs.**
520-971-0000-2110313	80,195
520-971-0000-6780101	43,277,422
520-971-8820-6780101	51,171,250
520-976-0000-7320199	181,800
Receipts	
520-983-0000-6780101	2,147,327

The National Treasury has also not provided the itemised descriptions for these accounts and as such, it has not been possible to establish what they relate to.

66. Unspent Appropriation/Cash Balance

The statement of financial position reflects bank balance under the comparative balances for the financial year 2014/2015 of Kshs.397,382,932 (re-stated Kshs.8,848,051,762). The balance was carried forward to the financial year 2015/2016 as shown in the statement of financial position as at 30 June 2016. The unspent appropriation in 2014/2015 ought to have been paid back to the National Exchequer

Account as required under Section 45 of the Public Finance Management Act, 2012. No explanation has been provided for failure to repay the unspent sum to the Exchequer.

GOVERNMENT OF KENYA SHARE SUBSCRIPTION AND CAPITAL CONTRIBUTION TO INTERNATIONAL ORGANIZATIONS – VOTE R-053

Basis for Adverse Opinion

67. Unsupported Balance

The statement of details of Kenya Government share subscription and capital contribution to international organizations under note 5 to the financial statements reflects local value of subscriptions totalling Kshs.51,403,651,783 against various amounts in foreign currencies as at 30 June 2016. However, independent confirmation of balances as at 30 June 2016, were received from only four out of the twelve organizations.

In addition, the amount confirmed by two out of those four organizations differs with the balances reflected in the statement submitted by the National Treasury as follows:

Organization	Balance as per the Statement (Foreign currency)	Balance as per the Statement (Local value) Kshs.	Balance as per the Confirmation (Foreign currency)
(i) P.T.A. Bank Harare	USD 24,208,356	2,447,518,050	USD 25,967,315
(ii) Macro-Economic Financial Management Institute	USD 355,255	35,917,026	USD 384,162
	Total	**2,483,435,076**	

No explanation has been provided for these differences.

In addition, independent confirmations of Government of Kenya share subscriptions and capital contribution balances as at 30 June 2016 were not received from the eight organizations listed below:

Organization	Balance as per the Statement (Foreign currency)	Balance as per the Statement (Local Value) Kshs.
(i) International Monetary Fund	SDR 258,124,458	36,444,592,225
(ii) International Bank for Reconstruction and Development	US 15,899,693	1,607,493,943

(iii) International Development Association Washington D.C	USD. 2,361,413	238,744,049
(iv) African Dev. Bank Abidjan	U.A 48,010,000	6,882,262,306
(v) Multilateral Investment Guarantee Agency	USD 622,383	62,924,291
(vi) Shelter Afrique	USD 7,007,546	708,478,317
(vii) East Africa Development Bank Kampala	USD 22,500,000	2,274,799,500
(viii) Africa Export-Import Bank	USD 2,391,807	241,816,950
	Total	**48,461,111,580**

Further, the subscriptions for 2014/2015 totalling Kshs. 116,813,106,919 in respect of ten organizations, were restated to Kshs.49,750,957,607 by converting balances in foreign currencies obtained from the Organizations as tabulated in the following table:

Organization	**Statement Balance-2014/15 (Foreign currency)**	**Statement Balance-2014/15 (Local Value) Kshs.**	**Statement Balance-2014/15-Restated (Foreign currency)**	**Statement Balance-2014/15-Restated (Local Value) Kshs.**
(i) International Monetary Fund	SDR 261,156,794	36,397,422,380	SDR 254,797,122	35,974,805,711
(ii) International Bank for Reconstruction and Development	US 296,882,735	29,284,334,853	US 15,512,384	1,568,336,179
(iii) African Dev. Bank Abidjan	U.A 260,960,000	35,481,165,440	U.A 45,536,131	6,527,631,640
(iv) Multilateral Investment Guarantee Agency	USD 3,278,460	323,385,327	USD 607,222	61,391,486
(v) Shelter Afrique	USD 2,000,000	197,278,800	USD 6,836,846	691,220,133
(vi) East Africa Development Bank Kampala	USD 80,000,000	10,877,120,000	USD 21,951,911	2,219,386,500
(vii) P.T.A. Bank Harare	USD 26,680,000	3,627,519,520	USD 23,618,652	2,387,897,711
(viii) African Capacity Building Initiative	USD 250,000	24,659,850	USD 487,820	49,319,700
(ix) Africa Export-Import Bank	USD 5,960,000	587,890,824	USD 2,333,544	235,926,407

(x) Macro-Economic Financial Management Institute	USD 125,000	12,329,925	USD 346,601	35,042,140
	TOTAL	**116,813,106,919**		**49,750,957,607**

However, notes explaining the restated balances were not presented for audit. Consequently it has not been possible to confirm the validity and accuracy of the comparative balances as at 30 June 2016.

THE PRESIDENCY

FINANCIAL STATEMENTS FOR VOTE 1011

Basis for Qualified Opinion

68. Confidential Expenditure

Examination of records show that the Presidency spent Kshs.2,729,192,010 on confidential expenditure in three (3) financial years as follows: -

Financial Year	Amount (Kshs)
2013/2014	685,686,000
2014/2015	937,496,155
2015/2016	1,106,009,855
Total	**2,729,192,010**

Although, the Presidency has provided certificates to support the expenditure in accordance with Regulation 101(5) of the Public Finance Management (National Government) Regulations, 2015 and has explained that the purpose and particulars of the expenditure cannot be made public, unsatisfactory matters regarding the confidential expenditure have, however not been resolved as follows: -

68.1 Weakness in Controls

Audit revealed weak controls over confidential expenditure as payment vouchers are not supported with necessary documents that can be subjected to audit tests, to enable the Auditor-General to confirm that the expenditure was incurred for the intended purposes and therefore, lawful and effective as required under Article 229(6) of the Constitution of Kenya.

68.2 Payments for Motor Vehicles

Examination of available records revealed that payments totalling Kshs.165,587,200 made to some companies for supply of motor vehicles during the year under review were charged to Item 2211312-Confidential Expenditure. Further, verification of IFMIS Ledger show that these payments were not posted in the IFMIS Ledger, an indication that they could have been unexplained cash withdrawals.

68.3 General Suspense Account (6780101)

Examination of the General Ledger for 2015/2016 revealed that confidential expenditure totalling Kshs.105,000,000 was charged to Item 6780101 – General Suspense Account without verifiable source documents that indicate the approved allocation as required

under Regulation 107(1) of Public Finance Management (National Government) Regulations, 2015. No satisfactory explanation has been provided for this anomaly.

In this regard, it was not possible to confirm that the confidential expenditure incurred on motor vehicles and other payments or charge to General Suspense Account during the financial year under review was lawful and that value for money was obtained as required under Section 68 (1) of the Public Finance Management Act, 2012 and Article 229(6) of the Constitution of Kenya.

69. Payments for Undelivered Items

Expenditure records show that goods worth Kshs.22,324,851 were requisitioned by various State Houses and Lodges, and were procured and received in Nairobi, then issued to respective stations. However, a verification in various State Houses and Lodges undertaken during January and February 2017 revealed that these goods were never received and there were no documents in record maintained in the field to support receipt.

In the circumstances, the propriety of expenditure totalling Kshs.22,324,851 could not be confirmed.

70. Pending Bills

Bills totalling Kshs.270,980,438 were pending as at 30 June 2016 as disclosed under Note 16 to the financial Statements. However, bills amounting to Kshs.61,537,194 of the total were not supported by invoices, delivery notes, contract documents and Local Purchase Orders. Consequently, their validity, legality, and accuracy could not be confirmed. Further, had the bills been paid and charged to the accounts for the 2015/2016, the statement of receipts and payments would have reflected a deficit of Kshs.211,819,430 instead of Kshs.59,161,008 now shown.

71. Outstanding Imprests

As disclosed under Note 13 to the financial statements, imprests totalling Kshs.1,197,000 which ought to have been surrendered or otherwise accounted for on or before 30 June 2016 were outstanding as at 30 June 2016. Further, IFMIS generated imprest register and trial balance reflect instead outstanding imprests of Kshs.2,033,608 and Kshs.9,117,357, respectively as of that date. The resulting differences among the three (3) sets of records has not been reconciled or satisfactorily explained.

72. Fixed Assets Register

Although a summary of fixed assets acquired in 2014/2015 and 2015/2016 has been disclosed under Note 17 to the financial statements, an assets register has not been maintained, contrary to Regulation 143 of the Public Finance Management (National Government) Regulations, 2015. Consequently, the existence, value, completeness and legal ownership of all the assets could not confirmed.

STATE DEPARTMENT FOR INTERIOR

FINANCIAL STATEMENTS FOR VOTE 1021

Basis for Qualified Opinion

73. Bank Account Number 1109896077 at Kenya Commercial Bank (KCB), Moi Avenue

Examination of the availed bank statement reveals that the State Department for Interior transferred Kshs.8,696,113,050 to bank account No.1109896077 at Kenya Commercial Bank (KCB) Moi Avenue Branch between June 2013 and January 2017. However, unsatisfactory matters have been observed as follows;

73.1 Non-Disclosure of the Account

The Ministry opened and has been operating bank account No.1109896077 at KCB contrary to Section 28(1) of the Public Finance Management Act, 2012 which requires authority of the National Treasury to open and operate bank accounts.

Further, the Ministry does not maintain a cash book, bank reconciliations and related payment records in support of cash transfers and withdrawals from the account, contrary to Regulations 90 and 104 of the Public Finance Management (National Government) Regulations, 2015.

In addition, audit of the Ministry's financial statements for the year ended 30 June 2016 did not disclose the balance in this account contrary to Regulation 87(3)(h) of the Public Finance Management (National Government) Regulations, 2015 which requires the accounting officer of a National Government Entity to provide a list of all bank accounts with information of bank account balances as at 30 June each year.

73.2 Irregular use of Letters of Credit (LC)

Examination of available records show that forty three (43) LCs valued at Kshs.8,696,113,050 were paid through the account by the State Department for Interior. However, the bank statements availed for audit reflect one (1) payment of LC amounting to Kshs.90,225,000. In this regard therefore, the Ministry and the bank have not clarified how the other forty two (42) LCs valued at Kshs.8,605,888,050 were discharged.

73.3 Incomplete Bank Statements

Examination of payment vouchers show that the State Department transferred Kshs.339,982,351 on 30 June 2015 through Payment Voucher Numbers 329 and 333 to the account. However, the bank statement made available for audit does not reflect receipt of this amount, an indication that the statement is neither authentic nor complete.

73.4 Unaccounted for Cash Transfers

Examination of the bank statement further reveals unexplained transfer of Kshs12,688,796,960 to Call Deposit at INSTB; Fixed Deposit at INSTB; Euro Call Deposit and USD Call Deposit Accounts contrary to Section 87(1) (b) of Public Financial Management Act, 2012 which requires prior approval by the Cabinet based on recommendations from the National Treasury.

In addition, repayments, interest and proceeds received back to the account are Kshs.4,211,839,878 resulting in unaccounted for balance of Kshs.8,476,957,081.

74. Procurement of Twin Turbine Engine VIP Carrier Helicopter – Kshs.2,276,740,840

74.1 Contract Documents

Although tendering and contract documents have not been availed for audit review, the State Department has explained that the purchase of helicopter is classified.

74.2 Payment Records

Although the entire contract sum of Kshs.2,276,740,840 has so far been paid through a Letter of Credit, the State Department has only availed Payment Voucher No. 328 dated 30 June 2016 for Kshs.683,022,252, being 30% of the contract sum and Voucher Number 366 dated 25 August 2015 for Kshs.38,801,748 in respect of shortfall in exchange rate difference.

74.3 Accident of the Helicopter

Examination of records show that Augusta Westland AW-139 Helicopter (5Y-NPS) was registered on 26 April 2016 and crashed on 08 September 2016 at a time when the helicopter should have been under warranty.

However, further investigations could not be carried out on the loss arising from the accident as required under regulation 159 of the Public Finance Management (National Government) Regulations, 2015 due to the following reasons:

74.3.1 Accident Report

There is no accident report as required under Regulation 148 of the Public Finance Management (National Government) Regulations, 2015. In the absence of the accident report, it is not possible to categorize the loss of helicopter in terms of natural cause; technical or pilot's error, the basis upon which the loss could be recovered. No explanation has been given for failure to release the accident report by the Cabinet Secretary in accordance with Regulation 18(1) of Civil Aviation (Aircraft Accident and Incident Investigation) Regulation 2013.

74.3.2 Insurance

The department confirmed that the Helicopter was not insured just like any other Government Equipment which further complicates the recovery of the loss totalling Kshs.2,276,740,840.

74.3.3 Warranty

The Ministry has further confirmed through a letter Ref: NPS/IG/SEC/1/3/1/6 VOL. I dated 10 May 2017 that "the helicopter did not have a warranty as a unit but parts such as avionics had."

However, failure to avail required warranties for avionics in accordance with Section 9(1) (e) of the Public Audit, 2015, makes it impossible to determine whether the helicopter was new or refurbished.

In addition, the Department has not given details of avionics parts purportedly under warranty or given reasons for failure by the manufacturer to compensate lost parts under warranty.

74.3.4 Documents not Availed for Audit Review

The department has not availed documents requested through letter Ref: NS/SDI/NPS/IG/3 dated 26 September 2016 and reported to have been collected by Air Accident Investigation Unit as follows:

(i) Two (2) Engine Technical Logs – PCE-KB1812 and PCE-KB1817
(ii) Two (2) Helicopter Log Books
(iii) Original Techsheets
(iv) Two (2) KCAA Engine Log Books
(v) KCAA Aircraft Log book
(vi) Two (2) Aircraft Techlogs
(vii) Maintenance File

75. Irregular Procurement of Footwear – Kshs.267,876,000.00

75.1 Excess Purchase of Footwear

Examination of the approved Procurement Plan for the 2014/2015 financial year show that 26,500 pairs of footwear were approved for purchase. However, details disclosed on payment vouchers show that 78,000 pairs of footwear valued at Kshs.267,876,000 were supplied and paid for.

It is therefore evident that 51,500 pairs of footwear valued at Kshs.175,893,000 were purchased and paid in excess of the approved quantity contrary to Section 51(3) of the Public Finance Management (National Government) Regulations, 2015 which requires commitments of expenditures to be consistent with approved procurement plan for the entity.

Further, the State Department has explained that the procurement of additional pairs of shoes was necessitated by recruitment of 10,000 police trainees. However, verifications show that 4,000 trainees were at Kenya Police Training College in Kiganjo and 2,000 trainees were at General Service Unit (GSU) while the procurement of additional 4,000 footwear for the Administration Police officers was undertaken and paid for separately.

75.2 Fictitious Entry in Stores Records

Audit has also established that information disclosed on stores ledger and stock control (S3 card) No.A241223 for shoes has been fraudulently falsified as the same card number discloses different information on 19 April 2016 and 31 May 2017.

In addition, examination of stores card numbers A241057 and A268592 reflects unexplained increase of 5,000 and 2,000 pairs of footwear respectively, whose source of receipts have not been indicated or explained.

75.3 Physical Verification of Footwear

75.3.1 Reconciliation of Footwear

A reconciliation undertaken on sample basis for twelve (12) Police Divisions across the country show that 454 pairs of foot wear were ordered and 63 pairs were issued while the record at Police Quarter Master in Nairobi is falsified to indicate that 392 pairs of footwear were issued.

Further, examination of records show that fifty seven (57) police field units had requested for 12,852 pairs of foot wears and they were issued with 3,763 pairs resulting in a shortfall of 9,089 pairs that were not available in the store.

75.3.2 Conditions of Shoes Being Used by Police

A physical check of the condition of shoes being used by the police across the country revealed a pathetic and unpleasant situation as some officers use worn out shoes while others have opted to buy shoes from various vendors. This action contravenes Chapter 37 Section 7(i) and 19(i) on dress regulations for police officers under standing orders which require all police officers to be in uniform.

76. Irregular Procurement of Motor Cycles and Loss of Kshs.174,806,140

76.1 Procurement Plan

Examination of records relating to the procurement of motor cycles at a total cost of Kshs.866,200,000 show that the purchase was not included in the Approved Procurement Plan for the Financial Year 2015/2016, contrary to Regulations 51(3), (5) and (6) of the Public Finance Management (National Government) Regulations, 2015.

76.2 Expired Contract

Examination of records show that a supplier was paid Kshs.866,200,000 for the delivery of 4,420 motor cycles. However, the procurement was based on expired supplies

branch tender no. SB/18/2013/2014-Supply of Motor cycles which is not provided for in the Public Procurement and Asset Disposal Act, 2015.

76.3 Over Pricing of Motorcycles

Records further show that, five (5), out of seven (7) prequalified suppliers were contracted through the expired tender to supply 2420 Chinese assembled motorcycles (181-200 cc). However, the State Department has not justified the basis for procuring the motorcycles at a unit rate of Kshs.210,000 instead of the lowest evaluated bidder's rate of Kshs.161,733, resulting in a loss of Kshs.116,806,140.

In addition, the State Department procured another 2000 Chinese assembled motorcycles (151-180cc) at a unit rate of Kshs.179,000 instead of the lowest bidder's rate of Kshs.150,000 resulting in a loss of Kshs.58,000,000.

The State Department, therefore, paid a total of Kshs.174,806,140 in excess of the prevailing market price contrary to Regulation 10(2)(e) of the Public Procurement and Disposal Regulations, 2006.

76.4 Verification of Motor Cycles

Although, these motorcycles were verified and found to exist, challenges relating to maintenance due to lack of spares and failure to provide helmets were observed.

76.5 Value for Money

In the above circumstances, the value of Kshs.174,806,140 paid in excess of prevailing market price could not be confirmed as required under Section 68(1)(b) of Public Finance Management Act, 2012.

77. Unaccounted for Authority to Incur Expenditure – Kshs.150,000,000

The statement of receipts and payments for the year ended 30 June 2016 reflects Kshs.30,134,231,598 against use of goods and services which includes Kshs.150,000,000 in respect of Authority to Incur Expenditure serial no. A659460 issued to the Regional Commissioner, North Eastern and charged to item 2211313 (Security Operations). The Ministry has not explained reasons for issuing the AIE for security operation to the regional commissioner instead of National Police Service defined as a National Security Organ in Article 239(1)(c) of the Constitution. In addition, no expenditure returns have been provided in support of Kshs.150,000,000.

78. Mismanagement of Funds at Murang'a South – Kshs.4,540,900

78.1 Unlawful Transfer of Funds

Kshs.1,529,628 was transferred from bank account No. 01001000904600 maintained by Kenya Police Headquarters at National Bank of Kenya, Harambee Avenue to Kenya Commercial Bank account No. 1145500218 for Ministry of Interior and Coordination of National Government Office of the President – Murang'a South Current Account – Central.

Similarly, Kshs.3,750,000 was transferred from Central Bank of Kenya Agency Account No. 1100000836, State Departments for Interior and Coordination of National Government to the same account.

However, these transfers were not supported by pre-numbered payment and receipt vouchers, appropriate authority and documentation contrary to Regulation 104 (1) of the Public Finance (National Government) Regulations, 2015.

78.2 Unlawful Cash Withdrawal of Kshs.4,540,900

Examination of cashbooks and payment vouchers maintained at Murang'a South District Treasury – Kenol reveals that fictitious payment vouchers were prepared, posted to cashbook and used to withdraw Kshs.4,540,900.

Further, payment voucher numbers 27 and 28 for Kshs.840,000 and Kshs.450,000 respectively were not committed in the Vote Book, therefore, missing in the ledger.

Although the State Department has explained that the matter is being handled by the Directorate of Criminal Investigations, the loss has not been recovered.

78.3 Missing Payment Vouchers

Payment vouchers for amounts totalling Kshs.3,872,900 were not availed for audit verification. As a result, the validity and propriety of the expenditure could not be ascertained.

79. Mismanagement of Cash Bails

79.1 Irregular Surrender of Cash Bails

A review of controls in place for management of cash bails in five(5) police stations have revealed that a total of Kshs.6,288,000 was collected but not surrendered as follows: -

Police Division	Cash Bails (Kshs.)
Mombasa	1,159,000
Kilimani	1,266,000
Kasarani	3,863,000
Total	**6,288,000**

Further, there were no miscellaneous receipts to show that the cash had been surrendered to Police Headquarters as required under Section 51 (i)(c) of the Kenya Police Standing Orders (2002). The cash was also not availed for cash survey.

In addition, cash totalling Kshs.205,000 and Kshs.1,437,000, in respect of unrefunded and unforfeited cash bails was not surrendered and was being held by Base Commander in Siaya and Officer Commanding Police Station (OCS) at Pangani contrary to Sections 51(1)(c) and 49(9) Kenya Police Standing Orders 2002.

79.2 Lost Cash Bail Books

In addition, records maintained at Kenya Police Headquarters, Nairobi indicate that ten (10) Cash Bail Books Serial Numbers 1018501 to 1019000, were issued to the Officer Commanding Police Division (OCPD) Mombasa. However, these books were not availed during an audit verification exercise carried out on 24 August 2016 and therefore, their existence and usage could not be ascertained.

80. Loss of Kshs.5,107,000

Records maintained at the Directorate of Immigration and Registration of Persons show that Kshs.44,595,736 was paid to a firm for supply, installation, testing and commissioning of IP-CCTV at Nyayo House, Malaba and Lwakhakha Border Points (TENDER NO.D112/DWO/STR/01). However, a physical verification conducted at Malaba and Lwakhakha border points revealed that some equipment valued at Kshs.5,107,000 were neither delivered nor installed.

81. Embu County

81.1 Unsupported Expenditure

Expenditure totalling Kshs.974,470 in respect of Deputy County Commissioner, Embu East (Kshs.235,000) and Officer Commanding Police Division, Embu North (Kshs.739,470) were not supported with fuel registers and work tickets.

In addition, expenditure totalling Kshs.5,921,997 incurred by the Deputy County Commissioner Embu East on security operations was not supported with relevant documents and details.

81.2 Irregular Procurement of Goods

Records made available for audit show that Kshs.289,000 was paid by Deputy County Commissioner, Mbeere South to a supplier who was not prequalified contrary to Section 57 of the Public Procurement and Asset Disposal Act, 2015.

81.3 Imprest Management

Examination of records show that Officer Commanding Police Division (OCPD), Embu East District spent Kshs.304,000 on domestic travel and accommodation without imprest warrants recorded in imprest register contrary to Section 91(2) of the Public Finance Management Regulations, 2015.

82. Provision of Comprehensive Group Life Insurance Cover, Contract No. NPS/002/2014/2015

In the previous year's report, unsatisfactory matters were reported relating to irregular payment of Kshs.3,494,419,400 arising from unexplained irregular award of an annual contract for Provision of Comprehensive Group Life Insurance Cover, Contract No. NPS/002/2014/2015 at Kshs.1,747,209,700 instead of Kshs.629,019,316. The resultant

annual difference of Kshs.1,118,190,384 translates to a loss of Kshs.2,236,380,768 for the two consecutive years.

In addition, other provisions of the contract which include guarantee, Letter of Acceptance, Notification of award, Performance Bond, nature and scope of the comprehensive Group Life Insurance Cover did not comply with the laws.

The State Department of Interior did not avail Payment Voucher Number 391 for Kshs.147,209,700 together with an assessment report on the performance of the Insurance.

In view of the foregoing, it was not possible to confirm that the payment of Kshs.3,494,419,400 was lawful and effective as required under Article 229 (6) of the Constitution.

83. Accountability of Visa Stickers and Passports

(i) Visa Stickers

The State Department of Immigration issued Visa Stickers worth Kshs.2,728,302,000 to the Ministry of Foreign Affairs and International Trade during the 2013/2014 and 2014/2015 financial years. It was observed that 39,900 blank passports valued at Kshs.202,500,000 were issued to five (5) consulate missions and 13,872 printed passports valued at Kshs.65,988,000 to foreign missions/embassies. In these circumstances, total revenue collected excluding certificate of good conduct, Identity cards and others of Ksh.2,996,790,000 differs with the Kshs.1,524,300,362 reflected in the financial statements for 2013/2014 and 2014/2015. The resultant loss of Kshs.1,472,489,638, has not been accounted for to date.

(ii) Passports

Blank passports valued at Kshs.133,052,500 were issued by State Department of Immigration to Kenya missions/embassies in Washington DC, London, Berlin and Pretoria. However, the passports were not recorded in the Counter Receipt Book Registers as required under Regulation 118(2) of Public Finance Management (National Government) Regulations 2015. The existence of these passports could not be confirmed as a result of failure by the missions to produce them for physical audit verification.

In view of the foregoing, together with explanation submitted by State Department of Immigration that visa stickers and passports are not included in Public Finance Regulations as accountable documents, it is not possible to confirm that their use is lawful and effective as required in Article 229 (6) of the Constitution.

84. Cash Books and Bank Reconciliations

84.1 Unaccounted for Expenditure –

Examination of bank reconciliation statements show that Kshs.9,322,850,253 has been paid from the bank without corresponding entry in cashbooks as follows: -

Bank Account	Payments (Kshs.)
Recurrent	2,405,876,123
Development	6,909,090,570
Deposits	7,883,560
Total	**9,322,850,253**

Further, the State Department has not reconciled or explained the nature of these payments which have existed in records for a long period of time due to lack of expenditure documents. In this regard, it was not possible to confirm that these payments were authorized, lawful and that the value for money was obtained in Kshs.9,322,850,253 as required under Section 68(1)(a) and (b) of the Public Finance Management Act,2012.

84.2 Unsurrendered Cash Balance

Further, examination of the current cashbooks maintained at the State Department show Kshs.1,488,607,745 against unspent cash balance composed of bank balances and cash in hand of Kshs.1,267,163,200 and Kshs.221,444,545 respectively.

Although the State Department has availed unsigned bank reconciliation statements dated 31 July 2016 which are not backed by a board of survey report, there is no evidence that Kshs.221,444,545 was eventually surrendered to the Exchequer as required under Section 45(2) of the Public Financial Management Act, 2012.

85. Acquisition of Assets

The statement of receipts and payments reflects an amount of Kshs.16,225,334,256 in respect of expenditure on acquisition of assets. However, the summary of fixed assets register reflects a closing balance of Kshs.4,344,736,000 as at 30 June, 2016.

No explanation has been given for failure to update the fixed assets register as required under Regulation 143 of the Public Finance Management (National Government) Regulations, 2015.

86. Pending Bills

Information and records availed indicate that pending bills totalling Kshs.5,070,255,153 as shown were not settled in the year that they relate to but were instead carried forward.

Financial Year	Amount (Kshs.)
2012/2013	1,720,959,325
2013/2014	2,641,689,050
2014/2015	5,070,255,153
2015/2016	1,800,614,863

The Kshs.5,070,255,153 pending bills for the 2014/2015 differs with the comparative figure of Kshs.4,828,392,000 reflected in the financial statements under Note 26.1 by an unexplained and unreconciled difference of Kshs.241,863,153.

In addition, the Officer Commanding Police Division (OCPD) Embu West had pending bills totalling Kshs.5,417,508 in respect of Food and Ration (Kshs.609,620) and Maintenance of Motor Vehicles (Kshs.4,807,888), as at 30 June 2016. Records show that bills for Maintenance of Motor vehicles had been pending since the financial year 2012/2013.

Further, the Police Station had an unsupported outstanding/pending bills amounting to Kshs.1,035,690 for the months of July 2015 to June 2016. No explanation was availed as to why the amount was not settled and whether, the expenditure was budgeted for.

87. District Suspense

The statement of assets reflects accounts receivables balance of Kshs.1,112,170,458 as at 30 June, 2016. The balance includes an amount of Kshs.1,105,768,862 against District Suspense Account which represent Authorities to Incur Expenditure issued to various Counties and Sub-Counties. The District suspense account balance was not however, analysed. Consequently, the validity and accuracy of the balance could not be ascertained.

REVENUE STATEMENT

Basis for Adverse Opinion

88. Presentation of Financial Statements

The revenue statement presented for audit has no page numbers, does not include key entity's management information, date of approval of the financial statements and a statement of arrears of revenue as prescribed under Section 82(2)(b) of the Public Finance Management Act, 2012, Treasury Circular No. AG.3/088 VOL.6/ (78) dated 1 July 2014 and Kenya Gazette Notice No. 5440 of August 2014.

In addition, differences between actuals and estimates for the year under review have not been explained as required by the Public Sector Accounting Standards Board (PSASB).

89. Accuracy of the Revenue Statement

The revenue statement reflects actual revenue collections of Kshs.10,177,309,165 during the year under review of which the following anomalies were noted;

89.1 The statement of revenue reflects Kshs.10,177,309,165 which differs with the trial balance amount of Kshs.9,816,403,654 resulting in a difference of Kshs.360,905,511.00 which has not been reconciled.

89.2 Audit inspection undertaken at the Directorate of Criminal Investigations (DCI) Headquarters indicates that 543,108 Police Clearance Certificates were issued, out of which Kshs.543,108,000 was realized as application fees. However, the statement reflects a collection of Kshs.350,078,533 against DCI resulting in a loss of Kshs.193,029,467 which has not been explained or reconciled.

89.3 Although the revenue statement reflects an amount of Kshs.2,632,208,599 against immigration visa and other consular fees, it was not possible to confirm the accuracy and completeness of this amount as entry declaration forms and applications for visa forms together with the receipts could not be verified due to poor record keeping at the immigration offices at Jomo Kenyatta and Moi International Airports.

Although, the Department explained that their inability to capture this data electronically is due to lack of necessary software that is compatible with information maintained by International Airlines, passports for all arriving passengers are scanned at points of entry. No reason has been given for failure to provide this information required in accordance with Section 9 (1)(e); 62(1) and (2) of the Public Audit Act, 2015.

89.4 Field audit inspections revealed that revenue amounting to Kshs.77,925,416 was collected at various County and Sub-County Administration Police offices from Hire of Police Services. However, the completeness of revenue collected could not be confirmed since the Department does not keep Miscellaneous Receipts (MR) Receipt

Vouchers (F.O. 17) and the same has not been posted to cash books and Integrated Financial Management Information (IFMIS) ledger.

In this regard, revenue amounting to Kshs.77,925,416 has not been reflected in the revenue statement contrary to Section 64(4) of the Public Finance Management Regulations, 2015.

89.5 Examination of bank reconciliation statements maintained at Kilifi Sub-County (Bahari), for bank account number 1145222625 KCB, Kilifi, Ministry of Interior and Coordination of National Government dated 8 April 2016 indicates that revenue amounting to Kshs.1,538,800 received through Cheque No. 829 from hire of security was not surrendered or accounted for, contrary to Section 76 (2) of the Public Finance Management Act, 2012.

89.6 Examination of revenue records maintained at the District Accountant's office, Likoni indicates that revenue totalling Kshs.1,606,180 was received from hire of security, out of which Kshs.863,300 was surrendered to the Permanent Secretary, Ministry of Interior, resulting in a loss of Kshs.742,880 which has not been recovered or explained.

89.7 Revenue records maintained at Sub-County Administration Police Commander's office, Kwale reflect that revenue amounting to Kshs.1,575,020 was collected from hire of security services. However, available records show that Kshs.705,000 was surrendered to the District Accountant, resulting in a loss of Kshs.870,020 that has not been recovered or explained.

89.8 Examination of Counter Receipt Book Register (CRBR) maintained at the District Accountant's office at Kilifi Sub-County (Bahari) indicates that eight (8) miscellaneous receipt books were issued to DCIO Kilifi. However, a verification undertaken at the DCIO's offices in Kilifi and Mtwapa revealed that these books were not received. Consequently, the revenue collected using these books has been lost.

89.9 Information and records available indicates that NSSF Kisumu paid a total of Kshs.4,408,500 to the Sub-County AP Commander Kisumu Central for provision of armed security services on their plot at Milimani. However, fake receipts which are not accountable documents were issued in exchange of money which was not surrendered to the Ministry. Although the responsible officer has since been transferred to Kwale County, the loss has not been recovered.

90. Huduma Centers

Although Huduma Centres have enhanced service delivery, revenue collected on behalf of the Principal Secretary, State Department for Interior, being the designated receiver of revenue, has not been surrendered and transferred to the Exchequer contrary to Section 76(2) of the Public Finance Management Act, 2012.

THE GOVERNMENT PRESS FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

KENYA CITIZENS AND FOREIGN NATIONALS MANAGEMENT SERVICE

Basis for Qualified Opinion

91. Prior Year Matters

As previously reported, the Acting Director-General was paid a sum of Kshs.6,735,000 contrary to the Cabinet Secretary's letter that required terms and conditions of engaging the Acting Director-General to be determined in consultation with the Salaries and Remuneration Commission. Further, no justification has been made for failure to recruit the Director-General/Chief Executive Officer competitively in accordance with Section 13(1) and (2) of the Kenya Citizens and Foreign Nationals Management Act, 2011. In addition, failure by the State Corporations Advisory Committee (SCAC) to categorize the Service has hampered it from discharging its mandate effectively as stipulated in Section 4(2) V of the Kenya Citizens and Foreign Nationals Management Service Act Cap 174, Laws of Kenya.

Arising from the above, the KCFNMS Board has not appointed a substantive Director General/Chief Executive Officer and further, the proposed organization and pay structure devised by the Board has not been approved by the Salaries and Remuneration Commission.

92. Irregular Expenditure

The statement of comparison of budget and actual amount reflects actual expenditure totaling Kshs.47,988,000 against total budget of Kshs.102,566,000 for the financial year under review. However, the budget was not approved by the Cabinet Secretary contrary to Section 19(3) of the Kenya Citizens and Foreign Nationals Management Act, 2011. In addition, the omission contravened Section 68 (1) of the Public Finance Management Act, 2012.

NATIONAL COHESION AND INTEGRATION COMMISSION

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this commission.

Other Matter

93. Un registered Lease agreement

During the financial year 2015/16, the Commission paid rent totaling Kshs.21,553,095.14 and Kshs.1,607,200 to Gimco Limited and Dr. Alfred Adhiambo Otieno respectively.

Although the Commission had forwarded the documents to the Ministry of Lands for registration, the Ministry had not yet completed the process by 30 June 2016.

94. Information Technology Internal Control Weaknesses

It was observed that the Commission did not have an IT strategic committee, steering committee, strategic plan and a comprehensive procurement plan.

THE STATE DEPARTMENT FOR COORDINATION OF NATIONAL GOVERNMENT

FINANCIAL STATEMENTS FOR VOTE 1022

Basis for Disclaimer of Opinion

95. Differences between the Financial Statements and the Trial Balance

The expenditure balances for various items reflected in the statement of receipts and payments differ with the trial balance balances as at 30 June 2016. The resulting positive and negative differences totalling Kshs.16,030,076 and Kshs.984,492,589 respectively have not been investigated and corrected. In the circumstance, the accuracy of the financial statements could not be confirmed.

96. Acquisition of Assets

The statement of receipts and payments show that the State Department acquired assets valued at Kshs.405,488,166 (2014/15 - Kshs.688,408,022) during the year under review. However, management does not maintain an assets register contrary to the requirements of Regulation 143 of the Public Finance Management (National Government) Regulations, 2015. Consequently, it has not been possible to verify and confirm existence and completeness of the assets acquired and issuance, use and disposal of the assets.

97. Rental of Produced Assets

During the year under review, and as disclosed under Note 13 to the financial statements, the State Department incurred an expenditure of Kshs.67,527,078 on rental of produced assets. However, the State Department paid Kshs.14,305,740 and Kshs.37,257,208 for lease of office spaces at Re-Insurance Plaza and Telposta Tower, respectively without valid lease or contract agreements contrary to Section 135 of the Public Procurement and Asset Disposal Act, 2015. In the circumstances, it was not possible to confirm the validity and propriety of lease payments totalling Kshs.51,562,948 made for the office spaces.

98. Fraudulent Payment of Water Bills

Examination of a sample of water bills from seven prison stations revealed that bills totalling Kshs.11,545,660 were paid and thereafter recycled for payment resulting in unexplained double payments. No action has been taken to recover the amount totalling Kshs.11,545,660 that was paid fraudulently.

99. Accounts Receivables

The statement of assets reflects a balance of Kshs.2,916,533,471 against accounts receivables which includes Kshs.2,910,918,008, Kshs.5,415,762 and Kshs.199,700 relating to clearance accounts, central bank accounts and outstanding imprests, respectively. However, the clearance accounts' balance has not been supported by authentic and verifiable source documents contrary to Regulation 107(1) of the Public Finance Management (National Government) Regulations, 2015. Also, the reason for failure to transfer to the exchequer an amount of Kshs.5,415,762, which is disclosed under Note 23 to the financial statements as held in various central bank accounts, has not been provided. As a result, the validity, completeness and accuracy of the accounts receivables' balance of Kshs.2,916,533,471 could not be confirmed.

100. Pending Bills

Pending bills totalling Kshs.4,523,107,327 as at 30 June 2016 have been disclosed under Note 26.1 to the financial statements. Had these bills been paid and the expenditure charged to the accounts for 2015/2016 financial year, the statement of receipts and payments for the year under review would have reflected a net deficit of Kshs.1,619,471,362 instead of the net surplus of Kshs.2,903,635,965 now shown. Failure to settle the bills in the year they relate to distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they are charged.

101. Cash and Bank Balances

The statement of assets as at 30 June 2016 reflects cash and bank balances totalling Kshs.60,126,965. The balances as disclosed under Note 22 to the financial statements include development, recurrent, deposits and prison industries fund bank balances of nil, Kshs.1,517,866, Kshs.8,613,817 and Kshs.46,659,680 respectively and cash on hand of Kshs.3,335,602. The following unsatisfactory matters, however, have been observed:

i. The development bank balance has not been supported by the cash book extract as at 30 June 2016. In addition, the Board of Survey report reflects a balance of Kshs.6,237,318 and not a nil balance as at 30 June, 2016.

ii. The recurrent bank balance has not been supported by a Board of Survey report and the cash book extract as at 30 June, 2016.

iii. The deposit and prison industries fund bank balances have not been supported by the respective cash book extracts, Board of Survey reports and bank reconciliation statements as at 30 June, 2016.

iv. All the bank balances have not been supported by the respective certificates of bank balances as at 30 June, 2016.

The accuracy of cash and bank balances of Kshs.60,126,965 could not, therefore, be confirmed under the above circumstances.

102. Prior Year Matters

102.1 Unaccounted for Revenue

As reported in the previous years, the Prisons Industries and Farms Revolving Funds had deposited Kshs.231,232,519 in the Ministry's Headquarters Deposit Account. The entire amount was apparently mis-appropriated. However, no recoveries have, been made to date.

102.2 Biogas Project at Kenya Prison Service

As reported in the previous years, the Kenya Prisons Service initiated biogas projects in fourteen (14) Prisons across the Country at an estimated cost of Kshs.122,129,538 out of which an expenditure totalling Kshs.95,758,296 was incurred. However, none of these projects were operational as of 30 June, 2016.

REVENUE STATEMENTS

Unqualified Opinion

There were no material issues noted during the audit of this revenue statement.

PRISON INDUSTRIES REVOLVING FUND

Basis for Disclaimer of Opinion

103. Debtors

The debtors balance of Kshs.44,853,557 reflected in the statement of financial position as at 30 June 2016 includes an amount of Kshs.27,232,740 owed by Kenya Railways, Director of Public Prosecutions, Commissioner of Prisons and Kakamega and Bomet County Governments. No explanation has been provided for failure to recover Kshs.27,232,740 from these government agencies.

104. Suspense Account

The statement of financial position also reflects a balance of Kshs.3,984,890 (year 2014/2015 – Kshs.3,966,131) against suspense account that has not been analyzed. The balance has been disclosed under Note 10 to the financial statements as a

balancing figure after the books of account failed to agree in previous years. The validity, completeness and accuracy of the balance could not therefore be ascertained.

105. Creditors Account

The statement of financial position reflects a balance of Kshs.61,314,106 (year 2014/2015 – Kshs.61,137,546) against creditors. No explanation has been provided, similarly like in the previous years, for failure to settle the Fund's obligations to its suppliers despite the huge bank (P.M.G) balance.

106. Paymaster General

The statement of financial position reflects a balance of Kshs.165,952,193 against paymaster general account (P.M.G) whereas the board of survey certificate reflects a balance of Kshs.11,157,928 as at 30 June, 2016. No explanation has been provided for the discrepancy of Kshs.154,794,265 between the two sets of records.

107. Fixed Assets

The statement of financial position reflects a fixed assets balance of Kshs.87,845,864 as at 30 June, 2016. The fixed assets include scrap machinery worth Kshs.2,926,440 which have since become obsolete. However, the management of the Fund did not maintain a fixed assets register. In addition, there is no policy instituted by management on depreciation and replacement of fixed assets. Consequently, it is not possible to confirm the existence and correct value of fixed assets reflected in the financial statements.

PRISON FARM REVOLVING FUND

Basis for Qualified Opinion

108. Debtors

The statement of financial position as at 30 June 2016, reflects a debtors balance of Kshs.176,413,406 (year 2014/2015 – Kshs.189,490,028) relating to food ration supplied to the Commissioner General of Prisons. Although the State Department of Correctional Services has explained that the debts were not cleared during the year due to inadequate funding, measures taken to avoid accumulation of huge debts in future have not been indicated.

109. Suspense Account

The statement of financial position also reflects a suspense account balance of Kshs.15,639,561 brought forward from the previous year. However, the balance has not been supported with analyses and verifiable source documents contrary to Regulation

107 (1) of the Public Finance Management (National Government) Regulations, 2015. Consequently, the accuracy, validity and completeness of the balance of Kshs.15,639,561 could not be confirmed.

MINISTRY OF DEVOLUTION AND PLANNING – STATE DEPARTMENT FOR PLANNING

FINANCIAL STATEMENTS FOR VOTE 1031

Basis for Disclaimer of Opinion

110. Prior year Unresolved Audit Issues

The State Department of Planning has not resolved some issues that were raised in the Auditor-General's report for the financial year ended 30 June 2015 as indicated below:

110.1 Variances between Actual and Budget Figures

The Ministry of Planning and Development in 2013/2014 under Head – 103005300 Planning and Development – Headquarters, spent Kshs.1,964,426,798 on transfers to other Government Units which had not been budgeted for. The Ministry, therefore, did not adhere to budgetary provisions and no explanations have been provided for the anomaly or mitigating measures taken so far.

110.2 Incomplete Construction Project

The Ministry in 2013/2014 financial year awarded a tender for construction of flats at National Youth Service Vocational Training Institute-Industrial Area at an estimated cost of Kshs.49,105,721. The contract between the Ministry and the contractor was signed on 22 February 2013 and was estimated to take 52 weeks from 08 April 2013 to 07 April 2014. The Contractor was paid Kshs.7,111,432 for certificate No.1. However, physical verification carried out on 17 February 2015 showed that the work was abandoned at foundation level. Information on site meetings or other management meetings were not provided for audit. This project therefore appears to have stalled.

110.3 Unconfirmed Transfer to Other Government Entities

The financial statements of the Ministry for the year 2014/15 reflected recurrent and development votes combined transfer to other Government entities balance of Kshs.2,871,368,369 which however was not budgeted for. This amount includes Kshs.2,151,010,210 reflected in the financial statements as transfers to the Ministry of Lands, Housing and Urban Development which, however have not been supported to date.

110.4 Variance in Disbursements to Semi-Autonomous Government Agencies (SAGAS)

The statement of receipts and payments for the year ended 30 June 2015 reflected transfers to other Government Entities amounting to Kshs.36,783,950,688. However,

differences between the amounts disbursed by the Ministry and the amounts received during the year under review by various SAGAS were noted as follows:

Entity	Amount disbursed by Ministry (Kshs.)	Amount received by Entity Kshs.)	Under – Receipts (Kshs.)
Anti FGM Board	38,783,380.00	28,987,486.20	9,795,893.00
National Youth Council	31,317,420.00	14,792,895.00	16,524,525.00
NEPAD Kenya Secretariat	297,082,173.00	220,155,401.00	76,926,772.00
President's Award Scheme	19,829,000.00	0	19,829,000.00
Uwezo Fund	390,000,000.00	342,500,000.00	47,500,000.00
Youth Enterprise Development Fund	329,824,800.00	233,538,800,00	96,286,000.00
Total	**1,106,836,773.00**	**839,974,582.20**	**266,862,190.00**

Entity	Amount Disbursed by Ministry (Kshs.)	Amount Received by Entity (Kshs.)	Over-Receipts (Kshs.)
NGO Coordination Board	136,487,500.00	178,478,500.00	(41,991,000.00)
Women Enterprise Fund	130,572,000.00	168,912,500.00	(38,340,000.00)
Total	**353,415,478.00**	**640,020,219.00**	**(80,331,000.00)**

The Accounting Officer has not so far provided justifications for these irregularities. Consequently, it has not been possible to confirm the accuracy or validity of the payments totalling Kshs.36,873,950,688 made to Government entities included in the corresponding figures for 2014/2015 in the financial statements for 2015/2016.

111. Trial Balance

The trial balance as at 30 June 2016 reflects balances against various account items which differ from corresponding balances reflected in the financial statements for the year then ended as follows:

	Financial statements	Trial balance	Difference
	Kshs.	Kshs.	Kshs.
Receipts			
Exchequer Releases	69,916,161,565	69,966,881,391	50,719,826
Proceeds from sale of assets	8,705,237	125,000	8,580,237

Expenses			
Basic salaries - Permanent employees	1,513,957,498	1,436,058,722	77,898,776
Basic salaries - Temporary employees	4,034,454,869	4,016,564,302	17,890,567
Personal allowances paid as part of salary	763,973,575	661,056,870	102,916,705
Utilities, supplies and services	229,699,694	220,785,527	8,914,167
Communication, supplies and services	99,271,637	98,488,129	783,508
Domestic travel and subsistence	170,755,846	170,203,403	552,443
Foreign travel and subsistence	87,044,269	87,061,269	(17,000)
Printing, advertising and information	47,336,480	47,302,063	34,417
Rentals of produced assets	818,334,054	817,764,523	569,531
Training expenses	674,352,487	670,035,272	4,317,215
Hospitality supplies and services	288,633,252	288,564,938	68,314
Specialized materials and services	2,864,977,237	2,842,693,800	22,283,437
Office and general supplies and services	226,048,511	225,316,822	3,731,689
Other operating expenses	572,084,767	569,369,339	2,715,428
Routine maintenance-Vehicles and other transport equipment	43,457,065	42,761,192	695,873
routine maintenance-Other assets	558,872,935	557,241,615	1,631,320
Fuel, oil and other lubricants	678,860,296	677,822,016	1,038,280

No explanation has been provided for these differences. Consequently, the accuracy of the financial statements is doubtful.

112. Variance In Disbursements to Semi-Autonomous Government Agencies (SAGAS)

The statement of receipts and payments for the year ended 30 June 2016 reflects an amount of Kshs.44,339,150,438 in respect of Other Grants and Transfers. The amounts reflected in the Ministry's records as disbursed to various government agencies, however, differ from the amounts shown in those agencies records as received as indicated below:

Entity	Amount disbursed by Ministry	Amount received by Entity	Difference
	Kshs.	Kshs.	Kshs.
Mechanical and Transport Fund	67,000,000	17,000,000	50,000,000
Youth Enterprise Development Fund	530,893,970	483,393,970	47,500,000
NGO Coordination Board	185,831,875	185,925,625	(93,750)
Kenya National Bureau of Statistics	3,071,958,297	3,171,958,297	(100,000,000)
KSG	21,663,372	186,693,852	(165,030,480)
Nepad Kenya	183,999,305	199,687,200	(15,687,895)
Total	**4,061,346,819**	**4,244,658,944**	**(183,312,125)**

No reconciliation or explanation has been provided for the above differences.

113. Use of Goods and Services

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects an expenditure of Kshs.7,425,761,251 in respect of use of goods and services. The expenditure figure includes an amount of Kshs.657,784,722 paid purportedly to settle pending bills from the previous period, but whose validity could not be ascertained due to lack of supporting documents. Further, out of this balance payments totalling Kshs.235,470,728 did not have crucial supporting documents such as requisitions and or delivery notes. Consequently, the accuracy and validity of the use of goods and services figure of Kshs.7,425,761,251 cannot be ascertained.

114. Other Capital Grants and Transfers

As disclosed in Note 7 to the financial statements, the reported figure of other grants and transfers of Kshs.44,339,150,438 includes other capital grants and transfers amounting to Kshs.2,791,485,440. However, an amount of Kshs.124,480,440 out of

the total Kshs.2,791,485,440 has not been supported with the necessary documentation. As a result, the propriety of expenditure of Kshs.124,480,440 cannot be confirmed.

115. Acquisition of Assets

(i) The statement of receipts and payments reflects, and as disclosed in Note 9 to the financial statements, expenditure totalling Kshs.6,084,045,536 on acquisition of non-financial assets. Out of this amount, details of expenditure totalling Kshs.2,792,941,671 have not been provided. Further, the remaining balance of Kshs.3,291,103,865 although detailed has not been supported with payment vouchers, invoices, contracts documents, requisition notes, procurement plan and a fixed asset register.

(ii) Payment vouchers and supporting documents for amounts totalling Kshs.831,968,731.35 as detailed below were, reportedly seized by investigating agencies and were, therefore, not made available for audit review.

No.	Payee's Name	Pv. No.	Amount (Kshs.)	Department	Investigating Agency	Date of Payment
1	Out of the Box Solutions Ltd	0185	90,737,607.00	NYS	EACC	14/8/2015
2	Blue Star	01609	45,137,931.05	NYS	DCI	22/9/2015
3	Fahaza Limited	01656	29,172,500.00	NYS	EACC	18/9/2015
4	Lukenya Earthmovers E.A. Limited	0995	118,263,452.30	NYS	EACC	22/9/2015
5	Greenberg Holding Ltd	1612	79,800,000.00	NYS	EACC	22/9/2015
6	Brandspark Supplies Limited	1522	19,000,000.00	NYS	EACC	22/9/2015
7	Dayton Investment Limited	01032	75,600,000.00	NYS	EACC	3/11/2015
8	Benchmark Holdings Ltd	00860	68,750,000.00	NYS	EACC & DCI	3/11/2015
9	Kenirie Ltd	01600	93,800,000.00	NYS	EACC	6/11/2015
10	Benchmark Holdings Ltd	00862	45,517,241.00	NYS	EACC & DCI	6/11/2015
11	Qsetters Investments	01018	3,750,000.00	NYS	EACC	6/11/2015
12	Qsetters Investments	00556	44,250,000.00	NYS	BFIU	16/11/2015
13	Horizon Limited	05924	10,440,000.00	NYS	BFIU	30/11/2015
14	Aenon Enterprises	0542	47,850,000.00	NYS	EACC	16/12/2015
15	Derby Techno Systems	00621	40,000,000 00	NYS	EACC	6/07/2015
16	Esaki Limited		1,900,000.00		EACC/DCI	
		Total	**813,968,731.35**			

In view of the foregoing, the accuracy, validity and propriety of expenditure amounting to Kshs.6,084,045,535 shown in the financial statements under the acquisition of assets

cannot be confirmed and it is doubtful that the government got value-for-money for the non-financial assets reported to have been procured.

116. Cash-and-Cash Equivalents

(i) Recurrent Account

The bank balances of Kshs.335,864,797 as disclosed in Note 6 to the financial statements include an amount of Kshs.20,741 in respect of recurrent account. However, the bank reconciliation statement for the recurrent account as at 30 June 2016 reflects an amount of Kshs.18,281,681.85 as receipts in bank statements not in cashbook out of which Kshs.8,628,417 relates to the 2016/2017 financial year. The statement also reflects payments originated by the department that are in bank statement and not in cash book totalling Kshs.355,501,321.05. No explanation has been given for delay to update the cashbook. In addition, the reconciliation statement reflects payments in the cashbook not reflected in the bank statement amounting to Kshs.243,670,777 which include stale cheques and errors described as over/under cast in the cashbook all of which lack appropriate supporting documents. The reconciliation statement also reflects receipts without details amounting to Kshs.503,392.75. No reason has been given for the anomaly.

(ii) Development Account

The bank balances of Kshs.335,864,797 also include an amount of Kshs.45,197,096 in respect of development vote account. However, the bank reconciliation statement for the development account as at 30 June 2016 reflects amounts totalling Kshs.14,616,295 as receipts in bank statements not in cashbook. The statement also reflects payments totalling Kshs.213,001,546 originated by the department that are reflected in the bank statement but not in the cash book.

The reconciliation statement also reflects payments in cashbook not reflected in the bank statement amounting to Kshs.7,545,235 which include stale cheques and errors described as over/under cast in the cashbook all of which lack appropriate supporting documents. Further, the reconciliation statement reflects receipts in the bank statement not in cashbook which include unexplained returned RTGS payments of Kshs.14,135,830. No reason has been given for delay in updating the cashbook.

(iii) Deposits Account

The bank balance of Kshs.335,864,797 also includes an amount of Kshs.290,646,960 in respect of deposits account. However, the bank reconciliation statement for the deposit account as at 30 June 2016 reflects amounts totalling Kshs.1,374,200 as receipts in bank statements not in cashbook. No explanation has been given for delay to update the cashbook. The statement also reflects payments originated by the department in the cashbook not reflected in the bank statement amounting to Kshs.247,716,945 out of which Kshs.238,008,938 has been described as cashbook error that has no supporting

documents. The statement also reflects receipts in cash book not in bank statement amounting to Kshs.243,110,796 described as overstatement in cashbook and have no supporting documents.

117. Outstanding Imprests

The financial statements as at 30 June 2016 and as disclosed under Note 12 to the financial statement reflects outstanding imprests totalling Kshs.26,341,506 all of which were overdue. No justification has been provided for failure by the officers to surrender the imprests or otherwise, recover the outstanding amounts from their salaries.

118. Deposits and Retentions

The financial statements reflect, as disclosed in Note 13 to the statement, a balance of Kshs.290,646,960 against Accounts Payable-Deposits and Retentions. However, details in respect of the balance such as the payee, date payable and circumstances giving rise to the deposits and retentions have not been provided. As a result, the validity and accuracy of the balance of Kshs.290,646,960 cannot be ascertained.

119. Pending Bills

Records maintained by the State Department of Planning indicates that, and as further disclosed in Note 15.1 to the financial statements, bills totalling Kshs.2,505,894,057 were not settled during the year 2015/2016 but were instead carried forward to 2016/2017. The management, however, did not provide details of the pending bills such as payee names, invoice numbers, date, nature of goods supplied/services offered and amounts due. Had the bills been paid and the expenditure charged to the account for 2015/2016, the statement of receipts and payments for the year then ended would have reflected a deficit of Kshs.628,303,147 instead of a surplus of Kshs.1,877,590,910 now shown. Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions for subsequent year to which they have to be charged.

120. Suspense

The statement of assets as at 30 June 2016 reflects a suspense account debit balance of Kshs.69,711,658. The origin and composition of the suspense account has not been supported or explained satisfactorily. In addition, the statement of cash flows includes unexplained prior year suspense balances and unreconciled balances totalling Kshs.69,711,658, which have not been supported in any way.

Consequently, the validity and accuracy of these suspense balances cannot be confirmed.

121. Director-General National Youth Service Payments

There were numerous cash transfers during the year under review from the State Department of Planning to Director General National Youth Service as reflected in the bank reconciliation statements. The payments were for Kshs.835,200, Kshs.10,494,810 and Kshs.7,421,939 under recurrent, development and deposit accounts respectively, making a total of Kshs.18,751,949 that remained outstanding as at 30 June 2016. However, the transactions origin and paid for in respect of these transfers have not been disclosed in the financial statements. In addition, any balance as at 30 June 2016 in respect of the transfers to Director General - National Youth Service has not been included in the financial statements.

122. Affirmative Action Social Development Fund

The certificate of bank balances as at 30 June 2016 from Central Bank of Kenya reflects a balance of Kshs.2,313,420,402 under the State Department of Planning in an account named Affirmative Action Social Development Fund. However, no financial statements in respect of the Fund have been prepared and submitted for audit nor has the amount been disclosed in the financial statements. In addition, documentation in respect of formation and operation of the Fund has not been provided for audit.

123. Budget and Budgetary Controls

Significant variances between the final approved budget and actual receipts/payments have been observed in respect of the following items:

Item	Budget	Actual	Variance	% Variance
	Kshs	Kshs	Kshs	
Receipts	74,188,616,339	70,350,861,910	3,837,754,429	5%
Expenses				
Compensation of employees	11,041,763,129	10,601,957,202	439,805,927	4%
Use of Goods and Services	9,643,643,984	7,432,719,882	2,209,577,317	13%
Other Grants and Transfers	45,063,020,739	44,339,150,438	723,870,301	2%
Social security benefits	4,612,500	3,022,091	1,590,409	34%
Acquisition of Assets	8,399,768,576	6,096,445,535	2,303,323,041	26%
Total	**74,152,808,928**	**68,473,295,148**	**5,678,166,995**	

However, contrary to the requirements under Section 81(2)(a) (iv) and (v) of the Public Finance Management Act, 2012 and paragraph 1.9.8(a) of IPSAS Cash Basis of

Accounting Reporting Framework, no disclosures have been made in the financial statements regarding reasons for the material variances.

124. Audit Committee and Internal Audit

Although the State Department had an Audit Committee in place, there was no documentation to show the activity of the Committee during the year under review. Further, no work plans or reports were provided in support of the operations of the Internal Audit Unit for the year under review.

MINISTRY OF DEVOLUTION AND PLANNING – STATE DEPARTMENT FOR DEVOLUTION

FINANCIAL STATEMENTS FOR VOTE 1032

Basis for Disclaimer of Opinion

125. Pending Bills

The State Department of Devolution reported pending bills amounting to Kshs.2,939,375,585 as at 30 June 2016, comprising of Kshs.20,543,261 for supply of goods and services and bills brought forward from 2014/2015 of Kshs.105,000,000 for land acquired by the former Ministry of Local Government from Kenya Railways for construction of Muthurwa market and Kshs.2,813,832,324 for contribution in lieu of rates (CILOR) for the former local authorities. Had the pending bills been paid and the expenditure charged to the accounts for 2015/2016, the statement of receipts and payments would have reflected an excess vote (deficit) of Kshs.2,716,822,188 instead of the surplus of Kshs.222,553,397 now shown. Failure to settle bills during the year to which they relate distorts the financial statements for the year and adversely affects the provisions of the subsequent year to which they have to be charged.

126. Outstanding Imprests

As disclosed under Note 9 to the financial statements imprests totalling Kshs.1,322,566 were outstanding as at 30 June 2016. Imprest amounting to Kshs.203,200 out of the total had been issued to employees who have since left the service of the department. Further, all the imprests were outstanding for over three months as of 30 June 2016. No explanation has, however, been provided for failure by the management to compel staff to surrender these imprests, or recover the same from their salaries.

127. Cash-and-Cash-Equivalents

(i) Recurrent bank account

The bank balance of Kshs.404,785,628 and as disclosed in Note 8A includes a balance of Kshs.41,305,367 in respect of recurrent account. However, the bank reconciliation statement for the account as at 30 June 2016 reflects long outstanding unexplained receipts and payments totalling Kshs.53,425,898 and Kshs.34,699,287 respectively in the bank statements but not reflected in the cash book. In addition, the reconciliation statement reflects payments in cash book amounting to Kshs.2,973,177 not reflected in the bank statement and which were outstanding for over twelve months as of 30 June 2016.

(ii) Development Bank Account

The bank balance of Kshs.404,785,628 as disclosed in Note 8A includes a balance of Kshs.280,589,590 under the development account. However, the corresponding bank reconciliation statement reflects a cash book balance of Kshs.201,169,589 resulting in unexplained variance of Kshs.79,420,000.

(iii) Unexplained Reconciling Items

The bank reconciliation statements for recurrent, development and deposits accounts as at 30 June 2016 reflect several unexplained processing errors described as cash book overcast or cash book undercast which have remained unresolved for a long period of time. As at 30 June 2016, the cumulative amounts for these errors were as follows:

Description	Amount Kshs.
Receipts in cash books not on statement	2,000,000
Payments in cash books not on bank statement	9,732,514
Payments on bank statement not on cash book	2,181,282

No satisfactory explanation has been provided for non-resolution of these erroneous entries in the accounting records.

(iv) Failure to Provide Records

Cash book extracts and Board of Survey report in respect of bank balances and cash in hand of Kshs.404,785,628 and Kshs.736,358 disclosed under Notes 8A and 8B respectively were not provided for audit review. As a result, it has not been possible to confirm the completeness and accuracy of cash-and-cash equivalent balances totalling Kshs.405,521,986 reflected in the financial statements.

128. Proceeds from Domestic and Foreign Grants

(i) The State Department of Devolution provided an Appropriation-in-Aid (AIA) schedule claimed to have been extracted from the cash books showing that an amount of Kshs.3,653,572,100 was collected compared to Kshs.3,484,968,076 under proceeds from domestic and foreign grants reported in the financial statements for the year ended 30 June 2016. The resulting difference of Kshs.168,040,024 between the two sets of records has not been explained. Further, it is not clear how the excess appropriation-in-aid of Kshs.8,113,320, being the difference between the final budget(Kshs.3,555,458,780) and the amount collected (Kshs.3,563,572,100) was accounted for.

(ii) Proceeds from domestic and foreign grants comparative figure of Kshs.3,080,163,297 for year ended 30 June 2015 reflected in the statement of receipts and payments differs from the corresponding amount of Kshs.3,080,073,387 reflected under Note 1 to the financial statements. No explanation has been provided for this anomaly.

129. Current Grants to other Government Agencies – (Street Families)

The statement of receipts and payments reflects under transfers to other government units, and as disclosed in Note 5 to the financial statements, a payment in respect of current grants and other government agencies-street families - amounting to Kshs.230,000,000. The amount was claimed to have been transferred to the special programmes department. However, no expenditure returns have been provided in respect of the amount for audit review. As a result, the propriety of the expenditure cannot be confirmed.

130. Other Grants and Transfers

(i) Emergency relief and refugee assistance

The statement of receipts and payments reflects under other grants and transfers, and as reported in Note 6 to financial statements, emergency relief and refugee assistance expenditure of Kshs.2,001,933,736. The expenditure includes payments totalling Kshs.36,250,000 for 5000 bags of rice supplied by Unifresh Exotic Kenya Limited and BN Kotecha at a cost of Kshs.7,250 per 50kg bag. The expenditure further includes payments totalling Kshs.21,942,000 for 4,140 bags of rice supplied by Jambo Grocers and Pabari Distributors Limited at a cost of Kshs.5,300 per 50kg bag. However, according to the framework contract provided for audit review, the firms were expected to supply a 50kg bag of rice at a price of Kshs.4,450. No explanation has been provided for disparity in the pricing between the two sets of suppliers and the change of the contract price from Kshs.4,450 to Kshs.7,250 per 50kg bag of rice. The difference apparently resulted in unquantified overpayments to the suppliers vendors who supplied the commodity at higher prices.

(ii) Other Capital Grants and Transfers

The disclosure made under on Note 6 to financial statements includes an amount of Kshs.1,794,578,543 in respect of other capital grants and transfers paid to various implementing agencies. However, returns of expenditure from the implementing agencies have not been provided for audit review. Consequently, the propriety of the expenditure of Kshs.1,794,578,543 cannot be confirmed.

131. Budget and Budgetary Control

The state department did not adhere to the approved budget on some expenditure items during the year under review as reflected in the summary statements of appropriations-recurrent, development and combined. As a result, material variances have been noted between the final budget and actual receipts/expenditure as follows:

Revenue/ Expenditure Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Variance %
Other Receipts	11,616,744	-	(11,616,744)	(100)
Compensation to Employees	768,159,077	276,569,499	(491,589,578)	(64)
Use of Goods and Services	879,193,758	426,676,308	(452,517,450)	(51)
Transfers to Other Government Units	7,726,331,438	6,166,680,124	(1,559,651,014)	(20)
Other Grants and Transfers	1,882,566,717	3,796,534,079	1,913,967,362	102
Social Security Benefits	134,000,000	-	(134,000,000)	(100)
Acquisition of Assets	575,384,094	7,385,682	(567,998,412)	(99)

No satisfactory explanation has been provided for these variances or for failure to regularize the same in the supplementary budget.

132. Unexplained and Unsupported Adjustments

Following the submission of initial financial statements on 30 September 2016, several adjustments were processed under various accounts resulting in submission of revised final statements on 12 May 2017 as summarised below:

Account	Balance as Per Initial Financial Statements Kshs.	Balance as Per Final Financial Statements Kshs.	Unsupported Net Adjustments Kshs.
Proceeds from Domestic and Foreign Grants	2,470,305,010	3,484,968,076	1,014,663,066
Employee Compensation	626,632,941	276,569,499	350,063,442
Use of Goods and Services	588,127,942	426,676,308	161,451,634
Transfer to other Government entities	6,307,070,962	6,166,680,424	140,390,538
Other Grants and Transfers	1,604,309,546	3,796,534,079	(2,192,224,533)
Social Security benefits	80,155,852	-	80,155,852
Acquisition of Assets	452,885,682	7,385,682	445,500,000

These net adjustments have, however, not been supported with necessary documentation. As a consequence, the completeness and accuracy of the financial statements as at 30 June 2016 cannot be confirmed.

133. Trial Balance

The financial statements have not been supported by a trial balance. Consequently, it is not possible to confirm the reliability of the accounting records used in preparation of these financial statements.

134. Summary Statement of Provisionings

The summary statement of provisionings reflects General Account on Vote (GAV) and exchequer provisioning of nil and Kshs.1,167,128,248 balances respectively. No records and documents have, however, been provided in support of the balances. As a result, accuracy cannot be confirmed.

NATIONAL HUMANITARIAN FUND

Basis for Qualified Opinion

135. Imprest and Advances

As disclosed in note 5B to the financial statements, the imprest and advances figure of Kshs.129,893,050 as at 30 June 2016 represent Authority to Incur Expenditure (AIEs) amounts issued to County Commissioners of Mandera, Nakuru, Baringo, Turkana and Bomet that had not been accounted as required by Government Financial Regulations. In addition, the advance to County Commissioner Mandera of Kshs.68,960,000 has not been supported with documentation including a list of duly approved internally displaced persons to be compensated. Consequently, it was not possible to confirm the validity of the imprest and advances balance of Kshs.129,893,050 as at 30 June 2016.

136. Bank balances

The statement of financial assets and liabilities reflects a bank balance of Kshs.419,349,713 which includes stale cheques totalling Kshs.147,000 and unsupported payments in the bank statement not included in the cashbook of Kshs.988,571 that have remained unresolved for over one year. Under the circumstances, the accuracy of the bank balance of Kshs.419,349,713 as at 30 June 2016 could not be confirmed.

NATIONAL YOUTH SERVICE MECHANICAL AND TRANSPORT FUND

Basis for Disclaimer of Opinion

137. Non-Current Assets

(i) As similarly reported in 2014/2015, the statement of financial position as at 30 June 2016 total non-current assets' balance of Kshs.6,263,076,866.57 includes an amount of Kshs.3,983,580,251 relating to plant and heavy machinery. The Fund has not valued the plant and heavy machinery for financial reporting purpose since inception. Further, although the non-current assets movement schedule under Note 3 and the statement of financial position reflects a net book value of Kshs.6,263,076,867, the computed figure using appropriate rates is Kshs.6,366,028,631.52. The resulting variance of Kshs.102,951,765 has not been analyzed or explained.

(ii) The accumulated depreciation brought forward as at 1 July 2015 of Kshs.1,573,260,295 includes adjustments of Kshs.7,041,799 in respect of commercial trucks and Kshs.3,662,814 relating to plant and heavy machinery. However, no supporting documentation has been provided for these adjustments. In addition, the depreciation charge for the year according to computed movement schedule is Kshs.502,298,622 while Note 3 to the financial statements reflects a balance of Kshs.500,376,893 resulting in a variance of Kshs.1,921,730. Under the circumstances, the accuracy of non-current assets balance of Kshs.6,263,076,867 as at 30 June 2016 cannot be confirmed.

138. Domestic Debts

As disclosed under Note 4(a) to the financial statements, domestic debts include a balance brought forward totalling Kshs.350,117,962. The balance includes unsupported Director-General National Youth Service debt of Kshs.18,380,963 in respect of financial year 2013/2014 and an amount of Kshs.124,600,000 borrowed from the Fund's Account at Kenya Commercial Bank Moi Avenue by the Ministry of Devolution and Planning in the same financial year. Information available indicates that there was no documented policy or authority to borrow from the Fund. The debt for the year 2015/2016 was Kshs.99,304,504 thus resulting in a cumulative total of Kshs.449,422,466. During the year under review, the Director-General paid-off Kshs.149,918,976 leaving a balance of Kshs.299,503,490. No justification has been provided for non-settlement of the outstanding balance of Kshs.299,503,490 as at 30 June 2016.

139. Commercial Debts

The statement of financial position reflects under current assets commercial debts totalling Kshs.438,787,842 made up of Tana Road Project debt of Kshs.424,987,103 and other debts of Kshs.13,800,611. No provision for impairment has, however, been made against the long outstanding debts. In addition, it has not been explained how other debts totalling to Kshs.13,800,611 previously omitted from the financial

statements have been accounted for in the records. Under the circumstances, the accuracy of the financial statements cannot be confirmed.

140. Cash and Bank

The statement of financial position also reflects cash and bank balance of Kshs.515,211,372 as at 30 June 2016. However, the related bank reconciliation statement and supporting schedules show various unexplained reconciling items. These include receipts in the bank statement that have not been captured in the cashbook amounting to Kshs.6,260,881 and cash receipts in the cashbook not in the bank statement amounting to Kshs.526,930. No satisfactory reason has been provided for failure to investigate and clear or record these items as appropriate.

141. Sundry Creditors

The sundry creditors balance of Kshs.8,579,223 as at 30 June 2016 includes an unanalyzed and unsupported brought forward balance of Kshs.918,241.30 that has remained in the books of the Mechanical Transport Fund for a long time. In the circumstance, the accuracy and validity of the creditors balance of Kshs.8,579,223 cannot be ascertained.

142. Fund Balance

The fund balance of Kshs.8,080,040,165 as at 30 June 2016 comprises of various adjustments passed in previous years and in the current year all of which have not been supported to date:

Year ended	Amount Kshs.	Description
30 June 2014	39,807,204	Prior year adjustment error
30 June 2015	26,860,669	Prior year adjustment error
30 June 2016	6,951,553	Prior year adjustment error
30 June 2016	136,013,262	Changes in Net Book Value

The balance for prior-year adjustment error in year ended 30 June 2016 is net of several adjustments that have not been supported with any documentary evidence.

Further, a sum of Kshs.17,000,000 reflected as Seed Capital Income under Note 2(e) to the financial statements is not included as part of the movement of the Fund balance during the year ended 30 June 2016. Under the circumstances, the accuracy and completeness of the Fund balance of Kshs.8,080,040,165 as at 30 June 2016 cannot be confirmed.

143. Accuracy of Financial Statements

(i) Unexplained Adjustments

The financial statements at Note 3 reflect an unexplained credit adjustment of Kshs.14,656,304 to the cost of commercial trucks amounting to Kshs.3,157,476,410 brought forward from the previous year. The adjustment has no corresponding entry in the financial statements and is not supported with any documentation.

(ii) Unrecorded Invoices

The recorded commercial debtors under Note 5(b) to the financial statements exclude billing for Bura Tana amounting to Kshs.6,950,575. No explanation has been provided for the omission.

(iii) Statement of Cash flow

The statement of cash flows includes an unexplained balance amounting to Kshs.47,310,811 described as Increase/Decrease in difference. In addition, the comparative balance amounting to Kshs.27,040,289 has not been explained.

In view of the foregoing matters, the accuracy of the financial statements is doubtful.

WOMEN ENTERPRISE FUND

Basis for Qualified Opinion

144. Board Expenses

The board expenses of Kshs.7,040,166 for the year ended 30 June 2016 include an amount of Kshs.1,340,000 paid to board members as sitting allowance when undertaking routine operational roles of approving loans. Further, the board members did not have a calendar for meetings and held eleven (11) full board meetings and twenty eight (28) committee meetings during the financial year 2015/2016 contrary to Section 8 of State Corporation Act Cap 446 which recommends four meetings and a minimum of three for every financial year.

145. Receivables from Exchange Transactions

(i) The receivables from exchange transactions' balance of Kshs.2,106,444,731 includes amounts of Kshs.3,100,000 and Kshs.6,300,000 receivable from Kwanza Constituency and Kisumu County respectively that were fraudulently appropriated by employees during the year under review. No provision has been made, however, in the financial statements in respect of the loss.

(ii) The receivables from exchange transactions balance of Kshs.2,106,444,731 also includes non-performing loans from financial intermediary partners totalling Kshs.88,000,000. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in the financial statements.

146. Gratuity Fund

The Fund operates a gratuity fund that is fully funded on a monthly basis by payments made by management to the fund at a rate of 31% of the basic pay. The gratuity fund is operated outside the accounting records of the entity and other than monthly transfers to the fund, all other transactions in respect of the gratuity fund could not be ascertained. In addition, the adequacy of the balance held in this fund disclosed as Kshs.25,251,035 under Note 2(j) to the financial statements could not be confirmed because the corresponding liability has not been disclosed.

147. LPO Loan Financing

The LPO Loans/financing receivables reflected under Note 21 to the financial statements totalling Kshs.5,302,714 includes an amount of Kshs.1,355,000 in respect of clients that have had no movement for over seven months. The non-recovery of the short term financing within the stipulated period has not been explained.

148. Bank Balance

Bank reconciliation statement as at 30 June 2016 for the Fund's Kenya Commercial Bank Limited, Moi Avenue Branch, loan disbursement account reflects payments amounting to Kshs.2,126,500 that have not been captured in the cash book. No explanation has been provided for delay in capturing these transactions in the cash book.

Other Matter

149. Financial Performance

During the year, the Fund's financial performance continued to deteriorate as it made a loss of Kshs.97,050,501(2014/2015 - Kshs.80,429,401) which reduced its accumulated fund surplus from Kshs.617,324,522 as at 30 June 2015 to Kshs.520,274,021 as at 30 June 2016. The management has indicated that it is lobbying the National Treasury to get more money to meet the Fund's operations which has not been addressed to date.

NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND BOARD

Basis for Qualified Opinion

150. Cash and Cash Equivalents

150.1 Prior Year Issues

(i) As reported in the previous year, the statement of financial position as at 30 June 2015 reflected cash and cash equivalents balance of Kshs.1,196,506,453 which included balances of Kshs.413,706,195 and Kshs.39,997,556 held in Co-operative and Kenya Commercial Banks, respectively. It was reported further that a net amount of Kshs.28,896,501 arising from the reconciliation of the cashbook and bank statements had not been adjusted in the accounting records, as of 30 June 2015 as detailed below:

Bank	Particulars	Amount
KCB	Receipts in bank not in cash book	(5,498,518)
KCB	Payments in bank not in cash book	34,314,751
Co-operative	Payments in bank not in cash book	80,268
	Total	**28,896,501**

Consequently, the bank balances had been overstated by Kshs.28,896,501. The matter, however, remained unresolved during the year under review.

150.2 Current Year Issues

(i) The cash and cash equivalents balance of Kshs.1,898,987,630 reflected in the statement of financial position as at 30 June 2016 and disclosed under Note 12(a) to the financial statements includes an amount of Kshs.21,250,955 in respect of KCB Economic Stimulus Programme account. Information available indicates that the account was omitted from the previous year's financial statements. In addition, no opening balance statement was provided in support of this bank account and a payment of Kshs.3,206,700 reflected in the bank statement on 31 August 2015 has not been included in the financial statements for 2015/2016.

(ii) The cash and cash equivalents also includes an amount of Kshs.49,016,316 in respect of Kenya Commercial Bank account whose bank reconciliation statement reflects an amount of Kshs.32,585,558 as payments in bank statement not in cashbook. The amount has been outstanding for over three years as it relates to monies fraudulently withdrawn from the Board's bank account and has not yet been recovered to date.

(iii) The cash and cash equivalents also includes an amount of Kshs.332,537,617 as at 30 June 2016 held at Chase Bank as investment. However, Chase Bank was placed under statutory management by the Central Bank of Kenya on 7 April 2016 and realisability of this amount is contingent upon reverting of the bank to its normal operations.

Consequently it has not been possible to confirm the accuracy and validity of cash and cash equivalents balance of Kshs.1,898,987,630.

151. Prior Year Adjustment

The statement of financial position as at 30 June 2016 and the statement of cashflows and the statement of changes in net assets for the year then ended include a prior year adjustment of Kshs.21,250,955 which appears not to have been disclosed and accounted for in accordance with International Public Sector Accounting Standards No.3 (IPSAS 3), paragraph 49. According to the IPSAS, changes in accounting estimates and errors are to be accounted through restatement in the financial year the error first occurred or in the earlier comparative information in the financial statements if it is impractical to restate in the year the error occurred.

152. Trade and other payables

As reported similarly in the 2014/2015 financial year under current liabilities, trade and other payables balance of Kshs.78,962,352 as at 30 June 2016 includes accrued Economic Stimulus Programme allowances of Kshs.14,917,200 brought forward from 2012/2013 and earlier financial years. As explained by management in the previous year, these allowances are owed to the Stimulus Project Management Committees (SPMCs) and Constituency Project Tender Committees (CPTCs) which were operating under Economic Stimulus Programme (ESP). The amount has been outstanding in the books of accounts for long after the Economic Stimulus Programme ceased to exist. The amount has so far not been analysed or supported with documentation. The validity and accuracy of the amount cannot under the circumstances be ascertain

DONOR FUNDED PROJECTS

COMESA STATISTICAL CAPACITY BUILDING PROJECT PZ1-K00-044 GRANT NO.2100155022166 - KENYA NATIONAL BUREAU OF STATISTICS

Basis for Qualified Opinion

153. Non Compliance with International Public Sector Accounting Standards (Cash Basis)

The financial statements for the year do not include the statement of comparison of budget and actual amounts hence does not comply with International Public Sector Accounting Standards (Cash Basis).

154. Unauthorized Expenditure

The statement of receipts and payment reflects payments totalling Kshs.7,768 for the year ended 30 June 2016. However, the grant period for the project as per the protocol agreement ended on 30 June 2014. Management has not availed documents in support for any Project extension. Consequently, the validity of the Project expenditure of the Kshs.7,768 made after the closure of the Project could not be ascertained.

155. Cash at Bank

The unutilized funds at the bank totalling Kshs.761,725 as at 30 June 2016 have not been refunded to the donor subsequent to the closure of the Project in the financial year ended 30 June 2014.

COMMUNITY EMPOWERMENT AND INSTITUTIONAL SUPPORT PROJECT (CEISP) P-KE-IZO-001 - MINISTRY OF DEVOLUTION AND PLANNING

Basis for Adverse Opinion

156. Inaccuracies in the financial statements

(i) The following figures as reflected in the financial statements differ with the detailed supporting schedules as detailed below;

Account Name	Balance per financial statement Kshs.	Balance per supporting schedule Kshs.	Variance Kshs.
Compensation of Employees	33,391,690	35,070,320	1,678,630

Direct Payments	39,299,968	92,578,981	53,219,013
Transfer from National Treasury	22,130,678	20,960,286	1,170,392
Other Expenses	1,562,000	1,162,000	400,000
Construction of building	22,152,505	48,762,907	26,610,402

(ii) The statement of financial assets and liabilities as 30 June 2016 reflects financial assets total of Kshs.370,625 against a negative net financial position of Kshs.1,949,681 a position that casts doubt on the accuracy of accounting records and these financial statements.

(iii) The proceeds from foreign borrowing as reflected under note 8.3 totaling Kshs.64,151,383 exclude direct payments amounting to Kshs.53,219,013 thereby understating both receipts and payments for the year under review.

(iv) The statement of receipts and payments includes a row of accumulated cash balances brought forward totaling Kshs.127,682,784 that has distorted the cumulative surplus figure of Kshs.160,622,972. The inclusion of this is a non compliance with IPSAS cash basis accounting.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2016 cannot be confirmed.

157. Cash book balances

The statement of financial assets and liabilities as at 30 June 2016 reflects a cash book bank balance of Kshs.370,625 that differs with the net financial position figure of negative Kshs.1,949,682 resulting in an unexplained difference of Kshs.2,320,307. The project did not prepare monthly bank reconciliation statements for the whole year and hence it was not possible to ascertain whether all bank transactions and bank balances during the year under audit were fairly stated.

158. Accumulated Surplus balance

The statement of receipts and payments for the year ended 30 June 2016 reflects cumulative receipts from National Treasury of Kshs.179,563,093 and Kshs.1,458,617,014 proceeds from foreign borrowing totaling Kshs.1,638,100,107 and payments of Kshs.1,605,239,917 resulting in a cumulative surplus of Kshs.32,940,188. This surplus differs with the statements cumulative surplus figure of Kshs.1,605,239,919 by an unexplained difference of Kshs.127,682,784.

Under the circumstances, the accuracy of the deficit figure of Kshs.1,949,681 for the year ended 30 June 2016 cannot be confirmed.

159. Stolen Vehicle – GKA 661Y

As previously reported, a motor vehicle registration No. GKA 661Y (white) Isuzu D Max valued at Kshs.1,611,200.00 was stolen on 8 April 2013 through violent robbery. However, the Ministry has not provided progress report on the loss of the motor vehicle.

160. Unsupported Payments

Included in the use of goods and services expenditure figure of Kshs.93,815,184 are payments totaling Kshs.13,918,606 and Kshs.17,296,766 to the Government of Kenya and Africa Development Bank funding's respectively, that are not supported with documentary evidence and information. Also, under the acquisition of assets figure of Kshs.48,357,741, amounts of Kshs.25,624,436 and Kshs.508,800 described as research and furniture respectively are not supported with documentations.

The project management has not provided justification for these payments hence, the propriety of Kshs.57,420,608 expenditure charged to public funds could not be confirmed.

CO-ORDINATION OF POPULATION POLICY IMPLEMENTATION PROJECT (UNFPA CREDIT NO. KEN 7P11A) – NATIONAL COUNCIL FOR POPULATION AND DEVELOPMENT

Unqualified Opinion

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

DATA COLLECTION AND DATA BASE DEVELOPMENT PROJECT – UNFPA NO.KEN 7P32A – KENYA NATIONAL BUREAU OF STATISTICS

Basis for Qualified Opinion

161. Statement of Comparative Budget and Actual Amounts

Although the financial statements contain a statement of comparative budget against actual amounts, the management did not provide details of the budget and work plan to support the financial year 2015/2016 figures. Consequently, it was not possible to verify the accuracy of the statement of budget against actual amounts as reflected in the financial statements for the financial year ended 30 June 2016.

KENINFO DATA BASE PROJECT (UNICEF) – KENYA NATIONAL BUREAU OF STATISTICS

Basis for Qualified Opinion

162. Bank Balance

The Project activities ended on 30 June 2014 but the management continued to operate the bank account which had a balance of Kshs.63,898 and accumulated bank charges amounting to Kshs.3,960 as at 30 June 2016. No documentation in support of the authority to continue operating the bank account after closure of the Project was availed for audit examination. Consequently, the validity of the expenditure for the year amounting Kshs.3,960 could not be confirmed.

KENYA YOUTH EMPOWERMENT PROJECT (KYEP) – COMPONENT 3 (IDA CREDIT NO.4697-KE) – MINISTRY OF DEVOLUTION AND PLANNING

Basis for Qualified Opinion

163. Exchange Loss on Closure of the Project

The project closed on 30 June 2016 with a cash balance of Kshs.42,873,702 which was disbursed by the donor to the project in US dollars in the financial year 2012 and credited into the account in Kenya Shillings based on an exchange rate of Kshs.84.63. Although the exchange rate has been changing during the years, it is apparent that the realized exchange losses have not been factored in the accounting records of the Project considering that the refund has to be done in US dollars using the rate ruling at that date. The refund of the Kshs.42,873,702 which was equivalent to US dollars 496,819.43 at the point of disbursement will occasion a loss of approximately Kshs.7,354,742 at the mean rate of 101.1 as at 30 June 2016. The Project management has not provided evidence on how this imminent loss shall be accommodated or funded.

164. Non Inclusion of Loan Component of the Project Amounting to US$17,027,000 in the Financial Statements

Kenya Youth Empowerment Project has two components namely the grant component with a funding of US$1,410,000 and the loan component with a funding of US$17,027,000. The financing agreement however places the onus of auditing the loan component amounting to US$17,027,000 to be executed by a private auditor appointed by the donor partners and report directly to them. This has effectively left the Auditor-General to audit and report on the grant component amounting to US$1,410,000. These financial statements excludes the amount of US$17,027,000 loan grant and it is therefore not possible to confirm whether public money in form of the loan to the

Republic of Kenya amounting to US$17,027,000 has been applied lawfully and in an effective way as required by Article 229(6) of the Constitution.

MEDIUM TERM ASAL PROGRAMME (NATURAL RESOURCE MANAGEMENT PROGRAMME) - DANIDA NO.104.KEN.806-20-NBO - MINISTRY OF DEVOLUTION AND PLANNING

Basis for Qualified Opinion

165. Bank balance

The bank balance of Kshs.52,089,891 as at 30 June 2016 and as disclosed under note 7.7A to the accounts includes a balance of Kshs.44,074,299 - Danida Revenue Funds, an overdraft of Kshs.3,072,874 GOK funds and Kshs.11,088,467 - Danida A-in-A account all held at the Central Bank of Kenya. However, the bank reconciliation for the account balances at Central Bank totalling Kshs.41,001,424 reflects a cash book balance of Kshs.33,326,174 resulting in unexplained differences of Kshs.7,675,250.

Further, the overdrawn GOK funds bank account of Kshs.3,072,874 is not represented by an existing project bank.

In the circumstance, it is not possible to ascertain whether all bank transactions and bank balances during the year under audit were fairly stated.

166. Imprest

Included in the statement of financial assets and liabilities as at 30 June 2016 is an imprest amount of Kshs.3,109,058 described in note 7.7C as due from Safaricom Limited. Information available indicates that the amount was a surrender of imprest previously advanced to the Programme by the State Department of Devolution amounting to Kshs.7,500,000. However, there was no documentary evidence availed in support of the advance, neither was there any justification for payment of the imprest by the Project. The Project closed on 30 June 2016 and it is not possible to confirm whether the Project will be able to recover the advanced amount of Kshs.3,109,058.

167. Demand Driven Development Planning Expenses

i. The statement of receipts and payments reflects expenditures of Kshs.376,698,750 and Kshs.293,920,684 under Demand Driven Development Planning for the financial years 2015/2016 and 2014/2015 respectively. The expenditure of Kshs.293,920,684 includes Kshs.257,291,528 cash at the bank that was held by Water Service Trust Fund (WSTF) at the end of the year which has not been accounted for in these financial statements.

Further, the expenditure of Kshs.376,698,750 incudes a transfer of Kshs.325,000,000 to WSTF out of which Kshs.134,743,641 represents cash in bank as at 30 June 2016 that is already expensed.

ii. The net expenditure difference of Kshs.190,256,359 has not been supported with relevant information and documentation.

Under the circumstances, the accuracy and validity of Demand Drawn Development Planning payments of Kshs.376,698,750 could not be ascertained.

168. ASAL Secretariat and Knowledge Management Expense

The ASAL Secretariat and Knowledge Management expenditure amounting to Kshs.78,330,117 includes transfers of Kshs.47,520,000 to Water Resource Management Authority (WRMA). The agreement between WRMA and the State Department of Devolution required WRMA to refund to the Project account by 30 April 2016 any monies not spent at the closure of the project which was 31 December 2015. Information and records availed indicates the unutilized cash and bank balances held by WRMA as at 30 June 2016 amounted to Kshs.35,970,684 even though it was supposed to have been refunded by 30 June 2016. The balance has not been disclosed in these financial statements. No evidence was provided to confirm that the above balance was refunded to the Project account after the Project closed down. Further, the agreement between WRMA and State Department of Devolution required the funding advanced by the project to be disclosed in the audited financial statements of WRMA and an audited copy availed to the project management. The audited copy has not been provided for audit examination.

Under the circumstances, the accuracy and validity of ASAL Secretariat and Knowledge Management expenditure amounting to Kshs.83,490,684 could not be ascertained.

WESTERN KENYA COMMUNITY DRIVEN DEVELOPMENT AND FLOOD MITIGATION PROJECT IDA CREDIT NO.4278-KE – MINISTRY OF DEVOLUTION AND PLANNING

Basis for Qualified Opinion

169. Imprest and Advances

The imprest advances balance of Kshs.673,779 as at 30 June 2016 relates to imprests issued to officers that has remained outstanding from prior years. In addition, imprest amounting to Kshs.1,680,000 supposedly issued to officers from Masinde Muliro University in August 2015, has been cleared from the imprest account without adequate supporting documentation.

Under the circumstances, the accuracy of the imprest balance amounting to Kshs.673,779 could not be confirmed.

170. Accuracy of Financial Statements

The Project's statement of receipts and payments reflects total computed cumulative deficit of Kshs.18,552,111 which differs with the cash balance for the project net balance of Kshs.603,914,542 as at 30 June 2016 by Kshs.622,466,653. The variance has not been explained or reconciled.

Under the circumstances, the accuracy of the financial statements could not be ascertained.

Emphasis of Matter

171. Acquisition of Non-financial Assets and Other Grants and Transfers and Payments

Included in the payments figure of Kshs.935,438,948 as at 30 June 2016 are expenditures of Kshs.431,216,438 and Kshs.144,090,108 in respect of acquisition of non-financial assets and other grants and transfers and payments respectively which could not be verified due to limited resources. In the circumstances, it is not possible to confirm whether the expenditures were incurred for the intended purposes.

MINISTRY OF DEFENCE

FINANCIAL STATEMENTS FOR VOTE 1041

Basis of Qualified Opinion

172. Food Processing Factory

172.1 Proposed Construction of Main Building for Food Processing Factory

Examination of contract records show that a contractor was awarded a contract for construction of a building for food processing factory at Kenyatta Barracks, Gilgil at a contract sum of Kshs.459,960,055 on 4 March 2015. The works commenced on 4 March 2015 and were expected to be completed on 5 March 2016.

172.2 Proposed Civil Works for Food Processing Factory

The Ministry awarded another contract to the same contractor to undertake civil works at the same factory on 21 April 2015 at a tender sum of Kshs.30,704,300. The contract period was recorded as six (6) months with the project due for completion being 31 December 2015.

(i) Scope of Works

The scope of works included but not limited to construction of road work, parking, foot path, storm water drainage, landscaping and access road.

(ii) Audit Inspection

Audit inspection of the site undertaken in June 2016 revealed that the contractor had abandoned the works. A sum of Kshs.22,628,800 or 73% of the contract sum had been paid to the contractor as of 31 December 2015. Although the contract period had elapsed, there were outstanding works including road works, landscaping, foot paths and storm water drainage works for which the Ministry has not acted in accordance with the general conditions of the contract.

172.3 Non Delivery of Equipment

Audit has further established that the Ministry entered into a contract with another firm on 25 June 2015 for supply and installation of food processing equipment at Kshs.373,174,000. The equipment had, however, not been delivered as at the time of the audit inspection despite the firm having been paid the entire contract sum.

173. Proposed ORS Single Accommodation at Embakasi Garrison

173.1 Award of Contract

Examination of contract records indicate that restricted tendering method was used to award a contract for ORS single accommodation, Embakasi Garrison at a contract sum of Kshs.316,925,360 on 30 June 2012. The works commenced on 14 March 2013 with an expected date of completion of 14 March 2014.

173.2 Scope of work

The scope of works included but not limited to preliminaries, builders works, civil works, foul drainage system, electrical works, plumbing, drainage, fire- fighting and solar water heating.

173.3 Audit Inspection

Audit inspection undertaken on 12 July 2016 revealed that the contractor had already been paid Kshs.265,816,303 or 84% of the contract sum. However, the project had not been completed, an indication that the contractor was illegally on site twenty eight (28) months after the expected completion date of 14 March 2014. No reasons have been given for failure to recover liquidated damages from the contractor as required under Clause 27 of the general conditions of contract.

174. Procurement of Aircrafts, Related Services and Spare Parts

174.1 Background Information

Examination of available records show that the Ministry procured aircrafts from Royal Jordanian Air force through government to government negotiations and several contracts were signed as follows:

(i) Purchase Price of the Aircrafts

The purchase price of the Aircrafts recorded in Contract No. RJAF/KAF/2007 dated 26 April 2007 was US$ 15,291,503.

(ii) Technical Assistance and Maintenance Services

Technical Assistance and Maintenance Services recorded in Agreement No. JAC/COMM/02/184 – GOK dated 27 April 2007 were procured at US$ 12,264,995.

(iii) Direct Procurement of Supplementary Services

A direct procurement of supplementary services for the fleet recorded in Contract No. MOSD/JAC/SUPPL/01/2008 was signed on 30 January, 2009 for a sum of US$ 2,883,562. However, the details of these services have not been provided for audit review contrary to the provisions of Section 9 (i) (e) and (f) of the Public Audit Act, 2015.

(iv) Delivery of the Aircrafts

Records show that these aircrafts were delivered, assembled and tested. However, an inspection undertaken by the Ministry's technocrats revealed a number of defects.

174.2 Addendum for the Purchase of Spare Parts

Records further show that the Ministry procured aircrafts spare parts at a cost of US$ 12,956,827 on unspecified date from a firm through restricted tendering instead of procuring directly from the specific aircraft manufacturer. It was not possible to confirm under the circumstances, whether value for money was obtained in the procurement of these spare parts or whether payments for the spare parts were lawful and effective as required under Article 229(6) of the Constitution of Kenya, 2010.

174.3 Audit Inspection

An audit verification of the aircrafts was carried out in June 2016 at Laikipia Air Base and the following observations were made: -

(i) The defects identified at the time of the delivery of the aircrafts had not been rectified as at the date of inspection.

(ii) Audit of fuel and servicing records indicated that seven (7) aircrafts have not been operational from the time they were procured, however, they are being used as sources of spare parts for other similar machines. No justification has been given for the purchase of seven (7) aircrafts at USD 7,136,035 (Kshs.498,174,453) then use them as sources for spare parts.

175. Prior Year Audit Issues

The following issues were raised in the previous year's report and have not been satisfactorily addressed in the year under review: -

175.1 Payment of Taxes on Imported Goods

Reference was made in the report for 2014/2015 on imprests amounting to Kshs.162,296,569 that were issued to officers serving at Central Supply Depot (CSD) and Kenya Air Force Logistics Branch in respect of Value Added Tax(VAT) and Excise Duty on imported military equipment. Although the amount is claimed to have been deposited in A/c No. 01003058230400 at National Bank of Kenya owned by KRA Customs and Excise Tax COLLN, examination of tax returns submitted by Kenya Revenue Authority does not reflect the receipt of the said amount.

175.2 Procurement and Utilization of Hydraulic Excavators

Examination of records revealed that the Ministry procured two (2) Caterpillar 374 DL through direct procurement from Mantrac Kenya Ltd in 2011/2012 financial year at Kshs.185,323,994 instead of Kshs.40,000,000 which was the prevailing market price based on a market survey undertaken by the user. No explanation has been given so far for excess and illegal payment of Kshs.145,323,994 over and above the market price.

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE

FINANCIAL STATEMENTS FOR VOTE 1051

Basis for Qualified Opinion

176. Understatement of Receipts

The statement of receipts and payments reflects total receipts of Kshs.15,748,904,300 which include other receipts amounting to Kshs.618,008,706. The other receipts as disclosed under Note 4 to the financial statements relate to receipts from administrative fees and charges collected as Appropriations-in-Aid (A.I.A). Contrary to Regulation 43(c) of the Public Finance Management (National Government) Regulations, 2015, A.I.A totalling Kshs.128,791,097 collected at the Ministry's Headquarters and at six missions and embassies as detailed below were omitted from the financial statements:

Mission/Embassy	Amount (Kshs)
Headquarters Administrative services	4,388,881
London	51,163,771
Lusaka	2,979,680
Abuja	38,401,852
Rome	7,821,910
Kampala	15,983,120
Muscat	8,051,883
Total	**128,791,097**

In this regard, therefore, the completeness and accuracy of the other receipts balance of Kshs.618,008,706 reflected in the financial statements cannot be confirmed.

177. Compensation of Employees

The statement of receipts and payments reflects payments totalling Kshs.6,583,386,161 under compensation of employees as further disclosed in Note 5 to the financial statements. The amount includes foreign service allowances that were paid irregularly as follows:

177.1 Overpayment of Foreign Services Allowance at Kenyan Embassy in Moscow

During the year under review, the officers serving at Kenyan Embassy in Moscow were paid foreign service allowance under category A.2 - United States and Other Stations instead of the approved rate under category A.1 Euro Zone stations contrary to circular

letter Ref: MFA/ADM.1.43A(38) of 22 November 2012 on payments of Foreign Service Allowances. This resulted in an over-payment of Kshs.8,567,214. No explanation has been given for this anomaly.

177.2 Payment of Foreign Service Allowance to an Ineligible Officer

Examination of records show that Ambassador of Kenya to South Sudan was recalled on 6 June 2013. Shipment and transfer allowances totalling Kshs.2,474,082 were paid to him through payment vouchers Nos.231 and 232 dated 31 March, 2016. However, the officer has continued to receive foreign service allowance and as of 30 June 2016 an amount of Kshs.15,024,000 had been paid to him contrary to Section D.19 of Kenya Foreign Service Regulations.

178. Use of Goods and Services

The statement of receipts and payments reflects payments totalling Kshs.6,703,810,253 under use of goods and services as further disclosed in Note 6 to the financial statements. The amount includes irregular payments as follows:

178.1 Event Organization and Management of the World Trade Organization Ministerial Conference Expenses

The tender committee on 19 February 2015 due to urgency of the matter approved use of direct procurement to procure services for event organization and management of the World Trade Organization (WTO) Conference that was held from 15 to 19 December 2015. However, no plausible explanation for the use of direct procurement has been given as the tender was awarded five (5) months later on 10 June 2015, to a local firm at a contract price of Kshs.82,900,560. In addition, the general terms of reference under which the tender was quoted and awarded were later reviewed and re-categorized contrary to Section 59(3) of the Public Procurement and Disposal Act, 2005.

178.2 Rental Expenditure at Kenya Missions and Embassies

178.2.1 Bangkok, Thailand

Examination of records maintained at Kenyan Embassy in Thailand revealed that the former Ambassador returned to Kenya in July 2013. The embassy, however, continued paying rent for the house previously occupied by him. As a result, an amount of Kshs.8,700,000 had been paid as of 31 July 2014 for the unoccupied rental premises.

178.2.2 Seoul , South Korea

Similarly, at Kenyan Embassy in South Korea, an officer returned to Kenya on 31 December 2016 and the house which was occupied by the officer continued to attract quarterly rent amounting to Kshs1,111,980 despite being vacant. The embassy has so

far incurred rental expenditure totalling Kshs.2,223,960 for the duration that the house has remained vacant.

178.2.3 Mogadishu, Somalia

Records available at Kenyan Embassy in Mogadishu, indicates that the embassy entered into an accommodation arrangement with M/s Idman General Co Limited for fourteen (14) persons at US$250 per room per day and four (4) office rooms at US$200 per room per day with effect from 28 July 2015. However, staff establishment of the embassy is recorded as thirteen (13) for the period ending 2 February 2017. A room, therefore, remained vacant for 554 days but was paid for, resulting in an irregular expenditure of Kshs.13,697,650.

178.3 Irregular Payment for Contract for Digitization of the Ministry's Records

Examination of records maintained by the Ministry revealed that a contractor was awarded a contract on 6 February 2015 for digitization of records and document management systems at Kshs.40,159,548 for a duration of three(3) months. However, the contractor was paid an amount of Kshs.32,353,548 through payment voucher No. 64 dated 11 December 2015 before completion of the works. Further, the software licenses claimed to have been supplied were not made available for audit verification.

In addition, the training that was supposed to be conducted never took place because the system failed and has since not been customized to meet the users' requirements. Above all, the contract whose execution period was three (3) months has not been completed two (2) years later.

178.4 Payments for Undelivered Storage Solution Servers

The Ministry awarded a tender for supply of two (2) storage solution servers at a price of Kshs.24,000,000 to a contractor through MTC Minute No. MFA/MTC/021/2014-2015. The entire amount was paid through payment voucher No. 57 dated 9 December 2015. Records confirming delivery, acceptance, installation and location of the servers have not been provided for audit review. Consequently, the delivery and existence of the servers could not be confirmed.

179. Refurbishment of Buildings at Kenya High Commission Windhoek, Namibia

179.1 Contract Price

Examination of contract records revealed that renovation of the Kenya House - Phase 2 in Windhoek, Namibia was awarded at contract sum of Kshs.289,416,280 (N$ 38,081,090) in year 2010 to a contractor and was to be completed within fifteen (15) months.

179.2 Delay in Completing the Works

Although the works commenced on 15 October, 2010 and were due to be completed on 24 January, 2012, the contractor had not handed over the works by February 2016. No justification has been provided for failure to recover the liquidated damages as required under Clause 27 of the conditions contract.

179.3 Site Inspection

An audit inspection conducted on 7 March, 2017 revealed that defects identified in the snag list had not been corrected. Further, quality of work done may not have met the required standards as the building developed cracks soon after completion. In addition, a diligence check on the residential houses revealed that two (2) houses had been vandalized.

180. Proposed Construction and Renovation of Buildings for High Commission of the Republic of Kenya in Pretoria, South Africa

180.1 Award of Contract

Records available indicate that Contract No. D04/NB/NB/1201 for construction of a new ambassador's residence, renovation of the Chancery, renovation and renewal of four (4) dilapidated staff houses and construction of four (4) new staff houses on plot Erf 318 Polaris Avenue was awarded on 1 July 2015 to M/s Unik Civil Engineering (pty) Ltd being the main contractor at a contract sum of Kshs.734,400,000 (R102,000,000). Contract documents relating to M/s Tiki Architect (the project consultant) have, however, not been provided for audit verification.

180.2 Contract Period

The project commenced on 18 August 2015 and was scheduled to be completed on 31 January 2017 after duration of eighteen (18) months.

180.3 Audit Inspection

180.3.1 Stalled Works

Although payments totalling Kshs.263,159,835 had been made to the contractor, an audit inspection undertaken on 10 March 2017 revealed that works on four houses under renovation stalled due to non-registration with the National Home Builders Registration Council. No effort has been made to rectify the anomaly.

180.3.2 Conflict on Construction Site

Although the construction of the Ambassador's residence is in progress, a dispute on plot No. 261 Crowne Avenue has not been resolved between the Kenya High Commission in Pretoria and the Government of Iran.

180.3.3 Delay in Delivery of the Project

M/s Tiki has been paid Kshs.140,389,667, but an audit inspection revealed that works relating to civil and structural engineering have stalled due to disputes between the consultant and his employees. The conflict has delayed timely delivery of the project.

181. Construction of Chancery and High Commissioner's Residence in Islamabad-Pakistan

181.1 Award of Contract

The project was awarded to M/s Consol Construction Solutions on 12 May 2008 at an initial contract sum of PKRs 385,321,826 (Kshs.443,120,099). The works were scheduled to commence on 12 May 2008, and be completed on 11 September 2010.

181.2 Contract Termination

The completion date of September, 2010 was revised thrice. However, the contractor did not enhance progress in construction work, resulting in termination of the contract on 30 July, 2014.

181.3 Irregular Payment of Works

The contractor received advance payments (mobilization advance) of PKR 115,596,548 (Kshs.132,936,030) or 30% of the contract sum on 31 March 2008 which was, however, not recovered.

In addition, records show that the contractor had been paid PKRs 449,324,929 (Kshs.516,723,668) at the time of termination on 30 July 2014, which is PKRs 64,003,102 (Kshs.73,603,567) above the awarded contract sum of PKRs 385,321,826 (Kshs.443,120,100). No explanation has been given for the irregularity.

Further, no retention money was recovered from all the payments made to the contractor, an indication that tax payers' monies paid may be lost.

181.4 Award of New Contract

The Ministry awarded another (new) contract for completion of the Kenya High Commission building and the High Commissioner's Residence on 6 February 2015 to M/s Quality Procurement and Management Services Limited at a contract sum of PKRs 99,940,881 (Kshs.90,154,670).

181.5 Slow Progress of Works

The works commenced on 2 March 2015 and were scheduled for completion on 5 September 2015. However, the contract period had expired as at the time of audit inspection in March 2017 but the contractor was still on site without being levied

penalties in terms of recovery of the liquidated damages. Management has not given any explanation for the omission.

181.6 Title Deed

Although the Kenya High Commission in Islamabad was allocated the land where the Chancery and Residence building stands in 1991, no reasons have been given for failure to obtain the title deed for the plot.

182. Construction of Buildings for Kenya Embassy, Mogadishu, Somalia

182.1 Irregular Award Of Contract

The Ministry invited nine contractors through restricted tendering to submit tenders for this project on 3 February 2015. Bids were received from M/s Bilmark Groups Limited and M/s Deeqa Construction and Water Drilling Co. whose bids were US$ 1,571,637.50 and US$ 1,766,665 respectively. Although M/s Bilmark Groups Ltd. who was the lowest evaluated bidder was disqualified on grounds that the firm was not among contractors vetted by AMISON, the contract was later awarded to the highest evaluated bidder Deeqa Construction and Water Drilling Co. which was similarly equally not among vetted companies. No explanation has been given for the inconsistency in evaluating the two bidders.

In addition, information contained in a letter Ref. No. CSO/REC/ZULU PROJECT/27/NOV/2014 dated 27 November, 2014 shows that the contractor was awarded the contract before technical evaluation process was completed. In view of these circumstances, it is not possible to confirm that the award of the contract was fair, equitable, transparent, competitive and cost effective as required under Article 227(1) of the Constitution of Kenya, 2010.

182.2 Audit Inspection

An audit inspection of the project site on 14 March, 2017 confirmed that 38% of works had been executed against 220% of the contract period that had by then elapsed. No remedy had been undertaken to enhance progress in execution of the works.

In addition, the audit established that the Kenya High Commission in Mogadishu was allocated the Chancery and Residence building land in 2015. However, no reasons have been given for failure to obtain a title deed for the plot.

183. Cash and Cash Equivalents

The statement of assets reflects Kshs.1,340,665,519 cash and cash equivalents' balance and as further disclosed in Note 11 A & B to the financial statements. However, the balance includes unconfirmed amounts as follows:

183.1 Loss of Cash at Kenya Embassy Moscow

Examination of the re-current bank reconciliation statement for the month of June 2016 revealed that Kshs.149,323,311 and Kshs.28,808,743 were withdrawn from bank account numbers 40807840000000000236 and 408007810700050000095 respectively between the year 2009 and 2011. These withdrawals were not recorded in cash book. Payment documents in support of the withdrawals have similarly not been provided for audit review. In addition, the Ministry has not investigated and taken appropriate action on the loss as required under Regulation 90(3) of the Public Finance Management (National Government) Regulations, 2015.

183.2 Loss of Cash at Kenya Embassy, Juba

The cash book for the month of March 2016 shows an undercast by Kshs.5,836,500 ($58,365) against the dollar column while the column for South Sudan Pound for the same month reflects an under-cast by Kshs.170,000 (SSP 10,000). In addition, the mission transferred Kshs.13,600,000 (SSP 800,000) on 30 June 2016 from the local currency account to the dollar account resulting in a loss of Kshs.11,841,778 (SSP 696,575). A due diligence check on the exchange rate on the transaction date indicates that the rate of SSP 30 to USD 1 was applicable instead of SSP 45 to USD 1 used. No explanation has been given for the anomaly.

183.3 Misstatement of Cash and Bank Balances

The amounts disclosed under Note 11A and 11B to the financial statements in respect of cash and bank balances of Kshs.198,124,704 and Kshs.3,120,952 totalling Kshs.201,245,656 for the Ministry Headquarters differ from the reconciled cash and bank balances of Kshs.431,067,127. No explanation or adjustment has been provided for the resulting difference of Kshs.229,821,471 between the two sets of records.

184. Bank Reconciliation Statements

184.1 Long Outstanding Reconciling Items

The bank reconciliation statements for the Ministry Headquarters for recurrent, development and deposits for the month of June 2016 reflects long outstanding reconciling items amounting to Kshs.1,000,267,272, some dating as far back as 2013 which have not been cleared. This is contrary to Regulation 90(3) of the Public Finance Management (National Government) Regulations, 2015 which requires that such discrepancies be investigated and appropriate action taken including updating the cash books.

184.2 Payments and Receipts Without Reference / Cheque Numbers

The recurrent bank reconciliation for the period ending 30 June 2016 reflects payments in cash book not in bank statement (unpresented cheques) and receipts in cash book

not in the bank statement amounting to Kshs.411,169,904 and Kshs.322,093,983 respectively. Included in the unpresented cheques of Kshs.411,169,904 are payments amounting to Kshs.20,993,262 without cheque or reference numbers. Similarly, the receipts amounting to Kshs.322,093,983 have no cheque or reference numbers. In the circumstances, the validity, completeness and accuracy of the recurrent cash balance for June 2016 could not be confirmed.

185. Transfer to Other Government Units

The statement of receipts and payments reflects payments totalling Kshs.185,303,805 in respect of transfers to Other Government Units. However, the payments have not been analyzed or supported by expenditure returns including documents to confirm receipt of the amount by the respective Government Units. As a result, the accuracy, occurrence and propriety of the expenditure could not be ascertained.

186. Outstanding Imprests

The statement of assets reflects a balance of Kshs.8,625,876 under accounts receivables – outstanding imprests. The balance includes long outstanding imprests amounting to KShs.1,810,111 which had not been surrendered or accounted for as of 30 June, 2016 for a period of 36 months.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

STATE DEPARTMENT OF EDUCATION

FINANCIAL STATEMENTS FOR VOTE 1061

Basis for Qualified Opinion

187. Cash and Bank Balances

187.1 Bank Reconciliation Statement – Recurrent Vote

The statement of financial assets as at 30 June 2016 reflects cash and cash equivalents balance of Kshs.211,277,228 which includes recurrent bank balance of Kshs.145,922,554. However, examination of the bank reconciliation statement for the month of June 2016 revealed the following unexplained anomalies:

i. The bank reconciliation statement for the recurrent cashbook as at 30 June 2016 reflects payments in the cashbook not in the bank statement (unpresented cheques) totalling Kshs.1,286,744,076, which includes unexplained cashbook adjustments totalling Kshs.5,981,971.

ii. The bank reconciliation statement also reflects receipts in the bank statement not recorded in the cash book totalling Kshs.70,543,359 which have been outstanding for a long period of time. No reason has been provided for delay in updating and capturing these receipts in the cash book. Further, the reconciliation statement reflects payments in bank not posted in cash book totalling Kshs.11,224,808. Similarly, no reason has been provided for the delay in recording these payments in the cash book.

iii. The bank reconciliation statement also reflects receipts in cashbook not in bank statement balance of Kshs.656,633,243 which also includes an unexplained cashbook adjustment of Kshs.12,069,712.

Consequently, it has not been possible to confirm that the cash-and-cash equivalents balance of Kshs.211,277,228 is fairly stated.

188. Supply of Desktop Computers to Schools

The statement of receipts and payments for the year ended 30 June 2016 reflects acquisition of assets figure of Kshs.1,603,072,039 which includes an amount of Kshs.230,740,000 in respect of supply and delivery of 3,320 computers to public secondary schools. The supply of the computers was done through Tender No. NCB/MOEST/010/2015-16 which was awarded on 25 February 2016. It was further noted that the computers were delivered on 24 June 2016 and inspected on 27 June 2016. However, the list of the serialized computers availed for audit review reflected

1,107 computers resulting in a variance of 2,213 computers worth Kshs.153,803,500 which had not been accounted for as at the time of this report.

189. Irregular Expenditures

i. During the year under review, the Ministry incurred expenditure totalling Kshs.1,000,937 paid to a firm in respect of air tickets for thirteen (13) officers for travel to a retreat held from 1 February to 3 February 2016 against a budgetary provision of Kshs.440,000. The excess expenditure of Kshs.560,937 included an amount of Kshs.66,892 incurred on change-of-reservation fee and refund charges for cancelled tickets. No explanation was provided for changes in reservation and how the excess expenditure of Kshs.560,937 was financed.

ii. Examination of payment vouchers revealed that a payment of Kshs.1,039,900 was made in a favour of a firm on 10 March 2016 for purchase of return air tickets for two (2) officers for travel to London on 17 January 2015. However, out of this amount, Kshs.528,000 was in respect of changes in air tickets which could have been avoided. No reason has been provided for the changes in flight details that resulted to penalties that could have been avoided.

iii. A further payment of Kshs.798,820 was made to a tour firm on 30 June 2016 in respect of air tickets for two (2) officials to travel to Brussels, Belgium to attend the Global Partnership for Education Meeting from 25 June to 27 June 2014. However, neither the Local Service Order nor travel itinerary for the journey were availed for audit review. In addition, the invoice attached to the payment voucher was dated 16 June 2016, two years after the service was offered. No explanation has been provided as to why the payment was made two years after the service was offered and why the amount of Kshs.798,820 did not form part of 2014/2015 pending bills.

Consequently, the propriety of expenditure totalling Kshs.1,887,757 incurred on air tickets during the year under review could not be confirmed.

190. Expired Contract

The statement of receipts and payments for the year ended 30 June 2016 reflects a figure of Kshs.6,896,580,619 under use of goods and services which includes a sum of Kshs.696,000 in respect of maintenance of the Ministry's lifts. However, examination of the respective payment vouchers revealed that the services were rendered on an expired contract for the period between July 2010 and June 2013. Therefore, services were rendered without a valid contract contrary to Section 88 of the Public Procurement and Disposal Act, 2015 which prescribes how tender validity periods may be extended. In the circumstance, the Ministry was in breach of Government Procedures and Regulations.

191. Pending Bills

The Ministry had pending bills amounting to Kshs.32,000,459 as at 30 June 2016, out of which bills amounting to Kshs.31,589,959 relate to Recurrent Vote while Kshs.410,500

relate to Development Vote. The bills were carried forward to the 2016/2017 financial year. Had these bills been paid in the year under review, the statement of receipts and payments would have reflected a surplus of Kshs.320,394,507 instead of the surplus of Kshs.352,394,966 reflected as at 30 June 2016.

192. Transfers to Other Government Units

192.1 Support for Mobile Schools

The statement of receipts and payments for the year ended 30 June, 2016 reflects a figure of Kshs.20,151,643,838 against transfers to other government units which includes grants in support of mobile schools of Kshs.31,376,800 disbursed to various schools. The sum of Kshs.31,376,800 was incurred on salaries for mobile school teachers and purchase of instructional materials for 117 mobile schools in Arid and Semi-Arid areas. However, it has not been possible to establish how the various schools in the respective counties were identified and how much was given to each school as no detailed supporting schedules were availed for audit review.

192.2 Expenditure on Schools Co-Curricular Activities

Further, included in the transfers to other government units figure of Kshs.20,151,643,838 is a sum of Kshs.16,355,200 expended on various co-curricular activities. Review of expenditure under the school co-curricular activities revealed that a firm was paid Kshs.1,355,200 to print badges and booklets to be used at the National Ball Games for Primary, Secondary and Special Needs Schools. However, the Ministry did not present for audit relevant procurement records showing how the firm was identified and awarded the contract. In the circumstance, it has not been possible to confirm that the expenditure totalling Kshs.1,355,200 was a proper charge on public funds.

193. Overpricing of Goods

The statement of receipts and payments for the year ended 30 June 2016 reflects figures of Kshs.20,151,643,838 and Kshs.6,896,580,619 under transfers to other government units and use of goods and services respectively, which include goods procured from various suppliers worth Kshs.21,756,320. Examination of records however, revealed that the Ministry procured goods at prices that were far much higher than prevailing market prices resulting in overpricing of goods by Kshs.5,147,465. This contravened Section 54 of the Public Procurement and Disposal Act, 2015 which stipulates that standard goods, services and works with known market prices shall be procured at the prevailing market price.

In the circumstance, it is not possible to confirm that goods worth Kshs.21,756,320 were competitively procured.

194. Unconfirmed Delivery of Goods

The statement of receipts and payments for the year ended 30 June 2016 reflects a figure of Kshs.6,896,580,619 in respect of use of goods and services which includes an amount of Kshs.10,620,600 in respect of various items procured by the Ministry from various suppliers. Although the respective payment vouchers were supported by local purchase orders (LPO's), counter receipt vouchers (S13), invoices and requests for quotations, no supporting stores records such as ledger cards and issue vouchers were availed for audit review. Consequently, it has not been possible to confirm the propriety of expenditures totalling Kshs.10,620,600 incurred on various items during the year under review.

195. Audit of Secondary Schools

The statement of receipts and payments for the year ended 30 June, 2016 reflects subsidies figure of Kshs.30,258,894,767 which includes an amount of Kshs.29,891,807,844 in respect of Free Day Secondary Education (FDSE) funding that was disbursed to various secondary schools. An audit inspection carried out on the Public Day Secondary Schools in Nairobi and Kiambu counties revealed the following unsatisfactory matters:

195.1 Rent Arrears

Examination of schools records revealed that nine (9) secondary schools had outstanding rent arrears amounting to Kshs.6,733,037 due from teachers and other members of staff. It was however noted that the schools had not put in place appropriate measures to recover the arrears. As at March, 2017 some of the schools had made recoveries totalling Kshs.2,594,053 leaving an outstanding balance of Kshs.4,138,984 in six (6) schools as detailed below:

	School	Amount	Cleared	Balance
		Kshs.	Kshs.	Kshs.
1	Nairobi School	394,255	246,108	148,147
2	Mang'u High	986,500	435,000	551,500
3	Jamhuri High school	3,842,882	1,371,945	2,470,937
4	Alliance Boys	146,000	21,000	125,000
5	Dagoretti High	160,000	124,000	36,000
6	Kenya High	1,203,400	396,000	807,400
	TOTAL	**6,733,037**	**2,594,053**	**4,138,900**

It is not clear if and when the outstanding balance of Kshs.4,138,984 will be cleared.

195.2 Institutional Creditors

Examination of records maintained by ten (10) schools revealed that there were accumulated creditors totalling Kshs.52,995,406 as at 30 June, 2016. Review of the

creditors' balances in March 2017 revealed that some schools had settled debts totalling Kshs.42,186,733 leaving an outstanding balance of Kshs.10,808,674 as detailed below:

	School	Amount	Cleared	Balance
		Kshs.	Kshs.	Kshs.
1	Kamukunji Secondary	1,516,102	100,000	1,416,102
2	Moi Forces Academy	7,785,346	2,067,480	5,717,866
3	Alliance Boys	9,633,862	9,633,862	-
4	Lenana High School	11,163,833	11,163,833	-
5	Dagoretti High	1,262,647	-	1,262,647
6	Kenya High	353,272	-	353,272
7	Mangu High	16,396,673	16,396,673	-
8	Pangani Girls	1,215,439	-	1,215,439
9	Ngara Girls	3,035,793	2,192,445	843,348
10	Langata High	632,440	632,440	-
	TOTAL	**52,995,406**	**42,186,733**	**10,808,674**

It is not clear and no satisfactory explanation had been provided for failure to promptly pay for goods procured thus causing debts to remain outstanding for long periods of time.

195.3 Alliance High School

Examination of procurement records during the year under review indicated that the school awarded two contracts for supervision of construction of student's main hostel and the proposed wall and gate house to private architects instead of engaging the services of Ministry of Public Works as is the practice with Government projects. No satisfactory explanation was provided as for the appointment of the private architects and how they were procured to supervise the two school projects. Further, examination of payment records reveal that a sum of Kshs.7,309,037 was paid as consultancy fees to the said firm as at 30 June 2016. In the circumstances, it has not been possible to confirm that the sum of Kshs.7,309,037 was a proper charge to public resources.

195.4 Jamhuri High School

Examination of rent records on staff quarters revealed that some members of staff had outstanding rents amounting to Kshs.3,842,882 as at 30 June 2016. However, the balance excludes unquantified rent arrears due from two officers who occupy two staff houses. Examination of Board of management minutes and other related correspondences indicated that indeed the two houses belonged to Jamhuri High school but had been alienated by other parties.

Further, examination of the school records revealed that the school had leased land to a garage owner for the purpose of setting up garages along Limuru Road at an annual

rental fee of Kshs.1,800,000. Physical verification revealed that indeed some Jua Kali sheds had been erected on the leased land for the purpose of repairing motor vehicles. However, examination of receipts records reveal that the lessee had not paid annual rent totalling Kshs.2,700,000 for the period of 18 months with effect from October 2015.

195.5 Pangani Girls High School

Examination of expenditure documents revealed that a sum of Kshs.2,800,000 was paid as out-of-pocket allowance to non-teaching staff for an educational trip as a token of appreciation for good work done in 2015. However, no supporting documents such as signed schedules by the payees as well as approval for the same was availed for audit review. In the absence of the signed schedules and other support documents, it has not been possible to confirm the propriety of expenditure totalling Kshs.2,800,000.

Further, examination of the school's correspondence files revealed that Kshs.2,084,704 was paid to a supplier in the year 2014 for supply of an electric generator. However, no relevant documents showing how the firm was identified and awarded the contract were availed for audit review. Physical verification revealed that the generator did not function since the time of installation. Although the management was aware of the anomaly, it provided no evidence of the steps it had taken to recover the amount paid from the supplier. In the circumstance, the school did not get value for its resources and the expenditure of Kshs.2,084,704 was not a proper charge on public resources.

196. Unresolved Prior Year Matters

196.1 Current Grants, and Transfers to Government Agencies and other Levels of Government

As reported in 2013/2014 financial year, included in other grants and transfers figure of Kshs.67,003,247,753 is a sum of Kshs.65,369,305,403 in respect of current grants and transfers to government agencies and other levels of government. Included in Kshs.65,369,305,403 figure are disbursements totalling Kshs.21,524,382,508 to seventeen (17) sampled Universities and other government agencies out of which the institutions confirmed to have received Kshs.21,392,812,896. The resultant variance of Kshs.131,569,612 had not been explained as at the date of this report. Consequently, it has not been possible to ascertain the propriety of the disbursements totalling Kshs.131,569,612.

Other Matter

197. Budgetary Control and Performance

The State Department of Education had a total budget of Kshs.67,127,187,532 voted for the financial year 2015/2016 comprising of Kshs.8,405,782,657 for development vote and Kshs.58,721,404,875 for recurrent vote. The budget absorption rate in the department was as follows:-

Item	Budgeted Allocation	Actual		Absorption in %
	2015/2016 Kshs.	2015/2016 Kshs.	Under Absorption Kshs.	
Recurrent	58,721,404,875	57,864,333,440	857,071,435	99%
Development	8,405,782,657	4,431,519,941	3,974,262,716	53%
Total	**67,127,187,532**	**62,295,853,381**	**4,831,334,151**	**76%**

The Department therefore attained 99% absorption rate on the recurrent expenditure but failed to utilize Kshs.3,974,262,716 or 47% of the development budget, indicating that some planned development projects were not realized thereby affecting delivery of goods and services to the citizens.

198. Recurrent Vote

The budget performance analysis for recurrent vote budget totalling Kshs.58,721,404,875, is tabulated as follows:

Expense Item	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Budget Utilization Difference Kshs.	% of Utilization Difference to Final Budget
Compensation of Employees	3,331,285,506	3,357,427,470	26,141,964	101%
Use of goods and services	6,030,261,566	5,659,694,364	-370,567,202	94%
Subsidies	30,261,823,859	30,258,894,767	-2,929,092	100%
Transfers to Other Government Units	18,933,802,414	18,474,823,991	-458,978,423	98%
Other grants and transfers	30,476,000	13,564,942	-16,911,058	45%
Social Security Benefits	15,000,000	14,669,706	-330,295	
Acquisition of Assets	118,755,530	85,258,199	-33,497,331	72%
Total	**58,721,404,875**	**57,864,333,440**	**857,071,436**	**99%**

The analysis shows that the absorption rate of other grants and transfers was at 45%, an indication that the Ministry had either over-budgeted on this component or did not offer the envisaged services during the year. Further, the Ministry underutilized the budget on acquisition of assets by Kshs.33,497,331 which implies some planned goods and/or services were not delivered.

199. Development Vote

The budget performance analysis for the Development vote budget totalling Kshs.8,405,782,657 is tabulated below:

Expense Item	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Budget Utilization Difference Kshs.	% of Utilization Difference to Final Budget
Compensation of Employees	45,000,000	-	-45,000,000	0%
Use of goods and services	1,939,668,682	1,236,886,254	-702,782,428	64%
Transfers to Other Government Units	5,723,971,503	1,676,819,847	-4,047,151,656	29%
Acquisition of Assets	697,142,472	1,517,813,840	820,671,368	218%
Total	**8,405,782,657**	**4,431,519,941**	**-3,974,262,716**	**53%**

From the analysis, the Ministry under-utilized the development budget on Use of Goods and Services and Transfers to Other Government Agencies by 36% and 71% respectively, an indication that planned development projects were not realized, which result affected delivery of goods and services to citizens adversely.

200. Land Ownership

Audit inspection revealed that three (3) schools; St. George's Primary School, Kamukunji Secondary School and Highway Secondary School in Nairobi County stand on land whose ownership documents were not availed for audit review contrary to the Presidential directive that school land ownership documents be processed and registered in the names of school committees and management boards.

Further, it was established that part of Buruburu Girls School land was encroached on by a private developer and the matter is under a litigation in the High Court of Kenya. In addition, it was also noted that the Kamukunji High school land was occupied by squatters illegally. Although the school management was aware of the squatters presence, there was no evidence of steps having been taken to safeguard the institutions' land. Consequently, ownership of the school land could not be ascertained as at the time of audit.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

STATE DEPARTMENT OF SCIENCE AND TECHNOLOGY

FINANCIAL STATEMENTS FOR VOTE 1062

Basis for Qualified Opinion

201. Inaccuracies in Cash and Cash Equivalents

The statement of financial assets for the year ended 30 June 2016 reflects Kshs.114,885,090 being the bank balance against the combined Development, Recurrent and Deposits cash books bank balances totalling Kshs.86,562,980, resulting in an unexplained difference of Kshs.28,322,109 as detailed below:

	Account Name	Cashbook Balance	Financial statement balance	Variance
A/c No		**Kshs**	**Kshs**	**Kshs**
100209817	Development Account	5,979,096	39,186,212	33,207,116
1000209895	Recurrent Account	8,666,183	2,008,351	(6,657,832)
1000212667	Deposit Account	71,917,700	73,690,526	1,772,826
Total		**86,562,980**	**114,885,089**	**28,322,109**

Further, the bank reconciliation statement for the deposits bank account reflects un-presented amounts of Kshs.43,862,799 yet they had all cleared by 30 June 2016. No explanation has been provided for this anomaly.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.115,687,142 could not be confirmed.

202. Nugatory payment

The statement of receipts and payments for the year ended 30 June, 2016 reflects use of goods and services figure of Kshs.1,544,102,053 which includes payments totalling Kshs.20,790,625 made to various suppliers in respect to demurrage, detention and customs warehouse rent for the equipment under the Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) Project. However, available information indicates that this was as a result of delay in clearing of the equipment at Mombasa port. No satisfactory explanation was provided for the delay which resulted to extra charges which could have been avoided.

In the circumstance, it has not been possible to confirm the propriety of expenditure totalling Kshs.20,790,625.

203. Unsupported Expenditure on China Equipment Containers

The statement of receipts and payments for the year ended 30 June, 2016 reflects Kshs.51,411,624,073 under transfers to other Government Units which includes Kshs.38,597,824 paid vide PV No.18 of 16 March, 2016 in respect of provision of clearance and inland logistics services for Government of Kenya on China Project equipment whose supporting documents were, however, not availed for audit review.

In the circumstance, it has not been possible to confirm the propriety of expenditure totalling Kshs.38,597,824.

204. Unsupported School Fees Expenditure

The statement of receipts and payments for the year ended 30 June, 2016 reflects other grants and transfers figure of Kshs.212,635,290 which includes an amount of Kshs.5,242,496 paid vide payment voucher No. 795 dated 28 October 2015 in favour of the Principal Secretary-Ministry of Foreign Affairs towards payment for maintenance of two students studying in Australia. However, and as previously reported, no documentation supporting the payment of Kshs.5,242,496 were availed for audit review. In the circumstances, it has not been possible to ascertain the propriety of this expenditure totalling Kshs.5,242,496.

205. Accrued Interest on Delayed Payment to Contractor-North Rift Technical Training Institute

The statement of receipts and payments for the year ended 30 June 2016 reflects a figure of Kshs.51,411,624,073 under acquisition of assets which includes an amount of Kshs.17,240,000 paid to a contractor vide payment voucher No. 004 dated 26 February 2016 towards construction of the North Rift Technical Training Institute. However, scrutiny of the supporting documents for Kshs.17,240,000 revealed that Kshs.990,000 was incurred in respect of interest accrued due to delayed payment to the contractor by the Ministry. Further, information available indicates that construction works were incomplete although the contract period lapsed on 12 November 2013. No evidence has been presented to show that the contract period was extended beyond 12 November 2013. In addition, the nugatory expenditure of Kshs.990,000 did not constitute a proper charge on public resources.

206. Procurement of Equipment for North Rift Technical Training Institute

On 29 January 2015, the Ministry signed a contract with a firm for supply of electrical and electronic engineering equipment to the North Rift Technical Training Institute at a contract sum of USD 2,547,259 equivalent to Kshs.233,209,933. Payment records available at the Ministry indicated that Kshs.128,798,592 was paid to the firm during the

year under review being final 50% of the invoice and effected vide payment voucher No. 119 dated 30 June 2016. This expenditure is included in purchase of specialized plant, equipment and machinery balance of Kshs.185,152,868 under Note 10 to the financial statements. However, available information indicates that the Institute was not complete and as a result, the electronic and electrical engineering equipment procured were instead taken to Baringo Technical Training Institute. The Ministry has not explained why procurement of equipment was done for incomplete project.

207. Pending Bills

As disclosed in Note 15 to the financial statements, the Ministry had pending bills amounting to Kshs.80,741,641 as at 30 June 2016 out of which Kshs.14,751,969 related to the development vote and Kshs.65,989,715 to the recurrent vote. Had these bills been paid by 30 June 2016, the statement of receipts and payments would have reflected a deficit of Kshs.36,673,614 instead of the surplus of Kshs.44,068,027 now reflected.

208. Mentorship Programme and Construction of New Technical Training Institutes

The Ministry of Education, Science and Technology initiated a project for construction of sixty (60) and a further seventy (70) new technical training institutes (TTI's) across the Country in order to enhance technical training. In order to oversee these constructions, a number of existing institutions were appointed by the Ministry to mentor the new institutes. The statement of receipts and payments reflects total expenditure of Kshs.51,411,624,073 under transfers to other Government units under which the above expenditure was charged. Review of financial and contractual records as well as physical verification of these projects revealed the following unsatisfactory matters:

208.1 Construction of the Proposed Kakrao Technical Training Institute (TTI)

Records examined at Rongo University College indicate that, a contract was signed on 24 October 2014 between the College and a local contractor for construction of the proposed Kakrao TTI at a contract sum of Kshs.48,720,833 for an envisaged contract period of 52 weeks ending on 14 October 2015.

Physical verification of the project in September 2016, revealed that the project was still incomplete and no evidence was made available for audit review to show that the contract period was extended beyond 14 October 2015. Further, no explanation has been provided for the significant delay in completion of the project. In the circumstances, the projects stakeholders may not obtain value for their resources if the project is not completed and put to intended use.

208.2 Construction of the Proposed Nyakach Technical Training Institute

The Ministry through Kisumu Polytechnic awarded a tender for construction of Nyakach Technical Training Institute at a contract sum of Kshs.55,068,238 for an envisaged

contract period of 52 weeks which was to end on 23 August 2015. The contract was later revised to Kshs.60,593,120 due to additional works not included in the original design. Physical inspection and review of the project on 30 January 2017, showed that Kshs.24,921,350 or 41% of the contract sum had been paid to the contractor while clerk of works records revealed works were at 55% completion level and an extra seventy nine (79) weeks or 152% of the contract period had lapsed since the project commenced. However, tender minutes approving extension of the project duration beyond 23 August 2015 were not availed for audit review. Therefore, it was not clear why the works were way behind schedule despite the Ministry and Constituency Development Fund disbursing a total of Kshs.60,593,120.

Under the circumstances, stakeholders may not realize the value for their resources if this project is not completed and put to intended use.

208.3 Construction of the Proposed Riamo Technical Training Institute

Available information revealed that on 5 November 2014, the Ministry, through Kisii National Polytechnic entered into a contract for construction of Riamo Technical Training Institute at a contract sum of Kshs.48,627,833. The anticipated project completion period was 52 weeks ending October 2015. Review of payment records revealed that the contractor had been paid a sum of Kshs.10,835,059 as at 28 January 2016. Further, scrutiny of the records revealed that on 16 February 2016, the main contractor subcontracted the works, when the level of completion was at 24%. The agreement was signed by both parties before an advocate on 16 February 2016. The terms of agreement were as detailed below:

(i) the subcontractor was to supply all necessary materials and complete the works.

(ii) the main contractor to be paid only 10% of all the certified amounts while the subcontractor was to get 90% and be paid directly to his account.

However, the following unsatisfactory matters were noted;

a) The agreement between the contractor and sub-contractor did not involve Kisii National Polytechnic or its appointed representative.

b) Certificate No. 5 raised by the project manager still bore the name of the main contractor as the payee. Thus, it would appear the project supervisor was not part of the agreement.

c) The contract period as well as the performance bond had since expired and there was no evidence presented to show approval for contract's extension.

No plausible reasons have been provided for these anomalies.

In addition, examination of records revealed that the contract sum was varied by Kshs.2,752,219 from 48,627,833 to Kshs.51,380,052, while no tender minutes and

supporting analysis to confirm that the variation was approved by the management of Kisii National polytechnic were availed for audit review.

In the circumstance, the stakeholders may not realize value for their resources if this project is not completed and put to intended use.

208.4 Construction of the Proposed Taveta Technical Training Institute

Coast Institute of Technology awarded a contract for the construction of a twin workshop on 8 September 2014 to a local contractor at a contract sum of Kshs.46,441,290. However, examination of payment vouchers revealed that the first and the second certificates for Kshs14,290,446 and Kshs.9,715,584 respectively were paid without deducting withholding tax at the rate of 3% both totalling Kshs.720,181 as required by Section 5(f)(ii) of the Third schedule of the Income Tax Act of 2014. In the circumstances, the institute risks penalties from the Kenya Revenue Authority for not complying with Law.

208.5 Construction of the Proposed Kaloleni Technical Training Institute

Records available at Kenya Coast National Polytechnic indicate that on 27 March 2015 the institution entered into a contract for construction of the proposed Kaloleni Technical Training Institute at a contract sum of Kshs.49,535,280 and a contract for a period of 52 weeks. However, available information indicates that additional works on septic tank were included and the project period was extended to 4 July 2016. As at September 2016, the project was approximately 45% complete while Kshs.23,342,163 or about 47% of contract sum had been paid to the contractor.

Further, no site house was seen on the project site yet it had been provided for in the bill of quantities. Besides, there was no evidence to show that the contract period was approved for extension beyond 4 July 2016. The Ministry has not provided satisfactory explanation for the delay in completion of the project and why the site house was not erected.

In addition, the general conditions of the contract require that the winning tenderer provide a duly executed performance bond of 5% of the contract value at the time the contract is signed with the bond remaining valid during the duration of the contract. However, no performance bond was availed for audit review.

In the circumstances, stakeholders may not realize value for their resources if this project is not completed and put to intended use.

In the circumstances, the institute risks financial loss in the event the contractor fails to execute the contract as contracted.

208.6 Construction of the Proposed Lamu East Technical Training Institute

Records available at Kenya Coast National Polytechnic indicated that on 31 October 2014, the institution awarded and signed a contract for construction of the proposed

Lamu East Technical Training Institute at a contract sum of Kshs.54,841,082 executable over a period of 52 weeks. Review of the project status in September 2016, revealed that the project was incomplete while Kshs.38,079,615 or 72% of the contract price had been paid to the contractor against time lapse of 198% of the contract period. No evidence of request for approval for extension of the contract period beyond November, 2015 was availed for audit review. Therefore the project is way behind schedule and it is not clear when, if at all it will be completed.

In the circumstances, the project's stakeholders may not realize value for their resources if the project is not completed and put to intended use.

208.7 Delay in Construction Works

Available records at various Technical Training Institutes indicate that tenders for the proposed erection and completion of twin workshops, classrooms and office blocks were awarded on various dates in 2014 for a period of fifty two (52) weeks. However, physical visits in September 2016 to eight (8) Institutes implementing projects with a total contract sum of Kshs.428,075,604 revealed that an amount totalling Kshs.294,864,837 was paid to various contractors for projects which were behind schedule as tabulated below:

Institution	Contract Sum (Kshs)	Amount Paid (Kshs)	% Paid Vs Contract Sum
Mirera TTI	49,235,785	36,721,324	74.58%
Koibatek TTI	52,318,715	41,274,498	78.89%
Kipipiri TTI	55,094,423	48,849,366	88.66%
Mathioya TTI	52,777,934	36,916,095	69.95%
Kaelo TTI	55,102,270	8,397,450	15.24%
Mathira TTI	57,369,957	28,343,767	49.41%
Laikipia North	52,332,676	43,978,328	84.04%
Muraga TTI	53,843,844	50,384,010	93.57%
Total	**428,075,604**	**294,864,838**	

No evidence of the extension of contract period and renewal of expired performance bonds was availed for audit review.

In the circumstance, the stakeholders will not realize value for their resources if these projects are not completed and put to intended use.

208.8 Borehole Drilling Project at the Coast Institute of Technology

Examination of records maintained at the Coast Institute of Technology revealed that the institute awarded a contract for borehole drilling to a company at a contract price of Kshs.3,936,450 on 10th March 2015. The institute paid Kshs.3,929,000 and a further Kshs.170,000 for four rolls of electric wire cables used to supply electricity to the

borehole. As a result, the project costs totalled Kshs.4,099,000. The extra expenditure totaling Kshs.162,550 was not in the bill of quantities and was therefore not approved.

Physical verification of the borehole on September 2016 revealed that it had not been put to use as the management explained that the water was confirmed as unfit for human consumption by the Government chemist. In the circumstances, it has not been possible to confirm the propriety of expenditure totaling Kshs.4,099,000 incurred in drilling the borehole.

208.9 Construction of Perimeter Wall

Further, records available at the Coast Institute of Technology revealed that the institute awarded a contract for construction of a perimeter wall to a firm at a contract price of Kshs.24,519,639 for a period of twenty five(25) weeks ending on 24 September 2015. The bill of quantities prepared in February 2015 indicate that the Engineer's estimate was Kshs.2,726,962.

Review of the project in September 2016 revealed that the project was 65% complete and the performance bond of Kshs.1,225,928 expired on 25 March 2016 and had not been renewed. Further, the contract price was varied by Kshs.222,940 without approval of the tender committee. Under the circumstances, the stakeholders may not have realized value for their resources invested in this project.

209. Unresolved Prior Year Matters

209.1 Kisumu Polytechnic- Construction of Library Block

As reported in 2014/2015, records maintained by the Polytechnic showed that a construction firm was awarded a contract for construction of a library block in November 2011 at a contract price of Kshs.110,672,456.60 for a duration of 52 weeks. Examination of expenditure records revealed that Kshs.110,489,846.68 representing 99.8% of the initial contract sum had been paid to the contractor by April 2015. An audit inspection in September 2016 revealed that no work was going on, since the contractor had abandoned the site and the project was about 70% complete. No explanation has been provided as to why 99.8% of the contract sum was paid when the project was only 70% complete and therefore way behind schedule. In addition, there was no evidence showing that the contractor had been issued with a default notice as per the terms of the contract.

Further, scrutiny of the bill of quantities, which reflect the proposed contract sum of Kshs.110,672,457 revealed the following unclear issues:

i. An amount of Kshs.500,000 was provided for Clerk of Works. It was however established that the Clerk of Works who is an employee of the Institute was not paid Kshs.500,000 for the services he rendered.

ii. The contract also provided for Kshs.200,000 for the project manager's office. However, during the site visit no such structure was seen.

iii. Kshs.1,500,363 was provided for in the tender to allow for any increase in the cost of labour and/or materials during the contract period. The same amount was again catered for under provisional sums for contingencies and fluctuations totalling Kshs.6,000,000.

In the circumstances, it has not been possible to confirm that expenditure totalling Kshs.2,200,363 was a proper charge against public resources.

209.2 Economic Stimulus Programme- Proposed Bomet Technical Training Institute

As reported in 2014/2015, records held at the Ministry indicate that a total of Kshs.40,222,019 was disbursed vide two payment vouchers No.313 - Kshs.37,900,000 and 559 - Kshs.2,322,019, dated 2 May 2012 and 29 June 2012 respectively to Eldoret Polytechnic towards construction of the proposed Bomet Technical Training Institute under the Economic Stimulus Programme (ESP). Additional information availed from Eldoret Polytechnic indicates that a firm was awarded the contract to construct Bomet Technical Training Institute and that the works commenced in 2011.

However, there was no clarity on how the contract was managed and project finances administered. Although, it was explained that Kshs.40,222,019 disbursed from the Ministry was handled by former management, no relevant financial and contractual documents such as tender documents, cash book, bank statements, bank reconciliation statements, bill of quantities and cheque books were availed for audit verification. Physical verification of the project in September 2015 revealed that the project was incomplete and the contractor was not on site. Further, no explanation had been provided as to why the project was incomplete despite the whole contract sum having been released by the Ministry.

In the circumstances, the propriety of the expenditure of Kshs.40,222,019 could not be confirmed and it was not possible to confirm that the project's stakeholders would get value for their money.

209.3 Mawego Technical Training Institute

209.3.1 Stalled Project/Incomplete Construction of Classrooms

As reported in 2014/2015, on 22 December 2009 the Institute contracted a firm to construct ten (10) classrooms at a contract sum of Kshs.11,897,384. As the works commenced, the Institute varied the project to include one more floor to accommodate six (6) extra classrooms and the contract sum was revised to Kshs.22,437,051 by a variation of Kshs.10,539,667 or 88.5% of the original contract sum. The variation exceeded the allowable threshold of 15% of contract value contrary to the provisions of Section 47(b) of the Public Procurement and Disposal Act, 2005 and its Regulations of 2006.

Further, the bill of quantities reflects a provision of Kshs.440,000 for electrical works. However, a physical verification revealed that no electrical works were carried out in the building. In addition, the ground floor did not have a structural beam in the middle of the slab but instead there was re-enforced metallic tube erected that lowered the quality of workmanship.

In addition, payment schedules availed for audit review indicate that the contractor was paid Kshs.20,147,215 which was about 90% of the revised contract sum as at June 2011 while the project was about 50% complete and the contractor has since abandoned the site. No satisfactory explanation has been provided for the failure to complete the project yet the contractor had been paid over 90% of the contract sum.

In the circumstances, the project's stakeholders had not yet obtained value for their resources after irregular variations of the contract and delays in its execution led the project to stall.

209.3.2 Bushiangala Technical Training Institute- Construction and Completion of Library Complex

As previously reported, documents available indicated that the Institute awarded a contract for the construction and completion of a library complex to a firm at a contract sum of Kshs.24,463,865 with a completion date of 31 December 2012. Records held at the Ministry revealed that Kshs.24,463,865 had been disbursed to the Institute towards the project with the final disbursement of Kshs.5,270,775 made in January, 2014, while payment records at the Institute revealed that Kshs.14,988,264 had been paid to the contractor as at April 2015. The variance of Kshs.9,475,600 had not been accounted for as at the date of this report.

Further, an audit inspection of the site in April 2015 revealed that the project was approximately 60% complete. No satisfactory explanation was provided for the delay in completion of the project and no minutes in support of extension of the contract period were availed for audit review.

In the circumstances, it has not been possible to confirm if and when the project will be completed and how the balance of Kshs.9,475,600 was utilized.

209.4 Eldoret Polytechnic

209.4.1 Construction of Institutional Management Laboratory and Kitchen Annex

As reported in 2014/2015, examination of payment vouchers and summary records of Eldoret Polytechnic revealed that the Institute engaged a contractor for a labour only contract for erection and completion of institutional management laboratory that also included a kitchen annex. Further, scrutiny of payment records revealed that, the Polytechnic contracted for consultancy services and separately procured materials from pre-qualified suppliers. However, the institute failed to provide relevant supporting procurement records that include description of works, tender committee minutes, evaluation and comparison of the bidders and contract agreements with the successful

bidders. Further, as at the time of site visit in April 2015, the only records availed for audit review were payment vouchers and expenditure summaries which indicated that the institute had spent Kshs.39,486,190 for purchase of building materials and Kshs.31,486,190.00 for labour and consultancy services. It was not possible to distinguish payments relating to the main laboratory or the kitchen annex. The payments related to 2012/2013 financial year only. Further, no supporting documents such as works valuation certificates were availed for audit review.

Scrutiny of payment vouchers supporting disbursements availed by the Ministry revealed that the Institute received Kshs.105,850,000 in the financial years 2010/2011 – 2013/2014. The certificates examined for the main food laboratory revealed that the initial cost of Kshs.152,000,000 was varied to Kshs.275,000,000, an increase of Kshs.123,000,000 or about 81% which had not been explained.

Further, examination of the public works certificates attached to the vouchers revealed that construction of the laboratory and Kitchen annex was varied from Kshs.120,000,000 to Kshs.225,000,000, an increase of Kshs.105,000,000 or about 88%. Despite these substantial payments to the contractor, the project is incomplete and no status report on level of completion from Ministry of Public Works was availed for audit review. In the circumstances, it has not been possible to establish the nature and terms of this contract and confirm that the costs totalling Kshs.225,000,000 were a proper charge on public funds.

209.4.2 Construction of Applied Science Laboratory

As reported in 2014/2015, examination of the Ministry's records indicated that in 2011/2012 and 2012/2013 financial years, funds totalling Kshs.49,650,000 were disbursed to Eldoret Polytechnic for construction of an applied science laboratory. However, scrutiny of the public works certificates availed by the Ministry indicated that the initial estimated project cost of Kshs.62,000,000 was varied to Kshs.285,000,000 by an unexplained variance of Kshs.223,000,000 or about 360%. Further, no procurement and payment records relating to the project were availed for audit review and the project had stalled as at the time of the audit. In the circumstances, it has not been possible to confirm the propriety of the variation of Kshs.223,000,000.

209.4.3 Unsigned Schedules for Payment of Labourers

As reported in 2014/2015, examination of payment records revealed that the Institute paid Kshs.12,698,880 to casual workers. Schedules supporting the payment were not signed by the respective workers. Further, available information indicates that some of the workers rendered services in many different areas within a span of a week as it would be practically impossible for one to engage in walling, roofing, plastering, plumbing, and electrical works and keying at the same time. In the circumstances, the total expenditure of Kshs.12,698,880 reported to have been incurred on labourers could not be confirmed as a proper charge to public funds.

209.5 Kiirua Technical Training Institute- Stalled Library Complex Project

As reported in 2014/2015, examination of procurement records at the Kiirua institute revealed that on 20 December 2011 the tender committee awarded a contract for construction of phase one of the proposed library complex to a contractor at a contract cost of Kshs.32,923,770 for a contract duration of 25 weeks. The contract was signed on 13 February 2012 and the works commenced on 14 February 2012, an extension of the completion period of 18 weeks was sought and granted by the client resulting in a revised contract duration of 43 weeks.

Further, records held at the Institute revealed that a variation of Kshs.11,858,435 or approximately 38% of the contract sum was sought from the parent Ministry by the project manager. The Ministry declined the variation and thereafter the project manager scaled down the works to save an estimated amount of Kshs.11,422,025. As at April 2015, Kshs.25,542,506 had been paid to the contractor yet the building was done up to the first floor and thereafter stalled. No evidence of approval of variation of scope of works as required by Section 47 of the Public Procurement and Disposal Act, 2005 was availed for audit review. The variations also exceeded the 15% acceptable threshold as prescribed in the Act. Although the project was incomplete, the contractor had written demand notices of payment of the outstanding balance on certified amounts together with accrued interest. In the circumstances, the stakeholders did not obtain value for their resources.

209.6 Rwika Institute of Technology

209.6.1 Construction of the Multi-Complex Hall

As reported in 2014/2015, examination of available records indicate that on 22 September 2011, the Institute awarded a contract for construction of a multi complex hall to a contractor at a contract sum of Kshs.51,435,699 for a period of 52 weeks. However, examination of records held at the Ministry revealed that Kshs.53,000,000 had already been disbursed to the Institute towards completion of this development project out of which only Kshs.28,351,830 had been paid to the contractor as at 30 June 2015 leaving an unutilized balance of Kshs.24,648,170 which however has not been accounted for. Physical verification of the project/building revealed that the project stalled at the superstructure level and no valuation/progress report indicating percentage of completion was availed for audit review. It was also noted that the contractor vacated the site in 2013. It is not clear and management has not explained if and when the project will be completed so that the stakeholders may obtain value for their resources.

209.6.2 Sewerage and Drainage System

As previously reported, examination of records held at the Ministry and the Institute revealed that Kshs.19,842,175 was disbursed in the financial year 2014/2015 as a special grant from the Ministry towards completion of the sewerage project. The Institute awarded a contract for completion of the sewerage to a firm at a contract sum of Kshs.18,482,222. Examination of payment records indicated that Kshs.15,556,217 was

paid to the contractor leaving an unpaid balance of Kshs.2,926,006 to the contractor and Kshs.4,285,959 as unutilized funds which had not been accounted for as at the date of this report.

209.7 PC Kinyanjui Technical Training Institute

209.7.1 Construction of Resource Centre

As previously reported, the Institute awarded Phase II of the above works to a contractor at a contract sum of Kshs.20,225,192. Physical verification of the project in August 2015 revealed that the project was incomplete as finishes and metal fabrications had not been done. Thereafter, the contractor presented a claim for unpaid dues amounting to Kshs.11,944,946. Although the institute disputed the claim, the management had, at the time of the audit, not computed the actual amount due to the contractor.

Further, the contractor raised a parallel bill of quantities dated 7 April 2015 comparing the original bill of quantities and the re-measured works for the project indicating that the project costs were varied by Kshs.5,039,586 from Kshs.20,225,192 to Kshs.25,264,778 but supporting analysis was not availed for audit review. In the circumstances, the institute risks litigation from the contractor and may have contravened the Public Procurement and Disposal Act, 2005 and the related Procurement and Disposal Regulations of 2006.

209.8 Idle Equipment

As reported in 2014/2015, documentary evidence availed for audit review indicates that on 1 March 2011, the Government of Kenya through the Ministry of Higher Education entered into an agreement with the Republic of China represented by AVIC International Holding Corporation under the Kenya-China project on rehabilitation and upgrading of equipment in Universities and Technical Training Institutes. One (1) university and nine (9) technical training institutes were supplied with electrical/electronic engineering, mechanical engineering, rapid prototyping manufacturing laboratories and diesel generators at a cost of US $ 29,281,624 or approximately Kshs.2,490,159,083.

Physical verification of the equipment in all the ten institutes revealed that the equipment has not been utilized to full capacity and the generators had similarly not been put to use. Although the Ministry explained that the equipment required three (3) phase power supply to operate and that plans were underway to upgrade the power supply in order to operationalize the equipment, it was not clear when the equipment will be put in use. In the circumstances, the stakeholders may not obtain value for their resources from equipment worth Kshs.2,490,159,083 supplied to the ten (10) institutions of higher learning.

Other Matter

210. Budgetary Control and Performance

The State Department of Science and Technology had a total budget of Kshs.73,483,600,749 voted for the financial year 2015/2016 comprising of Kshs.13,106,559,192 for the development vote and Kshs.60,377,041,557 for the recurrent vote. The budget absorption rates in the state department were as follows:-

Vote	Budgeted Allocation 2015/2016	Actual Expenditure 2015/2016	Under Absorption	Absorption in %
	Kshs	Kshs	Kshs	
Development	13,106,559,192	10,487,898,283	(2,618,660,909)	80%
Recurrent	60,377,041,557	59,510,570,624	(866,470,933)	99%
TOTAL	**73,483,600,749**	**69,998,468,907**	**(3,485,131,842)**	

It has not been explained why the Ministry did not utilize the budget allocation in whole.

211. Recurrent Vote

The budget performance analysis for the recurrent budget totalling Kshs.60,377,041,557 is as detailed below:

Item	Budget 2015-2016 Kshs	Actuals 2015-2016 Kshs	Under expenditure Kshs	% absorption
Compensation of Employees	569,997,655	524,444,447	-45,553,208	92%
Use of goods and Services	1,321,371,296	760,233,349	-561,137,947	58%
Subsidies	56,000,000	56,000,000	0	100%
Transfers to Other Government Units	49,203,063,102	49,080,673,237	-122,389,865	100%
Other Grants and Transfers	262,000,000	211,725,890	-50,274,110	81%
Social Security Benefits	5,000,000	0	-5,000,000	0%
Acquisition of Assets	8,959,609,504	8,877,493,701	-82,115,803	99%
Grand Total	**60,377,041,557**	**59,510,570,624**	**-866,470,933**	**99%**

As the analysis shows, the Ministry underutilized the budget under use of goods and services and social security benefits by 42% and 100% respectively. This may imply

that the Ministry had over budgeted or did not offer the envisaged services during the year under review.

212. Development Vote

The budget performance analysis for Development vote budget totalling Kshs.3,106,559,192 was as detailed below:

Item	Budget 2015-2016 Kshs	Actuals 2015-2016 Kshs	Under expenditure Kshs	% absorption
Compensation of Employees	0	0	0	0%
Use of goods and Services	2,588,962,412	1,327,267,128	-1,261,695,284	51%
Transfers to Other Government Units	2,339,200,469	2,330,950,837	-8,249,632	99.6%
Other Grants and Transfers	9,320,230	909,400	-8,410,830	90%
Acquisition of Assets	8,169,076,081	6,828,770,919	-1,340,305,162	84%
Total	**13,106,559,192**	**10,487,898,283**	**-2,618,660,909**	**80%**

As the analysis shows, the Ministry underutilized the budget under use of goods and services by 49% which implies that the Ministry had over-budgeted or did not offer services envisaged for delivery to the citizens during the year under review.

However, overall, the Ministry's absorption rate for development expenditure was 80% which indicates a fairly good rate of use of allocated funds.

212.1 Land Ownership

Review of the Ministry's records relating to the new sixty (60) technical training institutes revealed that the Director, Technical Vocational Education Training (TVET) through a letter Ref. No.MST/DTE/6/5/VOL.V dated 12 November 2014 directed all the mentoring institutions for the new technical training institutes not to commence any construction works before title deeds for the sites are submitted by respective area Members of Parliament. The title deeds were among documents expected to be handed over to the appointed principals. It was however, established that twenty five(25) sampled institutes stand on land that did not have title deeds as proof of ownership contrary to the Ministry's directives. Consequently, ownership of the land acquired for construction of sixty (60) new TTIs could not be ascertained at the time of audit.

DONOR FUNDED PROJECTS

SUPPORT FOR TECHNICAL, INDUSTRIAL, VOCATIONAL AND ENTREPRENEURSHIP TRAINING PROJECT (ADF LOAN NO 2100150018493)

Basis for Qualified Opinion

213. Construction of Wajir Technical Training Institute

In March 2012, the Ministry undertook to construct eight (8) new Technical Training Institutes, and engaged various contractors at a total contract sum of Kshs.763,442,178.49. According to contracts signed between the Ministry and various contractors, the works were to commence immediately and be completed within fifty two (52) weeks in March 2013.

Examination of contract documents for the eight (8) new Institutes in October 2016 revealed that the works at Wajir Technical Institute were at 60% complete while the contractor had been paid Kshs.33,447,842 or 40% of the contract sum of Kshs.82,315,014.35 as at 30 June 2016. The contract period for construction of the Institute ended on 30 September 2016 and no evidence of extension of the contract period was presented for audit review. Therefore, completion of the project was way behind schedule.

Although the Ministry had attributed the delays in project completion to insecurity in the area, no evidence of requests for extension of contract period from the contractor or minutes confirming approval of contract extension period was presented for audit review. Therefore, the contractor remained on site without a valid contract, in violation of Section VII Clause 2.2 of the Contract Agreements that provides for renewal of contract period upon expiry.

214. Construction of Mechanical Engineering Workshop-Nyeri Technical Training Institute

As previously reported, the works at the Nyeri Technical Institute were awarded to a contractor on 19 October, 2011 at a revised contract sum of Kshs.89,535,031 for a duration of twelve (12) months. As at September 2016, the Ministry had paid a total of Kshs.83,019,909.17 out of which Kshs.30,334,426.80 was paid during the year under review and also included in the statement of receipts and payments under purchase of goods and services balance of Kshs.291,572,488.00. Further, no certificate of completion from the supervising consultants was presented for audit review. In addition, no satisfactory reasons were provided to explain the delay in completion of the project. In the circumstance, it has not been possible to confirm if and when the construction work will be completed or whether the taxpayers will get value for their resources spent on the engineering workshop.

SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION, SCIENCE AND TECHNOLOGY PROJECT (No.P-KE-IAD-001)

Basis for Qualified Opinion

215. Purchase of Goods and Services

The Ministry entered into supply contracts with various suppliers for supply of engineering equipment to selected public universities. According to the contracts, the suppliers were to be paid an advance payment of 20% upon signing of contracts and submission of a bank guarantee of an equivalent amount. A further 60% of the contract sum was payable upon shipment of the equipment and submission of shipping documents and a final payment of 20% was payable upon receipt and acceptance of the equipment. However, the following omissions were noted:

215.1 Equipment not Delivered

Audit verification revealed that equipment worth Kshs.1,243,842 was not delivered to three universities despite having been paid for as detailed below:

	University	Equipment	Quantity	Amount Kshs
1.	Technical University of Kenya	Electronic precision balance	1	446,414
2.	Technical University of Kenya	Small green house kit	1	594,312
3.	University of Nairobi	Universal power supply	1	203,116
	Total			**1,243,842**

215.2 Faulty/Obsolete Equipment

Equipment delivered to Technical University of Kenya valued at Kshs.73,147,827 was found to be obsolete and not usable upon assessment by the University. Some of the equipment lacked essential accessories while others were damaged during testing. Details on the equipment were as outlined below:

Equipment	Quantity	Cost (Kshs)	Remarks
Sheer testing machine	1	3,510,922	Faulty-broken during testing
Universal testing machine	1	8,477,381	Inferior specification (100Kns) The desired specification was (1000Kns)
Hydraulic bending machine	1	16,889,579	Lack basic accessories including threads

Automatic absorption spectrophometry	1	2,698,158	Testing failed to yield expected outcome
Spectroscopy experiment kit	1	60,470	Not working
Realtime PCR	1	602,659	Failed to meet specifications – not realtime
Digital analogue differential (Oscilloscopes)	10	5,270,284	Obsolete
Arbitrary waveform generator	20	26,222,452	Items obsolete
Test and measure(multimetres)	10	4,305,488	Items obsolete
Bench power supplies 32V	5	1,536,576	Malfunctioned and not usable
Digital storage Oscilloccupes	4	3,573,858	Items obsolete
Total Cost		**73,147,827**	

Management had not explained the circumstances under which obsolete equipment was supplied to the University as at the date of this report.

215.3 Equipment Installation

Further, equipment costing Kshs.50,773,356 supplied to Technical University of Mombasa on 6 June 2016, had not been installed as at 26 September 2016. Information obtained from the University management revealed that there was no insulated space/room where the equipment could be installed. Although the contracts were signed way back in 2013, no explanations were provided as to why the required space had not been identified and prepared for installation of the equipment. It was therefore not clear if and when the university will obtain value-for-money from the public resources used on purchase of the equipment.

FOOD ASSISTANCE TO PRIMARY AND PRE-PRIMARY SCHOOLS IN ARID AND SEMI ARID AREAS AND DISADVANTAGED URBAN CHILDREN (WFP) PROJECT NO. CP 200680

Basis for Adverse Opinion

216. Unsupported Receipts

The statement of receipts and payments for the year ended 30 June 2016 reflects proceeds from domestic and foreign grants figure of Kshs.1,144,003,038 and disclosed under note 8.3 as grants in kind relating to food and rations to the Ministry of Education. However, records at the parent Ministry reflect a figure of Kshs.445,000,000 resulting in a difference of Kshs.699,003,038 and which the management has not explained or reconciled. In the circumstance, it has not been possible to confirm the accuracy and validity of receipts of Kshs.1,144,003,038.

217. Unaccounted for District Expenditures

The statement of receipts and payments as at 30 June 2016 reflects an expenditure of Kshs.988,434,698 under purchase of goods and services. However, the amount of Kshs.988,434,698 includes AIEs totaling Kshs.108,386,807 issued during the year to District Education Officers in Arid and Semi – Arid areas for various activities but only expenditure returns totaling Kshs.107,995,126 were availed for audit review. The resultant variance in expenditure returns totalling Kshs.391,681 had not been accounted for.

218. Unreconciled Food Records and Expenditure

The statement of receipts and payments for the year ended 30 June 2016 reflects other grants and transfers and payments' figures of Kshs.1,144,003,038, whose breakdown is transfer of 12,620,667 metric tonnes of food commodities amounting to Kshs.885,928,652, cash to schools in Samburu, Nairobi and Tana River Counties totalling Kshs.195,753,170 and cash to support capacity building of Kshs.62,321,215. However, available records at the Ministry indicates that 4,461,711 metric tonnes of food commodities valued at Kshs.319,096,707 were distributed to various schools during the year under review. The resultant difference of 8,158.956 metric tonnes of food commodities valued at Kshs.566,831,946 has not been accounted for as at the time of this audit. In addition, documentary evidence in support of cash transfer of Kshs.195,753,170 to schools in Samburu, Nairobi and Tana River Counties and Kshs.62,321,215 in support of capacity building has not been availed for audit review. In the circumstances, the accuracy and completeness of food commodities estimated at Kshs.566,831,946 and an expenditure totalling Kshs.268,074,385 could not be ascertained.

KENYA ITALY DEBT FOR DEVELOPMENT PROGRAMME (KIDDP)

Basis for Disclaimer of Opinion

219. Unconfirmed Bank Balances

219.1 The statement of financial assets and liabilities as at 30 June, 2016 reflects cash and cash equivalents' balance of Kshs.148,549,574 whose accuracy could not be confirmed as the bank reconciliation statement was not presented for audit review.

219.2 The statement of cashflows for the year ended 30 June 2016 reflects a balance of Kshs.109,834,224 as cash and cash equivalents at the beginning of the year which differs with the cast and certified balance of Kshs.109,390,684. The resultant variance of Kshs.443,541 has not been reconciled.

In the circumstances, the accuracy and validity of the cash and cash equivalents' balance of Kshs.148,549,574 as at 30 June 2016 could not be ascertained.

220. Unresolved Prior Years' Matters

220.1 Failure to Prepare and Submit for Audit 2013/2014 Financial Statements

As previously reported, although the project management submitted 2014/2015 financial statements to the Auditor-General for audit, there was no evidence to show that the 2013/2014 financial statements were prepared and submitted for audit. This was contrary to Section 4(1) of the Public Audit Act, 2003 that required preparation of final accounts for every financial year. In the circumstance, the management breached the relevant provisions of the Public Audit Act, 2003.

220.2 Balance Brought Forward

As previously reported, the statement of receipts and payments for the year ended 30 June 2015 reflected a balance of Kshs.9,522,133 brought forward from previous years. However, it was not clear and the management has not explained the source and nature of the balance. Consequently, it has not been possible to establish the validity of the balance.

220.3 Variances in the Financial Statements

As reported in 2014/2015 the accuracy of the financial statements could not be confirmed due to the following anomalies:

220.3.1 The statement of comparative budget and actual amounts for the year ended 30 June 2015 reflected a final budget balance of Kshs.118,600,000 under proceeds from domestic and foreign loans. However, an approved budget supporting the balance was not availed for audit verification. Further, the statement reflected actual proceeds from domestic and foreign grants totalling Kshs.18,731,449 which differed with the balance reflected in the statement of receipts and payments of Kshs.118,600,000 by an unexplained variance of Kshs.99,868,551. In the circumstances, it has not been possible to confirm the accuracy and validity of proceeds from the domestic and foreign loans balance of Kshs.118,600,000 reflected in the financial statements.

220.3.2 The statement of cash flows for the year ended 30 June 2015 reflected cash and cash equivalents' opening balance of Kshs.9,522,133 which differed with the figure reflected under the statement of financial assets and liabilities of Kshs.5,394,425. The variance of Kshs.4,127,708 had not been reconciled. Consequently, the validity of the cash and cash equivalents balance as at 30 June 2015 could not be ascertained.

220.4 Cash and Bank Balances

220.4.1 The bank reconciliation statement as at 30 June 2015 reflected a balance of Kshs.244,744 as payments in bank statement not yet recorded in cash book. The balance included prior-year adjustment balance of Kshs.240,529 whose supporting analysis was not availed for audit review.

220.4.2 Additionally, the reconciliation statement reflects a balance of Kshs.4,330,000 as receipts in the cash book not yet recorded in bank statement that had been outstanding for over three years. No satisfactory explanation had been provided as to why these receipts had not been deposited in the bank for the last three years. The cash book balance as at 30 June 2015 was therefore overstated by Kshs.4,330,000.

In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of the cash and cash equivalents' balance of Kshs.109,390,684.

220.4.3 Unconfirmed/Excluded Expenditure

As reported in 2014/2015, examination of payment vouchers revealed that Kshs.59,724,550 and Kshs.24,050,355 in respect of purchase of workshop tools and construction of workshops respectively under Government counterpart funding were omitted from the financial statements. Further, Kshs.8,190,400 and Kshs.1,288,814 both amounting to Kshs.9,479,214 reflected in the financial statements were incurred on tools and construction of workshops respectively under the loan component. However, the project management did not avail the project status progress report for audit review. In the circumstances, it has not been possible to confirm the propriety of the expenditure of Kshs.9,479,214 on tools and construction of workshops.

GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME

Basis for Adverse Opinion

221. Presentation of the Financial Statements

The statement of comparative budget and actual amounts lacked explanations for the variances between the budgeted and actual balances. Further, the notes to the financial statements did not provide an analysis of the balances of receipts and payments, contrary to the requirements of International Public Sector Accounting Standards.

222. Unsupported Expenditure

As in the previous year, the statement of receipts and payments reflected direct payments by UNICEF totalling Kshs.85,617,005 representing 85% of the total expenditure. However, the aggregate balance was only supported by a breakdown of accounts as shown below.

Item	Unsupported Expenditure (Kshs)
Peace Education	42,077,005
Child Friendly Schools	22,500,000
Student Council	6,040,000
Nomadic Education	5,000,000

Nomadic Education Policy Implementation	5,000,000
Early Childhood Development	5,000,000
Total	**85,617,005**

In the absence of supporting documents and analyses, it has not been possible to confirm the propriety of the grants totalling Kshs.85,617,005.

Other Matter

223. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflected total budgeted expenditure of Kshs.377,500,000 against actual expenditure of Kshs.100,433,505 thus resulting an under expenditure of Kshs.277,066,495 or 73% of the total budget as shown below:

Category	Final Budget Kshs.	Actual Amount Kshs.	Variance Kshs	%
Early childhood development	17,500,000	19,816,500	(2,316,500)	13
Nomadic education	12,500,000	5,000,000	7,500,000	60
Nomadic education and policy implementation	10,000,000	5,000,000	5,000,000	50
Peace education	100,000,000	42,077,005	57,922,995	58
Child friendly schools	32,500,000	22,500,000	10,000,000	31
Students council	142,500,000	6,040,000	136,460,000	96
Gender and education	22,500,000	0	22,500,000	100
Education in emergencies	40,000,000	0	40,000,000	100
Total	**377,500,000**	**100,433,505**	**277,066,495**	**73**

The highly significant ratio of under expenditure was likely to have constrained on implementation of planned project activities.

224. Programme's Progress Reports

A review of the statement of receipts and payments indicated that a total of Kshs.1,139,839,901 had been expended to the project as at 30 June 2016. However, progress reports on the various expenditure components totalling Kshs.1,139,839,901 as at 30 June 2016 were not presented for audit review. In the circumstance, it has not been possible to verify the extent to which the programme achieved its objectives output targets for the year under review.

KENYA PRIMARY EDUCATION DEVELOPMENT (PRIEDE) PROJECT

Basis for Adverse Opinion

225. Unconfirmed Transfers

The statement of receipts and payments for the year ended 30 June 2016 reflected transfers from Government entities of Kshs.23,902,753 which was at variance with the supported disbursement to TSC and KNEC on the same item totalling Kshs.12,659,308. The resultant variance of Kshs.11,243,445 had not been explained or reconciled. In the circumstance, it had not been possible to confirm the accuracy and validity of the transfers from Government entities figure of Kshs.23,902,753.

226. Un-accounted for Expenditures

The statement of financial assets and liabilities as at 30 June 2016 reflect advances to counties and other entities balance of Kshs.392,515,316 and whose expenditure returns in support of its utilization were not availed for audit review. This was contrary to Section 71 of the Public Finance Management Act, 2012 which stated that a public officer whom such funds were advanced, should account for them. In the circumstances, the accuracy and completeness of the advances to counties and other entities balance of Kshs.392,515,316 could not be confirmed.

227. Unsupported Consultancy Contract

The statement of receipts and payments for the year ended 30 June 2016 reflect a figure of Kshs.86,334,948 under purchase of goods and services. Included in this figure is an expenditure of Kshs.1,309,552 on consultancy for technical services to the Cabinet Secretary at a contract sum of Kshs.7,857,309 through single sourcing. The process of procuring the consultant was contrary to the criteria set out by the World Bank under IBRD loans and IDA credits and grants of January 2011. The Project Management was, therefore, in breach of the loans and credit guidelines.

228. Unsupported Expenditure

As disclosed in note 8.5 to the financial statements, the purchase of goods and services figure of Kshs.86,334,948 includes an amount of Kshs.35,755,087 in respect of travel and other transport equipment whose supporting breakdown was not availed for audit review. Further, included in the figure of Kshs.86,334,948 is an amount of Kshs.185,185 in respect of air ticket to Kisumu and whose supporting documents were also not availed for audit review. In the circumstances, it has not been possible to confirm the propriety of expenditure totaling Kshs.35,940,272.

228.1 Purchase of Motor Vehicles

The statement of receipts and payments for the year ended 30 June 2016 reflects an amount of Kshs.26,599,112 under acquisition of non-financial assets. Included in the figure of Kshs.26,599,112 is a payment of Kshs.22,440,720 in respect of procurement

of an executive micro bus and 2 (two) Nissan Patrols whose procurement documents were not availed for audit review, contrary to Section 58 of the Public Procurement Act, 2015. In the circumstances, the propriety of the expenditure totalling Kshs.22,440,720 could not be confirmed.

229. Non-Disclosure of Loan in the Special Account Statement

The statement of receipts and payments for the year ended 30 June 2016 excludes a loan from development partners of USD 689,970 (Kshs.69,686,970) reflected in the Special Accounts Cr No. IDA 18863-TF-DA-B. No satisfactory explanation was provided for non-inclusion of the amount totalling Kshs.69,686,970 in the financial statements for the year ended 30 June 2016. In the circumstances, it has not been possible to confirm the accuracy and completeness of these financial statements.

Other Matter

230. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total budgeted expenditure of Kshs.3,435,000,000 against actual expenditure of Kshs.112,934,060 resulting in a net budget underutilization of Kshs.3,322,065,940 or 97% of the total budget as shown below.

Category	Final Budget	Actual Amount	Variance	
	Kshs	Kshs	Kshs	%
Purchase of goods and services	3,135,000,000	86,334,948	3,048,665,052	97%
Acquisition of non-financial assets	300,000,000	26,599,112	273,400,888	91%
Total	**3,435,000,000**	**112,934,060**	**3,322,065,940**	**97%**

Continued budget underutilization could have adverse effects on planned project activities.

MINISTRY OF HEALTH

FINANCIAL STATEMENTS FOR VOTE 1081

Basis for Qualified Opinion

231. Cash and Cash Equivalents

231.1 Un-surrendered Old Deposits Balances from Former Ministries

As previously reported, included in the statement of financial assets as at 30 June, 2016 is cash and cash equivalents amount of Kshs.80,017,247 out of which a deposit amount of Kshs.7,701,815 had no supportive documentary evidence. Further, information revealed that deposits totalling Kshs.10,956,114,687 that were held in former Ministries of Medical Services and Ministry of Public Health and Sanitation which merged to form Ministry of Health were never transferred to the new deposit account, contrary to Treasury Circular No.AG/CONF.17/01/65 dated September, 2013 which required deposits in former Ministries to be analyzed and transferred to a new account.

Consequently, the accuracy and validity of the cash and cash equivalent balance of Kshs.80,017,247 included in the statement of financial assets could not be confirmed.

231.2 Un-Reconciled Balances Between Manual and IFMS Cash Books

Review of the Ministry's cash book records versus IFMIS records reflects a net total variance of Kshs.21,743,531,612 between the two set of records as detailed below:

	Manual Records	IFMS Records	Difference
Development	**Kshs**	**Kshs**	**Kshs**
Bank	35,259,061.83	(7,607,743,290.20)	7,643,002,352.03
Cash	-	17,193,983,524.55	(17,193,983,524.55)
Recurrent			
Bank	57,482,519.00	(14,182,676,124.40)	14,240,158,643.40
Cash	-	26,125,536,297.05	(26,125,536,297.05)
Deposit			
Bank	7,701,814.70	299,455,252.35	(291,753,437.65)
Cash	-	15,419,348.55	(15,419,348.55)
Total	**100,443,395.53**	**21,843,975,007.90**	**(21,743,531,612.37)**

In the circumstances, it has not been possible to confirm the accuracy and validity of cash and cash equivalents' balance of Kshs.80,017,247 included in the statement of financial assets.

232. Outstanding Imprest and Advances

The statement of financial assets as at 30 June 2016 reflects outstanding imprests and advances totaling Kshs.7,649,699. Included in this is imprest of Kshs.7,291,080 which ought to have been accounted for on or before 30 June, 2016 but was still outstanding as at the time of audit in February, 2017. It was also observed that various officers were issued with multiple imprests before accounting for the previous ones contrary to Government Financial Regulations and Procedures governing the issue of imprest. No reason has been given for this irregularity. In the circumstance, it has not been possible to confirm the validity and accuracy of the accounts receivable, outstanding imprests and advances balance of Kshs.7,649,699.

233. Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2016 reflects compensation of employees' figure of Kshs.5,774,486,223 which, when compared against the Integrated Personal Payroll Data (IPPD) report on the same of Kshs.5,095,249,117 results in unsupported expenditure of Kshs.679,237,106. Further, included in personnel cost of Kshs.5,774,486,223 is expenditure of Kshs.249,972,515 in respect of payments to Ministry's contribution to Insurance Scheme which has not been supported.

In the circumstance, it has not been possible to confirm the expenditure on compensation of employees of Kshs.5,774,486,223 included in the statement of receipts and payments.

234. Expenditure

234.1 Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June, 2016 reflects total expenditure figure of Kshs.42,582,776,899. Included in this figure is expenditure amounting Kshs.1,010,739,793 whose payment vouchers and other related supporting records were not availed for audit review as detailed below:

Component in F/S	Sub Component	Nature	Sub Component Amount	Supported	Unsupported	% Done
			Kshs	Kshs	Kshs	
Receipts	proceeds from sale of assets	Sale of assets	14,068,266	12,728,816	1,339,450	90%

Acquisition of assets	Construction of building	Upgrading of Bungoma county referral hospital	100,000,000		100,000,000	0%
Acquisition of assets	Construction of building	Upgrading of Lamu county referral hospital	100,000,000		100,000,000	0%
Acquisition of assets	Construction of building	Kapenguria hospital (debt swap)	20,000,000		20,000,000	0%
Acquisition of assets	Construction of building	Usenge dispensary	30,000,000		30,000,000	0%
Acquisition of assets	Construction of building	Kigumu hospital (debt swap)	20,000,000		20,000,000	0%
Acquisition of assets	Construction of building	Proposed upgrading of Nanyuki District Hospital	223,622,147		223,622,147	
Use of goods	Special materials	Letter of credit coop bank	265,781,500		265,781,500	0%
		Food rations	249,996,696		249,996,696	0%
Total			**1,087,050,659**	**12,728,816**	**1,010,739,793**	

234.2 Misapplication of Funds

The statement of receipts and payments for the year ended 30 June 2016 reflects total expenditure figure of Kshs.42,582,776,899. Included in this figure is expenditure amounting to Kshs.1,324,962,316 whose expenditure was misapplied and thus contravened the Public Finance Management Act, 2012 as follows:

Item	Component charged	Correct component	Amount
			Kshs
Portable clinics	Use of goods	None current assets	600,000,000
Portable clinics	Transfer to other government unit-free maternity	None current assets	200,000,000
Conditional grant for upgrading Bungoma County Referral Hospital	Non-current assets-construction of building	Transfer to other government unit	100,000,000
Conditional grant for upgrading Lamu County Referral Hospital	Non-current assets-construction of building	Transfer to other government unit	100,000,000

Payments for managed equipment services-lot 2	Non-current assets-construction of building	Use of goods-rental assets	167,868,712
Proposed extensions in block a for government chemist department, ministry of health	Use of goods-specialised materials	Non-current assets-construction of building	3,350,857
Purchase of stationery	Non-current assets-construction of building	Use of goods-stationery	1,100,000
Proposed upgrading of Nanyuki district hospital	Transfer to other government unit-free maternity	Non-current assets-construction of building	16,792,222
Managed equipment project under lot 5-early works	Non-current assets-construction of building	Use of goods-rental assets	19,199,408
Rehabilitation of Embu Provincial General Hospital	Transfer to other government unit-free maternity	Non-current assets-construction of building	27,891,647
Proposed completion works to Othaya Sub-District Hospital	Transfer to other government unit-free maternity	Non-current assets-construction of building	12,587,450
Supply of Ebora POE	Transfer to other government unit-free maternity	Other grants and transfers-emergency	19,800,000
Medical supplies	Transfer to other government unit-free maternity	Use of goods-specialised materials	5,371,000
Medical supplies	Transfer to other government unit-free maternity	Use of goods-specialised materials	5,532,300
Ebora transmission posters	Transfer to other government unit-free maternity	Other grants and transfers-emergency	21,090,000
Newspapers	Transfer to other government unit-free maternity	Use of goods-advert	2,678,720
Fuel	Transfer to other government unit-free maternity	Use of goods-fuel	2,000,000
Supply of Ebora POE	Transfer to other government unit-free maternity	Other grants and transfers-emergency	13,900,000
Equipment	Transfer to other government unit-free maternity	Acquisition of assets	25,600,000
Total			**1,324,962,316**

In the circumstance, it has not been possible to determine the accuracy and validity of the expenditure of Kshs.1,324,962,316 included in the total expenditure of Kshs.42,582,776,899 in the statement of receipts and payments.

235. Irregular Payment on Portable Clinics

The Ministerial Tender Committee awarded a contract for supply of portable medical clinics to an investments company vide Ministerial Tender Committee minutes No. MOH/MTC/.37/2014-2015 held on 29 June, 2015 to supply one hundred (100) portable medical clinics at Kshs.10,000,000 each, the total cost being Kshs.1 billion. On 17 July 2015, the contract to supply, install, commission and hand over was signed between the Investment company and the Ministry. The contract period was to be from the date of signing of the contract to the end of financial year 2015-2016. This contract has since elapsed despite the fact that the contract has not been executed. During the 2015-2016 financial year, the Ministry paid Kshs.800,000,000 for the portable clinics but before they were installed, commissioned and handed over, thus contravening the contractual agreement. Further, information available indicates that the containers were stored in government premises in Mombasa despite the fact that ownership has not passed to the Government.

Consequently, it has not been possible to determine whether the Government obtained value for money for the expenditure of Kshs.800,000,000.

236. Stalled Projects - Proposed Upgrading of Othaya District Hospital Phase I

As previously reported, the Ministry awarded a contract for the upgrading of facilities at Othaya Sub-District Hospital to a local construction firm at a price of Kshs.436,300,799 which was later revised to Kshs.501,745,919. The initial completion period was 85 weeks but was extended to 123 weeks with new completion date being 25 October, 2012. A status report dated 21 February, 2014 indicates cumulative payments of Kshs.501,745,918 representing 99.9% of the revised contract sum of Kshs.501,574,918. At this time 192 weeks had elapsed out of contract period of 123 weeks.

The ministry reported an expenditure of Kshs.3,911,981 for construction of Othaya sub-district hospital which accumulated to Kshs.578,542,747 as at 30 June 2016 which when compared against the initial contract value of Kshs.436,300,798 gives rise to a variation of Kshs.142,241,948 which is about 33% that has not been supported. It was further noted that the above variation excludes a 10% reduction in scope of work which if considered will give variation of up to 43% at the close of the financial year. No project progress reports have been availed for audit review.

Despite this overpayment, the following works were outstanding:

(a) Floor tilling and grouting
(b) Wall tilling

(c) Window glazing
(d) Window stays and fasteners
(e) Ceiling
(f) Fixing of door leaves, locks, and glazing
(g) Internal and external painting
(h) Ramp and staircase finishes
(i) Worktop and counter finishes
(j) Road drainage
(k) Medical gas installation

An inspection of the project on November 2015 revealed that the contractor and subcontractors were not on site. Although it is indicated that the project had been terminated on a mutual agreement, no documentary evidence was made available for audit verification. Further, no evidence has been provided that the performance guarantee had been recalled and discharged against uncompleted works.

Further, information shows that the directorate gave an estimate for completion of outstanding works as Kshs.272,500,000. Though the Ministry put a request to National Treasury for funding, Treasury responded by advising that health was a devolved function and therefore Nyeri County should take over. Further information also revealed that another company was given a new contract to complete the remaining works at a contract sum of Kshs.141,959,487. This has raised the project cost to Kshs.720,331,230 (65% variation).The procurement, contract and progress reports have not been availed for audit review.

Consequently, it could not be ascertained whether the Government obtained value for money for the expenditure of Kshs.578,542,747.

237. Long Outstanding County Debts

As previously reported, during 2013-2014 financial year, the Ministry paid, on behalf of county government, salaries totalling Kshs.19,208,279,767 which were to be recovered in the same financial year. Documents and information available indicate that the ministry only recovered Kshs.14,837,973,349 during 2013-2014 financial year leaving a balance of Kshs.4,370,306,417 which has remained outstanding to date. The Ministry has not explained why the amount has remained outstanding.

238. Un Reconciled Disbursements

A review of ministerial disbursements included under current and capital transfers to National Government entities totalling Kshs.22,709,190,053 in note 7 to the financial statements and actual receipts at the parastatals reflect a net variance of Kshs.70,389,582 between the two sets of records that has not been supported/reconciled as detailed below:

Institution	Account	Corporation Kshs	Ministry Kshs	Variance Kshs
Kenya Medical Training College	Combined	2,841,947,220	2,556,903,793	285,043,427
Moi Teaching & Referral Hospital	Recurrent	4,120,544,918	4,368,676,767	(248,131,849)
Kenya Medical & Supply Agency	Recurrent	363,729,432	334,530,592	29,198,840
National Aids Control Council	Recurrent	409,500,000	546,000,000	(136,500,000)
Total		**7,735,721,570**	**7,806,111,152**	**(70,389,582)**

Consequently, it has not been possible to confirm the accuracy of the current and capital disbursements to the above stated Government agencies included in note 7 to the financial statements.

239. Rental of Produced Assets – Medical Equipment Services

The statement of receipts and payments for the year ended 30 June, 2016 reflects use of goods and services figure of Kshs.9,446,922,471. Included in this balance is expenditure amounting to Kshs.4,568,544,208 on medical equipment whose procurement, contract, progress report documents and the Attorney-General legal opinion on the contracts were not availed for audit review.

Consequently, the propriety of the expenditure of Kshs.4,568,544,208 on medical equipment included in note 6 to the financial statements could not be confirmed.

240. Failure to Submit Fund Accounts

The financial statements in respect of Health Services Fund and Medical Services Fund have not been submitted for annual audit contrary to the requirements of the Public Audit Act, 2015. No reason has been provided for failure to comply with this requirement.

241. Pending Bills

Records maintained by the Ministry of Health indicate that bills totalling Kshs.2,478,438,287 were not settled during the year 2015/2016 but were instead carried forward to 2016/2017. Had the bills been paid and the expenditure charged to the account for 2015/2016, the statement of receipts and payments for the year would have reflected an increased deficit of Kshs.2,508,798,590 instead of Kshs.30,360,303 in the statement of receipts and payments.

Other Matter

242. Budgetary Control and Performance

242.1 Budget Absorption

The Ministry of Health had an approved total budget of Kshs.60,673,967,024 voted for the financial year 2015/2016 comprising of Kshs.29,194,512,227 for recurrent vote and Kshs.31,479,454,797 for development vote with an overall budget absorption of 69% as summarized below:

Item	Budgeted Allocation 2015/2016 (Kshs)	Actual 2015/2016 (Kshs)	Under Absorption (Kshs)	Absorption rate in %
Recurrent	29,194,512,227	25,139,555,873	4,054,956,354	86
Development	31,479,454,797	16,604,308,161	14,875,146,636	53
Total	60,673,967,024	41,743,864,034	18,930,102,990	69

Although the recurrent budget absorption and utilization rate was above three quarters i.e. 86%, the budget utilization rate for the Development budget was just about half i.e. 53%. The implication of this is that almost half of the budgeted development programmes may not have been implemented. In this regard, there is need for the Accounting Officer to re-focus the budgetary process with a view to focusing on priority areas in health infrastructure to boost the health services for the citizens of Kenya.

242.2 Recurrent Vote

Out of the recurrent budget of Kshs.29,194,512,227, below is the budget performance analysis:

Item	Budget (Kshs)	Actual (Kshs)	Under Absorption (Kshs)	% Under Expenditure
Compensation of Employees	5,831,881,546	5,598,537,767	233,343,779	4
Use of goods and services	1,771,928,044	1,694,167,589	77,760,455	4
Transfers to Other Government Units	20,560,417,717	16,850,465,375	3,709,952,342	18
Other grants and transfers	617,882,366	600,488,391	17,393,975	3
Social Security Benefits	100,000,000	100,000,000	-	0

Acquisition of Assets	312,402,554	295,896,752	16,505,802	5
Total	**29,194,512,227**	**25,139,555,874**	**4,054,956,353**	**14**

From the above analysis, it is evident that the Ministry under-spent on some budget lines with transfer to other government units leading with the highest amount of unutilized allocation of Kshs.3,709,952,342. This is an indication of idle funds not put to proper use for service delivery. The management may have over budgeted on recurrent expenditure and therefore needs more realistic budget in future.

242.3 Development Vote

Out of the development budget of Kshs.31,479,454,797 below is the budget performance analysis:

Item	Budget (Kshs)	Actual (Kshs)	Under/(Over) Absorption (Kshs)	% Under Expenditure
Compensation of Employees	405,014,207	175,948,456	229,065,751	57
Use of goods and services	17,644,378,981	7,752,754,882	9,891,624,099	56
Transfers to Other Government Units	11,624,590,141	7,382,909,446	4,241,680,695	36
Other grants and transfers	-	838,300,000	(838,300,000)	0
Acquisition of Assets	1,805,471,468	1,293,308,242	509,163,226	28
Total	**31,479,454,797**	**17,443,221,026**	**14,036,233,771**	**45**

From the above analysis, it is evident that the Ministry under-spent on most budget lines except other grants and transfers with compensation of employees leading with the highest amount of unutilized allocation of Kshs.9,891,624,099. The implication of this is that almost half of the budgeted development programmes may not have been implemented. The management may have also over budgeted on development programmes and therefore need more realistic budget in future.

243. Ethnicity Composition of Staff

The Ministry did not provide the summary of ethnic composition of its staff. It was therefore not possible to confirm whether the Ministry had complied with Section 7 (1) and (2) of the National Cohesion and Integration Act, 2008 which requires all public establishments to seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community.

244. Special Audit

The Public Accounts Committee vide letter of ref: NA/DCS/PAC/2016/261 dated 22 November, 2016 requested the Auditor-General to submit a special audit report on the accounts of the Ministry of Health for the financial year 2015/2016 following reports of alleged financial impropriety affecting various programs at the Ministry. As at the time of this report, the special audit was in progress and the report had not been finalized. Consequently and until the special audit report is issued, it has not been possible to comment on the propriety of expenditure totaling Kshs.42,582,776,899 in these financial statements.

DONOR FUNDED PROJECTS

GLOBAL FUND - EXPANDING HIV PREVENTION, CARE AND TREATMENT SERVICES TO REACH UNIVERSAL ACCESS (80% COVERAGE) PROGRAM GRANT NO.KEN-H-MOF/KEN-H-TNT NO. 853

Basis for Qualified Opinion

245. Non Compliance with Imprest Regulations

The statement of assets and liabilities as at 30 June 2016 reflects outstanding imprests and advances totaling Kshs.20,686,660 and which ought to have been accounted for on or before 30 June 2016. The imprest register in respect of these balances was not availed for audit review. In addition, it was observed that various officers were issued with new imprests before accounting for the previous ones contrary to Government Financial Regulations and Procedures governing the issue of imprest. In the circumstances, it has not been possible to confirm the validity and propriety of the imprest and advances balance of Kshs.20,686,660 included in the statement of financial assets and liabilities.

EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING PROJECT CREDIT NO. 4732

Basis for Qualified Opinion

Included in the statement of financial assets and liabilities is a bank balance amounting to Kshs.211,927,846. The bank reconciliation statement in respect of this balance includes an amount of Kshs.80,923,440 which was fraudulently transferred by the NIC Bank vide cheque no.1102 dated 25 April 2013. The matter has been under investigation since the year 2013 and no information on the progress report has been availed for audit review.

KENYA HEALTH SECTOR SUPPORT PROGRAM DANIDA NON-POOL NO.104.KENYA.810.300 (GRANT)

Basis for Qualified Opinion

246. Cash Book and Bank Balances

Included in the statement of financial assets and liabilities as at 30 June, 2016 is cash and bank balance amounting to Kshs.118,844,886. This balance excludes payment in cash book and not in the bank statement of Kshs.155,327. Further, the cash and bank balance reflects Kshs.118,844,886 while the cash book balance is Kshs.118,892,286 resulting in unexplained variance of Kshs.47,430. No explanation has been provided for the variation in the two figures. Consequently, the validity and accuracy of the cash and bank balance of Kshs.118,844,886 as at 30 June 2016 could not be confirmed.

247. Imprests and Advances

The statement of financial assets and liabilities as at 30 June, 2016 reflects imprest and advances balance of Kshs.4,282,100 while the supporting schedule availed for audit review reflects Kshs.5,206,400 resulting in unexplained variance of Kshs.924,300. Further, the imprests and advances balance of Kshs.4,282,100 includes long outstanding imprests of Kshs.2,893,000. No explanation has been provided for failure to recover the long outstanding imprest of Kshs.2,893,000. Consequently, the validity and accuracy of the imprest and advances balance of Kshs.4,282,100 could not be confirmed.

248. Purchase of Goods and Services

Included under the purchase of goods and services expense of Kshs.61,062,083 in the statement of receipts and payments for the year ended 30 June, 2016 is Kshs.10,061,596 paid to various suppliers while information available reflects invoiced amount as Kshs.9,450,600 resulting in an overpayment of Kshs.610,996. The excess payment has not been explained or reconciled. In addition, the purchase of goods and services balance of Kshs.61,062,084 includes ineligible expenditure of Kshs.2,961,600 incurred on an unapproved work plan and budget. Consequently, the propriety of Kshs.3,572,596 incurred on the purchase of goods and services could not be confirmed.

KENYA HEALTH SECTOR SUPPORT (EMMS COMPONENT 2) PROJECT (IDA NO. 4771-KE AND 5034-KE)

Basis for Qualified Opinion

249. Diversion of Funds

Included in the total payments figure of Kshs.1,504,030,691 in the statement of receipts and payments for the year ended 30 June, 2016 is transfers to other government

entities amounting to Kshs.508,245,204. This relates to funds that the project transferred to the Ministry of Health – HSSF Project during the year and which were not provided for under the Project's activities. No justification was availed for the diversion of funds and yet the Project had pending obligations.

250. Unsupported Expenditure

During the year under review, an expenditure of Kshs.1,363,425 was incurred in the settlement of medical bills that has not been explained or supported. In the circumstances, the propriety of the expenditure totalling Kshs.1,363,425 could not be ascertained.

251. Pending Bills

Records availed for audit review indicate that as at the end of the year under review, the Project had pending bills amounting to Kshs.657,600,190 due to suppliers and which had not been settled. Had the pending bills been settled, the Project would have incurred a deficit of Kshs.1,301,877,084 thus resulting in an overdrawn cash balance to the tune of Kshs.1,260,320,335.

HEALTH SECTOR SUPPORT PROJECT –SWAP SECRETARIAT (IDA CR.NO.4771-KE)

Basis for Qualified Opinion

252. Imprests and Advances

The cash and cash equivalents' balance of Kshs.128,874,522 as at 30 June 2016 includes outstanding imprests and advances of Kshs.6,496,278 out of which advances of Kshs.1,745,380 have been outstanding for a long period of time and which management has been unable to recover to date. This is contrary to the Government Financial Regulations and Procedures. Consequently, the validity and recoverability of the imprest and advances balance of Kshs.6,496,278 could not be confirmed.

REPRODUCTIVE HEALTH FOR THE ENTIRE COUNTRY (UNFPA KEN 7R 11G)

Basis for Disclaimer of Opinion

253. Cash and Cash Equivalents

Included in the statement of financial assets and liabilities as at 30 June, 2016 is cash and cash equivalents' balance amounting to Kshs.177,287. This balance excludes payment in cashbook not in bank statement of Kshs.101,500. Further, the cash and cash equivalents' balance of Kshs.177,287 includes payments in the bank statement

not in cashbook of Kshs.26,231 and whose supporting schedules were not availed for audit verification. In addition, the bank reconciliation statement also reflects cashbook balance of Kshs.102,018 while the cashbook reflects a balance of Kshs.177,287 resulting in unexplained and unreconciled variance of Kshs.75,269. Consequently, the accuracy of cash and cash equivalents' balance of Kshs.177,287 could not be confirmed.

254. Unsupported Expenditure- Purchase of Goods and Services

Included in the statement of receipts and payments for the year ended 30 June, 2016 in respect of purchase of goods and services is an amount of Kshs.9,823,116. This figure includes an expenditure of Kshs.5,837,080 whose supporting payment vouchers, work tickets, work plans, approvals, circulars and regulations used were not availed for audit verification. Consequently, the propriety of Kshs.5,837,080 incurred on goods and services could not be confirmed.

255. Unsupported Income

The statement of receipts and payments for the year ended 30 June 2016 reflects total receipts figure of Kshs.10,000,403. Supporting schedules / documents for these receipts were not availed for audit verification. Consequently, the accuracy of receipts figure of Kshs.10,000,403 could not be confirmed.

256. Inaccuracies in the Financial Statements

The statement of financial assets and liabilities as at 30 June, 2016 reflects total financial assets of Kshs.177,287.40 while the net financial position indicates Kshs.6,135,105 resulting in an unreconciled difference of Kshs.5,957,818. No explanation has been provided for failing to reconcile the two figures. Further, the statement of cash flows reflects miscellaneous receipts of Kshs.4,042,586 while the receipts for operating income show Kshs.10,000,403 leading to an unexplained variance of Kshs.5,957,817.

In addition, the statement of comparative budget and actual amounts reflects final budget total payments balance of Kshs.9,823,116 while the actual on comparable basis, variance and percentage of variance reflects nil balances. However the actual payments amounted to Ksh.9,823,116 as per the statement of receipts and payments. Consequently, the accuracy, validity and completeness of these Project financial statements could not be determined.

EAST AFRICA'S CENTRES OF EXCELLENCE FOR SKILLS AND TERTIARY EDUCATION IN BIOMEDICAL SCIENCES-PHASE 1 (CR. NO. 2100150031997)

Basis for Disclaimer of Opinion

257. Unsupported Cash and Cash Equivalents' Balance

Included in the statement of financial assets and liabilities as at 30 June 2016 is a bank balance of Kshs.6,236,169 which comprises of cash at hand. However, the project management did not provide cash books, bank reconciliations statements, certificates of end year bank balances and cash survey report for audit verification. Consequently, the validity and accuracy of the bank balance of Kshs.6,236,169 could not be determined.

258. Unsupported Expenditure

Included in the statement of receipts and payments for the year ended 30 June 2016 is payments for purchase of goods and services amounting to Kshs.16,225,731. This figure includes an amount of Kshs.515,200 whose supporting documents were not availed for audit review. In the circumstances, it has not been possible to confirm the propriety of the expenditure of Kshs.515,200 incurred on purchases of goods and services.

GAVI HEALTH SYSTEMS STRENGTHENING PROJECT

Basis for Disclaimer of Opinion

259. Deficit Brought Forward

As reported in 2013/2014 and 2014/2015 audit reports, the statement of receipts and payments for the year ended reflected a deficit of Kshs.2,604,446 while the cash book balance carried forward at the same time reflected cash at bank balance of Kshs.544,411. A review of the position in the financial years 2013/2014 showed that the deficit was cleared during that year. However, no documentary evidence has been availed to date to explain how the deficit of Kshs.2,604,446 was cleared. It was, therefore, not possible to confirm the validity of these balances in the financial statements for the year ended 30 June 2016.

260. Bank Balances

As previously reported, the statement of assets and liabilities as at 30 June, 2016 reflects a bank balance of Kshs.644,993 which has remained constant since June 2014. However, bank confirmation certificate and bank reconciliation statement in support of the balance of Kshs.644,993 were not availed for audit review. Consequently, the validity and accuracy of the bank balance of Kshs.644,993 could not be ascertained.

261. Dormant Project

This project has been dormant since the year 2013. It is not clear why the project management has left the project open rather than close it. Further, the financing agreement for this project has not been availed for audit review thus making it difficult to determine whether the project could have come to an end.

GLOBAL FUND TUBERCULOSIS GRANT PROGRAMME (GRANT NO. KEN-S11-G12-T AND KEN-T-TNT-854)

Basis for Qualified Opinion

262. Outstanding Imprest Balance

The statement of financial assets and liabilities as at 30 June 2016 reflects outstanding imprests and advances totaling Kshs.54,142,900 which ought to have been accounted for on or before 30 June 2016. Out of Kshs.54,142,900, Kshs.11,733,434 had not been accounted for as at the time of the audit. Further, included in the unaccounted for, balance of Kshs.11,733,434, is an amount of Kshs.717,974 which was advanced to provinces dating back from the year 2011 but has not been recovered to date. Consequently, it has not been possible to confirm the validity and recoverability as well as the propriety of the imprest and advances balance of Kshs.54,142,900 included in the statement of financial assets and liabilities.

263. Unsupported Expenditure

Included in the purchase of goods and services figure of Kshs.422,449,090 is expenditure amount totaling Kshs.11,527,100 which had no supporting documentation. Consequently, it was not possible to confirm the propriety for the expenditure of Kshs.11,527,100 included in the statement of receipts and payments under purchase of goods and services.

264. Exchequer Releases

During the year under review, the Exchequer issued notifications to the project amounting to Kshs.393,081,164 while the actual amount received by the project during the financial year and recorded in the statement of receipts and payments was Kshs.392,731,215 resulting in a difference of Kshs.349,949. No explanation or reconciliation has been provided on the difference of Kshs.349,949.

GLOBAL FUND MALARIA ROUND 10 GRANT NO. (KEN-011-G13-M)

Basis for Qualified Opinion

265. Unremitted Statutory Deductions (PAYE)

Included in statement of receipts and payments for the year ended 30 June, 2016 is compensation of employees figure of Kshs.12,660,275 out of which Kshs.3,408,264 in relation to Pay As You Earn (PAYE) was deducted from the payroll during the year under review. However, as at the time of this audit, there was no evidence that the same had been remitted to Kenya Revenue Authority. Failure to remit the deductions to Kenya Revenue Authority is a breach of the law, and can attract penalities and interests.

266. Long Outstanding Imprest

Included in the statement of financial assets and liabilities as at 30 June, 2016 is outstanding imprests and advances amounting to Kshs.1,336,336 advanced to one officer on 3 April 2014 for support supervision of monitoring and evaluation. There was no evidence that the imprest was surrendered and the same has not been recovered from the officer despite various correspondences with the Ministry of Health on the same. In the circumstances, the validity and recoverability of the imprest balance of Kshs.1,336,336 is doubtful.

HEALTH SECTOR SUPPORT PROJECT HEALTH SECTOR SERVICES FUND (HSSF) COMPONENT 1 IDA CREDIT NO. 4771-KE

Basis for Disclaimer of Opinion

267. Unsupported Cash Balances

The statement of financial assets and liabilities as at 30 June 2016 reflects a bank balance of Kshs.1,245,959,348. Included in this balance is Kshs.1,166,120,469 in respect of bank balances from the 47 counties that were not supported with bank confirmation certificates, bank reconciliation statements and cash books. Consequently, the validity and accuracy of the cash and cash equivalents balance of Kshs.1,245,959,348 could not be ascertained.

268. Irregular Payments

The bank reconciliation statement for Fund Account No:1000187137 revealed a payment in bank statement not in the cashbook of Kshs.382,797,148. The payment voucher availed in support of the same reflects an amount of Kshs.381,301,398

resulting in a difference of Kshs.1,495,750 and which was explained as exchange difference but was not captured in the financial statements.

Further, the amount of Kshs.382,797,148, was a payment made to UNICEF HQS for co-financing to the Global Vaccines Alliance which is not part of the Project's mandate. The approval documents attached indicate that the funds were to be sourced from Universal Health Coverage Support – JICA. Consequently, the payment to UNICEF made from the Project's funds was irregular.

OUTPUT BASED APPROACH (OBA) PROJECT CREDIT NO. 201065853

Basis for Qualified Opinion

269. Incomplete Research Publication

Included in the financial statements under note 8.5 is Kshs.6,310,000 being expenditure incurred on research for evaluating the impact of Output Based Approach(OBA) on health system strengthening. A publication of this research, in line with a memo dated 8 November 2015, was expected by January 2016. However, no publication or journals had been presented or availed for audit review by the time of this audit. It was therefore, not possible to ascertain whether there was value for money from the expenditure of Kshs.6,310,000 on research.

REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH (RH - OBA) - PROJECT CREDIT BMZ - NO. KENYA 201065853

Unqualified Opinion

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

MINISTRY OF TRANSPORT AND INFRASTRUCTURE

STATE DEPARTMENT OF INFRASTRUCTURE

FINANCIAL STATEMENTS FOR VOTE 1091

Basis for Adverse Opinion

270. Inaccuracies in the Financial Statements Balances

Examination of the financial statements presented for audit revealed inaccuracies as outlined below:

270.1 Statement of Assets

270.1.1 Cash and Cash Equivalents' Balance Discrepancies

The statement of assets reflects a bank balance of Kshs.327,071,125 as at 30 June 2016. However, the supporting cashbooks for this balance reflect a balance of Kshs.300,800,231 resulting in an unexplained net difference of Kshs.26,270,894 as summarized below:

Account No.	Account Name	Statements of Assets Kshs.	Cash Book Kshs.	Difference Kshs.
1000209925	Recurrent	519,666	27,650,575	-27,130,909
1000209844	Development	72,925,351	301	72,925,050
1000212535	Deposits	250,713,023	240,597,922	10,115,101
1000231157	KTSSP Project	2,213,085	3,296,956	-1,083,871
1138520586	NUTRIP project	0	28,554,477	-28,554,477
	CBK-165	700,000	700,000	0
TOTAL		**327,071,125**	**300,800,231**	**26,270,894**

270.2 Accounts Payables - Deposits and Retentions

The statement of assets reflects an accounts payable balance of Kshs.250,713,023 which is disclosed under Note 13 to the financial statements as Deposits. Review of the balance and the related records revealed the following anomalies:

a) Lack of Supporting Documents

Details on the composition of Kshs.250,713,023 reflected as payables were not availed for audit verification. Further, audit examination of the Deposit cash book showed that it had a balance of Kshs.240,597,922 as opposed to the reported balance of Kshs.250,713,023 resulting in a variance of Kshs.10,115,101.

b) Un-explained Reduction of Payables

Comparison of the payables balance for the year under review and that of the previous year showed that the payable balance reduced from Kshs.33,212,868,865 in 2014/15 to Kshs.250,713,023 in 2015/16 financial year representing a reduction by Kshs.32,962,155,842. However, the change in the balance was not explained.

270.3 Account Receivables

A review of supporting documents and schedules on the balance of Kshs.1,180,648,413 reflected as receivables in the statement of assets revealed the following matters:

i. Clearance Accounts

Included in the balance of Kshs.1,180,648,413 is an amount of Kshs.1,104,260,165 described as Clearance Accounts. The management did not provide documents to support the total balance of Kshs.1,104,260,165.

ii. Government Imprest

The financial statements show a figure of Kshs.506,139 on Government imprests. However, examination of the imprests register and schedules presented in support of the financial statements, revealed that the total amount of imprests outstanding at the close of the year was Kshs.972,569. The outstanding imprests balance is therefore understated by Kshs.466,430

271. Bank Reconciliation Statements

Examination of the Bank reconciliation statements presented in support of the bank balance of Kshs.327,071,125 as at 30 June 2016, revealed the following unsatisfactory matters:

(a) Recurrent Bank Account

i. Stale Cheques

The bank reconciliation statement for recurrent bank account shows Kshs.3,524,991,742 as payments in cash book not recorded in bank statement. Included in this amount is a total of Kshs.20,410,250 comprising of cheques which have been outstanding for more than six months and are unlikely to be cleared by the bank. Management did not explain why these payments had remained outstanding for so long.

ii. Receipts in Bank Statement not recorded in Cash Book

The reconciliation statement also shows an amount of Kshs.11,045,760 as receipts in bank statement not recorded in cash book. However, no information or documents were availed to confirm the nature of the receipts.

iii. Payments in Bank statements not recorded in Cash Book

The bank reconciliation statement shows an amount of Kshs.36,559,281 as payments in the bank statement not yet recorded in the cash book. Included in the amount are items totaling Kshs.19,543,471 which have been outstanding for more than six months. Management has not provided information on the payments and why these have not been resolved.

iv. Receipts in Cash Book not recorded in Bank Statement

The statement also shows a balance of Kshs.83,050,078 as receipts in cash book not recorded in bank statement which include a total of Kshs.365,425 described as cash book under casts. Cash book adjustments are by nature not reconciling items since they are passed to correct errors. Therefore, the validity of the said balance could not be confirmed.

(b) Development Bank Account

The bank reconciliation statement for the Development Bank account shows an amount of Kshs.5,955,908,818.25 as payment in cashbook not yet recorded in the bank statement. Review of the supporting schedule for the balance shows an item described as treasury unspent balance amounting to Kshs.72,925,350.75 which was however not analyzed. The balance also includes an amount of Kshs.247,500 dated 29 June 2016 described as cashbook under-cast which should not appear as a reconciling item.

In the circumstances, the accuracy and correctness of the bank balance of Kshs.327,071,125 as at 30 June 2016 could not be confirmed.

272. Pending Bills

Note 15 to the financial statements shows that the Department had outstanding bills totaling Kshs.122,496,227 as at 30 June 2016. The management did not explain the reason for committing the Department's resources in excess of funds available. Had the pending bills been paid in the year under review, the reported surplus would have been reduced to Kshs.1,102,690,296 as opposed to the reported surplus of Kshs.1,225,186,523.

273. Operations of Deposit Account

Audit review of the operations of the deposit account during the year revealed that retention refunds totaled Kshs.22,190,587. However, examination of documents supporting the balance revealed that the retention monies were paid out without reference to original retention receipts. Further, the balance included Kshs.1,573,465 paid to a contractor without proof of completion of works done under the contract.

In the circumstances, it has not been possible to confirm whether the refunds totaling Kshs.22,190.587 were valid.

Other Matter

274. Unresolved Prior Year Matters - Inaccuracies in the financial statements for the Year ended 30 June 2015

The financial statements for the year ended 30 June 2015 had the following inaccuracies:

274.1 Accounts Receivables

Included in the receivables balance of negative Kshs.41,992,571,850 was a credit balance of Kshs.41,994,231,622 as summarized below whose details or supporting documents were not availed for audit:

Suspense & clearance	12,326,946
Differences	-42,006,558,568
	-41,994,231,622

As a result of this discrepancy, it was not possible to confirm the accuracy and correctness of account receivables balance of negative Kshs.41,992,571,850 as at 30 June 2015 and why receivables had a credit (negative) balance.

274.2 Accounts Payables and Deposits

The statement of financial position disclosed an account payables balance of Kshs.33,212,868,865 made up of deposits, other liabilities and system required liabilities of Kshs.264,258,608, Kshs.30,827,757 and Kshs.32,917,782,500 respectively. The Accounting Officer explained that the deposit amount of Kshs.264,258,608 represents the bank balance on the deposit account. However, the deposit account cash book balance as at 30 June 2015 was Kshs.265,118,800 resulting in an unexplained difference of Kshs.860,192.

Further, the figure of Kshs.30,827,757 representing other liabilities and Kshs.32,917,782,500 representing system required liabilities were not analyzed. In addition, the Department had not disclosed pending bills as at 30 June 2015 for

recurrent and development vote amounting to Kshs.57,651,140 and Kshs.30,265,963 respectively.

In the circumstances, the accuracy and correctness of the accounts payables balance of Kshs.33,212,868,865 as at 30 June 2015 could not have been confirmed.

274.3 Cash and Cash Equivalents

The statement of financial position also reflected total cash and cash equivalents of Kshs.75,237,260,707 as at 30 June 2015 while the supporting records and documents showed total cash and cash equivalents' balance of Kshs.389,670,252. The variance of Kshs.74,847,590,455 had not been reconciled or explained and therefore the accuracy of total cash and cash equivalents' balance was doubtful.

274.4 Bank Balances

Included in total cash and cash equivalents balance of Kshs.75,237,260,707 was a bank balance of Kshs.267,935,814 composed of Kshs.266,632,602 and Kshs.1,303,212 for Deposits and Kenya Transport Sector Support Project (KTSSP) bank balance respectively. However, the cashbooks and the supporting bank reconciliations reflected a bank balance of Kshs.389,670,252. Apparently, the bank balance of Kshs.267,935,814 excluded Kshs.121,139,158 and Kshs.2,109,083 in respect of recurrent and development bank account balances respectively. In addition, deposit account cash book showed a balance of Kshs.265,118,800 resulting in a difference of Kshs.1,513,802. The bank balance was therefore understated by Kshs.123,248,240.

274.5 Cash Balance

The statement of assets further reflected cash balance of Kshs.74,969,324,893 which was however not analyzed. In addition, the board of survey confirmed that there was no cash balance as at 30 June 2015.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.75,237,260,707 as at 30 June 2015 could not be confirmed.

274.6 Net Increase in Cash-and-Cash Equivalents

The statement of cash flow for the year ended 30 June 2015 showed net increase in cash- and-cash equivalents of Kshs.8,747,882,993. However, addition of cash flows from all activities revealed that there was actually a net decrease in cash and cash equivalents by the same amount.

274.7 Cash and Cash Equivalents at the end of the Year

The statement of cash flows also reflected Kshs.8,747,882,993 as balance of cash-and cash-equivalents as at 30 June 2015, while the statement of financial position reflected Kshs.75,237,260,707 despite the fact that the audited cash and cash equivalent was

Kshs.389,670,252. The discrepancies among these three similar accounts were not explained.

274.8 Transfers to Other Government Agencies

The statement of receipts and payments for the year ended 30 June 2015 showed an amount of Kshs.84,478,361,622 on account of transfers to other Governments Agencies comprising Kshs.23,409,273,292 and Kshs.61,069,088,329 relating to Recurrent and Development votes respectively.

However, examination of the supporting documents for development vote showed a balance of Kshs.61,614,881,791 as follows:

Journal vouchers (Direct payment)	29,818,825,899
Payment vouchers-	31,796,055,892
Total	**61,614,881,791**

The variance of Kshs.545,793,461 between the balance of Kshs.61,069,088,329 shown in the financial statements and that of Kshs.61,614,881,740 reflected in the supporting documents was not explained.

274.9 Transfer from Other Government Entities

The statement of receipts and payments reflected an amount of Kshs.22,446,501,146 as having been received from Kenya Roads Board. However, examination of records from Kenya Roads Board showed that an amount of Kshs.25,036,325,644 was remitted to the Ministry for onward disbursement to roads authorities, resulting in unaccounted for transfers of Kshs.2,589,824,498.

274.10 Appropriation In Aid Collected from Regional Offices

During the year 2014/2015, regional offices of the Department collected appropriations-in-aid (AIA) amounting to Kshs.14,568,050 which were not disclosed in the statement of receipts and payments for the year. Management did not provide a satisfactory explanation on the whereabouts of the funds.

274.11 Proceeds from Foreign Borrowing

The statement of receipts and payments further reflected Kshs.24,746,958,750 in respect of proceeds from foreign borrowing, which differed from the total of journal entries of Kshs.27,541,044,073 resulting in an understatement of Kshs.2,794,085,323. The correctness and accuracy of the statement of receipts and payments for the year ended 30 June 2015 could not be confirmed.

274.12 Proceeds from Foreign Grants

The statement of receipts and payments showed an amount of Kshs.5,030,114,823 as receipts from foreign grants. However, the supporting schedule and the ledger showed an amount of Kshs.3,861,475,171 resulting in an unexplained difference of Kshs.1,168,639,652.

275. Consultancy Services for Prospecting and Mapping of Road Construction Materials Sources

The Department entered into two consultancy contracts of Kshs.78,340,020 and Kshs.51,500,126 on 9 May 2014 for hardstone materials and natural materials respectively as follows:

(i) Contract No. CME/002/Rd/2013-2014 for consultancy services for prospecting and mapping sources of hardstone materials for road construction in Embu, Meru, Kitui, Machakos, Makueni and Tharaka Nithi counties was awarded to C. M. Kamau and Associates on 9 May 2014 for a contract sum of Kshs.78,340,020. The contract was to commence on 26 May 2014 and last for fifteen months.

(ii) Another Contract No. CME/001/Rd/2013-2014 for consultancy services for prospecting and mapping sources of natural materials/gravel for road construction in Machakos, Makueni and Tharaka Nithi Counties was awarded to Norken (I) Ltd on 9 May 2014 for a contract sum of Kshs.51,500,126. The contract was also to commence on 26 May 2014 and last for fifteen months.

Examination of Development Vote Estimates showed that the two projects were not allocated any funds in the financial year 2014-2015.

It was noted that the two consultancies covered the same geographical area but it was not explained why they were not packaged as one consultancy contract.

There was no evidence submitted to show how results of prospecting and mapping under the two consultancies were applied and whether the public obtained value for money.

276. Contract No.490/04 (Road 2000) Improvement and Gravelling of Athi Market – Kigucha Market Road D482

On 30 September 2002, the Ministry entered into a contract with Transnational Construction & Materials at a contract sum of Kshs.20,940,180 for improvement and gravelling of Road D482. The Contract commenced on 25 October 2002 with completion date of 24 April 2003 (6months).

Observations

i. The contract was terminated on 22 February 2005 more than two years after the end of the contract period on 24 April 2003.

ii. No extension of time had been granted to the contractor despite several requests and no liquidated damages were demanded from the contractor.

iii. The initial contract sum was Kshs.20,940,180 but the contractor was to be paid a total of Kshs.63,655,268.97 made up of an arbitration award of Kshs.55,235,909.97 and the sum of Kshs.8,419,359 paid before the contract was terminated.

iv. The contractor did not complete the road works as the contract was terminated. The arbitrator in awarding the damages noted that the termination of the project did not follow the procedures laid out in its contract agreement.

v. A review of the matter during the year under audit revealed that as at 30 June 2016, the Ministry had already paid a total of Kshs.38,200,000 as follows:

Date	Payment Voucher Number	Amount Kshs.
28.10.2013	001267	3,300,000
17.01.2014	002389	3,300,000
15.09.2014	000241	11,000,000
27.01.2015	002124	10,500,000
22.10.2015	002022	10,100,000
Total		**38,200,000**

The unpaid balance of Kshs.17,035,910 as at 30 June 2016 continues to attract interest until settled in full.

vi. In addition, as the initial contract sum was Kshs.20,940,180, the extra expenditure of Kshs.42,715,089 is a nugatory expenditure and should not have been a charge to public funds.

277. Unresolved Issues Relating to Deposits Account

277.1 Unresolved Issues for Deposits Account for 2012/13 and Earlier Years

As reported in the previous year, the statement of assets and liabilities under deposits for the former Ministry of Roads reflected the following debit and credit balances relating to 2012/2013 and earlier years which besides being un-cleared for a long time had remained unanalyzed and unsupported as at 30 June 2016.

Account	Amount (Kshs)
Debits	
Recurrent AIA	(184,700)
General Suspense	255,702,281
District Deposit Bank	251,227
Provincial suspense account	22,250,046
R/D cheques	38,488
Fuel Levy	30,004,898
Credits	
Stale cheques	719,064
Revenue deposit	52,409,214
Mechanical Branch Suspense	687,268,445

277.2 The statement as at 30 June 2013 reflected a balance of Kshs.1,192,886,515 on 10% retention money composed of a balance of Kshs.1,438,823,266, relating to 2011/2012 and earlier years and movement during the year of negative Kshs.245,936,752. However out of the balance of Kshs.1,438,823,266 reported in 2011/2012, an amount of Kshs.1,431,064,186 relating to 2009/2010 could not be verified from the retention money register since serial numbers of the receipts accounting for the retention moneys were not indicated. Further as reported in 2011/12, an amount of Kshs.11,822,080 released to a contractor was supported by receipts not issued for use in the Ministry's cash documents. The position remains unresolved to date.

277.3 The schedule supporting the retention money closing balance of Kshs.1,192,886,515 reflected debit balances under various accounts amounting to Kshs.233,311,537 implying irregular over-refunding of retention money. One contractor was paid Kshs.17,213,703 when the account already had a debit balance of Kshs.59,940,017 resulting in an overpayment of Kshs.77,153,720. Payment voucher No.008618 for the amount of Kshs.17,213,703 paid was still not availed for audit review as at 30 June 2016.

277.4 Debit balances reflected in the 2011/2012 statement of Kshs.2,181,697,190 differed with the balance of Kshs.10,288,638,370 shown in the Ministry's trial balance as at 30 June 2012 by Kshs.8,106,941,180. Similarly, the credit balances totaling Kshs.2,181,697,190 differed with the trial balance totals of Kshs.3,335,760,496 by Kshs.1,154,063,305. Additionally several accounts totaling Kshs.72,528,192 and credit balances of Kshs.16,549,108,680 shown in the trial balance were excluded from the statement of assets and liabilities as at 30 June 2012.

DONOR FUNDED PROJECTS

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO.4926/5410-KE COMPONENT B1 - SUPPORT TO MINISTRY OF ROADS)

Unqualified Opinion

There was no material issues noted during the audit of the financial statements of this Project.

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT (IDA NO.5140KE)

Basis for Qualified Opinion

278. Special Account Reconciliation

The statement of receipts and payments reflects total receipts from development partners for the year as Kshs.48,744,572 while the special account statement prepared and submitted by National Treasury reflects Kshs.8,000,736.46 withdrawn to finance project activities. The variance of Kshs.40,743,835.54 has not been explained or reconciled.

MINISTRY OF TRANSPORT AND INFRASTRUCTURE

STATE DEPARTMENT OF TRANSPORT

FINANCIAL STATEMENTS FOR VOTE 1092

Basis for Qualified Opinion

279. Budgetary Control

279.1 The financial statements for the year ended 30 June 2016 include a summary of appropriation; recurrent and development combined which reflects an expenditure of Kshs.73,004,859,771 against the budget of Kshs.170,322,963,791 thus resulting in an under-expenditure of Kshs.97,318,104,020 or 57% under-utilization. No satisfactory explanation was provided.

279.2 Note 26.1 to the financial statements reflects pending accounts payables totaling Kshs.66,010,455 which remained outstanding as at 30 June 2016. No satisfactory explanation was provided as to why the bills were not settled despite the knowledge that their non-payment would constrain the budget for 2016/2017 financial year should they be paid in the year. Had the pending bills been paid in the year under review, the under-utilization would have been reduced by Kshs.66,010,455.

Prior Year Matters

280. Budgetary Control

Examination of the combined recurrent and development summary statement at page 12 of the financial statements for the 2014/2015 financial year revealed expenditure of Kshs.161,204,337,095 against a budget of Kshs.187,742,634,777 representing an under-expenditure of Kshs.26,538,297,682 or 14% under-utilization.

In addition, Note 19.1 to the financial statements reflected pending bills of Kshs.2,408,879,265. Had the pending bills been paid, the under-utilization would have reduced by the Kshs.2,408,879,265.

Further, no analysis had been provided to give the details of pending bills as required by Public Sector Accounting Standards Board.

281. Government Clearing Agency

As reported in the previous year, the State Department reflected expenditure by Government Clearing Agency totaling Kshs.81,725,454 for the year ended 30 June 2015. However, the financial statements of the Agency prepared by the National Treasury and submitted for audit reflected receipts of Kshs.1,747,692 while the State Department of Transport indicated receipts of Kshs.1,341,835 resulting to unexplained variance of Kshs.405, 857.

282. Unaccounted for Deposits

As reported in the previous year, the financial statements of the Ministry of Transport and Infrastructure for the year ended 30 June 2014 omitted the deposits bank balance of Kshs.558, 884,792 held in Central Bank Account No. 1000182188.

Re-examination of the deposits balance during the year under review revealed that, out of the bank balance of Kshs.558,884,792 reflected in a reconciliation dated 8 September, 2014, the State Department of Transport received Kshs.101,772,644 and the State Department of Infrastructure received the balance amounting Kshs.457,112,149. However, and although the State Department of Transport received Kshs.101,772,644 only Kshs.63,266,317 was reflected in the financial statements leaving a balance of Kshs.38,506,327 which was explained to have been transferred to the National Treasury in unclear circumstances.

RAILWAY DEVELOPMENT LEVY FUND

Basis for Qualified Opinion

283. Variances between Railway Development Levy Fund (RDLF) and Kenya Railways Corporation figures in the financial statements.

The Fund's statement of receipts and payments for the year ended 30 June 2016 reflects payments for acquisition of non-financial assets totaling Kshs.4,320,984,173 out of which payments totalling Kshs.393,443,836 made up of Kshs.205,363,955, Kshs.161,748,698 and Kshs.26,331,183 as shown in Note 5 to the financial statements were transferred to Kenya Railways Corporation during the year under review to pay consultancy services relating to Standard Gauge Railway Project. However, the financial statements of Kenya Railway Corporation for the year ended 30 June 2016 reflect work-in-progress amount of Kshs.453,201,881 as having been paid during the year thus resulting in a variance of Kshs.59,758,045 which has not been explained.

MECHANICAL AND TRANSPORT FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

Other Matter

284. Supply of Computers and Related Equipment

As previously reported, Kenya National Highways Authority paid an amount of Kshs.25,564,350 to a firm for a pending bill relating to 2013/2014 financial year. The supplier was competitively awarded the contract for the supply of the three (3) Rack-

Mount type computer servers; ninety four (94) Standard Desktop Computers; twelve (12) Touch Smart Desktop Computers; eight (8) Laptop Computers and forty six (46) Integrated Service Routers on 13 June 2103 at a tender sum of Kshs.25,564,350.00. The items were purchased for Mechanical and Transport Fund under Northern Corridor Transport Improvement Project, IDA Credit Nos. 3930 - KE and 4571- KE. The supplier is said to have delivered the goods to Mechanical and Transport Fund of Ministry of Transport and Infrastructure on 19 November 2013 vide delivery note No. 1063. The Inspection and Acceptance committee inspected and accepted only eight (8) laptop computers and nineteen (19) Integrated service routers all valued at Kshs.2,975,150. It is reported that the rest of the goods though delivered to the Fund were stolen before they could be inspected by the inspection and acceptance committee.

Despite the forgoing and although the goods received notes were not issued, Kenya National Highways Authority paid for all the goods vide Payment Voucher Number 17690 dated 23 July 2014 for Kshs.22,589,200.

In the circumstances, value for money was not obtained from the expenditure of Kshs.22,589,200. A review of the issue during the year under audit confirmed that the same has not been resolved.

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO.4926/5410-KE COMPONENT B1 - SUPPORT TO MINISTRY OF ROADS)

Unqualified Opinion

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

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT IDA CREDIT NO.5140 (MOT COMPONENT)

Unqualified Opinion

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT IDA CREDIT NO.4148 (MOT COMPONENT)

Basis for Qualified Opinion

The Special Account statement of East Africa Trade and Transport Facilitation Project (MOT component) IDA CR. NO.4148-KE for the year ended 30 June 2016 - State Department of Transport shows that during the year under review, USD 22,488.92 (equivalent of Kshs.2,299,492) was withdrawn from the special account to finance

project activities. However, the total amount of Kshs.2,299,492 was not reflected in the Project's financial statements for the year ended 30 June 2016.

The management has explained that these funds were received in total but used and accounted for under East Africa Trade and Transport Facilitation Project IDA Credit No. 4148KE and 4977KE (MOT/KRC Component) in the same Department of Transport. However, the reallocation was neither sanctioned by Treasury nor supported by the Financing Agreement.

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (IDA CREDIT NO.4148KE AND 4977KE - MOT/KRC COMPONENT)

Basis for Qualified Opinion

285. Special Account Statement

The special account statement shows an amount of USD 107.62 (equivalent of Kshs.11,000) was withdrawn from the account to finance project activities. However, the project financial statements for the year ended 30 June 2016 shows a total amount of Kshs.2,310,492 received to finance project activities. The variance of Kshs.2,299,492 has not been reconciled.

The management has explained that the extra funding of Kshs.2,299,492 was meant for East Africa Trade and Transport Facilitation Project (IDA 4148KE (MOT Component) but erroneously expended and accounted for in this project. However, the reallocation is neither sanctioned by Treasury nor supported by the Financing Agreement.

KENYA TRANSPORT SECTOR SUPPORT PROJECT IDA CREDIT NO.4926/5410-KE (MOT COMPONENT)

Unqualified Opinion

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

DEPARTMENT FOR ENVIRONMENT AND NATURAL RESOURCES

FINANCIAL STATEMENTS FOR VOTE 1101

Basis for Qualified Opinion

286. Cash and Cash Equivalents

The cash and cash equivalents' balance stood at Kshs.139,322,247 as at 30 June 2016. However, examination of the bank reconciliation statement revealed the following unexplained reconciling items:

286.1 Recurrent Account

The bank reconciliation for the recurrent cash book reflects payments in the cash book not yet presented in the bank of Kshs.142,029,833 out of which payments of Kshs.30,423 are stale cheques. Further, the bank reconciliation reflects Kshs.3,038,786 being payments in bank not posted in cash book. It has not been explained how the payments went through in the bank without first being recorded in the cash book. Further, the bank reconciliation reflects receipts in cash book not yet recorded in the bank of Kshs.129,519,569. No explanation has been provided on how the receipts were received in the cash book before they were recorded in the bank.

Further, management has not explained the receipts in bank not recorded in cash book amounting to Kshs.3,417,102 and why they had not been posted to the cash book.

286.2 Development Account

286.2.1 Unpresented and Unrecorded Cheques

The bank reconciliation statement for the development account cash book reflects as at 30 June 2016 payments in the cash book not yet presented in the bank of Kshs.1,269,237,524 all of which were paid in the month of June 2016. This is an indication that most of the transactions were done towards the end of the accounting period. The bank reconciliation further reflects payments totalling Kshs.902,000, being payments in the bank not posted in the cash book. Management has not explained how the payments went through in the bank without first being recorded in the cash book.

286.2.2. Unbanked Receipts

Management has also not explained the failure to bank receipts in cash book not yet recorded in the bank of Kshs.1,039,598,000 as at 30 June 2016.

286.2.3 Direct Bank Receipts not posted in Cash book

Management has not explained receipts in bank not recorded in cash book amounting to Kshs.16,105,840 and why they have not been posted to the cash book.

286.3 Omitted Project Bank Account Balances

The cash and cash equivalents' balance of Kshs.139,322,247 as at 30 June 2016 excludes project bank balances amounting to Kshs.25,508,170. The excluded balances were for the following programme accounts:

No.	Project	Amount Kshs.
1	Kenya Agri. Productivity and Sustainable Land Management	19,971,216
2	Natural Resource Management Program	313,654
3	Kenya National Implementation Plan	544,661
4	Global Environment Facility Regional Power Trade Conversion	4,678,639
	Total	**25,508,170**

Management has not explained the understatement of the cash and cash equivalents balance by Kshs.25,508,170 as at 30 June 2016.

In view of the foregoing, the accuracy and completeness of the cash and cash equivalents' balance of Kshs.139,322,247 could not be ascertained.

287. Account Receivables

The account receivables balance increased from Kshs.4,269,759 as at 30 June 2015 to Kshs.63,945,569 as at 30 June 2016. However, the balance includes a salary advance of Kshs.409,123 with a supporting schedule for a balance of Kshs.692,419 resulting in an unexplained difference of Kshs.283,296. Similarly, Government imprest balance of Kshs.4,604,988 as per the financial statements is at variance with the supporting schedule balance of Kshs.10,610,415 resulting in an unexplained difference of Kshs.6,005,427. Further, imprests amounting to Kshs.5,983,428 were not surrendered within the stipulated time as required under the Public Finance Management Act, 2012. In addition, the balance of Kshs.58,931,458 shown as district suspense was not supported.

Consequently, it has not been possible to ascertain the accuracy, completeness and recoverability of the accounts receivables balance of Kshs.63,945,569 as at 30 June 2016.

288. Fixed Assets

288.1 Summary Fixed Assets Register

Management did not attach to the financial statements presented for audit, a summary of fixed assets register as required under the International Public Sector Accounting Standards (IPSAS) template prescribed by the Public Sector Accounting Standards Board under which the financial statements are prepared.

Therefore, the financial statements do not comply with the IPSAS in regard to reporting format and disclosure of fixed assets.

288.2 Acquisition of Assets

The acquisition of assets' balance of Kshs.2,580,739,731 as at 30 June 2016 includes purchase of assets, including land (Kshs.53,032,000), specialized plant and equipment (Kshs.473,835,834) and civil works (Kshs.756,810,898). However, management has not provided details relating to class of asset, value and location, for audit verification.

As a result, the propriety of expenditure amounting to Kshs.2,580,739,731 and the existence of the assets as at 30 June 2016 could not confirmed. Further, no confirmation has been obtained that the assets are managed and utilized to enhance service delivery.

289. Other Revenues

289.1 Appropriations-in-Aid (AIA)

Included in the receipts from the Ministry balance of Kshs.16,077,551,281 as at 30 June 2016 are other revenues of Kshs.3,597,421,179 being Appropriations in Aid (A-I-A) collected by parastatals under the Ministry, including National Environment Management Authority (NEMA) and Kenya Wildlife Service (KWS) but no corresponding expenditure was recorded against the same, contrary to government accounting policies.

Further, it has not been explained how the A-in-A from other organizations were included in the Ministry's financial statements when the Ministry's' accounts are not consolidated financial statements.

Under the circumstances, it has not been possible to confirm the accuracy and completeness of other revenues of Kshs.3,597,179 included in the Ministry's statement of receipts and payments as at June 2016.

289.2 Proceeds from Sale of Assets

Also included in the receipts from the Ministry balance of Kshs.16,077,551,281 as at 30 June 2016 are proceeds from sale of assets of Kshs.2,906,162,888 being Appropriations- in-Aid collected by parastatals under the Ministry including Kenya Forest Service, (KFS) and Kenya Forest Research Institute (KEFRI). There is no corresponding expenditure on these receipts contrary to accounting policies.

Further, it has not been explained how the A-in-A from the organizations were included in the Ministry's financial statements when the Ministry accounts are not consolidated financial statements.

290. Pending Bills

Pending bills amounting to Kshs.186,596,604 chargeable to the State Department recurrent and development votes during the year under review were not paid in the year 2015/2016 but were instead carried forward to 2016/2017.

Had those bills been paid and expenditure charged, the statement of receipts and payments would have reflected a deficit of Kshs.46,927,624. Failure to settle bills during the year they arise distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.

Further, pending bills amounting to Kshs.186,596,604 as at 30 June 2016 were not supported with the relevant documents such as invoices, Local Purchase Orders, and or delivery Notes.

In the circumstances, it has not been possible to ascertain the correctness and validity of the pending bills' balance of Kshs.186,596,604.

291. Employee Costs

291.1 Unsupported Arrears

During the year under review, the Ministry incurred employee costs of Kshs.1,351,320,643 including Kshs.51,462,643 being payment of arrears not entered in the cash book. The arrears were attributed to a Court Order of 10 May 2004 on realignment /harmonization of personnel. However, supporting documents were not provided to confirm validity of the payments made twelve (12) years after the court order was issued.

291.2 Commuted Leave

Included in employee costs are commuted leave allowances amounting to Kshs.5,814,663 paid contrary to Section N of the Government Code of Regulations Revised 2006 and Department of Personal Management (DPM) Circular No. DPM/38/1/1A/38. The State Department has been commuting leave for cash for the last two financial years (2014/2015 and 2015/ 2016) for various staff across different cadres. Scrutiny of personnel files across different departments revealed cases where officers never applied for leave in the financial year under review, while others applied for leave and were subsequently granted but still commuted leave for cash.

291.3 Un-authorised Imprest Refunds

The State Department paid without authorization Kshs.12,604,598 as refunds for over spent imprests. This amounted to making irregular payments.

291.4 Unexplained Casual Wages

Casual wages balance of Kshs.109,103,207 shown in the financial statements is supported with a schedule showing balances which add up to Kshs.114,393,223

resulting in an unexplained difference of Kshs.5,290,016. Included in the compensation of employees balance is the sum of Kshs.3,025,000 paid as meal allowance to staff contrary to Circular No MSPS 18/2A/89 dated 12 November 2009. In addition Kshs.1,200,400 included in the compensation of employees relates to other expenditure items which have been misposted.

Under the circumstance, the propriety of the expenditure of Kshs.79, 397,320 as at 30 could not be ascertained.

292. Accuracy and Completeness of the Financial Statements

292.1 Un-disclosed Borrowings

Proceeds from foreign borrowing of Kshs.39,536,444 included in the statement of receipts and payments is not supported with a schedule showing amount received from each of the donors. It has therefore not been possible to confirm the completeness of the sum of Kshs.39,539,444.

292.2 Expenditure Misclassification and Misposting

The Appropriation Account reflects expenditure amounting to Kshs.23,789,323 which has been charged to wrong expenditure heads.

No.	Description	Amount (Kshs)
1	Purchase of Specialized Plant	5,751,667
2	Purchase of Certified seeds	3,420,000
3	Research and Feasibility studies	13,417,256
4	Personnel Emoluments	1,200,400
	Total	**23,789,323**

The inconsistency in charging the expenditures to wrong account class undermines the accuracy of the financial statements and renders budgeting meaningless.

As a result, the propriety and validity of the expenditure of Kshs.23,789,323 could not be confirmed.

292.3 Non-Submission of Project Financial Statements

The Ministry did not prepare and submit for audit financial statements for the following projects as required under the Public Audit Act, 2015 and the Public Finance Management Act, 2012:

1. Kenya Agricultural Productivity and Sustainable Land Management
2. Natural Resource Management (NRM) Programme
3. Kenya National Implementation Plan
4. Global Environment Facility Regional Power Trade Conversion

The Ministry therefore contravened the laws on accountability for public expenditure.

In view of the foregoing, the accuracy and completeness of the financial statements for the year ended 30 June 2016 could not be confirmed.

293. Irregular Procurement Expenditure

293.1 Procurement, Delivery, Installation and Commissioning of Outdoor Weather Display Board

The Ministry made a payment of Kshs.5,999,715 to M/S Airbone Logistics Limited for the supply, installation and commissioning of outdoor electronic weather display board equipment reportedly delivered in 2010. It has not been explained how a supplier would raise an invoice in 2016 for a supply made in 2010. No evidence was provided to confirm that the supply was indeed made in 2010.

Consequently, it has not been possible to confirm validity and propriety of the payment of Kshs.5,999,715 made to the supplies.

293.2 Supply of Firefighting Equipment

The Ministry paid Kshs.4,23,700 to M/S Ryma Internal Company for the purchase of firefighting equipment. However, no tender minutes approving the award of the contract were provided for audit review. Further, the tender documents and local purchase order did not specify the parameters of the equipment to be supplied. Therefore, the quality of equipment supplied to the Ministry could not be confirmed.

As a result, value-for-money on the expenditure of Kshs.4,239,700 could not be confirmed.

293.3 Supply of 2 Nos. 20KVA UPS

A firm was awarded a tender to supply two 20 KVA Uninterrupted Power Supply Equipment (UPS) to the Ministry at a contract price of Kshs.7,331,250. However, the Tender Committee Minutes awarding the contract were not provided for audit review. Further, market survey indicated the price for the item was Kshs.828,302 against the contract price of Kshs.3,665,625 thus the two items bought were each overpriced by Kshs.2,837,323. The Ministry therefore lost Kshs.5,674,646 in the transaction. Management has not indicated any measures put in place to recover the lost amount.

293.4 Sub-contracting of Supply, Delivery, Installation and Commissioning of Integrated Meteorological Data Collection System

The Ministry awarded a contract of Kshs.169,500,054 to New Edge Solutions Limited on 2 November 2012 for the supply, delivery, installation and commissioning of integrated

meteorological data collection equipment. However, the contract was signed between the two parties on 18 October 2014 which was two years after the award. The contractor, without the approval of the contractee subcontracted the whole contract to Klass contrary to the Public Procurement and Disposal Act, 2005.

Under the circumstance, the payment of Kshs,169,500,054 is an irregular charge to public funds.

293.5 Irregular Construction of Embu County Office

The Meteorological Department contracted M/S Cofard Construction (K) Limited to construct a model County Office in Embu in 2009 at a contract sum of Kshs.11,532,396 by floating a quotation contrary to the Public Procurement and Disposal Act, 2005. The contract sum was revised upwards to Kshs.14,548,499 without adherence to procurement procedures. Further, no contract was signed between the two parties as required by the Public Procurement and Disposal Act, 2005. To date, the project has stalled casting doubt on the regularity of the expenditure of Kshs.14,548,499.

293.6 Tender to Construct Observatory Units

The State Department awarded a tender for construction of two observatory units to Signature Contractors and General Supplies at a tender sum of Kshs.6,771,936. However, two months later, the State Department awarded a similar contract to Venera Investment at a Contract sum of Kshs.13,543,872 which was twice the cost of the contract awarded to the first contract for the same work.

In the circumstance, it has not been possible to ascertain the propriety of the expenditure of Kshs.13,543,872 and the rationale for double award of the contract for observatory unit construction.

293.7 Nugatory Contract for Supply, Delivery Installation and Commissioning of Weather Observation System

During the year under review, the State Department paid Kshs.9,491,023 to Kenya Auto Electrical Limited being 50% payment for the supply, delivery and commissioning of Weather Observatory Systems. The payment was made based on the purported supply procured in 2007. The Local Purchase Order was issued in 2007, and Delivery Note was dated 6 October 2008. There was no contract attached to support the payments beside, no mention being made regarding previous payments made and delivery of the system.

In the circumstance, the propriety of the payment of Kshs.9,491,023 could not be confirmed.

294. Loss of Government a Vehicle

As reported in 2014/2015, the State Department vehicle registration number GKA 152Q (though assigned civilian number plate KAY 953F) valued at Kshs.5,460,000 was lost at Mlolongo area in Machakos County under unclear circumstances on 24 August 2013 at around 9.00 pm and was at the time being driven by an unauthorized person. However, Government regulations on reporting of stolen vehicles were not followed in reporting of the matters in the Ministry. It therefore seems that there is an intention to conceal the loss.

Management has not initiated any measures to recover the loss of Kshs.5,460,000 from the responsible parties.

Other Matter

295. Revenue Shortfalls

The aggregate exchequer release of Kshs.16,077,551,281 for the year under review were short of the approved budget figure of Kshs.20,395,438,968 by Kshs.4,317,887,687 whose variance has not been explained as detailed below

No.	Item	Budget Kshs.	Actual Kshs.	Variance Kshs
1	Recurrent	13,084,864,027	12,726,463,867	(358,400,160)
2	Development	7,310,574,941	3,350,967,214	(3,959,607,927)
	Grand-Total	**20,395,438,968**	**16,077,431,081**	**(4,318,007,887)**

295.1 Recurrent Grants

The State Department received Kshs.12,726,463,867 as exchequer releases out of the budgeted recurrent grant amount of Kshs.13,084,864,027 resulting to in unexplained shortfall of Kshs.358,400,160.

295.2 Development Grants

The State Department received Kshs.3,350,967,214 as exchequer releases out of the budgeted development grant amount of Kshs.7,310,574,94, resulting in an unexplained shortfall of Kshs.3,959,607,927.

Further, the total exchequer receipts of Kshs.16,077,551,281 received differ from the amount of Kshs.16,077,431,081 shown in the statement of comparative budget and actuals by Kshs.120,200.

295.3 Expenditure Budget Analysis

Comparison of budgeted item provisions against actual expenditures reflected the following position:

No	Item	Budget Kshs.	Actual Kshs.	Variance Kshs.
1	Compensation of Employees	1,278,994,704	1,289,153,060	(10,158,356)
2	Use of Goods and Services	837,334,527	711,810,514	125,524,013
3	Transfer to other Government Units	10.897,783,151	10,741,807,813	155,975,338
4	Social Benefits	5,000,000	4,998,630	1,370
5	Other Grants and Transfers	33,605,040	29,344,290	4,260,750
6	Acquisition of Assets	32,146,605	12,433,341	19,713,264
	Total	**13,084,864,027**	**12,789,547,648**	**295,316,379**

No explanation has been provided by the Ministry for these variances.

295.4 Use of Goods and Services

During the year under review, the State Department spent a total of Kshs.711,810,514 on use of goods and services against the approved budget provision of Kshs.837,334,527 resulting in under-expenditure by Kshs.125,524,033 or 85% absorption rate. No explanation has been provided for the under absorption.

295.5 Acquisition of Non-financial Assets

The State Department spent a total of Kshs.12,433,341 or 39% on acquisition of assets against the approved budget of Kshs.32,146,605 resulting in an underutilization of the budget by Kshs.19,713,264.

295.6 Transfers to Other Government Units

The State Department paid Kshs.10,741,807,813 as transfers to other Government entities during the year against an approved budget of Kshs.10,897,783,813 resulting in underfunding of Kshs.155,975,338. It has not been explained why the State Department retained funds meant for other agencies and thus constrained their capacities to deliver services to the public.

In view of the foregoing, the State Department did not achieve its planned and budgeted activities and its objectives for the year under review.

DONOR FUNDED PROJECTS

INSTITUTIONAL STRENGTHENING OF THE OZONE DEPLETING SUBSTANCES PROJECT (UNEP PROJECT ACCOUNT NO. UNEP/KEN/SEV/62/INS)

Unqualified Opinion

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

LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT PHASE II (IDA CREDIT NO. 4532-KE AND IDA CREDIT NO. 5634-KE)

Basis for Qualified Opinion

296. Accuracy of Financial Statements

The statement of financial assets and liabilities as at 30 June 2016 under liabilities reflect a prior year adjustment figure of Kshs.10,613,218 which has not been supported with information and documentation. Further, the reporting template provided by the Public Accounting Standards Board (PASB) requires that the statement of receipts and payments include cumulative to-date figures for all items indicated therein. However, upon review of the financial statements provided, it was observed that only cumulative figures for two years have been provided as opposed to total figures since inception of the project.

Consequently, the financial statements do not provide relevant, reliable and comparable information.

297. Cash Balances

The statement of financial assets and liabilities as at 30 June 2016 reflects a cash balance of Kshs.1,244,954, which differs with the ledger balance of Kshs.2,870,018 by an unexplained and unsupported figure of Kshs.1,625,064.

Consequently, the accuracy of the statement of financial assets and liabilities cash balance of Kshs.1,244,954 could not be ascertained.

Other Matter

298. Water Hyacinth Harvester System

During the financial year 2014/2015, the project initiated the process to acquire a water Hyacinth Harvester System at a contract price of EUR 680,000 which is equivalent to Kshs.73,745,252 using the rates ruling as at 10 December 2016. The equipment was delivered to Kisumu on 12 April 2016 and training on its use conducted. As at the time of audit in December 2016, the machine had not been commissioned as management explained that the machine had some mechanical problems which were to be resolved by the supplier before commissioning. The equipment is therefore still not in use since the year 2014/2015.

299. Pending bills

The financial statements indicate that there were pending bills on account of salary top-ups and gratuity amounting to Kshs.8,619,500. Having incurred these debts in the current year, and in view of the fact that the compensation of employees' payments is 26% above budget, the current years actual payments and the obligation yet to be settled stands at 50% above the budget.

Failure to pay bills in the year they relate to distorts the financial statements for the year and adversely affects the provision of services for the subsequent years, in which they are charged.

MITI MINGI MAISHA BORA: SUPPORT TO FOREST SECTOR REFORM IN KENYA PROGRAMME

Basis for Qualified Opinion

300. Understatement of Government of Kenya Counterpart Funds

The statement of receipts and payments reflects transfer from Government of Kenya received during the period of Kshs.96,450,000 which is at variance with the supporting schedule figure of Kshs.101,450,000. The resulting variance of Kshs.5,000,000 has not been reconciled.

301. Outstanding Imprest

Included in the imprest balance of Kshs.1,668,316 as at 30 June 2016 is an amount of Kshs.1,106,571 being outstanding imprest for over two years. This is contrary to the Public Finance Management Act, 2012. Management has not put in place any efforts to recover the imprest now that the project has come to an end.

Other Matter

302. Non-Financial Assets

The project had acquired non-financial assets worth Kshs.521,079,216 as at 30 June 2016. Paragraph 6:6:4 of the project Agreement states that the physical facilities and assets must be handed over to Kenya Forest Service. However, the project has not maintained a clear list of those assets. It may, therefore, not be possible to ascertain the correctness and completeness of the assets of the project at the handing over.

Further, no documents were availed for audit verification on the assets acquired during the period with a value of Kshs.38,452,017. In the circumstance, the correctness and completeness on the non-financial assets figure of Kshs.38,542,017 could not be ascertained.

303. Delay in Project Implementation

The programme had a total commitment of Kshs.2,497,879,230 (US$ 22,707,993) to be utilized within the project period of six years ending 31 December 2015. The amount spent as at 30 June 2016 was Kshs.1,408,883,942 (US$.12,557,211) or 55% of the commitment and Kshs.131,075,079 remaining as un-spent cash in the project account.

As a result, the programme may not be able to utilize the remaining Kshs.1,088,995,288 (US$.9,271,324) as the project has already closed. Consequently, the Programme's goals and outcomes may not have been realized.

304. Under Absorption of Project Funds

The following was observed on budget absorption:

Item	Budget (Kshs)	Actual (Kshs)	Absorption Rate
Purchase of goods and services	455,642,240	245,524,526	54%
Compensation to Employees	15,200,000	6,126,688	40%
Acquisition of Assets	70,857,760	38,452,017	54%
Transfers to other Entities	29,500,000	3,700,000	13%
Transfers to other Non-governmental Organizations	10,700,000	6,908,879	65%
Total	**581,900,000**	**300,712,110**	**52%**

The under absorption of funds is likely to hinder the Programme's activities and implementation.

KIMIRA OLUCH SMALLHOLDER FARM IMPROVEMENT PROJECT (ADF LOAN NO. 2100150012296-KE)

Basis for Qualified Opinion

305. Late Submission of Financial Statements

The Project financial statements for year ended 30 June 2016 were submitted on 15 November 2016 to the Auditor-General, being one and a half months after the statutory deadline of 30 September 2016. Subsequently, the Public Finance Management Act 2012 Section 84 (3) requirement of submission of the financial statement to Auditor-General not later than three months after the end of the financial year was not complied with. Consequently, the management is in breach of the law.

306. Outstanding Imprests and Advances

The financial statements reflect outstanding imprests and advances of Kshs.7,140,650 which include Kshs.5,647,200 that has remained outstanding for over a year without any recovery made in disregard Regulation 93(6) of the Public Finance Management National Regulation, 2015. It has not been possible to confirm whether and if so, when the project will be able to recover the amounts advanced.

307. Pending Bills

Note 7.10 to the financial statements reflects pending bills totalling Kshs.1,203,912,118 as at 30 June 2016, comprising of Kshs.801,604,578 brought forward from prior years for major civil works and Kshs.402,307,540 for minor civil works. An interest on delayed payment of interim payment certificate (IPC) of Kshs.512,042,891 which represent 64%

of the principal amount has been charged and is included in the major civil works principal amount of Kshs.801,604,578. Consequently, the project has incurred an ineligible expenditure of Kshs.512,042,891 due to delayed payments of IPC.

308. Stalled Minor Civil Works

During the financial year 2013/2014, the Project entered into 9 contracts with various contractors for construction of in-block irrigation infrastructure in Oluch and Kimira irrigation schemes at a combined contract cost of Kshs.1,543,034,317.60. The pending bills balance of Kshs.1,203,912,118 reflected under note 7.10 to the financial statements indicates that only an amount Kshs.339,122,199 has so far been paid.

However, the project status report as at 30 June 2016 and the subsequent verification of the physical works, confirmed that Lots I and II of the project are complete while concrete lines for Lots III to IX canals remain incomplete. The value of pending works is estimated at Kshs.481,375,935.45 and covers a combined length of 42.57KM representing about 30% of the total length of 144KM under the contracts. The pending works have been arrived at as follows:

Analysis of Stalled Minor Works

Contract Price Kshs.	Paid Works Kshs.	Pending Bills Kshs.	Pending Works Kshs.
1,543,034,318	339,122,199	1,203,912,118	481,375,935

At the time of inspection the project had stalled and the contractor had abandoned the site due to nonpayment.

The summation of pending works and pending bills totaling Kshs.1,685,288,053 exceeds the contract price of Kshs.1,543,034,318 by Kshs.142,253,736 which has not been justified.

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT – ADDITIONAL FINANCING (IDA NO. 5103-KE)

Basis for Qualified Opinion

309. Discrepancy in Donor Income

The statement of receipts and payments reflects donor receipts of Kshs.2,363,789,726 (designated account Kshs.1,423,283,008 and direct payments Kshs.940,506,718) as at 30 June 2016. However, the balance is at variance with the disclosed balance of Kshs.2,279,199,053 given in note 8.3 Foreign Grants of Kshs154,998,566 and note 8.4

Loan from External Partners of Kshs.2,124,200,487. The resulting difference of Kshs.84,590,673 has not been explained or reconciled.

In the circumstances, it has not been possible to confirm the accuracy of the donor income of Kshs.2,363,789,726 as stated in the statement of receipt and payments as at 30 June 2016 as at 30 June 2016.

310. Pending Bills

The pending bills figure of Kshs.2,137,328,802 as per note 8.14 is not in agreement with annex 2A balance of Kshs.5,478,831,803 resulting in unexplained difference of Kshs.3,341,503,001. In the circumstance, the accuracy, completeness and propriety of the pending bills balance of Kshs.2,137,328,802 could not be ascertained.

NAIROBI RIVERS BASIN REHABILITATION AND RESTORATION PROGRAM: SEWERAGE IMPROVEMENT PROJECT

Basis for Qualified Opinion

311. Special Accounts Balances

The special accounts statements for the project reflect Kshs.29,931,390 (US$.295,185) withdrawn from the special accounts to the project accounts. However, the project accounts do not reflect any deposits during the year under review. The statement is, therefore, not in agreement with the project account on that item.

Consequently, it has not been possible to ascertain the accuracy and completeness of the project account balances as at 30 June, 2016.

Other Matter

312. Under Funding of the Project

The project had projected to receive a total of Kshs.1,040,000,000 during the period of which Kshs.920,000,000 was to come from donors and Kshs.120,000,000 from the Government as counterpart funding. The project received Kshs.729,295,068 resulting in a deficit of Kshs.310,704,932 or 30% (Kshs.299,085,640 from donors and Kshs.11,519,291 from GOK). This big under-funding will have a negative impact on the project implementation and it may not attain the intended objective. Similarly, the project budgeted to spend Kshs.1,002,967,000 on civil work but only managed the actual of Kshs.712,596,169 resulting in a variance of Kshs.290,370,831. In the circumstances, the Project may not be able to achieve its objectives.

313. Transfer of Assets

Section 5.2(1) of the conditions under the agreement between the Republic of Kenya and African Development Fund states that, the borrower will provide evidence in form and substance acceptable to the Fund that by 31 December 2013 the transfer of assets from Urban Water Supply and Sewerage and City Council of Nairobi to Athi Water

Service Board has taken place. As at the time of the Audit, in October 2016, however, the scheduled transfer had not taken place in contravention of the Loan Agreement.

314. Rehabilitation of Kariobangi Waste Water Project

The rehabilitation of Kariobangi Waste Water Project was awarded and signed on 26 January 2015 with expected completion date of 23 July 2016 at a contract sum of Kshs.155,836,706. As at the time of the audit in October 2016, the project was only at 48% completion. There is a risk that the project will close in December 2016 before the contract is completed.

KIMIRA OLUCH SMALLHOLDER FARM IMPROVEMENT PROJECT (ADF GRANT NO. 2100155007220-KE)

Unqualified Opinion

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

DEPARTMENT OF WATER AND IRRIGATION

FINANCIAL STATEMENTS FOR VOTE 1102

Basis for Qualified Opinion

315. Compensation of Employees

315.1 Unsupported Compensation to Employees on Unrelated Expenses

During the year under review, the Department budgeted to spend Kshs.760,450,659 on compensation to employees. However, actual expenditure was Kshs.623,899,166 resulting to an unexplained under expenditure of Kshs.136,551,493. In addition, the financial statements expenditure balance of Kshs.623,899,166 is at variance with the general ledger balance of Kshs.572,104,132 resulting to an unreconciled difference of Kshs.51,795,043. Further, the Department paid Kshs.1,730,469 as leave commutation to various members of staff who had already applied for leave and were paid leave allowance. This amounts to double benefits and is contrary to Government Financial Regulations.

In addition, included in the employee compensation balance of Kshs.623,899,166 is an expenditure of Kshs.4,832,500 relating to meal allowances.

315.2 Improper Expenditure on Employees Seconded to NWCPC

The Department of Water and Irrigation seconded 423 members of staff to National Water Conservation and Pipeline Corporation (NWCPC) in various core operations, which include drilling, Electro Mechanical, Land Survey and Water Technology. Although the Ministry has explained that the officers were seconded because the Ministry had ceased to implement technical projects attached to Water Boards, it is not clear and the Ministry has not explained why it continues to pay officers who are serving in a statutory body or why the officers cannot be officially absorbed by the institution.

In view of the foregoing, it has not been possible to ascertain the completeness, accuracy and propriety of compensation of employee's expenditure of Kshs.623,899,166.

316. Grants and Transfers to Other Government Units

The Department of Water and Irrigation had an approved budget for the year under review amounting to Kshs.9,402,586,213 against actual expenditure of Kshs.4,346,150,732 thus resulting in under-absorption of Kshs.5,056,435481. Further, included in the transfer to Other Government Units balance of Kshs.4,346,150,732 are unrelated expenses amounting to Kshs.84,962,260. Therefore the account is overstated by this amount.

In the circumstance, the validity, completeness and accuracy of the transfer to other Government Units figure of Kshs.4,346,150,732 could not be ascertained.

317. Acquisition of Assets

The Department had an approved budget of Kshs.30,361,787,774 for acquisition of assets but actual expenditure amounted to Kshs.15,128,739,544 thus resulting in an under-absorption of Kshs.15,233,048,230. However, included in the acquisition of assets balance of Kshs.15,128,739,544 are unrelated expenses amounting to Kshs.14,609,109,180. In addition, the Department has not disclosed the summary of its fixed assets register as required.

Consequently, the accuracy and completeness of acquisition of assets figure of Kshs.15,128,739,544 for the Department could not be ascertained.

318. Other Grants and Transfers

The Other Grants and Transfers figure of Kshs.3,338,082 includes unrelated expenditure amounting to Kshs.2,328,082. The expenditure item is therefore overstated by the same amount. As a result, the accuracy and completeness of the Other Grants and Transfers could not be ascertained.

319. Pending Bills

Pending bills amounting to Kshs.119,538,431 chargeable to both recurrent and development votes for the Department were not paid in the year 2015/2016 but were instead carried forward to 2016/2017. Had those bills been paid and expenditure charged, the statement of receipts and payments would have reflected a deficit of Kshs.18,125,884 instead of a surplus of Kshs.101,412,547 currently reflected. Failure to settle the bills during the year to which they relate distorts the financial statements for that year and adversely affects provisions for the subsequent year to which the bills have to be charged. Further, it is not clear why the pending bills were not paid since the State Department had recorded a surplus of kshs.101,412,547 which could have settled a portion of the bills. In addition, contracts and other suppliers' documents relating to the pending bills were not provided for audit verification. In the circumstance, the propriety of the pending bills of Kshs.119,538,431 could not be ascertained.

320. Cash and Cash Equivalents

320.1 Recurrent Account

The cash and cash equivalents balance of Kshs.89,550,695 includes a recurrent account balance of Kshs.2,430,299. The bank reconciliation statement for this recurrent account includes Kshs.372,131,133 reflected as payments in cash book not in bank out of which payments amounting to Kshs.1,671,638 relate to stale cheques. Management has not disclosed when the remaining balance of Kshs.370,459,459, was finally paid in the bank. Similarly, a sum of Kshs.309,354,380 is reflected as receipts in cash book not

in bank statement. It has not been explained how the receipts were received in cash book before they were banked, given that the Ministry does not receive cash directly.

320.2 Development Account

Development account cash book reflects a balance of Kshs.14,382,377. However, the related bank reconciliation statement reflects Kshs.3,673,965,046 being payments in cash book not in bank out of which payments amounting to Kshs.4,333,667 were stale cheques. Management has not disclosed when the remaining balance of Kshs.3,673,965,046, was finally paid in the bank. Further, Kshs.21,775,145 is reflected as payments in bank statement not recorded in cash book. Management has not explained how the payments made in the bank were not posted in the cash book. Further, Kshs.5,852,420 of those payments relate to 2014/2015 financial year. Similarly, Kshs.707,299,160 is reflected as receipts in cash book not in bank statement. It has not been explained how receipts were effected in cash book before they were banked, given that the Ministry does not receive cash directly.

In the circumstance, it has not been possible to ascertain the validity, completeness and accuracy of the cash and cash equivalents' balance of Kshs.89,550,695.

321. Accounts Receivables - Suspense Account

Included in the accounts receivables balance of Kshs.1,586,727,901 is an amount of Kshs.1,204,385,626 being suspense and clearance account and Kshs.374,599,452 for other debtors and prepayments which however have not been explained or supported with relevant schedules.

In the circumstance, it has not been possible to ascertain the recoverability of the suspense and clearance balance of Kshs.1,204,385,626.

322. Irregular Payment for Cabinet Secretary's Vehicle

The State Department purchased a vehicle for the Cabinet Secretary at a cost of Kshs.7,000,000 contrary to Office of the President Circular Ref No. CAB/56/2A dated 7 July 2011 which prescribes a limit of Kshs.2,000,000. In the circumstance, the State Department of Water irregularly spent Kshs.5,000,000.

323. Accounts Payables

The accounts payables' balance of Kshs.72,738,019 reflected in the statement of financial assets is not supported with a schedule and other supporting documents. Further, the balance includes a sum of Kshs.33,545,833 due to the Ministry of Agriculture and Fisheries. It is not clear how the Ministry became a creditor for such a big amount.

In the foregoing, it has not been possible to ascertain the validity, accuracy and completeness of the accounts payables' balance of Kshs.72,738,019 outstanding.

324. Other Operating Expenses

Other Operating Expenses increased by 900% from Kshs.11,039,396 in 2014/2015 to Kshs.110,192,116 in the current year. Management has not explained the reason for the disproportionately big increase and as a result, the accuracy and propriety of the expenditure could not be confirmed.

325. Failure to Prepare Project Financial Statements.

The State Department of Water and Irrigation did not prepare and submit financial statements for four projects as required under Article 226 Section 3 of the Constitution of Kenya. The projects were Kenya Italy Debt Project, GIZ Project, UNICEF Project and Output-Based Aid (OBA) Project. Management did not therefore comply with this requirement of the Constitution.

Other Matter

326. Budgetary Control and Performance

326.1 Shortfall of Exchequer Release

The aggregate exchequer release balance of Kshs.16,607,435,406 as at 30 June 2016 was short of the approved budget figure of Kshs.18,694,660,228 leading to an unexplained variance of Kshs.2,087,227,822 as tabulated below:

No.	Item	Budget (Kshs.)	Actual (Kshs.)	Variance (Kshs)
1	Recurrent	1,925,849,370	2,053,100,000	127,250,630
2	Development	16,768,810,858	14,554,335,406	2,214,475,452
	Grand-Total	**18,694,660,228**	**16,607,435,406**	**2,087,224,822**

326.1.1 Recurrent and Development Grants

The Department received Kshs.16,607,435,406 as recurrent and development grants against the approved budget of Kshs.18,694,660,228 thus resulting in an underfunding by Kshs.2,087,224,822.

326.2 Under Expenditure

The comparison of budgeted and actual amounts of the Ministry's expenditures for the year under review reflects overall under-expenditure of Kshs.20,462,904,180 as tabulated;

No.	Item	Budget (Kshs.)	Actual (Kshs.)	Variance (Kshs)
1	Compensation to employees	760,450,659	623,899,166	136,551,493
2	Use of goods and services	342,773,245	309,016,187	33,757,058
3	Transfer to Other Gov't Units	9,402,586,213	4,346,150,732	5,056,435,481
4	Other Grants and Transfers	6,450,000	3,338,082	3,111,918
	Acquisitions of non-financial Assets	30,361,787,774	15,128,739,544	15,233,048,230
	Total	**40,874,047,891**	**20,411,143,711**	**20,462,904,180**

The large under-expenditure balance impacted programmes and service delivery activities planned for the year negatively.

327. Weak Internal Control

327.1 Lack of Audit Committee

The State Department of Water and Irrigation has not established an audit committee as required under Section 174(1) of the Public Finance Management Act, 2012. This has constrained the operational independence of the internal auditor.

327.2 Lack of Segregation of Duties

The Ministry's vehicles records, including work tickets and fuel records, are maintained by drivers. This denotes lack of segregation of duties and contradicts the requirements of Government financial regulations.

327.3 Grounded Motor Vehicles

Ten of the Ministry's motor vehicles were at the time of the audit grounded for long periods, for periods of upto two years for some of them, due to various mechanical reasons. Management has not provided good reasons for this undesirable state of affairs.

328. Irregular Secondment of Staff

The department seconded three officers to County Government of Laikipia, Lake Victoria North Water Services Board and Lake Victoria South Water Services Board respectively without following proper procedures. The Officers were getting salaries from both employers contrary to the employment contracts which require them to earn

one salary at a time. Consequently, the propriety and value for salaries paid to the officers could not be confirmed to have constituted a proper charge to the public funds.

DONOR FUNDED PROJECTS

KENYA WATER SECURITY AND CLIMATE RESILIENCE PROJECT- (IDA CREDIT NO. 5268-KE)

Basis for Qualified Opinion

329. Compliance to Project Work Plan Implementation

The project work plan for the year had proposed to carry out eleven (11) activities with an approved budget of Kshs.425,471,700 all of which were not undertaken. The activities which were not implemented include;

No.	Item	Budget (Kshs)
1	Improved early warning system	35,000,000
2	Nzoia Watershed management Program	66,000,000
3	MOWASCO Institutional Capacity Improved	50,000,000
4	Water supply scoping study (Malewa Dam)	2,000,000
5	Pre-reforms program for MOWI agreed upon	8,753,000
6	Water sector training need assessment	23,454,700
7	Pre-reform consensus action plan	61,510,000
8	Water resource knowledge based improved	36,000,000
9	Procurement and construction of 25 monitoring wells	67,672,000
10	100 RGs procured and Installed	22,220,000
11	Hydro met network	52,862,000
	Total	**425,471,700**

In the circumstances, the project implementation will be affected by the unexplained delay.

330. Unsupported Purchases

The project purchased goods and other assets worth Kshs.25,067,865 from suppliers who were not in the pre-qualified list of supplies contrary to the Public Procurement and Disposal Act, 2005.

In the circumstances, the propriety of the expenditure of Kshs.25,067,865 could not be ascertained.

331. Unsupported Foreign Travel Expenditure

The project spent Kshs.20,306,294 in sponsoring a delegation of sixteen officers to Mexico on a short course on design and construction of hydraulic structures. It could not be ascertained how the delegates were identified for the course as most of them did not come from the water section.

As a result, the propriety and value for money for the expenditure could not be ascertained.

332. Unsupported Local Travel and Subsistence

The project made payments totalling Kshs.7,251,266 which were not supported with relevant documents. Further, Kshs.12,478,400 was paid in cash to nine accountants to carry out a survey whose report was not availed for audit verification. It has not been explained why accountants were paid to carry out the research instead of hiring researchers.

Consequently, the propriety of the expenditure of Kshs.19,729,666 could not be ascertained.

THWAKE MULTI-PURPOSE WATER DEVELOPMENT PROGRAM PHASE 1 (TMWDP)

Basis for Qualified Opinion

333. Project Counterpart Funds Underfunding and Unaccounted for Expenditure

The approved budget for the Project from the counterpart funding was Kshs.962,000,000 however the actual receipt was Kshs.847,707,003 resulting in unexplained difference of Kshs.114,292,997. Further, such underfunding resulted in pending bills of Kshs.8,981,934. The project cumulative Government of Kenya Component expenditure is indicated as Kshs.925,174,872 giving rise to an unaccounted for expenditure of Kshs.77,467,869 under the development vote.

In the circumstances, the accuracy and propriety of the project expenditure could not be ascertained.

334. Unjustified Additional Geological Investigations

The Project Engineer (Kenya) carried out geological and geotechnical investigations in 2013 before commencement of the project. The geotechnical investigations were relied upon in drawing the project designs. However, the project procured additional

geotechnical investigations at a contract sum of Kshs.39,235,725 during the year under review. Out of the total contract sum, Kshs.17,067,540 was paid during the year under review.

In the circumstances, the project incurred avoidable expenditure of Kshs.17,067,540.

Other Matter

335. Project Land Ownership

As per the project Agreement, Tana Athi Water Services Board should own the land under which the project is implemented. However, the water Act, 2002 requires that such Government Project be owned by National Water Conservation and Pipeline Corporation. Under the current arrangement, Tana Athi Water Services Board will own the land as the Parent Ministry implements and operates the project. The Board will have the asset in its books while the Program revenue will be collected by the Ministry. This will be contrary to the matching concept in accounting and ownership of the land and will not be supported by law.

UPPER TANA NATURAL RESOURCES MANAGEMENT PROJECT (UTANRMP) IFAD LOAN I-867-KE AND SPANISH TRUST FUND LOAN I-E-8-KE

Unqualified Opinion

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

MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT

FINANCIAL STATEMEMTS FOR VOTE 1111

Basis for Qualified Opinion

336. Inaccuracies in the Financial Statements

336.1 Financial Statements Prepared Outside IFMIS

In the statement of receipts and payments, total receipts and payments are reflected as Kshs.24,869,623,402 and Kshs.24,859,744,892 respectively. However, this amount differs from the amounts in the IFMIS report which gives total receipts and payments as Kshs.24,867,784,937 and Kshs.24,859,543,892 respectively resulting in variances of Kshs.1,838,465 and Kshs.201,000 respectively. Although the Ministry has explained these differences, financial statements have not been amended to reflect IFMIS report figures. In the circumstances, total receipts and payments of Kshs.24,869,623,102 and Kshs.24,859,744,892 respectively reflected in the statement of receipts and payments for the year ended 30 June 2016 could not be confirmed.

336.2 Summary of Fixed Assets

As previously reported, the financial statements for the year ended 30 June 2016, does not include a summary of fixed assets statement as an annex, contrary to the prescribed reporting template issued by Public Sector Accounting Standards Board of the National Treasury. In the current year, assets amounting to Kshs.16,396,648,085 were procured by the Ministry but an assets register is not maintained to keep track of the assets. In the absence of summary of a fixed assets and assets register, the accuracy of the financial statements remains doubtful. Consequently, it has not been possible to confirm the validity and accuracy of the financial statements for the year ended 30 June 2016.

337. Acquisition of Assets

337.1 Construction of Civil works

Included in the acquisition of assets figure of Kshs.16,396,648,085 for the year ended 30 June 2016 is construction and civil works expenditure of Kshs.9,372,593,987. However, this figure could not be confirmed since stationery amounting to Kshs.534,083,193 was charged to the item for construction of civil works but no authority has been availed for audit review. Further, fuel and automobile repairs amounting to Kshs.13,606,988 was also irregularly charged to construction of civil works while security services and cleaning services amounting to Kshs.13,701,999 and Kshs.5,939,991 respectively were wrongly charged to construction of civil works. In addition, operating system, licenses, computer servers and computer desktops all totalling Kshs.23,349,000 were also charged to construction of civil works. Under the circumstances, it has not been possible to ascertain the accuracy of construction of civil works figure amounting to Kshs.9,372,593,987.

337.2 Research, Studies, Project Preparation, Design and Supervision

Included in the acquisition of assets figure of Kshs.16,396,648,085 is research, studies, project preparation, design and supervision figure of Kshs.1,378,912,061 as reflected in note 8 to the financial statements. However, payment vouchers to support an amount of Kshs.44,245,151 were not availed for audit review. In the absence of the payment vouchers and other support documents, the propriety of the expenditure totalling Kshs.44,245,151 could not be confirmed.

337.3 Construction of Roads

Included in the acquisition of assets figure of Kshs.16,396,648,085 is construction of roads figure of Kshs.591,395,750. However, included in this figure is an amount of Kshs.123,534,600 which does not relate to road construction. Consequently, the propriety of Kshs.591,395,750 as reflected under note 8 to the financial statements could not be confirmed.

337.4 Refurbishment of Building

Included in the acquisition of assets figure of Kshs.16,396,648 is an amount of Kshs.37,797,475 in respect of refurbishment of buildings. However, this figure could not be confirmed due to the fact that Kshs.11,113,689 did not relate to refurbishment of buildings.

337.5 Construction of Buildings

Included in acquisition of assets figure of Kshs.16,396,648,085 under note 8 is construction of buildings figure of Kshs.1,864,758,824. However, schedules availed for audit review revealed that payments amounting to Kshs.190,787,881.50 did not relate to construction of buildings. In the circumstances, the propriety of construction of buildings figure of Kshs.1,864,758,824 could not be confirmed. In view of the foregoing, it has not been possible to confirm the propriety of acquisition of assets figure of Kshs.16,396,648,085.

338. Use of Goods and Services

338.1 Other Operating Expenses

Included in the use of goods and services figure of Kshs.4,392,764,199 is Kshs.2,426,195,889 being other operating expenses reflected in note 5 to the financial statements. However, sampled payment vouchers totalling Kshs.27,027,411 were not availed for audit review. Consequently, the propriety of other operating expense of Kshs.2,426,195,889 could not be confirmed.

338.2 Fuel, Oil and Lubricants

Included in the use of goods and services figure of Kshs.4,392,764,199 is an amount of Kshs.38,518,932 in respect of fuel, oil and lubricants. However, out of the sampled payments, vouchers with an amount of Kshs.2,666,973.20 were not availed for audit review. Further, from the sampled vouchers availed for audit review, payments

amounting to Kshs.10,728,900 were not related to this expenditure item. Consequently, the propriety of fuel, oil and lubricants figure of Kshs.38,518,932 included under note 5 to the financial statements could not be confirmed.

339. Cash and Cash Equivalents

The Ministry's statement of assets as at 30 June 2016 reflects cash and cash equivalents balance of Kshs.2,089,206,837 which includes deposit account balance of Kshs.2,089,075,580. Included in the deposit bank reconciliation statement were receipts in bank statement that are not in cashbook totalling Kshs.1,015,410,406 which had been outstanding since 3 June 2014. Further, there were payments in bank not recorded in cashbook as well as receipts in cashbook not in bank statement amounting to Kshs.220,854,334 and Kshs.43,232,134 respectively and which had been outstanding since 2013/2014 for which no plausible explanation was offered by the management. In the circumstances, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.2,089,206,837 is fairly stated.

340. Imprest and Clearance Accounts

The imprest and clearance account balance of Kshs.45,527,100 as at 30 June 2016 is not in agreement with the IFMIS imprest register which has a figure of Kshs.68,108,849 and thus leading to an unreconciled and unexplained difference of Kshs.22,581,749. Further, a schedule provided for audit review to support imprest and clearance account reflects an amount of Kshs.65,390,353 which again is in variance with the amount of Kshs.45,527,100 reflected in the financial statements and hence resulting in an unexplained difference of Kshs.19,863,253. In the circumstances, imprest and clearance accounts balance of Kshs.45,527,100 included in the statement of assets could not be confirmed.

341. Accounts Payables – Deposit

The Accounts Payables – Deposit figure of Kshs.2,089,075,580 as at 30 June 2016 revealed that a construction company was paid Kshs.8,817,157 being retention money in respect of construction of Eldama Ravine Bus Park. However, there was no miscellaneous receipt attached to the payment voucher to confirm that the company was indeed originally deducted the money. Further, the accounts payables – deposit balance of Kshs.2,089,075,580 as reflected in the statement of assets differs from the cashbook balance of Kshs.1,480,819,876 as at 30 June 2016, resulting in an unexplained and unreconciled difference of Kshs.608,255,704. Further, withholding tax amounting to Kshs.230,617,943 which includes figures dating back to 2014/2015 financial year had not been paid to Kenya Revenue Authority as required. Under the circumstances, the balance of accounts payables–deposit of Kshs.2,089,075,580 included in the statement of assets could not be confirmed.

342. Construction of Stadia

342.1 Construction of Olenguruone Stadium

The Construction of Olenguruone Stadium was awarded to a contractor at a contract sum of Kshs.290,643,668 as per a contract agreement signed on 12 November 2012. The envisaged contract completion period was 104 weeks. However, an audit field inspection carried out in September, 2016 revealed that the project was not complete and the contractor was not on site. Further, the contractor had been paid a total of Kshs.73,481,130 vide certificate No. 1 and 2. However, comparison between amount paid and work done as per Certificate No. 2 reflected that some work had been paid but not done in respect of bill No. 5 for soccer pitch, running track and internal driveway. In addition, Kshs.6,000,000 had been paid for ground preparation and planting of grass which had not been done by the time of inspection. Further, bill of quantities for excavation and ground preparation was for Kshs.11,253,900 yet the contractor was paid Kshs.33,220,050 occasioning an unexplained overpayment of Kshs.21,966,150 contrary to the contract agreement Clause 3.02 of inspection of site and Clause 3.03 of excavation in trenches. It was also noted that the contract had since expired and no extension was granted and the performance bond for Kshs.14,532,184 dated 27 September, 2012 had expired on 26 December, 2013 but had not been renewed. In addition, the contractor was to buy a new diesel powered double cabin 4WD vehicle for exclusive use of the project manager at Kshs.2,000,000. The vehicle had to revert back to the employer upon completion of the project. At the time of the inspection, the vehicle was not physically available.

Under the circumstances, the propriety of expenditure totaling Kshs.73,481,130 incurred on the project could not be confirmed and as such the public may not have obtained value for money on this project.

342.2 Construction of Narok Stadium

A contract to construct Narok Stadium was awarded to a contractor at a contract sum of Kshs.313,676,678 which commenced on 29 May 2013 for a period of 18 months. The envisaged completion date was 28 November, 2014 but which was later revised to 30 June 2015. However, the project had not been completed in spite of a new completion date of 30 June 2015. In addition, scrutiny of the bills of quantities and payments revealed the following:

(i) That the contractor was to install three (3) water tanks with a storage capacity of 2,000 litres each. However, the contractor supplied tanks with a capacity of 1,000 litres.

(ii) According to the bill of quantities, the type of timber to be used for roofing was supposed to be cyprus. However, the contractor used pine timber which is cheaper than cyprus timber.

(iii) The contractor was to construct manholes as specified in the contract at a cost of Kshs.48,800. However, the contractor was paid Kshs.111,800 occasioning overpayment of Kshs.63,000.

(iv) It was agreed that the contractor was to be paid Kshs.2,500,000 for electrical works and installation as per the bill of quantities but was paid Kshs.3,250,000 occasioning an overpayment of Kshs.750,000.

(v) The contractor was to do drilling, piping, supply pump and elevate water storage tank 20M³ including testing and commissioning of the whole system at a cost of Kshs.3,500,000. However, it was noted that the borehole was drilled but later sealed due to state of water but no piping was done nor pump installed. In addition, the elevated water storage tank installed was 10M³ instead of 20M³ and the contractor had been paid Kshs.3,000,000 by the time of audit.

(vi) The contractor was to undertake landscaping after site clearance, excavation, preparation and leveling of the ground in order to plant grass and trees and to maintain these until maturity at a total cost of Kshs.7,418,660. However, by the time of audit no landscaping had been done although the contractor had been paid an amount of Kshs.7,041,950. No reasons have been given as to why the project has not been completed in time or why various components had not been undertaken to benefit the general public in spite of the contractor having been paid a substantial amount. Consequently, the public may not have obtained value for money from the construction of the Narok Stadium.

343. Construction of Kenya Industrial Training Institute (KITI), Nakuru Phase IV for the Ministry of Industrialization & Enterprise Development

The Ministry of Lands, Housing & Urban Development undertook a project reference No.W.P. Item No.DGORV/NKU.010/JOB No.6487F on behalf of the Ministry of Industrialization & Enterprise Development. The contract was awarded by the Ministry to Jiku Builders at a contract sum of Kshs.396,597,074 in 2010. The work done and paid for to date as per the documents availed for audit review amounts to Kshs.242,951,347. However, the signed contract agreement between the Ministry and the contractor (Jiku Builders) which contains the terms and conditions of the contract wad not availed for audit review. Further, the main contractor, in their letter to the Ministry referenced Jiku/006/2015 dated 25 May 2015, requested for the Ministry's concurrence to enter into sub contract agreement with M/s Modern Precast (K) Ltd citing internal logistical issues among its Directors. There was no evidence to show whether the Ministerial Tender Committee deliberated and authorized the subcontracting of the project. In addition, no details have been availed to show whether the Ministry conducted technical and financial due diligence to determine whether the subcontracted Company had the capacity to carry out the works. Further, a letter to the Permanent Secretary, Ministry of Industrialization and Enterprise Development from the Ministry of Lands and Housing referenced: QD117/General Vol.1/(92) dated 24

November 2015 indicated that, though the original contract sum amounted to Kshs.396,597,074, the anticipated final account was raised to Kshs.469,063,069.03 resulting in a contract variation of Kshs.72,465,995, an equivalent of 18%. No evidence however has been furnished for audit review to show that the Ministerial Tender Committee authorized the contract variation of 18%. In addition, a total amount of Kshs.56,717,578 has been charged by the subcontractor in 2015/2016. Further, it has not been possible to confirm whether the contract between the Ministry and subcontractor (Modern Precast Ltd) is binding. It was also noted that vide letter referenced QD117/General Vol.1/(90), the Ministry of Housing and Urban Development requested the Ministry of Industrialization and Enterprise Development to consider funding the above project by availing Kshs.201,000,000. The Memorandum of Understanding between the two Ministries has however not been availed for audit review. In addition, the approved drawings, site visit meeting minutes and the current status report as well as payment vouchers with certificates detailing all the work done and paid for as per the bills of quantities have not been availed for audit review.

Consequently, it has not been possible to confirm whether there was value for money for the work done and paid for amounting to Kshs.242,951,347.

344. Other Matter

344.1 Budgetary Control and Performance

The Ministry of Lands, Housing and Urban Development had a total budget of Kshs.31,445,183,832 voted for the financial year 2015/2016 comprising of Kshs.27,664,337,690 for development and Kshs.3,780,846,142 for recurrent expenditure. This was an increase of 5% compared to the 2014/2015 financial year's budget of Kshs.29,706,194,169.

The budget absorption was as follows:-

Item	Budgeted Allocation 2015/2016 Kshs.	Actual 2015/2016 Kshs.	Under absorption Kshs.	Absorption Rate in %	As % of Total Expenditure
Recurrent	3,780,846,142.00	3,702,494,989.30	78,351,152.70	98.00	14.90
Development	27,664,337,690.00	21,157,249,902.65	6,507,087,787	76.47	85.10
Total	**31,445,183,832.00**	**24,859,744,891.95**	**6,585,438,939**	**79.34**	**100.00**

In view of the above, the Ministry failed to utilize funds totalling Kshs.6,585,438,940 out of which Kshs.6,507,087,787 related to development projects. Failure to utilize funds for development undermines development agenda of the Ministry and impacts negatively on service delivery to the citizens.

344.2 Recurrent Expenditure

Of the recurrent budget of Kshs.3,780,846,142, the following is the budget performance analysis:

Item	Budget	Actuals	(Under Expenditure)/ Excess Expenditure	Under Expenditure/Over Expenditure (%)
Compensation of Employees	2,750,300,000	2,788,630,231.35	(38,330,231.35)	(2%)
Use of goods and services	822,965,640	713,105,239.15	109,860,400.85	14%
Transfers to Other Government Units	158,260,752	160,010,752.00	(1,750,000.00)	(2%)
Other grants and transfers	26,939,248	26,550,826.80	388,421.20	2%
Social Security Benefits	150,000	-	150,000.00	0%
Acquisition of Assets	22,230,502	14,197,940.00	8,032,562.00	37%
TOTALS	**3,780,846,142**	**3,702,494,989.30**	**78,351,152.70**	**2%**

The under expenditure for the recurrent budget was mainly on use of goods and services and acquisition of assets with under expenditure of Kshs.109,860,400, and Kshs.8,032,562 respectively. This is an indication of lack of focus in budget mechanism hence need for proper budgeting process to focus on priority areas for service delivery to Kenyans.

344.3 Development Expenditure

A total of Kshs.27,664,337,690 was allocated to the Ministry for development during the year ended 30 June 2016. However only Kshs.21,157,249,902 was paid which represents 76% of the funds allocated as detailed below:

Item	Budget	Actuals	Under Expenditure	Under Expenditure %
Use of goods and services	3,999,554,386.00	3,679,658,950.65	319,895,435.35	8%
Units	1,850,971,081.00	890,338,237.30	960,632,843.70	52%
Other grants and transfers	211,600,000.00	204,802,569.50	6,797,430.50	4%
Acquisition of Assets	21,602,212,223.00	16,382,450,145.20	5,219,762,077.80	25%
TOTALS	**27,664,337,690.00**	**21,157,249,902.65**	**6,507,087,787.35**	**24%**

Overall, the Ministry did not utilize a total of Kshs.6,507,087,787 representing 24% of the development budget. The management has not explained why more than 24% of the development budget was not utilized. As a result, the citizens did not receive the desired services on the infrastructure that were not implemented resulting in lack of service delivery to the citizens.

345. Pending Bills

As disclosed in Annex 1 to the financial statements, the Ministry of Lands, Housing and Urban Development had total pending bills of Kshs.1,693,351,703 which were not settled as at 30 June 2016 but were carried forward to 2016/2017. Had the bills been paid and the expenditure charged to the account for 2015/2016, the statement of receipts and payments for the year would have reflected a deficit of Kshs.1,683,473,193 instead of the reflected surplus of Kshs.9,878,510 for the year ended 30 June 2016.

MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT

REVENUE STATEMENT

Basis for Disclaimer of Opinion

346. Land Rent Collected by KRA on Behalf of the Ministry

Note 3 to the revenue statement under property income reflects Kshs.1,181,008,564 collected by Kenya Revenue Authority and remitted to the National Treasury as at 30 June 2016. However, as reported previously, the Agency Agreement between the Ministry of Lands, Housing and Urban Development and Kenya revenue Authority was not availed for audit review for confirmation of specific terms and conditions of the agreement. Further, it was noted that schedules prepared and submitted by the Kenya Revenue Authority in support of the above collection amounted to Kshs.1,201,198,116. The resultant difference of Kshs.20,189,552 between the two sets of records has not been explained or reconciled.

In the circumstances, it has not been possible to confirm the accuracy and validity of the property income collected by KRA amounting to Kshs.1,181,008,564.

347. Property Income

The revenue statement reflects Kshs.1,418,358,562 as property income for the year ended 30 June 2016. Included in this amount is Kshs.212,842,842 described as rent of Government buildings and housing. However, the Ministry did not provide an updated inventory of all government buildings and houses as at 30 June 2016 and the expected rental income from each house/building. Consequently, it has not been possible to establish whether all rentals due from government buildings and houses was received and accounted for. Further, the Ministry has not explained why there was no revenue collection during the month of August, 2015.

348. Revenue Transferred to the Exchequer

The revenue statement for the year ended 30 June 2016 shows that Kshs.779,471,911 was transferred to the Exchequer account during the year ended 30 June 2016. Included in this figure is Kshs.197,317,813 being revenue collection from the district registries. However, no breakdown of this figure in form of monthly returns/reports from each district registry has been provided for audit review. Further, it is not clear why monthly revenue analysis provided indicates that no revenue was collected during the months of April, May and June 2016. Consequently, the accuracy and validity of the amount transferred to the exchequer account of Kshs.779,471,911 as shown in the statement of revenue and transfers for the year ended 30 June, 2016 could not be confirmed.

349. Sales of Goods and Services

Note 4 to the revenue statement for the year ended 30 June 2016 reflects Kshs.480,445,203 for sale of goods and services as at 30 June 2016. Included in this

figure is Kshs.420,102,467 described as Other Land Revenue and whose analysis/breakdown has not been provided for audit review. In the absence of this analysis, the figure for sale of goods of Kshs.480,445,203 included in the statement of revenue and transfers for the year ended 30 June 2016 could not be confirmed.

350. Unexplained Variance Between the Ministry, Controller of Budget and Treasury Records

Records available reflect that the Ministry of Lands, Housing and Urban Development transferred Kshs.779,471,911 to the exchequer during the year ended 30 June 2016. However, as reported in prior years, records maintained by the Controller of Budget indicate total receipts of Kshs.1,359,908,433 during the period resulting in unexplained or unreconciled variance of Kshs.580,436,521. In addition, Exchequer Returns from the National Treasury indicate total receipts of Kshs.863,806,927 resulting in a variance of Kshs.84,335,016 which has not been explained or reconciled. Consequently, the accuracy and validity of the amount transferred to the exchequer account of Kshs.779,471,911 as shown in the statement of revenue and transfers during the year ended 30 June 2016 could not be confirmed.

351. Statement of Arrears of Revenue

The Public Finance Management Act, 2012 Section 82 (2) requires Ministries to prepare statement of arrears and revenue abandoned during the year. However, the statement of arrears in the revenue statements reflect nil balances while the Ministry has arrears especially from rent of Government buildings and houses.

Consequently, it has not been possible to ascertain the validity and accuracy of these revenue statements for the year for the year ended 30 June 2016.

352. Land Rent Revenue Collected at Headquarters

Revenue records reflect that Kshs.24,507,157 was collected at the Ministry's head office. The Ministry uses e-citizen platform software which is system based to collect land rent revenue. A review of the system indicated the following internal control weaknesses:-

352.1 The source documents such as copy of title deed/lease certificate, demand notice generated by the system indicating the amount of land rent payable and bank deposit slip or proof of payment are not maintained by the department making it difficult to ascertain whether the correct amount was billed or received.

352.2 The users are able to edit existing data about revenue in the system such as date of latest clearance which may affect the amount payable. This compromises the integrity and reliability of the revenue records available.

In the circumstances, it has not been possible to confirm the validity, accuracy and completeness of the Kshs.24,507,157 reported as land rent revenue from the Ministry's head office.

KENYA SLUM UPGRADING LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

STORES AND SERVICE FUND

Basis for Disclaimer of Opinion

353. Inaccuracies in the Financial Statements

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

353.1 Cash and Cash Equivalents

Cash and cash equivalent balance brought forward amounts to Kshs.224,744,758 while the prior year audited financial statements reflect a balance of Kshs.224,741,758 thus resulting in an unreconciled or unexplained variance of Kshs.3,000.

353.2 Inventories

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

353.3 Sale of Goods

The prior year's figure for sale of goods amounts to Kshs.32,321,404 while the audited balance for the account in the year 2014/2015 was Kshs.252,482,245. The resultant difference of Kshs.220,160,841 has not been explained. In addition, the statement of financial performance reflects sale of goods figure of Kshs.96,639,911 as at 30 June 2016 while the statement of cash flows reflects Kshs.90,893,143 thus resulting in an unexplained variance of Kshs.5,746,769.

353.4 Borrowings

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

353.5 Bulk Purchases of Stores

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

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

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

Under the circumstances, it has not been possible to confirm the cut-off and accuracy of bulky purchases of stores and fuel balance of Kshs.120,017,323 reflected in the financial statements.

354. Cash and Cash Equivalents

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

354.1 The cash and cash equivalent balance of Kshs.155,840,626 reflected in the statement of financial position is at variance with the cashbook balance of Kshs.212,993 resulting in an unexplained variance of Kshs.155,627,633.

354.2 Further, no evidence was presented for audit review to confirm that the Fund appointed a Board of Survey at the end of the financial year to verify the actual cash balance of Kshs.117,613 reflected in Note 8.5 (b) to the financial statements.

354.3 The bank reconciliation statement presented for audit review reflects receipts in the bank statement and not in the cashbook of Kshs.90,786 and receipts in the cash book and not in the bank statement of Kshs.499,641. In addition, Kshs.5,387,452 described in the bank reconciliation statement as a cashbook under cast could not be confirmed.

In the circumstances, the validity and accuracy of cash and cash equivalents' balance of Kshs.155,840,626 could not be confirmed.

355. Trade and Other Payables

Trade and other payables from exchange transactions' balance reflected in the statement of financial position as at 30 June 2016 is Kshs.52,994,135. However,

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

356. Inventories

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

357. Payment Received in Advance

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

358. Sale of Goods

The statement of financial performance for the year ended 30 June, 2016 reflects a balance of Kshs.96,639,911 while the supporting schedules presented for audit review reflected a balance Kshs.100,274,267 thus resulting in a difference of Kshs.3,634,356 which has not been explained. In addition, the Fund did not maintain a sales ledger and therefore the source of the sales data could not be confirmed.

359. Missing Receipt Books

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

CIVIL SERVANTS HOUSING SCHEME FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

STATE OFFICER HOUSING MORTGAGE SCHEME FUND

Basis for Disclaimer of Opinion

360. Long Term Receivables from Exchange Transactions

Included in the statement of financial position as at 30 June 2016 is long-term receivables from exchange transactions amounting to Kshs.1,499,264,230. This item relates to funds disbursed to state officers under the housing mortgage scheme. Schedules in support of the amount disbursed of Kshs.1,499,264,230 were not availed for audit review.

In the circumstance, it has not been possible to determine the validity and accuracy of the amount of Kshs.1,499,264,230 for long-term receivables from exchange transactions included in the statement of financial position.

AGRICULTURAL SETTLEMENT FUND TRUSTEES

Basis for Disclaimer of Opinion

361. Property, Plant and Equipment

The Fund's statement of financial position as at 30 June, 2016 reflects a balance of Kshs.7,432,878,660 for non-current Assets. However, schedules for land and buildings, and fixed and loose assets amounting to Kshs.6,176,800,380 and Kshs.38,680,431 respectively were not availed for audit review. Further, the Fund did not maintain a fixed/non-current assets register during the year under review thereby making it difficult to determine whether all the non-current assets were accounted for. In the circumstance, it has not been possible to confirm whether the balance for property, plant and equipment of Kshs.7,432,878,660 included in the statement of financial position is fairly stated.

362. Current Assets

362.1 Receivables from Non-Exchange Transactions

Note 10 to the financial statements reflects receivables from non-exchange transactions' balance of Kshs.784,313,839. The balance has been arrived at after setting off total credit balances of Kshs.2,870,597,100. However, no supporting

schedules were availed for audit review in support of these credit balances as was the case in the previous year.

362.2 Unsupported Debit Balances

As reported in the previous year, the statement of financial position as at 30 June 2016 under note 10 (receivables from non-exchange contracts) – current receivables reflected the following balances which had no supporting schedules:-

	Amount (Kshs.)
Land Loans Issued	278,937,099
Development Loan Issued	231,832,877
Rescue Loans Issued	550,019
Other Recoverable Expenses	9,820,460
Billed amounts - settlers	2,957,025,616
Other Debtors -Debtors General	32,352,624
Trade Investment	59,263,387
Advances	10,567,668
Suspense – Debit Items	64,507,005
Agency Accounts (Debits)	257,000
	3,645,113,755

In the circumstance, it has not been possible to determine the validity and accuracy of the receivables from non-exchange transactions' balance of Kshs.784,313,839.

363. Trade and Other Payables from Exchange Transactions

The statement of financial position as at 30 June 2016 under Note 12 to the financial statements reflects trade and other payables from exchange transactions with the following balances and which had no supporting schedules:-

	Amount (Kshs)
Reserve for Bad Debts	6,602,797
Other Creditors	3,150,139
Accrued Interest on Loans	301,500
Suspense Credit Items	122,806,862
Fund drawn from Treasury	5,153,814
	107,598,612

In the absence of supporting schedules and analysis, it was not possible to ascertain the existence, accuracy and validity of these balances for trade and other payables from exchange transactions amounting to Kshs.14,285,401.

364. Budgetary Control

During the year under review, the Fund did not avail the approved budget for audit review. It was further noted that the financial statements prepared did not include the statement of comparison of budget and actual amounts as required by IPSAS 24 paragraph 14 and the Public Sector Accounting Standards Board approved template. As a result, it could not be confirmed whether the Fund operated within the approved budget.

DONOR FUNDED PROJECTS

KOROGOCHO SLUM UPGRADING PROJECT-KENYA/ITALY DEBT FOR DEVELOPMENT SWAP PROGRAMME (CREDIT NO. CN/1246)

Unqualified Opinion

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

KENYA INFORMAL SETTLEMENTS IMPROVEMENT PROJECT (IDA CREDIT NO 4873-KE)

Unqualified Opinion

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

Other Matter

365. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflect total budgeted expenditure of Kshs.2,446,000,000 against actual expenditure of Kshs.1,641,543,056 resulting in a net budget under utilization of Kshs.804,456,944 or 33% of the total budget as detailed below:-

Category	Final Budget Kshs.	Actual Amount Kshs.	Variance Kshs.	%
Purchase of Goods and Services	150,000,000	130,749,912	19,250,088	13%
Acquisition of Non-Financial Assets	2,096,000,000	1,316,758,241	779,241,759	37%
Transfer to other Government Entities	200,000,000	194,034,903	5,965,097	3%
Total	**2,446,000,000**	**1,641,543,056**	**804,456,944**	**33%**

Continued budget underutilization could have adverse effect on planned project activities.

KENYA MUNICIPAL PROGRAMME (IDA CREDIT NO. 4714-KE)

Basis for Qualified Opinion

366. Outstanding Imprests

As disclosed in Note 8.8c to the financial statements, imprest and advances figure of Kshs.113,884,392 includes outstanding imprest totalling Kshs.4,010,670 due from various officers as at 30 June 2016. Some of the imprests have been outstanding for a long period and their recoverability is uncertain. Although the matter was raised in the previous year's report, no evidence of any efforts being made to recover the long outstanding imprest was availed. Failure to surrender the imprest is contrary to the National Treasury Circular No. 14/2013 dated 19 November 2013 which requires imprest to be surrendered or accounted for within seven working days following return from official journey and Regulation 93(5) of Public Financial Management Regulation, 2015. The management was therefore in breach of the Law.

367. Construction of Non-Motorized Transport Infrastructure in Thika Town

Included in Note 8.7 to the financial statements under acquisition of non-financial assets figure of Kshs.3,257,404,034 is an amount of Kshs.2,266,831,983 in respect of construction of civil works. The figure of Kshs.2,266,831,983 also includes Kshs.630,621,897 being contract sum for construction of non-motorized transport infrastructure in Thika Town. The contract commenced on 29 October 2014 for construction period of 12 months. Although available records indicate that there was an interim extension of 3 months with effect from 14 March 2016, the project was incomplete as at the time of audit inspection in August 2016. The project was, therefore, behind schedule and management has not explained if and when the project will be completed. In the circumstance, it has not been possible to confirm whether the Program will achieve its mandate.

368. Loan from External Development Partners

The special account statement of Kenya Municipal Programme CR.NO.4714-KE for the year ended 30 June 2016 shows that during the year under review, USD 28,652,819 equivalent to Kshs.2,964,098,379 was withdrawn from the special account to finance project activities. However, this amount differs with the figure of Kshs.2,961,403,900 reflected in the Project's statement of receipts and payments by unexplained /unreconciled variance of Kshs.2,694,479.

In the circumstances, it has not been possible to confirm the correctness and accuracy of the receipts from external development partners figure of Kshs.2,961,403,900.

NAIROBI METROPOLITAN SERVICES IMPROVEMENT PROJECT - (CREDIT NO.5102-KE)

Unqualified Opinion

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

MINISTRY OF INFORMATION, COMMUNICATIONS AND TECHNOLOGY

FINANCIAL STATEMENTS FOR VOTE 1121

Basis for Qualified Opinion

369. Accounts Receivables – Outstanding Imprest

As disclosed in note 14 to the financial statements, the accounts receivables balance of Kshs.52,172,575 include a suspense and clearance figure of Kshs.47,525,728 whose nature and supporting analysis was not availed for audit review. The accounts receivables balance also includes temporary imprests totalling Kshs.2,972,251 due from various officers some of which date back to August 2015. This is contrary to Regulation 93(5) of the Public Finance Management Regulations 2015 which required that a holder of temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. The Ministry was therefore in breach of the law.

In the circumstances, it has not been possible to confirm that the accounts receivables balance of Kshs.52,172,575 was fairly stated.

370. Partitioning and Refurbishment work to 9 and 11 floors Tele Posta Towers

The Ministry, through restricted tendering awarded a tender for partitioning and refurbishment of 9 and 10 floors of Tele Posta Towers to the lowest evaluated bidder at a contract sum of Kshs.12,720,769. The tender was however awarded contrary to Section 29(3) of the Public Procurement and Disposal Act, 2005 on use of restricted tendering which requires the entity to:-

i. Obtain written approval of its tender committee; and

ii. Record in writing the reasons for using the alternative procurement procedure.

Further, Section 73(2) of the Public procurement and Disposal Act 2005 provides that a procurement entity may use restricted tendering if the following conditions are satisfied:-

- Competition for contract, because of the complex or specialized nature of the goods, works or services is limited to prequalified contractors;

- The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured; and

- There is only a few known suppliers of the goods, works or services as may be prescribed in the regulation.

In addition, the contract price was varied by Kshs.2,819,786 representing 22.16% of the contract sum which is over 15% allowable in the procurement laws. Further, the contract duration was varied from sixteen (16) weeks to twenty two (22) weeks with completion date being 13 August 2015. However, available information indicates that the project was completed and handed over on 7 January 2017 seventy seven (77) weeks later. This was done in breach of Public Procurement and Disposal Regulation 2006 Section 31 which provides that for the purposes of Section 47(b) of the Act, any variation of a contract shall be effective only if the price or quantity variation is to be executed within the period of the contract.

Perusal of the bill of quantities indicates that the following was included of which no documentary evidence was provided for audit verification to show how the amounts were spent:-

	Kshs
Provide for project management expenses	200,000
Provide for contingencies	500,000
Preliminary expenses	400,000
TOTAL	**1,100,000**

The ministry was therefore in breach of the public procurement law and regulations thereby casting doubts as to whether the citizens obtained value for money.

371. Tender for Renovation and Refurbishment Works on the Ministry's Stand-Nairobi Show Ground

The Ministry through restricted tendering awarded the tender to renovate and refurbish its stand at the Nairobi Show Ground to the lowest evaluated bidder at a cost of Kshs.5,472,730. The tender was however awarded contrary to section 29(3) of the Public Procurement and Disposal Act, 2005 on use of restricted tendering which requires the entity to:-

i. Obtain the written approval of its tender committee and

ii. Record in writing the reasons for using the alternative procurement procedure.

Further, Section 73(2) of the Public procurement and Disposal Act, 2005 provides that a procurement entity may use restricted tendering if competition for contract, because of the complex or specialized nature of the goods, works or services was limited to prequalified contractors; the time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured and that there was only a few known suppliers of the goods, works or services as may be prescribed in the regulations.

In addition, examination of the bill of quantities indicated that the following items were included in the bill of quantities but no supporting documents were provided for audit verification:

	Kshs
Project management stationery and expenses	250,000
Allow for contractor's profits and overheads 10%	25,000
Insurance for employees	50,000
Allow for electrical works	500,000
Allow for drainage and mechanical works	800,000
Allow for landscaping	500,000
Allow for contingencies	300,000
Total	**2,425,000**

Although the contract was to be for a duration of six (6) weeks, no minutes to show the date when the contractor took possession of the site, the commencement and completion dates and whether site inspections were being carried out were availed for audit review.

In the circumstances, it has not been possible to ascertain if the work was completed within the contract period and the propriety of expenditure totalling Kshs.5,472,730 could not be confirmed.

372. Tender for Tilling Works to the Department of Information at Uchumi House

The Ministry through restricted tendering awarded a contract for tilling works at the Department of Information at Uchumi House 5 floor to the lowest bidder at a cost of Kshs.4,850,204. The contract was however awarded contrary to Section 29 (3) of the Public Procurement and Disposal Act, 2005 on use of restricted tendering which requires the entity to:-

i. Obtains written approval of its tender committee and

ii. Record in writing the reasons for using the alternative procurement procedure.

Further, Section 73(2) of the Public Procurement and Disposal Act, 2005 provides that a procurement entity may use restricted tendering if competition for contract, because of the complex or specialized nature of the goods, works or services was limited to prequalified contractors; the time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured, and there was only a few known suppliers of the goods, works or services as may be prescribed in the regulation.

In view of the above, the Ministry was in breach of the law and value for money could not be established.

373. Unresolved Prior Year Matters

373.1 Legal fees

As previously reported, information available at the Ministry indicated that on 18 September 2006 the Government of Kenya was sued in the High Court of Justice (Queens Bench Division) England on Anglo leasing related contracts. The Ministry of Information, Communications and Technology with the authority of the Attorney General single sourced and appointed a law firm to represent the Ministry in the High Court of Justice (Queens Bench Division London). The appointment of the Law firm was done on the understanding that the Ministry would be responsible for ensuring that reasonable professional fees were agreed upon, taxed and paid. The Ministry deposited Kshs.4,000,000 in the Advocates account in respect of legal fees. Thereafter the Legal firm with the authority of the Ministry engaged the services of another Law firm in England for the purpose of defending the Government of Kenya. Documents available indicate that the Kenyan Law firm filed a bill of costs before the Commercial Court at Mililani on 22 December 2009 against the Attorney General on behalf of the Ministry of Information, Communications and Technology. The Ministry filed its submission on 14 November 2011 opposing the said bill of costs. The matter was heard and a ruling delivered on 13 February 2013 dismissing the bill of costs and awarded the applicant the Kenyan law firm Kshs.4,000,000 that was earlier deposited in their account as sufficient for the advisory work done for the Ministry on Anglo Leasing related contracts.

The law firm which was aggrieved by the Commercial Court's decision, filed an appeal in the High Court on 7 March 2013 and judgement was made on 31 October 2013 stating that the award of the Commercial Court of Kshs.4,000,000 was inordinately low and subsequently awarded the law firm Kshs.25,000,000 as reasonable instructions fee for the legal services rendered by the Kenyan law firm. Although the Ministry paid Kshs.25,000,000 to the Attorney General for onward transmission to the law firm, no evidence of any contractual agreement between the Ministry and the law firm was availed for audit review. In the absence of the contractual agreement, it has not been possible to establish how the fee of Kshs.25,000,000 was arrived at. In the circumstance, the propriety of expenditure of Kshs.25,000,000 paid to the law firm could not be ascertained.

373.2 Transfers to Other Government Units

373.2.1 Transfer of Grants to Kenya Yearbook Editorial Board

As previously reported, examination of available records in the Ministry indicates that a total of Kshs.83,198,400 was paid to Kenya Yearbook Editorial Board as grants for the financial year ended 30 June 2015. However, examination of payment vouchers indicates that an additional amount of Kshs.34,800,000 was paid as assistance to undertake various activities by the Kenya Yearbook Editorial Board vide payment vouchers No 419 and 501 for Kshs.27,000,000 and Kshs.7,800,000 respectively. The payments were done contrary to the Public Finance Management Regulations, 2015

Section 71 (5) which provide that a National government entity is not allowed to give another National government entity cash donations to augment the budgetary resources of a designated department.

In addition, funds appropriated and approved for specific programs by the Ministry of Information, Communications and Technology were paid to Kenya Yearbook Editorial Board contrary to Sections 54 of the Public Finance Management Regulation 2015 which state that except as provided for in the Act and these Regulations, an accounting officer of an entity may not authorize payment to be made out of funds earmarked for specific activities for the purpose other than those activities. Further, review of records at the Kenya Year Book Editorial Board indicated that the funds were not in the approved budget for the financial year ended 30 June 2015 and the procurement plan for the year did not include the goods and services procured. The Ministry was therefore in breach of the Law and no satisfactory explanations has been provided on how the amount of Kshs.34,800,000 was utilized as at the date of this report.

373.2.2 Unclear Transfer of Grants to Ministry Departments

As previously reported, the statement of receipts and payments for the year ended 30 June 2015 reflects Kshs.2,435,625,509 under grants and transfers to other Government Units. Included in the figure of Kshs.2,435,625,509 were grants totalling Kshs.110,000,000 transferred to two (2) Ministry Departments - Government Advertising Agency (GAA) Kshs.83,000,000 and Kenya Institute of Mass Communication (KIMC) Kshs.27,000,000 without budgetary provisions and approval contrary to Section 31 (1) of the Public Finance Management Regulations, 2015 which states that the accounting officer shall ensure that the draft estimates relating to her/his department are prepared in conformity with the Constitution and the Public Finance Management Act, 2012 and its Regulations. It was however observed that the two (2) departments; Government Advertising Agency and Kenya Institute of Mass Communications were still Departments operating under the Ministry of Information, Communications and Technology and therefore do not qualify for grants. It was not clear and the Ministry has not explained the circumstances under which Kshs.110,000,000 was transferred to its two (2) internal departments and how the monies were utilized. In the circumstances, it has not been possible to confirm the propriety, regularity and validity of Kshs.110,000,000 transferred to the two (2) Ministry's internal departments as at the date of this report.

373.3 Acquisition of Assets

373.3.1 Un-authorized Expenditure on Purchase of Motor Vehicles

As previously reported, records available at the Ministry indicates that a total of Kshs.104,335,548 was spent on purchase of motor vehicles during the year under review against a budgetary provision of Kshs.91,200,000 resulting in unauthorized over expenditure of Kshs.13,135,548. The Ministry through letter ref. No. RES112/14/01/28 dated 23 January 2015 obtained authority from the Principal Secretary, National Treasury for purchase of 12 four wheel drive vehicles at a total cost of Kshs.70,695,190 to be distributed as follows:-

i) 4 (four) vehicles to National Optic Fiber backbone Infrastructure (NOFBI),

ii) 4 (four) for county connectivity project and

iii) 4 (four) for Kenya Transparency Communication Infrastructure Project (KTCIP).

However the Ministry disregarded the National Treasury authority to purchase twelve (12) vehicles and instead without authority, went ahead to procure twenty three (23) vehicles at a total cost of Kshs.104,335,548 resulting in an additional and unapproved expenditure of Kshs.13,135,548, as at 30 June 2015. In the circumstances, the propriety of over expenditure totalling Kshs.13,135,548 on motor vehicles has not been ascertained as the date of this report.

373.3.2 Agency and Disbursement Fees to Huawei Technologies Ltd

As reported in the previous year, examination of payment vouchers revealed that the Ministry paid Kshs.28,218,313 to Huawei Technologies Ltd in 2014/2015 financial year in respect of agency fees. A review of the matter during the year under review revealed that the Ministry made a further payment of Kshs.6,716,103 to the firm all totalling Kshs.34,934,416 as at 30 June 2016. Although Huawei Tech. (K) Ltd were contracted to provide project management services on behalf of the Government of the Republic of Kenya through the Ministry Contract No. 00Y404131300200 of 7 July 2010, no documentary evidence was availed to show how the firm was identified and awarded the contract and how the contract price was arrived at. Scrutiny of Ministry records also indicate that the goods were cleared on 28 December 2013, while reimbursement and claim documents were presented in March 2015. No explanation had been provided as to why the documents took over a year before the same were lodged with the Ministry for payment. Further, no documentary evidence indicating that the goods and services were verified and inspected by an independent inspection team was availed for audit review.

In the circumstances, it has not been possible to confirm the propriety of expenditure totalling Kshs.34,934,416 as at 30 June 2016.

373.4 Kenya Institute of Mass Communications (KIMC)

373.4.1 Construction of Men's Hostel at KIMC

As previously reported, examination of the Ministry records indicate that a Contract No. D32/01/2012-2013 for the proposed erection and completion of men's hostels at the Kenya Institute of Mass Communication was awarded to a construction company at a contract sum of Kshs.188,858,602. However, scrutiny of the contract documents revealed that the contractor did not provide the following goods and services which were included in the bill of quantities:

		Kshs.
1.	2 No. Laptop Computers-Toshiba or other equal and approved	250,000
2.	Project Management expenses:	
	-Technical training of the MoPW	206,000
	-Project management expenses	1,030,000
	-Clerk of works allowances	154,500
	-Airtime KES.5000×1person×6×12months	370,800
3.	Performance bond	1,000,000
4.	Provision of site office for project manager	500,000
	TOTAL	**3,511,300**

Further, it was noted that although the Contractor was required to provide a performance bond of 5% of the contract sum or Kshs.1,000,000, the amount was irregularly provided for in the bill of quantities and charged to the Ministry contrary to contract agreement. No satisfactory explanation had been provided as to why the contractor failed to provide for the performance bond as required. It was doubtful if public resources totalling Kshs.4,511,300 was not wasteful expenditure.

373.4.2 Failure to Deduct Withholding Tax on Payments to Contractor

As previously reported, examination of Ministry records revealed that the Ministry failed to deduct and remit to Kenya Revenue Authority withholding tax totalling Kshs.5,665,758 upon payment to the contractor contrary to the Income Tax Act CAP 470 Section 35 (3) (f) which provides for deduction of withholding tax from resident Companies at the rate of 3% of the contract fees. No satisfactory explanation has been provided for the above anomaly and the Ministry was therefore in breach of Income Tax Laws.

Other matter

374. Budgetary Controls and Performance

The Ministry of Information, Communications and Technology had a total budget of Kshs.17,693,497,869 voted for the financial year 2015/2016 comprising of Kshs.2,999,400,303 for Recurrent Vote and Kshs.14,694,097,566 for Development Vote respectively. The budget absorption in the Ministry was as follows:

	Budgeted Allocation 2015/2016	Actual Expenditure 2015/2016	Under Absorption	Absorption in %
	Kshs	Kshs	Kshs	Kshs
Recurrent	2,999,400,303	2,684,936,800	314,463,503	90%
Development	14,694,097,566	13,337,841,127	1,356,256,439	91%
Total	17,693,497,869	16,022,777,927	(1,670,719,942)	

It has not been explained why the Ministry did not fully utilize the budget allocation as at June 30 June 2016.

375. Recurrent Vote

The budget performance analysis for recurrent budget totalling Kshs.2,999,400,303 is as detailed below:

RECURRENT VOTE				
Revenue/Expense Item	Final Budget	Actual expenditure	Budget Utilisation Difference	% utilization
	Kshs	Kshs	Kshs	
RECEIPTS				
Tax Receipts	4,000,000	4,000,000	-	100%
Exchequer releases	2,819,400,303	2,661,100,000	-158,300,303	90%
Proceeds from Sale of Assets	164,000,000	83,982,886	-80,017,114	51%
Administrative Fees and Charges	12,000,000	12,000,000	-	100%
Other Receipts	-	56,125,284	56,124,284	0%
Total Receipts	**2,999,400,303**	**2,761,082,896**	**-238,317,417**	**92%**
PAYMENTS				
Compensation of Employees	467,400,000	434,092,363	(33,307,6370	93%
Use of goods and services	1,172,371,429	948,269,693	-224,101,726	81%
Transfers to Other Government Units	1,198,467,353	1,167,950,754	-30,516,599	97%
Other grants and transfers	1,750,000	50,000	-1,700,000	3%
Social Security Benefits	16,300,000	16,500,000	200,000	101%
Acquisition of Assets	143,111,521	118,073,980	-25,037,541	82%
Grand Total	**2,999,400,303**	**2,684,936,800**	**-316,463,503**	**90%**

The management explained that under-collection from sale of assets was due to an adjustment to allow for the collection of AIA in supplementary which was adjusted late in the month of June 2016, whereas the funds collected prior to the introduction of the budget line were collected in Deposits account. In addition, records availed for audit review indicate that Kshs.1,172,371,429 under Recurrent Vote was for use of goods and services. However as at the end of the financial year 2015/2016 only Kshs.948,269,693 had been spent representing 81% absorption. It was not clear why the Ministry did not spend Kshs.224,101,726 allocated for goods and services. Further, it was also noted that Kshs.1,750,000 and Kshs.143,111,521 were allocated under other grants and transfers and acquisition of assets respectively out of which only Kshs.50,000 and Kshs.118,073,980 equivalent to 3% and 82% respectively had been

spent as at 30 June 2016. The under absorption of the approved budget was an indication of activities not implemented by the Ministry which implies non delivery of planned goods and services to the Kenyan citizens.

376. Development vote

The Ministry had a budget allocation of Kshs.14,694,097,566 under Development Vote for the year 2015/2016. The under collection of proceeds from foreign borrowing of 58% was due to non-submission of documents to support the transfers to projects not operated from the Ministry. As at 30 June 2016 only Kshs.13,337,841,127 had been spent representing 91% of the budget allocation. Under payment of transfers to other Government units was due to non-collection of proceeds from foreign borrowings for the APD for Digital terrestrial DVB TZ project. Records availed for audit review indicate that Kshs.10,811,125,457 had been allocated for acquisition of assets and only Kshs.10,268,786,759 had been utilized representing 95% of the budget allocation resulting in under expenditure of Kshs.45,381,140 as follows-:

Revenue/Expense Item	Final Budget	Actual Expenditure	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
	Kshs	Kshs	Kshs	
RECEIPTS				
Exchequer releases	11,594,097,566	11,548,716,426	-45,381,140.00	99%
Proceeds from Foreign Borrowings	3,100,000,000	1,793,075,323	-1,306,924,677	58%
Total Receipts	**14,694,097,566**	**13,341,791,749**	**-1,352,305,817**	**99%**
Payments				
Compensation of Employees	-			
Use of goods and services	1,267,692,676	1,252,972,482	-14,720,194	99%
Transfers to Other Government Units	2,615,279,433	1,816,081,886	-799,197,547	69%
Acquisition of Assets	10,811,125,457	10,268,786,759.00	-542,338,698	95%
Grand Total	**14,694,097,566**	**13,337,841,127**	**(1,356,256,439)**	**91%**

The under absorption of the development budget was an indication that planned development activities were not fully realized thereby affecting delivery of goods and services to the citizens.

MINISTRY OF INFORMATION, COMMUNICATIONS ANDTECHNOLOGY - REVENUE STATEMENT

Unqualified Opinion

There were no material issues noted during the audit of this revenue statement.

DONOR FUNDED PROJECTS

KENYA TRANSPARENCY AND COMMUNICATIONS INFRASTRUCTURE PROJECT (IDA CREDIT NO. 4284-KE, 5092-KE AND 5408KE)

Unqualified Opinion

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

MINISTRY OF SPORTS, CULTURE AND THE ARTS

FINANCIAL STATEMENTS FOR VOTE 1131

Basis for Qualified Opinion

377. Budget and Budgetary Control

Expenditure

Section 43 (b) of the Public Financial Management (PFM) Act, 2012, and Regulations, 2015 require, "an Accounting officer to ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for which they were intended and appropriated by the National Assembly".

The Ministry reallocated an amount of Kshs.211,954,395 under acquisition of assets and Kshs.27,081 under social security benefits without seeking prior approval of the National Treasury as required.

No explanation has been provided for the failure to seek approval of the National Treasury for the reallocations. The Ministry was therefore in breach of the PFM Act, and its Regulations.

378. Outstanding Balances

i) District Suspense

The statement of assets as at 30 June 2016 reflects a figure of Kshs.21,648,312 in respect of accounts receivables which includes an amount of Kshs.20,756,326 disclosed under note 23 as relating to the district suspense that had not been supported by authentic and verifiable source documents. In addition, the above figure of Kshs.20,756,326 increased by Kshs.6,196,716 from Kshs.14,559,610.00 reported in 2014/2015 to Kshs.20,756,326 in the year under review. No analysis has been provided to account for the above movement.

In the circumstances, it has not been possible to confirm the accuracy of the receivables balance of Kshs.21,648,312.

ii) Outstanding Imprests

Included in the accounts receivables' figure of Kshs.21,648,312 is an amount of Kshs.458,936 disclosed under note 23 as relating to outstanding imprests due from former officers of the Ministry. A review of the position at the time of audit in December 2016 showed that Kshs.154,400 and Kshs.279,336 owed by two officers have been outstanding beyond the due date of July and June 2016 respectively.

No explanation has been provided for the failure to recover the outstanding imprests in full from the defaulting officers' salaries as required by Section 93 (6) of the Public Finance Management Act, 2012.

379. Pending Bills

379.1 Unsupported Pending Bills

Under note 26.1 in the Ministry's financial statements, bills totalling Kshs.259,876,116 were not settled during the year 2015/2016 but were instead carried forward to 2016/2017. Out of the Kshs.259,876,116, bills amounting to Kshs.9,748,727.20 relate to 2014/2015 financial year. The Ministry has cited liquidity problems due to inadequate provisions under various heads as the main reason for these pending bills. Had the bills been settled and charged to the 2015/2016 financial statements, the statement of receipts and payments would have reflected a deficit of Kshs.228,324,812 instead of a surplus of Kshs.31,551,304 now shown.

No reasons were given for failure to settle the pending bills amounting to Kshs.9,748,727 which should have formed the first charge in the subsequent year's payments as required under regulation 42 1(a) of the Public Finance Management Regulations, 2015.

Further, out of the total pending bills of Kshs.259,876,116, bills amounting to Kshs.56,326,648 were not supported. In addition, the above unsupported bills of Kshs.56,326,648, included a bill of Kshs.15,409,950 owed by an officer of the National Museums of Kenya in respect of allowance payable during the Jumuiya ya Afrika Mashariki Utamaduni Festival (JAMAFEST) held in August 2015 in Nairobi.

Consequently the pending bills amounting to Kshs.56,326,648 remain unsupported as at 30 June 2016.

380. Unresolved Prior Year Issues

As reported in 2014/2015, an amount of Kshs.173,894,869 was indicated as pending bills deficit in respect of 20th Commonwealth Games expenditure brought forward from 2013/2014 financial year. However, only Kshs.143,967,837 was disclosed as pending bills in 2013/2014 financial year. The difference of Kshs.29,927,032 has to date not been explained.

381. Misallocation of Funds

a) Other Grants and Transfers

The statement of receipts and payments for the year ended 30 June 2016, includes a figure of Kshs.11,970,064 which relates to other grants and transfers but disclosed as membership fees and dues in note 16 to the financial statements. However, verification of documents availed for audit revealed that out of this balance, Kshs.11,112,482 was in respect of payments of other services which are unrelated to membership fees and dues. This is without the necessary approval of reallocations procedure.

Although management has explained that the amount was budgeted for under contribution to international organisations, the list of these organisations together with confirmation receipts has not been provided. Further, the figure increased from Kshs.10,638,221 reported in 2014/2015 to Kshs.11,970,064 in 2015/2016 but no explanation has been provided for the change.

b) Social Security Benefits

Further, the statement of receipts and payments for the year under review reflects expenditure in relation to social security benefits of Kshs.4,027,081. However, records verification showed that only Kshs.377,768 related to service gratuity and the balance of Kshs.3,649,313 was used to cater for other unrelated expenses.

No reasons were provided for failure to seek National Treasury approval for the reallocations. The Ministry therefore acted in contravention of Section 43 of the Public Finance Management Act, 2012.

382. Grants Not Received by the Respective State Corporations

The statement of receipts and payments for the year ended 30 June 2016, indicates that Kshs.3,735,363,985 was transferred to other Government units. However verification of records maintained at the Ministry headquarters indicated that only Kshs.2,177,865,073 was transferred. Transfers totalling Kshs.1,548,561,127 were not received by the respective state corporations as follows:

Government entity	Grants Transfers to other Govt units at the Ministry Kshs.	Amount Recorded at the Entities Kshs.	Amount not received Kshs.	Remarks
Kenya Film Commission	86,122,000	86,122,000	-	
Kenya Film Classification Board	181,493,396	180,969,600	523,796	Not received
National Museums	985,904,900	985,904,900	-	
Kenya National Library Services	999,116,048	603,000,000	396,116,048	Acquisition of Assets
Kenya Cultural Centre	91,954,999	56,702,023	35,252,976	Not received
Sports Kenya	237,291,600	237,291,600	-	
Institute of Primate Research	18,084,950	18,084,950	-	
Kenya Academy of Sports	9,938,990	9,790,000	148,990	Not received
Grants meant for other entities but utilised at Ministry HQ	1,116,519,317	-	1,116,519,317	No explanation
Total	3,726,426,200	**2,177,865,073**	**1,548,561,127**	

The Ministry cited the reasons for the differences as a reconciliation problem between the amounts utilised within the Ministry and the grants which were accounted for as acquisition of assets in other entities records. This explanation does not appear plausible and grants disbursed and not received by the respective entities totalling Kshs1,548,561,127 remain unaccounted for.

Although the financial statements reflect a figure of Kshs.3,735,363,985 under grants transfers to other Government entities as disclosed in note 15, analysis of records availed for audit in respect of these transfers indicate a total figure of Kshs.3,726,426,199 resulting in an unexplained difference of Kshs.8,937,786.

No explanation has been provided for failure to reconcile the records. The unauthorized utilization of grants meant for other entities imply that the activities/goals and objectives of the respective entities were not achieved as planned due to failure to disburse the full budgeted allocation.

In view of the foregoing, the grants amounting to Kshs.3,735,363,985 could not be ascertained.

383. Unexplained Increases in Expenditures

The following expenditure items increased significantly in 2015/2016 compared to 2014/2016 as follows:

	2014/2015 Kshs.	2015/2016 Kshs.	Increase Kshs.
Domestic Travel	78,022,873	188,452,773	110,429,900
Printing & Advertising	10,437,571	100,611,764	90,174,193
Hospitality & Supplies	33,105,102	140,023,680	106,918,578
	121,565,546	**429,088,217**	**307,522,671**

The huge increases were, however, not accompanied by explanatory notes as required.

384. Disbursements to Pan African Federation of Film Makers

As previously reported, on 23 December 2013, the Government through the former Ministry of Foreign Affairs and International Trade and Ministry of Sports Culture and the Arts, entered into a Memorandum of Understanding (MOU) with Pan African Federation of Film Makers (FEPACI) on the establishment of FEPACI Secretariat in Kenya for four (4) years at a cost of Kshs.84,000,000 per year.

The main objective of the financing agreement was to represent the interest of African Film makers in key fora such as African Union, African Governments, NEPAD and public broadcasting organizations. An amount of Kshs.83,485,637 was disbursed as a grant during 2014/2015 financial year while additional Kshs.64,000,000 was paid during the year under review to FEPACI.

However, itemized budget and expenditure returns showing how the grants were utilized, were not provided for audit verification.

In the absence of such records, the utilization and accountability for the funds could not be confirmed and no evidence has been adduced to show that the objectives specified in the financing agreement have been met.

385. Unsupported and Unaccounted for Disbursements

Under Section 49 of the Sports Act, No. 25 dated 2013, Sports organizations that were registered under the Societies Act were required to make application for registration before the Sports Registrar within one year after the commencement of the Act for the purposes of transition, which ended on 1 August 2014. However, as reported in 2014/2015, the Ministry disbursed funds amounting to Kshs.114,280,054 to various sports organizations which had not complied with the Sports Act, 2013.

A review of the position as at the time of audit in January, 2017 in regard to compliance with the Act, confirmed that these organizations had not legally transited and registered under the Sports Act, 2013 as required.

Consequently, the disbursement of Kshs.114,280,054 was done irregularly.

386. Failure to Prepare Separate Financial Statements

With the enactment of Sports Act, 2013, several bodies were created, including Kenya Academy of Sports and National Sports Fund among others. However, records verified indicate that during the year these entities received grants totaling Kshs.159,589,537 from the Ministry of Sports Culture and the Arts and utilized them independently as follows:

Organization	Amount - Kshs.
National Sports Fund	116,236,537
Kenya Academy of Sports	9,790,000
Sports Registrar	33,563,000
Total	**159,589,537**

However, the entities do not prepare their own financial statements and their financial records are still incorporated in the financial statements of the Ministry.

The reason given by management for the failure to prepare separate financial statements was that the entities had not opened their own bank accounts with the Central Bank to enable them to conduct their transactions independently. The explanation does not appear satisfactory since record keeping could still be done and financial statements consolidated with the Ministry's financial statements.

In the circumstances, the Ministry failed to comply with Section 82 of the Public Finance Management Act, 2012.

Other Matter

387. Grounded Motor Vehicles

Although Section 163(1) of the Public Procurement and Disposal Act, 2015, provides guidelines and procedures for disposal of unserviceable, obsolete, or surplus stores, equipment or assets, an audit inspection at Permanent Presidential Music Commission revealed as previously stated, three (3) Motor vehicles (GK A717G, GK A905P and GK A756M) of undetermined value have been lying at the parking yard for over four years (4) with no indication of whether the vehicles would be repaired or disposed of.

Aside from depreciating in value, the grounded vehicles made no contribution towards the achievement of service delivery objectives of the Ministry.

STATE DEPARTMENT FOR LABOUR AND SOCIAL PROTECTION

FINANCIAL STATEMENTS FOR VOTE 1141

Basis for Qualified Opinion

388. Budget and Budgetary Performance

388.1 Revenue

During the financial year ended 30 June 2016, revenue recorded totalled Kshs.19,854,385,060 against estimated budget of Kshs.24,348,910,635 resulting in a shortfall of Kshs.4,494,525,575 or 18% as shown below:

Description	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Excess/(Shortfall) %
Proceeds from Domestic & Foreign	1,400,000	-	1,400,000	0%
Exchequer releases	24,294,745,635	19,776,467,940	(4,518,277,695)	(19%)
Proceeds from sale of assets	52,765,000	68,542,120	15,777,120	30%
Other receipts	1,800,000	9,375,000	7,575,000	20%
Total	**24,348,910,635**	**19,854,385,060**	**(4,494,525,575)**	**(18%)**

The shortfall mainly occurred under exchequer releases where the Ministry had budgeted for Kshs.24,294,745,635 but received Kshs.19,776,467,940 occasioning a Kshs.4,518,277,695 shortfall or 19%. The Ministry, realized an over collection of Kshs.15,777,120 under proceeds from sale of assets which was mainly attributed to increase in number of registered social groups.

The Ministry did not however, include an explanatory note in the financial statements for the shortfall of Kshs.4,518,277,695 in exchequer receipts.

388.2 Expenditure

Similarly, an analysis of the Ministry's' actual expenditure against the budgeted amount revealed the following variances:

Description	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Excess/ (Shortfall) %
Compensation of employees	1,756,871,027	1,711,648,331	(45,222,696)	(3%)
Use of goods and services	3,220,325,352	2,135,413,197	(1,084,912,155)	(34%)
Transfers to other Government units	18,162,689,752	15,219,640,122	(2,943,049,630)	(16%)
Other grants and transfers	373,812,933	239,082,354	(134,730,579)	(36%)
Acquisition of assets	835,211,571	251,348,622	(583,862,949)	(70%)
Total	**24,348,910,635**	**19,557,132,626**	**(4,791,778,009)**	**(20%)**

The Ministry had budgeted to spend Kshs.24,348,910,635. However, actual expenditure was Kshs.19,557,132,626 for the year ended 30 June 2016. The under expenditure of Kshs.4,791,778,009 was mainly attributed to delays in accessing second half development budget, massive movement of staff towards the end of the financial year and early closure of IFMIS. Consequently, the under expenditure negatively impacted on service delivery by the Ministry.

389. Unvouched Expenditure

During the year ended 30 June, 2016, payments totalling Kshs.133,095,128 were made to various contractors engaged by the Ministry. However, tender documents for all the bidders, bills of quantities (BQs), evaluation reports and contract agreements for the winning bidders as well a Ministerial Tender Committee Minutes approving the awards and practical completion certificates were not provided for audit review.

In consequence, it has not been possible to confirm propriety and value for money of the total expenditure of Kshs.133,095,128.

390. Shoddy Construction of Occupational Safety and Health Services - Research Institute Office Complex

As previously reported, the construction of the Occupational Safety and Health Services (OSH) - Research Office Complex project commenced on 28 February 2010 at an estimated cost of Kshs.480,000,000. The main purpose of constructing the research and institute office complex was to assist OSH in keeping abreast with changing issues in as far as work environment health and safety of workers was concerned. Although the construction works commenced on 28 February 2010, the expected completion date was not stated. Further, the builders' works were divided into five (5) phases with the construction of each floor being advertised, evaluated and awarded to different contractors. A total of Kshs.343,458,956 had been paid to various contractors for the year ended 30 June 2016.

Physical verification of the ongoing works revealed that the parking basement was water logged due to poor workmanship while the basement floor constructed at a total cost of Kshs.71,239,810 was full of drainage water due to poor waterproofing and poorly reinforced concrete base which was at the time of the audit in February 2017 being reconstructed by a different contractor. Available information indicated that a submersible pump has been installed to pump water from the basement.

The foundation of the building was therefore not properly done and the stability of the building was questionable thus endangering the safety of workers of which OSH is mandated to inspect/detect their safety in other work places.

In view of the poor planning, poor workmanship and poor implementation, the project cost is likely to escalate from the estimated cost of Kshs.480,000,000 considering that work was still incomplete more than seven (7) years later.

391. Refurbishment of Medical Clinic at Department of Occupational Safety and Health – Industrial Area

During the year under review, a total of Kshs.2,862,213 was utilised in the refurbishment of the Medical Clinic at the Occupational Safety and Health at Industrial Area in Nairobi. The works involved partitioning, painting, installation of doors and shelves, window blinders, among other things. Although the works were completed in July, 2015, a physical inspection of this facility in January 2017 revealed that the facility was neglected and had never been utilized. The facility was covered in dust and was in an unkempt state while an X-ray machine procured at a cost of Kshs.7,000,000 in 2007 (now obsolete) lay in one of the rooms without having been used due to lack of qualified personnel.

In the circumstances, the propriety and value for money of the expenditure of Kshs.9,862,213 on both the unused X-ray machine and refurbished clinic could not be ascertained.

392. Unsupported Pending Bills

Bills amounting to Kshs.90,993,075 chargeable to both the recurrent and development Vote-1141 were not settled during the year but were instead carried forward to 2016/2017 financial year. Had these bills been cleared and charged to the vote, the statement of receipts and payments for the year 2015/2016 would have reflected a reduced net surplus to be surrendered to the exchequer of Kshs.206,259,359 instead of Kshs.297,252,434 now shown.

Further, no supporting documents were provided for audit review to confirm the validity of the pending bills. As a result, the accuracy, completeness and validity of the pending bills of Kshs.90,993,075 could not be confirmed.

393. Unreconciled Lease Payments

An examination of lease payments for the Ministry's offices at Social Security House revealed that lease payments totalling Kshs.102,785,801 did not tally with the signed lease agreements amounts of Kshs.85,482,678. No reconciliation statements in support of the lease payments were provided for audit review. Further, lease payments totaling Kshs.66,545,107 were not produced for audit review.

Under the circumstances, it has not been possible to confirm the accuracy and validity of the lease payments totalling Kshs.169,330,908.18.

394. Unsupported Payments for Cleaning Services

During the year 2015/2016, a cleaning company was contracted at a cost of Kshs.406,335 per month and paid a total of Kshs.8,849,697 for rendering cleaning services to the Ministry. However, payments totalling Kshs.6,307,680 were not supported by schedules showing the period when the work was done or the service that was rendered.

In the circumstances, the propriety of the expenditure of Kshs.6,307,680 could not be confirmed.

395. Irregular Payment for Manpower Consultancy Services

During the year ended 30 June 2016, an individual consultant was paid Kshs.2,244,600 in respect of consultancy services titled National Manpower Survey Report. According to the contract agreement signed in July, 2012 the consultancy was to take a duration of three months at a contract sum of Kshs.4,988,000. Further, the final report was delivered in May, 2013 and partial payment of Kshs.2,743,400 was made during the 2012/2013 financial year.

However, it was not clear how the consultant was identified and contracted since no evaluation report and Ministerial Tender Committee Minutes approving the award were produced for audit review. No explanation was provided as to why the debt had remained outstanding since 2013 but had never been declared as a pending bill in previous' years. In addition, the expenditure was irregularly charged under Item 2211023- Supplies for Production as opposed to Item 2211310-Contracted Professional Services.

In the circumstance, the payment of Kshs.2,244,600 during 2015/2016 could not be confirmed as a proper charge to the public funds.

396. Unsupported Bursary Payments

Examination of records maintained at the Ministry headquarters revealed that a total of Kshs.9,007,260 was paid as bursaries to needy students within the Nairobi County

Constituencies. However, no selection criteria or receipts and acknowledgement letters from the beneficiary schools in support of the payments were produced for audit review.

Consequently, the propriety of the expenditure of Kshs.9,007,260 could not be confirmed.

397. General and District Suspense

The statement of assets reflects a general and district suspense balance of Kshs.3,271,890,830 for the year ended 30 June 2016. However, no schedules were provided to support these long outstanding balances. Management has not explained what challenges are faced in resolving this matter.

In the circumstances, the completeness, accuracy and validity of these significant balances of Kshs.3,271,890,830 could not be confirmed.

398. Outstanding Imprests

The statement of assets as at 30 June 2016 reflects an outstanding imprests' balance of Kshs.11,307,390 while imprests records reviewed indicated a balance of Kshs.16,108,427. The resultant difference of Kshs.4,801,037 has not been reconciled or explained. Further, imprests totalling Kshs.683,678 have been outstanding since 2014/2015 and earlier years . In addition, imprests amounting to Kshs.3,230,777 were issued to officers who had not accounted for previous issued imprests.

As a result, the propriety and recoverability of the imprests totalling Kshs.4,801,037 as at 30 June 2016 could not be confirmed.

Other Matter

399. Grounded Motor Vehicles

Section 163(1) of the Public Procurement and Disposal Act, 2015, provides guidelines and procedures for disposal of unserviceable, obsolete, or surplus stores, equipment or assets. An audit inspection carried out in 2015/2016 at the Ministry and its state various corporation yards in Nairobi revealed that sixteen (16) motor vehicles and two *(2)* motor cycles with undetermined values were still lying at the yard for over four (4) years with no indication of whether those vehicles would be repaired or disposed-off.

Aside from the clear depreciation in value, such vehicles are also not contributing towards the achievement of the annual objectives while new vehicles continue to be purchased.

400. Feedback on Quality Review of Annual Financial Statements

The Management has not acted or given any feedback on the recommendations made by the Directorate of Accounting and Quality Assurance with respect to resolving issues regarding old balances.

401. Incomplete Summary of Fixed Asset Register

The Ministry is required under Annex 4 of the IPSAS - National Government Financial Reporting Template, to provide a summary of fixed assets register listing the asset class and historical cost. However, Annex 4 of the financial statements presented for audit did not include the list and value of assets. In the circumstance, it was not possible to confirm the total value of the fixed assets in the Ministry.

DONOR FUNDED PROJECTS

KENYA NATIONAL SAFETY NET PROGRAM (NSNP)

Basis for Disclaimer Opinion

402. Failure to Prepare Financial Statements

As previously reported, out of the five (5) programs under NSNP, three (3) programmes namely; Older Persons Cash Transfer Program, Hunger Safety Net Program and the Social Protection Secretariat (which is responsible for consolidation) did not prepare and submit separate financial statements as required by International Public Sector Accounting standards (IPSAS) (Cash Basis). In addition, ledgers in support of the figures in the financial statements and the corresponding trial balances were not provided for audit review.

402.1 Cross Referencing of Figures in the Financial Statement

The financial statements presented for audit were not properly numbered or the figures aligned to the respective headings or notes as required. Hence, it was not possible to match pages and headings of the financial statements.

In view of the foregoing, it has not been possible to confirm the accuracy, completeness and presentation of the amalgamated financial statements.

403. Cash and Cash Equivalents

403.1 The consolidated statement of assets and liabilities (per program) reflects cash equivalents totalling Kshs.1,049,567,265 for the year ending 30 June 2016 made up of Kshs.218,360,263 of cash equivalents under cash transfer for persons with disabilities and Kshs.26,145,446 of cash equivalents under cash transfer for orphans and vulnerable children. No analysis was provided to support the cash equivalent figure of Kshs.244,505,709.

403.2 Further, the amalgamated statement of receipts and payments for the year ended 30 June 2016 under older persons cash transfer Program shows total payments of Kshs.4,302,024,463 against the receipts of Kshs.6,483,131,463, leaving a cash

balance carried forward of Kshs.4,585,804,810. However, the cash balance carried forward has not been reflected in the statement of assets for the same period. No explanation has been provided for the omission of the cash balance of Kshs.4,585,804,810 from the statement of assets.

403.3 In addition, the amalgamated statement of assets and liabilities (per program) as at 30 June 2016 reflects a bank balance of Kshs.729,991,088 under the cash transfer for orphans and vulnerable Children (CT-OVC) which differs with the combined cash book balance for CT-OVC Grant and CT-OVC Credit of Kshs.687,681,701. The resultant difference of Kshs.42,309,387 has not been reconciled.

The statement also reflects a bank balance of Kshs.39,687,866 under Hunger Safety Net Program that differs with the cash book balance of Kshs.47,115,304. The difference of Kshs.7,427,432 has also not been reconciled.

In the circumstances, the accuracy of the cash and cash equivalents' balance of Kshs.1,049,567,265 in the amalgamated statement of assets and liabilities as at 30 June 2016 could not be confirmed.

404. Budgetary Control and Performance

404.1 Income

A comparison of budget against the actual receipts reflects the following differences;

Description	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	% Variance
Government of Kenya	17,507,779,519	14,793,398,429	(2,714,381,090)	(15.5%)
External Financing	6,864,410,454	5,533,663,870	(1,330,746,584)	(19.4%)
Miscellaneous Receipts	1,200,000	13,012,920	11,812,921	984.41%
Total	**24,373,389,973**	**20,340,075,219**	**(4,033,314,754)**	**(16.5%)**

No explanation has been provided for the difference of Kshs.4,033,314,754 or 16.5%between the actual and budgeted amounts.

404.2 Expenditure

An analysis of the project actual expenditure against the budgeted amount revealed the following variances.

Description	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	% Variance
Older Persons Cash Transfer Program	7,785,158,762	4,302,024,463	(3,483,134,299)	(44.7%)
Cash Transfer for persons With Severe Disabilities	1,120,000,000	1,675,820,192	555,820,192	49.62%
Cash Transfer for orphans and Vulnerable Children	9,087,644,619	5,834,998,805	(3,252,645,814)	(35.7%)
Hunger safety Net program	5,491,950,230	5,454,721,272	(37,228,958)	(1%)
Social Protection Secretariat	887,436,362	176,163,030	(711,273,332)	(80.1%)
Total	**24,372,189,973**	**17,443,727,762**	**(6,928,462,211)**	**(28.4%)**

No reasons have been provided for the failure to spend Kshs.6,928,462,211 or 28.4% of the amalgamated budgeted expenditure. In the circumstances, the goals and objectives of the four (4) amalgamated cash transfer programmes may not have been achieved as planned.

405. Inclusion of Income not Related to Cash Transfers

The consolidated statement of receipts and payments for the year ended 30 June 2016 reflects receipts from the Government of Kenya totalling Kshs.1,578,695,000 under cash transfer for persons with severe disabilities. A review of records indicate that actual Government receipts amounted to Kshs.1,200,000,000. Under the circumstances, Kshs.458,695,000 does not relate to cash transfer program and the Government receipts have therefore been overstated by Kshs.458,695,000.

Further, the amalgamated statement of assets and liabilities as at 30 June 2016 reflects a bank balance of Kshs.35,382,601 under the cash transfer for persons with severe disabilities while the respective cash book reflects a cash balance of Kshs.65,709 as at 30 June 2016. The difference of Kshs.35,316,892 relates to programs that are not associated with the cash transfer for persons with severe disabilities.

In view of the foregoing, the amalgamated statement of receipts and payments and statement of assets and liabilities as at 30 June 2016 under cash transfer for persons with severe disabilities has been overstated by Kshs.458,695,000 and Kshs.35,316,892 respectively.

406. Unexplained Differences between the Trial Balance and the Statement of Receipts and Payments in the Financial Statements

The project's statement of receipts and payments differs with the trial balance in the following expenditure components:

Expenditure	Statement of Receipts & Payments Kshs.	Trial Balance Figures Kshs.	Difference Kshs.
Compensation of employees	181,897,262	171,245,613	10,651,649
Social security benefits	14,776,938,313	6,469,569,738	8,307,368,575
Use of goods and Services	2,454,651,559	943,524,477	1,511,127,082
Acquisition of non-financial assets	30,240,628	28,237,290	2,003,338
Total	**17,443,727,762**	**7,612,577,118**	**9,831,150,644**

The differences totalling Kshs.9,831,150,644 between the two sets of records have not been reconciled.

Further, no schedules were provided to support the total payments of Kshs.17,443,727,762 reflected in the consolidated statement of receipts and payments.

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

407. Incorrect Brought Forward Balances

The consolidated statement of receipts and payments for the year ended 30 June 2016 reflects opening balances as at 1 July 2015 that differ with the audited closing balances for the year ended 30 June 2015 as highlighted below:

	Audited Closing Balance as at 30 June 2015 Kshs.	Opening Balance as at 1 July 2015 Kshs.	Differences Kshs.
Receipts			
Government of Kenya	12,509,676,290	11,903,096,621	606,579,669
External financing	5,316,159,252	5,511,919,480	-195,760,228
Payments			
Older Persons Cash Transfer Program	3,233,292,524	5,602,223,299	-2,368,930,775
Cash Transfer for Persons with Severe	714,806,797	775,686,797	-60,880,000

Disabilities			
Cash Transfer for Orphans and Vulnerable Children	5,591,653,627	6,478,908,905	-887,255,278
Hunger Safety Net Program	4,076,727,570	4,068,207,293	8,520,277

No explanation has been provided for the failure to carry forward the correct opening balances which normally agree with the audited closing balances.

408. Unsupported Cash Disbursements and Payments to Beneficiaries

During the year under review, a total of Kshs.11,603,659,502 was disbursed to Kenya Commercial Bank (KCB) for onward transmission to beneficiaries under the cash transfer for orphans and vulnerable children, older persons cash transfer and persons with severe disabilities programs. However, the required reconciliation reports from KCB showing how much money was received from the Ministry, disbursed, paid to the beneficiaries, withdrawn, uncollected by card/account, number of active agents per Sub-County for cash transfer, card used in a month, and refunds deposited in the Ministry's designated account were not made available for audit review.

In the circumstances, the service provider was in breach of the agreement signed with the Ministry, and the accuracy of the cash disbursements of Kshs.11,603,659,502 in the year could not be ascertained.

409. Unreconciled Social Security Benefits

The consolidated statement of receipts and payments for year ended 30 June 2016 reflects social security benefits payments of Kshs.3,932,974,665 under the Hunger Safety Net Program (HSNP). However, records maintained by Financial Sector Deepening, the agent engaged by DFID for the disbursement of cash, indicated Kshs.4,664,053,392 was transferred through Equity bank (the service provider) while HSNP reflected Kshs.4,802,049,922 as having been transferred.

The resultant differences among the three entities' records have not been explained or reconciled. Further, no reasons have been given for engaging multiple intermediaries.

In the circumstances, the accuracy and completeness of the amount disbursed as social security benefits could not be ascertained.

CASH TRANSFER FOR ORPHANS AND VULNERABLE CHILDREN (CT-OVC) CREDIT NUMBER 4553-KE

Basis for Adverse Opinion

410. Accuracy, Completeness and Presentation of Financial Statements

The Project's statement of receipt and payments differs with the Trial balance in the following expenditure components:

Expenditure	Statement of Receipts and Payments Kshs.	Trial Balance Kshs.	Difference Kshs.
Purchase of Goods and Services	223,785,075	194,009,190	29,775,885
Acquisition of non-financial assets	-	26,355,902	26,355,902
Other Grants and transfer and Payments	240,000,000	5,000,000	235,000,000
Total	**461,785,075**	**225,565,092**	**236,219,983**

The total variances of Kshs.236,219,983 between the two sets of records, which ordinarily should read the same, has not been reconciled. Further, no schedules were provided for audit review to support the total payments of Kshs.465,585,075.

411. Suspense Account Balances

As previously reported, the statement of financial assets as at 30 June 2015 reflects a suspense account balance of Kshs.24,442,276 while the statement of financial assets as at 30 June 2016 reflects a nil balance. No explanation has been provided to show how the suspense account balance has been cleared. As a result, the authenticity of the suspense account clearance could not be confirmed.

412. Cash and Bank Balances

The statement of financial assets as at 30 June 2016 reflects a bank balance of Kshs.179,691,592 while the cash book reflects a figure of Kshs.177,954,884. The difference of Kshs.1,736,708 has not been explained or reconciled.

Further, the bank statement as at 30 June 2016 reflects a balance of Kshs.186,029,409 which differs with the cash book balances of Kshs.177,954,884 as at the same date. The resultant difference of Kshs.8,074,525 has also not been reconciled.

413. Unsupported Cash Disbursements

During the year under review, a total of Kshs.240,000,000 was paid to Kenya Commercial Bank (KCB) for onward transmission to beneficiaries under the Cash Transfer for Orphans and Vulnerable Children Programme. However, reconciliation reports from Kenya Commercial Bank showing; how much money was received from the Ministry, was disbursed, paid to the beneficiaries, withdrawn, uncollected by card/account, number of active agents per sub county for cash transfer, card used in a month, and refunds deposited in the ministry's designated bank accounts were not made available for audit review as required.

In the circumstances, the service provider is in breach of the agreement signed with the Ministry and the accuracy of the cash disbursements in the year could not be ascertained.

414. Failure to Maintain an Assets Register

During the year, the project acquired assets worth Kshs.35,988,058 which included furniture, cameras, tablets and shredders. However, the project did not maintain a fixed assets register and, the assets remained unrecorded and therefore could not be verified. Further, the required annual stock taking was not carried out as at 30 June 2016.

As a result it has not been possible to confirm the expenditure of Kshs.35,988,058 in respect of purchase of goods and services included in the financial statements.

415. Unsupported Expenditure

A total of Kshs.617,859 was paid to an advocacy and communication consultant described as work done during the months of April and May 2016. However, the consultant invoices and progress reports were not produced for audit review. Further, the contract and terms of consultancy were not made available for scrutiny.

In the circumstances, the propriety of payments amounting to Kshs.617,859 could not be confirmed.

416. Budgetary Control and Performance

416.1 Income

During the year under review, the project recorded as revenue an amount of Kshs.141,353,800 against a budget of Kshs.411,353,800 resulting in an under absorption of Kshs.270,000,000.

No explanation has been provided for the difference between the actual and the budgeted amounts from external development partners.

416.2 Expenditure

An analysis of the projects' actual expenditure against the budgeted amount revealed the following variances;

Description	Budget Kshs.	Actual Kshs.	Excess(+)//Shortfall (-) Kshs.	% Variance
Purchase of goods and services	322,009,800 .	223,785,075	(98,224,725)	30.50%
Acquisition of non-financial assets	267,450,000	-	(267,450,000)	100.00%
Other grants and transfer payments	261,600,000	240,000,000	(21,600,000)	8.26%
Totals	**851,059,800**	**463,785,075**	**(387,274,725)**	**45.5%**

No reasons have been provided for the failure to spend Kshs.387,274.725 or 45.5% of the budgeted expenditure. In the circumstances, the projects goals and objectives may not have achieved as planned.

CASH TRANSFER FOR ORPHANS AND VULNERABLE CHILDREN (CT-OVC) GRANT NO. 097272-KE

Basis for Adverse Opinion

417. Incorrect Opening Balances

The statement of receipts and payments and statement of assets reflects opening balances as at 1 July 2015 that differ with the audited closing balances for the year ended 30 June 2015 as follows:

	Audited Closing Balance as at 30 June 2015 Kshs.	Opening Balance as at 1 July 2015 Kshs.	Differences Kshs.
Receipts			
Proceeds from Grants	1,180,679,450	1,184,227,980	**3,548,530**
Payments			
Compensation of employees	619,200	533,800.00	**(85,400)**
Purchase of Goods and Services	29,734,853	55,820,631	**26,085,778**
Other grants and	888,140,981	879,286,196	**(8,854,785)**

transfer payments			
Surplus /Deficit for the Year	**262,184,416**	**248,587,353**	**(13,597,063)**
Statement of Assets & Liabilities			
Bank Balances	449,914,741	453,621,762	**3,707,022**
Receivables	14,812,211	14,812,211	**0.00**
District Funds	17,304,085	0	**(17,304,085)**

No explanation has been provided for the failure to carry forward the correct opening balances.

417.1 Unexplained Expenditure Differences Between the Trial Balance and the Financial Statements

The statement of receipts and payments reflects total expenditure of Kshs.879,000,259 while the trial balance reflects total expenditure of Kshs.1,171,005,315 in respect of purchase of goods and services and other grants and transfer payments. The resultant difference of Kshs.292,005,056 has not been reconciled as shown below.

Expenditure	**Statement of Receipts and Payments Kshs.**	**Trial Balance figures Kshs.**	**Difference Kshs.**
Purchase of Goods and Services	116,209,001	98,725,315	17,483,692
Other Grants and transfer and Payments	762,791,258	1,072,280,000	309,488,742
Total	**879,000,259**	**1,171,005,315**	**292,005,056**

Further, no schedules were provided to support the expenditure amounts including compensation of employees total payments of Kshs.31,494,053. In the circumstances, the accuracy of the financial statements as presented could not be confirmed.

417.2 Bank Balances

The statement of financial assets as at 30 June 2016 reflects a bank balance of Kshs.550,299,496 while the cash book reflects a figure of Kshs.509,726,817 resulting in a difference of Kshs.40,572,679 which has not been reconciled. Further, the cash book balance was not supported by annual board of survey certificates as required. In the circumstances, the accuracy and completeness of the bank balance of Kshs.550,299,496 in the statement of financial assets could not be confirmed.

417.3 Account Receivables (Clearance)

As previously reported in 2014/2015, the statement of assets and liabilities reflected receivables balances of Kshs.14,812,212 as at 30 June 2015. However, no analysis has been provided to support the nil receivables' balance as at 30 June 2016.

Further, the statement of assets and liabilities reflects a nil balance of District Funds from the previously stated balance of Kshs.17,304,085 as at 30 June 2015. No supporting documents have been provided showing how the Kshs.17,304,085 balance was cleared.

417.4 Unaccounted for Salary Deductions

During the year under review, a total of Kshs.696,560 was recovered from various officers' salaries in respect of unsurrendered imprests taken under the project. However, these deductions were not posted in the cash book and were therefore not accounted for. The cash book balance of Kshs.550,299,496 as at 30 June 2016 is therefore understated by Kshs.696,560.

417.5 Non-Disclosure of Foreign Account Balance

The Special Account Statement maintained at the Central Bank of Kenya for Grant No.097272-KE reflects foreign currency balance of USD 2,876,006 (equivalent to Kshs.290,770,502) while the financial statements as at 30 June 2016 reflect nil balance. No reasons have been provided for the non-disclosure of the closing balance in the project account.

418. Budgetary Control and Performance

418.1 Income

A comparison of budget against the actual receipts for the Cash Transfer for Orphans and Vulnerable Children (CT-OVC) Grant Number 097272-KE revealed that the projects recieved Kshs.992,359,840 against a budgetary provision of Kshs.1,611,600,424 resulting in a difference of Kshs.619,240,584 or 38.4%.

No explanation has been provided for failure to receive of 38.4% of budgeted proceeds from the foreign grants totalling Kshs.619,240,584.

418.2 Expenditure

Similarly, an analysis of the projects' actual expenditure against the budgeted amount revealed that the project spent Kshs.910,494,318 against a budget of Kshs.1,611,600,424 resulting in difference of Kshs.701,106,106 or 43.5% which has not been explained.

No reasons have been provided for the failure to spend Kshs.701,106,106 or 43.5% of the budgeted expenditure.

In the circumstances the projects goals and objectives may not have been achieved as planned.

419. Unsupported Expenditure

419.1 Training Expenses

During the period under review, payments totalling Kshs.5,873,200 were made to various officers to cater for daily and foreign subsistence allowance and transport costs. Included in the above amount is Kshs.1,426,500 paid to various officers attending a workshop on "Monitoring and Learning event, and Complaints and Grievances sensitization" in Nakuru. However, the payment vouchers were not supported by attendance lists and travel documents.

In addition, the balance of Kshs.4,446,700 was paid to officers attending training at ESAMI in Tanzania, to cater for their foreign subsistence allowance and transport costs but the respective payment vouchers were also not supported by attendance lists and travel documents.

419.2 Trainings and Workshop

During the year under review, a total Kshs.11,286,403 was paid from the project on account of daily subsistence allowance, transportation, stationery and hire of conference facilities. However, activities with an expenditure totalling Kshs.3,961,700 were not clearly spelt out or included in the approved annual work plans.

In the circumstances, it has not been possible to confirm the propriety and eligibility of the expenditure of Kshs.11,286,403 under the grant funds or confirm whether the project got value for money.

MINISTRY OF ENERGY AND PETROLEUM

FINANCIAL STATEMENTS FOR VOTE 1151

Basis for Qualified Opinion

420. Land Without Title Deeds

As reported in previous year, the Ministry does not have title deeds for eight (8) of the parcels of land it owns totalling 40.11 hectares in size and valued at approximately Kshs.336,549,200. The land parcels are located in Kakamega, Kericho, Kisii, Kitui, Migori, Meru, Uasin Gishu and Nyeri. Particulars of the land parcels and their current conditions are as detailed below:-

No	Land Parcel	Hectares	Location (County)	Approximate Value (Kshs)	Condition
1	Kericho Energy Centre	0.07	Kericho	3,049,200	Developed and fenced
2	Kisii Energy Centre	4.00	Kisii	160,000,000	Developed, fencing underway
3	Migori Energy Centre	0.40	Migori	2,200,000	Developed but unfenced
4	Bukura Energy Centre	2.00	Kakamega	3,500,000	Developed but unfenced
5	Uasin Gishu Energy Centre	0.80	Uasin Gishu	12,000,000	Developed and fenced
6	Kitui Energy Centre	10.60	Kitui	53,000,000	Partially developed, fencing underway
7	Wambugu Energy Centre	4.00	Nyeri	80,000,000	Developed but unfenced
8	Mitunguu Energy Centre	18.24	Meru	22,800,000	Only 2 hectares is developed and fenced off
	Total	**40.11**		**336,549,200**	

Information available indicates that the process of acquiring titles for the mentioned land parcels, has been underway for significantly long durations. From the foregoing, it has not been possible to verify the rightful ownership of these properties as well as the risk of being encroached upon by squatters and land grabbers.

Other Matter

421. Utilization of Mitunguu Energy Resource Centre

As previously reported in 2012/2013, the Ministry expended amounts totaling Kshs.44,636,192 to put up Mitunguu Energy Resource Centre with the completion and hand over date of 25 July 2013. As indicated in 2013/2014 audit report, the viability of the Centre due to non-optimal utilization was questioned. The management in its response to the Public Accounts Committee (PAC) sitting committed to fully operationalize the Centre and provided a business plan. However, information available

indicate that the facility continues to remain idle as the business plan is yet to be implemented. Under the circumstances, it has not been possible to confirm whether there was value for money in respect of the expenditure of Kshs.44,636,192 incurred in putting up the Energy Centre.

422. Budget Control and Performance

422.1 Budgetary Absorption

During the year under review, the approved final budget of the Ministry of Energy and Petroleum was Kshs.96,798,723,812 with Kshs.2,090,126,466 (2%) allocated to recurrent expenditure and the remainder Kshs.94,708,597,346 (98%) to development. Of the total approved budget, Kshs.73,557,938,019 (76%) was absorbed, resulting in under absorption of Kshs.23,240,785,793 (24%) as summarized below:

Receipt/Expense Item	Budget Allocation	Actual	Budget Utilisation Difference	% of Utilisation
	Kshs	Kshs	Kshs	%
Compensation of Employees	359,423,537	327,665,540	31,757,997	91
Use of goods and services	1,290,817,571	955,197,343	335,620,228	74
Grants and Transfers to Other Government Entities	36,992,572,128	36,986,572,128	6,000,000	100
Other Grants and Transfers	6,000,000	6,000,000	-	100
Social Security Benefits	6,000,000	-	6,000,000	-
Acquisition of Assets	58,143,910,576	35,282,503,008	22,861,407,568	61
Total	**96,798,723,812**	**73,557,938,019**	**23,240,785,793**	**76**

The under absorption of approved budget is an indicator of non-implementation of activities and projects in the annual work-plan by the Ministry. This is likely to have negative impact on delivery of goods and services to the Kenyan citizens.

422.2 Development Budget

According to the summary statement of appropriation-development for the year ended 30 June 2016, the Ministry had a budgetary allocation of Kshs.94,708,597,346 for development projects of which Kshs.71,543,431,557 (76%) was expended resulting in under expenditure of Kshs.23,165,165,789 or 24% of budget as analysed below:

Expenditure Item	Budget Allocation	Actual Expenditure	Under Expenditure	% of Utilisation
	Kshs	Kshs	Kshs	%
Compensation of Employees	12,200,000	9,621,074	2,578,926	79
Use of goods and services	1,099,121,698	793,164,000	305,957,698	72
Grants and Transfers to Other Government Entities	35,465,993,516	35,459,993,516	6,000,000	100
Other Grants and Transfers	6,000,000	6,000,000	-	100
Acquisition of Assets	58,125,282,132	35,274,652,967	22,850,629,165	61
Total	**94,708,597,346**	**71,543,431,557**	**23,165,165,789**	**76**

The under expenditure of Kshs.23,165,165,789 implies that the Ministry did not implement or complete some of the projects as planned and hence the intended objectives for the year ended 30 June 2016 were not fully achieved.

PETROLEUM DEVELOPMENT LEVY FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

Other Matter

423. An Unauthorized Expenditure

The statement of receipts and payments and as disclosed under note 3 to the financial statements reflects an expenditure of Kshs.64,370,315 under use of goods and services. There was no budgetary provision for this expenditure category. Consequently, the Fund is in breach of the Public Finance Management Act, 2012.

PETROLEUM TRAINING FUND

Basis for Qualified Opinion

424. Revenue Due

The statement of receipts and payments reflects Contributions from Oil Companies amounting to Kshs.558,349,996, as disclosed under note 1 to the financial statements (2015, Kshs.391,317,711). Available information however, indicates that eight (8) oil companies did not remit their annual training contributions and surface fees contributions amounting to USD 7,445,042 or Kshs.754,147,743, contrary to Clause 5(2) and clause 13(2) respectively, of their individual Production Sharing Contracts (PSC). Had the amounts been paid, the Fund would have reported a surplus for the year of Kshs.724,311,785 instead of the current deficit of Kshs.29,835,958.

Other Matter

425. Excess Expenditure Over Approved Budget

As previously reported and during the year under review, the Ministry also, incurred expenditure totaling Kshs.576,187,396 on payments for use of goods and services, in comparison to an approved budget of Kshs.487,000,000, resulting in a budget overrun of Kshs.89,187,396 or 18%. The Ministry is therefore in contravention of Section 43 (2)(C) of the Public Financial Management Act, 2012 which requires entities to seek and obtain supplementary approval for expenditure exceeding 10% of the approved budget.

426. Budget Performance

The statement of comparative budget and actual amounts for the year under review reflects an approved budget of Kshs.63,000,000 in respect of acquisition of assets. However, there was nil utilization under this item during the year. Management has not explained why it was not able to utilize the budgeted amounts. In absence of utilization of budgeted funds, it is not possible to confirm that there was effective delivery of the intended services.

427. Non remittance of Community Project Funds

The production sharing contract for individual Oil Companies under Clause 13(3) requires the contractors to pay minimum fees per year to the Government for the benefit of local communities. During the year under review, three (3) Oil Companies did not pay their contributions amounting to Kshs.22,000,000 to the Government contrary to the contracts in place. According to management, the contractors disbursed the funds directly to the community projects. However, no document was provided to confirm that the unremitted amounts were actually spent directly on the community projects. In the circumstances, it was not possible to confirm whether the disbursements were made for benefit of the intended community.

428. Non-compliance with Petroleum Act Cap 308

428.1 Ineligible Expenditure

Section 11 (1) and (4) of the Petroleum (exploration and production) Act Cap 308, provides that the training Fund should only be used for training Kenyan nationals in the petroleum industry. However, the statement of receipts and payments reflects payments under compensation of employees amounting to Kshs.9,741,600 being salaries and gratuity payments for officers as disclosed under note 3 for the period under review. The Fund is in contravention of the Act to the extent that the funds have not been used for the intended purposes.

428.2 Invalid Contract with an Oil Company

Section 2 (2) of the Petroleum (exploration and production) Regulations of 1984 stipulates that no person other than a company incorporated or registered in Kenya under the Companies Act may enter into a petroleum agreement with the Government. Contrary to these provisions, the Ministry entered into a Production Sharing Contract with, a company incorporated outside Kenya, on 28 June 2012. The Ministry is therefore in breach of the law.

KENYA ENERGY SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

Other Matter

429. Outstanding Contributions due to the Fund

The government financial management regulations under the Kenya Energy Sector Environment and Social Responsibility Programme (KEEP) Fund of 2007 Section 3(2)(b) and its ten years Action Plan (2008–2018) provides for annual contributions by state corporations and agencies under the Ministry of Energy and Petroleum into the Fund. The annual contributions receivable from Kenya Petroleum Refineries Ltd, Kenya Power Company Ltd, Kenya Electricity Generating Company Ltd, Kenya Pipeline Company Ltd, National Oil Corporation of Kenya Ltd and Energy Regulatory Commission (ERC) amounted to Kshs.2 million, Kshs.90 million, Kshs.100 million, Kshs.51 million, Kshs.5 million and Kshs.2 million respectively, all totaling Kshs.250 million. However during the year under review, only ERC made its contributions into the Fund. Available information also indicates that the total contributions outstanding from the state agencies and corporations and due to the Fund stood at Kshs.2,124,500,000 as at 30 June 2016. Management has not explained why the agencies and corporations have not complied with KEEP Fund regulations by submitting their annual contributions.

430. Global Entrepreneurship Summit Contributions

The statement of receipts and payments under Grants and Transfers to other Government Entities reflects an amount of Kshs.19,000,000 and as disclosed under note 6 to the financial statements. The amount relates to transfers to the Ministry of Devolution and Planning (MDP) on account of participation in the Global Entrepreneurship Summit exhibitions for the Ministry of Energy and Petroleum and five state corporations under it of Kshs.1,000,000 and Kshs.18,000,000 respectively, with the later amount being refundable. As at the time of finalizing this report, only one corporation had refunded their portion of Kshs.5,000,000. The recoverability and availability of the remaining balance of Kshs.13,000,000 to be applied for the intended purposes, could not be confirmed.

DONOR FUNDED PROJECTS

KENYA ELECTRICITY EXPANSION PROJECT (IDA CR.NO.4743-KE)

Unqualified Opinion

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

THE KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CR. NO. 5526-KE)

Unqualified Opinion

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

STATE DEPARTMENT OF AGRICULTURE

FINANCIAL STATEMENTS FOR VOTE 1161

Basis for Qualified Opinion

431. Accuracy of the Financial Statements

(i) Cash and Bank Balances

The statement of assets and as disclosed in Note 22A to the financial statements reflects bank balances amounting to Kshs.450,641,073. However, these balances have not been supported with board of survey reports, bank statements and bank confirmation certificates. Review of the cash books and bank reconciliation statements revealed that the bank balance of Kshs.450,641,073 differs from the balance of Kshs.452,725,473 reflected in the cash books and bank reconciliation statements as follows-:

Account	Amount in financial statements (Kshs)	Amount in cash books & bank reconciliation statements (Kshs)	Variance (Kshs)
Recurrent A/C	Nil	765,517	765,517
Development A/C	Nil	1,318,883	1,318,884
Deposit A/C	450,641,073	450,641,073	Nil
Total	**450,641,073**	**452,725,473**	**2,084,400**

(ii) Transfers to other Government Units

a) The statement of receipts and payments reflects a balance of Kshs.11,146,799,165 under transfers to other Government units which, however, differs by Kshs.423,832,354 from the balance of Kshs.11,570,631,519 shown in supporting documents. The resulting difference of Kshs.423,832,354 has not been reconciled.

b) The supporting schedule for transfers to other Government Units totalling Kshs.11,570,631,519 includes an amount of Kshs.5,580,959,301 indicated to have been transferred to twenty three (23) institutions and departments. However, no evidence has been provided to confirm whether the amounts were received by the respective institutions or departments.

c) Further, the supporting schedules for the transfers to Government Units of Kshs.11,570,631,519 reflect balances that differ with the amounts reflected in the audited financial statements of five projects and an agency's as shown below:-

Name of Institution	Ministry's Supporting Schedule (Kshs)	Project/Agency Financial Statements (Kshs)	Variance (Kshs)
Kenya Cereal Enhancement Programme	70,000,000	35,000,000	35,000,000
Standards and Market Access Programme	46,705,105	26,516,409	20,188,696
Kenya Adaptation to Climate Change	76,433,663	162,015,854	(85,582,191)
East African Agricultural Productivity Project	111,482,360	162,079,228	(50,596,868)
Kenya Agricultural Productivity and Sustainable Land Management Project	277,268,083	300,393,000	(23,124,917)
Kenya Agricultural and Livestock Research Organization	2,267,456,000	2,267,480,000	(24,000)
Total	**2,849,345,211**	**2,953,484,491**	**(104,139,280)**

(d) In addition, the statement of receipts and payments reflects an expenditure of Kshs.1,886,142,573 under acquisition of assets, which includes, as shown under Note 18, an amount of Kshs.1,122,480,692 transferred to Strategic Grain Reserve Fund. However, the amount of Kshs.1,122,480,692 differs by Kshs.63,677,945 from the balance of Kshs.1,186,158,637 shown in the financial statements of Strategic Grain Reserve Fund as Government Grants. No reconciliation or explanation has been provided for the variance.

(iii) Unsupported Accounts Payables

The statement of assets reflects a balance of Kshs.450,644,248 under accounts payables (deposits and retentions) which has, however, not been supported with a schedule, analysis or any other documentation. Under the circumstances, the accuracy of the financial statements cannot be confirmed.

(iv) Other Grants and Transfers

The statement of receipts and payments reflects an amount of Kshs.123,005,127 under other grants and transfers, which includes, as shown under Note 16 to the financial statements, an amount of Kshs.38,728,408 being disbursements to youth and women groups under Empowerment in Modern Agriculture Programme. However, no documentary evidence has been provided to support the amount.

(v) Summary Statement of Provisioning

The summary statement of provisioning reflects a balance of Kshs.8,519,249,613 under both General Account Vote (GAV) provisioning account and exchequer provisioning balance which has, however, not been supported with documentary evidence.

432. Financial Management and Budgetary Control

Section VII of the financial statements – summary statement of appropriation: recurrent and development combined indicates that in 2015/2016, the State Department had a final approved budget of Kshs.27,887,546,103, out of which, Kshs.19,798,153,526 (about 71%) was absorbed. No explanation has been provided for failure to absorb the remaining 29% of the approved budget, which occurred mainly under transfers to other government units (Kshs.7,421,399,732) acquisition of assets (Kshs.756,969,846) and use of goods and services (Kshs.534,604,822). Further, development projects and services that were earmarked to be implemented or provided to citizens appear not to have been implemented or provided as a result of failure to utilize 29% of the approved budget.

433. Pending Bills

Records maintained by the State Department indicate that the Department had pending bills totalling Kshs.489,237,516 as at 30 June 2016, which were carried forward to 2016/2017. Had the bills been paid and the expenditure charged to the accounts for 2015/2016, the statement of receipts and payments for the year ended 30 June 2016 would have reflected a higher deficit of Kshs.491,170,325 instead of the deficit of Kshs.1,932,809 now shown. Failure to settle bills during the year to which they relate distorts the financial statements for the year and adversely affects the budgetary provisions for the subsequent year to which they have to be charged.

434. Avoidable Expenditure - Procurement of Subsidized Fertilizer

The statement of receipts and payments for the year ended 30 June 2016 reflects an expenditure of Kshs.5,692,471,230 under use of goods and services which, as shown under Note 13, includes expenditure of Kshs.5,383,258,816 relating to other operating expenses. The other operating expenses balances further includes payments totalling Kshs.4,189,820,270 made to National Cereals and Produce Board (NCPB) to meet expenses relating to procurement, handling, storage, transportation, commissions and other charges for subsidized fertilizer. However, included in the sum of Kshs.4,189,820,270 paid to National Produce and Cereals Board (NCPB) is an amount of Kshs.147,574,229 made on account of interest on Post Import Facility that arose from a 2013/2014 contractual obligation that the State Department of Agriculture failed to honour.

In 2013/2014, the State Department contracted a company to supply and deliver 102,550 metric tons of various types of fertilizer, at an equivalent cost of Kshs.3,782,845,939. The Department subsequently assigned the contract to National Cereals and Produce Board (NCPB), who in turn entered into a Letter of Credit (LC)

arrangement with a commercial bank. Upon delivery of the fertilizer and subsequent expiry of the 180 days of the LC, NCPB failed to pay up and the bank converted the LC into a loan chargeable at 14.78% per annum. No explanation has been provided on why the Department paid interest on a loan arising from a contract that it had assigned fully to NCPB.

435. Unresolved Prior Year Matters

435.1 Procurement of Seed Potato

As reported in 2014/2015, the State Department paid an amount Kshs.25,000,000 to a firm to import seed potato from Netherlands. However, the supplier appears to have been single sourced as no evidence was provided to confirm that any competitive procurement procedure was followed as required under Section 29 of the Public Procurement and Disposal Act, 2005. Further, no invoice, delivery note or any other documentary evidence was provided to support the payment of Kshs.25,000,000 and to confirm that the seeds were indeed received. Review of the position during the audit of 2015/2016 revealed that the expenditure still remains unsupported.

435.2 Procurement of Certified Seeds, Breeding Stock and Live Animals

It was also reported in 2014/2015 that the expenditure of Kshs.700,718,840 for purchase of certified seeds, breeding stock and live animals incurred during that year included an amount of Kshs.300,000,000 that was not supported with payment vouchers and related documents. Review of the position in 2015/2016 revealed that the expenditure has not been supported yet.

435.3 Purchase and Transportation of Subsidized Fertilizer

As was reported also in 2014/2015, the State Department disbursed an amount of Kshs.2,129,128,558 to National Cereals and Produce Board (NCPB), for purchase of subsidized fertilizer to be sold to farmers. However, apart from an invoice and a schedule raised by NCPB, no verifiable documents were produced for audit to confirm the actual quantity of fertilizer bought by NCPB, the quantity sold to the farmers and purchase and selling prices. Consequently, the propriety of the expenditure of Kshs.2,129,128,558 on subsidized fertilizer could not be ascertained.

Review of the position during the 2015/2016 revealed that the expenditure still remains unsupported.

435.4 Bulking of Traditional High Value (Orphaned) Crops

In 2014/2015 it was reported also that the State Department entered into a Kshs.30,095,000 Memorandum of Understanding (MOU) with Kenya Agricultural and Livestock Research Organization (KALRO) in which KALRO was to undertake multiplication of various traditional high value (orphaned) crops including; cassava, sweet potatoes, cow peas, sorghum, finger millet and beans, with an objective of promoting their consumption and reducing over-reliance on maize. The crops were to

be distributed for cultivation in Arid and Semi-Arid Lands (ASAL) of Baringo, Makueni, Machakos, Tharaka Nithi, Kirinyaga, Kisumu, Homa Bay, Busia, Kwale and Taita Taveta Counties. Although the amount of Kshs.30,095,000 was released to KALRO to undertake the project, no evidence was adduced to show that the project was carried out, completed and distribution done to the intended areas. Review of the matter in 2015/2016 revealed that the position still remains as reported.

435.5 Purchase of Tecno S9 Tablet Gadgets

It was reported also in 2014/2015 that the State Department incurred an expenditure of Kshs.5,584,025 on purchase of 413 tablets. However, no evidence was adduced to confirm that there was a requisition for the tablets and whether the gadgets were delivered, received, taken-on-charge in the stores and issued to specified officers. No evidence was provided in 2015/2016 on the matter.

435.6 Procurement of Fertilizer

(i) It was further reported in 2014/2015 that the State Department advertised Tender No.MOALF/SCMD/AGRIB/12/2014-2015, for supply and delivery of 54,950 metric tons of 8 lots - equivalent to 1,099,000 (50kg) bags of fertilizer. Out of the 21 firms that responded, seven (7) were found to be responsive and awarded contracts to supply the fertilizer at different prices per 50 Kg bag, depending on the region or point of delivery.

Lot 1 was won by bidder No.4 to supply at a price of Kshs.2,655 per 50Kg bag being the lowest evaluated bidder, at a total cost of Kshs.265,500,000. Lot 2 was also won by bidder No.4 at a price of Kshs.2,430 per 50Kg bag and a total cost of Kshs.364,500,000. Information available indicated that bidder No.4 declined to sign a contract agreement even after delivering the acceptance letter. The Ministerial Tender Committee then made a decision to disqualify the bidder and award the tender to the second lowest evaluated bidder, bidder No. 6 at a total cost of Kshs.320,000,000 and Kshs.436,850,000 for lots 1 and 2, respectively. Further, and despite request to the management to produce tender documents and correspondences relating to the disqualified bidder, no documents and records have been provided to date for audit verification.

(ii) In awarding the contract to the second lowest evaluated bidder without giving justifiable reasons why the lowest evaluated bidder declined to sign the contract, the Department lost an amount of Kshs.126,850,000, being the difference between the amount paid to the second lowest evaluated bidder and the amount that would have been paid to the lowest evaluated bidder, as shown below:

Lot No.	Bidder No. 4 (Kshs)	Bidder No.6 (Kshs)	Difference (Kshs)
1	265,500,000	320,000,000	54,500,000
2	364,500,000	436,850,000	72,350,000
	630,000,000	**756,850,000**	**126,850,000**

435.7 Funds Disbursed to Establish Revolving Funds

(i) It was reported also in 2014/2015 that the State Department entered into two separate Memoranda of Understanding (MOUs) with Kenya Agricultural and Livestock Research Organization (KALRO) and Agricultural Development Corporation (ADC) under which the Department was to disburse Kshs.200,789,325 to the two organizations to carry out Potato Seed Multiplication (Bulking). ADC received Kshs.117,500,000 to produce 30,000 (50Kg) bags of basic seeds, 3,000,000 invitro plantlets and 3,000,000 potato mini-tubers while KALRO received Kshs.27,889,325 to produce 34,000 invitro plantlets, 472,220 mini tubers, 12,400 (50Kg) bags of basic seeds. The amounts were charged under the item of transfers to other Government Units.

The Department also disbursed Kshs.50,400,000 to ADC and Kshs.5,000,000 to KALRO for the same purpose but charged the expenditure under the item of specialized materials and services.

(iii) The MOUs provided that once the seed bulking was completed, the seeds would be sold to farmers and the proceeds be used to create two Revolving Funds to sustain continuous increase in production of basic seeds and certified seed potato. However, despite the Department having disbursed the total amount of Kshs.200,789,325 and the seed bulking project completed, the two Revolving Funds have not been established to date.

436. Non-Submission of Financial Statements and Failure to Account for Funds by Agricultural Sector Coordination Unit (ASCU)

Agricultural Sector Coordination Unit (ASCU) is an Inter-Ministerial Secretariat established in 2005, under the Ministry of Agriculture, Livestock and Fisheries, to facilitate implementation and coordination of agricultural sector strategies in line with Vision 2030. The Unit receives funding from the Government and other development partners and it's activities traverse several Ministries. However, the following unsatisfactory matters, like in previous years, have not been resolved:

(i) Since inception in 2005, the Unit, through the parent Ministry, has not submitted its records, documents, books of account and financial statements to the Auditor-General for audit as required by Section 47 of the Public Audit Act, 2015. Although the Ministry had indicated previously that financial statements were prepared for the year ended 30 June 2013, the statements were not submitted to the Auditor-General for audit.

(ii) As reported in 2014/2015, the Unit appointed M/s Deloitte & Touche as its auditors in the previous years. However, no explanation has been provided for the appointment of the private auditors without the knowledge, consent and approval of the Auditor-General as required under Section 23 of the Public Audit Act, 2015. The audit fee of Kshs.3,131,420 (Kshs.1,610,892 for 2012/2013 and Kshs.1,520,528 for 2011/2012) paid to the auditors was therefore an irregular charge on public funds.

(iii) The management of the Secretariat has already been summoned and appeared before the Public Accounts Committee of the National Assembly over this matter. The Committee in consequence directed the management to comply with the law and submit to the Auditor-General all records, documents and information together with financial statements for all the years since inception. The management has, however, not heeded the directive, and therefore the matter remains unresolved.

STRATEGIC GRAIN RESERVE TRUST FUND

Basis for Adverse Opinion

437. Financial Performance

As previously reported, the Fund recorded a deficit of Kshs.4,809,971,427 (2014/2015 – Kshs.1,195,159,835) in 2015/2016. However, the comparative figure of Kshs.1,195,159,835 (2014/2015) reflected in the statement of financial performance differs with the amount of Kshs.1,284,297,766 reflected in the audited financial statements for 2014/2015. No explanation has been given for the variance. The continued loss-making trend has been attributed to the multiplicity of expenses including; costs of acquisition of maize, gunny bags, storage, fumigation, handling costs, transport costs, agency fees and commissions charged by National Cereals and Produce Board (NCPB) as management fees on behalf of the Ministry over the years. This is an indication of existence of a material uncertainty that casts significant doubts about the ability of the Fund to continue as a going concern.

In addition, the accumulated deficit of Kshs.17,674,645,979 as at 30 June 2016 reflected in the statement of financial position includes accumulated deficit brought forward from 2014/2015 of Kshs.12,864,674,552 which differs with the amount of Kshs.12,953,812,480 reflected in the audited financial statements for the year ended 30 June 2015. The resultant difference of Kshs.89,137,928 between the two sets of records has not been reconciled.

Consequently, the sustainability of the Fund is dependent on the continued disbursement of grants by the government.

438. Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.2,588,782,991 as at 30 June 2016, which differs with the cashbook balance of Kshs.2,492,901,822 by Kshs.95,881,169. No reconciliation has been provided for the difference.

In addition, a board of survey report has not been provided to support the cash and cash equivalents as at 30 June 2016. Consequently, the completeness and accuracy of

the cash and cash equivalents' balance of Kshs.2,588,782,991 reflected in the financial statements cannot be confirmed.

Further, a review of the cash book revealed a payment of Kshs.6,000,000 made to a local freight firm vide payment voucher number 001471 dated 22.01.2016, which was not supported with documentary evidence. No details have been provided to explain the nature and purpose of the payment.

Consequently, the propriety and authenticity of the payment cannot be confirmed.

439. Inventories

(i) Obsolete and Unfit Stock of Maize

Review of quality assurance reports for 2015/2016 maintained by National Cereals and Produce Board, the custodian of the Strategic Grain Reserve on behalf of the Ministry, indicates that Celphos, the Board's preferred fumigation chemical has failed to kill weevils. Information available further indicates that although most stations (depots) had requested for a change of the chemical, the Board has not come up with an alternative. Consequently, 754,015 bags of maize valued at Kshs.1,772,055,670 were found to have been damaged beyond the 2.5% acceptable limit and were not fit for human consumption. No efforts appear to have been made to improve the grain storage. Furthermore, no adjustments have been made in these financial statements to account for the obsolete stock.

(ii) Unsupported Balance

The statement of financial position reflects inventories' balance of Kshs.6,589,706,239, which according to note 7, comprises of stocks of maize valued at Kshs.6,226,921,120, gunny bags valued at Kshs.162,785,119 and powdered milk – KCC, valued at Kshs.200,000,000. However, no records and documents including annual stock-take sheets were availed to support this balance.

Consequently, it is not possible to confirm that the balance of Kshs.6,589,706,239 as stated in the financial statements reflects the fair values of the inventories as at 30 June 2016.

440. Receivables

The receivables' balance of Kshs.7,030,977,248 reflected in the statement of financial position has not been supported with details and breakdown of individual debts and services rendered or any documentary evidence.

As a result, the completeness, accuracy and recoverability of the receivables' balance of Kshs.7,030,977,248 could not be confirmed.

441. Trade and Other Payables

The statement of financial position reflects a trade and other payables balance of Kshs.1,807,680,657 which as disclosed under note 9 to the financial statements is net of Kshs.1,330,352,499 indicated as payments during the year. However, no documentary evidence has been provided to confirm the payments during the year. Under the circumstances, the completeness and accuracy of the trade and other payables balance of Kshs.1,807,680,657 could not be ascertained.

442. Agency Agreement

As reported previously, the latest 6th Agency Agreement between the Ministry and National Cereals and Produce Board, which outlines the terms of engagement between the two parties, and which runs from 1 July 2013 to 30 June 2016, has still not been signed by the two parties to date. Consequently, any contracts entered into and transactions carried out between the two parties may not be enforceable in law.

AGRICULTURAL INFORMATION RESOURCE CENTRE REVOLVING FUND

Basis for Disclaimer of Opinion

443. Receivables

The statement of financial position reflects a balance of Kshs.14,623,050 for receivables from non-exchange transactions as at 30 June 2016 (2015 – Kshs.21,172,802), which includes an amount of Kshs.6,521,380 relating to the period between November 1993 and June 2015. A review of the position as at 30 September 2016 indicates that out of the long outstanding balance of Kshs.6,521,380, an amount of Kshs.4,823,741 had been recovered leaving a balance of Kshs.1,697,639. No explanation has been provided for failure to recover the remaining amount.

444. Inventories

The statement of financial position also reflects a balance of Kshs.10,334,856 for inventories. The balance has not been supported with stock-take sheets, schedules, analysis or any other documentary evidence. Consequently, the existence and value of the inventories as well as accuracy and completeness of the balance as at 30 June 2016 cannot be confirmed.

445. Reserves

The statement of financial position reflects a balance of Kshs.10,094,144 in respect of reserves as at 30 June 2016 (2015 – Kshs.25,214,752). The significant decrease in reserves by Kshs.15,120,608 during the year under review has not been supported with any records, movement schedule or documentary evidence. In addition, the balance of

Kshs.10,094,144 for reserves has not been supported with either an explanatory note or analysis. The validity and accuracy of the reserves balance of Kshs.10,094,144 therefore, cannot be confirmed.

446. Statement of Changes in Net Assets

The statement of changes in net assets reflects total net assets' balance of Kshs.50,843,949 as at 30 June 2016 which, however, differs with the balance of Kshs.41,479,732 shown in the statement of financial position. In addition, the statement of changes in net assets reflects under capital replacement development reserve balances of Kshs.6,404,457, Kshs.3,053,905 and Kshs.(15,214,752) relating to depreciation reserve, "surplus/deficit for the period" and transfers to/from accumulated surplus respectively which have not been supported with any documentation or analysis. It has not been possible in the circumstances to confirm the validity, completeness and accuracy of the total net assets balance of Kshs.50,843,949.

DONOR FUNDED PROJECTS

KENYA CEREAL ENHANCEMENT PROGRAMME: GRANT NUMBER 2000000623

Basis for Disclaimer of Opinion

447. Accuracy and Presentation of Financial Statements

The statement of receipts and payments reflects an amount of Kshs.125,648,925 under miscellaneous receipts which as disclosed under note 8.4 to the financial statements includes Kshs.10,000 for sale of tender documents and Contributions in kind from Equity Bank Limited (EBL) and beneficiaries/farmers of Kshs.125,638,925. The amount of Kshs.125,638,925 is made up of Kshs.115,861,126.79 described as Equity Bank Limited Contribution and Kshs.9,777,798 described as "Beneficiary Contribution for e-voucher Inputs'. These amounts are however not supported with receipts, bank remittances, cash books or any other documentary evidence.

Further, the statement of receipts and payments reflects a nil balance under proceeds from domestic and foreign grants. However, the special account statement held at the National Treasury reflects an amount of EURO 1,043,300 (Kshs.119,718,466) as withdrawn on 12 May 2016 from the Special Account and transferred to the Project's bank account. No documentary evidence was availed to confirm that Kshs.115,861,127 was indeed received by the Equity Bank Limited or the Foundation associated with the Bank.

In addition, the statement of receipts and payments for the year ended 30 June 2016 and the statement of financial assets as at 30 June 2016 do not include a column for the cumulative figures as per the requirements of the financial statements presentation template provided by the National Treasury.

Under the circumstance, the completeness, accuracy, and validity of the financial statements could not be confirmed.

EASTERN AFRICA AGRICULTURAL PRODUCTIVITY PROJECT (IDA CREDIT NO. 4568-KE)

Basis for Adverse Opinion

448. Accuracy of the Financial Statements

(i) The statement of receipts and payments reflects opening cash, surplus for the year and receipts differ with prior years 2014/2015 audited balances as follows:-

	Comparative Balance reflected in the financial statements 2014/15 Kshs.	**Amount reflected in the financial statements 2014/2015 Kshs.**	**Difference Kshs.**
Surplus for the year	44,846,500	228,237,881	183,391,381
Cash balance b/f	37,288,974	393,533,064	(356,244,090)
Loan from External Development Partners	781,095,881	608,243,172	172,852,709

No justification has been provided for the above differences.

(ii) The statement of financial assets as at 30 June 2016 reflects comparative cash and cash equivalents balances of Kshs.41,328,889 that differs with 2014/2015 certified financial statements figure of Kshs.224,720,271 by unexplained difference of Kshs.183,391,382.

(iii) The loan receipts of Kshs.144,079,228 from External Development Partners includes an amount of Kshs.52,130,400 that was received on 02 July 2015, two days after the close of the previous financial year (2014/2015) but included in the accounts for that year, hence a duplication.

Consequently, the accuracy of the opening balances and the accounts for the year ending 30 June 2015 cannot be confirmed.

449. Pay-As-You-Earn

There is an understatement of P.A.Y.E taxes amounting to Kshs.390,308, that have not been deducted from the employees. The project is in contravention of the law in regard to statutory remittances.

KENYA AGRICULTURAL PRODUCTIVITY AND SUSTAINABLE LAND MANAGEMENT PROJECT (IDA CREDIT NO. TF 091616)

Basis for Adverse Opinion

450. Transfer from Government Entities

The statement of receipts and payments reflects a figure of Kshs.31,726,450 under transfer from government entities which includes an amount of Kshs.726,450 reflected as a deposit in the bank statement but whose supporting details were not available for audit review. In addition, the same bank statement reflects receipts totalling Kshs.245,400, not supported with documentary evidence but which are excluded from these financial statements.

Consequently, the completeness and validity of receipts from Government entities could not be ascertained.

451. Special Accounts Statements

The statement of receipts and payments reflects an amount of Kshs.196,941,629 under proceeds from domestic and foreign grants, which differs with the transfer to the project amount of Kshs.516,953,199 (US$ 5,072,948.66) in the special accounts statements for grant (GEF GRANT NO. TF 091616-KE) for the year ended 30 June 2016. The difference of Kshs.320,011,570 between the two sets of records has not been reconciled or explained.

452. Outstanding Imprests

The statement of financial assets and liabilities reflects a figure of Kshs.88,899,427 as outstanding imprests which include amounts totalling Kshs.74,697,738 relating to periods prior to the financial year 2014/2015.

It has not been possible to confirm whether these long outstanding imprests will be recovered. Failure to surrender or account for imprest in the year they related to distorts the results of the financial statements and adversely affects the provisions of subsequent year to which the expenditure will be charged. Further, information and records available indicates that the amount disbursed to three County Service Units (CSU) differed with records held by the three units as detailed below:-

	Amount as per Financial Statements Kshs	Amount as per the Supporting Schedules Kshs	Differences Kshs
Cherenganyi	43,116,147	37,779,018	5,337,129
Kikuyu/Kinale	7,825,268	13,513,988	(5,688,720)
Taita Taveta	6,331,676	8,735,713	(2,404,037)
	57,273,091	**60,028,719**	**(2,755,628)**

No reconciliation or explanation was provided for the difference of Kshs.2,755,628 between the two set of records held at the CSUs.

Other Matter

453. Low Funds Absorption

The statement of receipts and payments reflects total receipts of Kshs.228,668,079 and payments of Kshs.224,450,595 during the year. At the same, the accumulated receipts and payments over the life of the project amounted to Kshs.761,731,887 and Kshs.657,692,904 respectively. Out of the accumulated receipts, an amount of Kshs.647,505,319 related to proceeds from Domestic and Foreign Grants. A review of the financing agreement between IDA and the Government of Kenya, dated 7 November 2010 indicates that the project was to last for five (5) years and was to expire in September 2015. However, as at 30 June 2016, the project had absorbed an amount of Kshs.657,692,984 or 65.7% out of the loan amount of Kshs.1,000,000,000 (USD 10,000,000 at an exchange rate of Kshs.100 to the dollar). No evidence has been produced to confirm whether an extension to the project term has been agreed upon between IDA and GOK, and no reason was provided for the low absorption of funds.

AGRICULTURAL SECTOR DEVELOPMENT SUPPORT PROGRAMME – GRANT NUMBER 31100071

Basis for Adverse Opinion

454. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents' balances of Kshs.214,473,020, which include bank balances of Kshs.198,469,983, cash and imprest advances of Kshs.15,210,163 and Kshs.792,874 respectively. The project did not produce cash books, bank statements and bank reconciliations statements for the above balances. In addition, there were no board of survey reports to confirm the existence of these amounts. In the circumstances, it was not possible to ascertain whether all bank and cash transactions and bank balances during the year were fairly stated.

455. Accuracy of the Financial Statements

The statement of receipts and payments reflect an amount of Kshs.1,009,689,656 under purchase of goods and services which include amounts totalling Kshs.119,881,472 and Kshs.8,842,820 incurred on professional services and routine maintenance of vehicles and other transport equipment, respectively. However, these amounts differed with documentation and supporting schedules of Kshs.119,721,471 and Kshs.8,721,323 by Kshs.160,001 and Kshs.121,497 respectively. No reconciliation was provided for the difference.

Consequently, the completeness and accuracy of the figures as disclosed in these financial statements could not be ascertained.

KENYA ADAPTATION TO CLIMATE IN ARID AND SEMI ARID LANDS PROJECT (GEF GRANT NO.TF.096908)

Basis for Qualified Opinion

456. Funds Not Received

The special account statement for the year ended 30 June 2016 reflects amounts totalling Kshs.263,525,854 (US$ 2,597,806.72) as withdrawn from the account held with the Central Bank of Kenya and transferred to the Project. This differs with the Project's statement of receipts and payments, which reflects proceeds from foreign grants of Kshs.155,525,854 as detailed below:-

Date Amount Withdrawn from Special Account at CBK	Date Amount Disbursed to the Project	Special Account at CBK Kshs.	Project Amount Receipts Kshs.	Unremitted Amount Kshs.
1/10/2015	29/10/2015	13,525,854	13,525,854	-
9/12/2015	24/12/2015	130,000,000	130,000,000	-
03/07/2016	03/07/2016	120,000,000	12,000,000	108,000,000
		263,525,854	**155,525,854**	**108,000,000**

The difference of Kshs.108,000,000 is not reflected in the financial statements.

DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOOD PROGRAMME – LOAN NUMBER 2100150028345

Basis for Qualified Opinion

457. Inaccuracies in the Financial Statements

(i) The statement of receipts and payments reflects an expenditure of Kshs.7,558,075 under compensation of employees, which differs with an amount of Kshs.7,389,675 that is supported with information and documentation by a difference of Kshs.168,400. Further, records availed indicate that the expenditure on compensation of employees relates to allowances paid to staff as salaries and the payments were for four months only.

(ii) The statement reflects expenditure of Kshs.84,073,589 under purchase of goods and services, which includes an amount of Kshs.39,356,290 related to domestic

travel and subsistence. However, records availed reflect amounts incurred on domestic travel and subsistence that amounted to Kshs.36,600,820 hence resulting in an unreconciled difference of Kshs.2,755,470.

(iii) The project did not prepare a trial balance to support the figures in these financial statements.

(iv) The financial statements excludes the statement of changes in equity thus it is not in compliance with the International Public Sector Accounting Standards on presentation of financial statements and disclosures.

458. Unsupported Expenditure

(i) Acquisition of Non-financial Assets

The statement of receipts and payments reflects an expenditure of Kshs.202,603,315 under acquisition of non-financial assets, which as disclosed in note 8.9 to the financial statements includes an amount of Kshs.154,131,934, incurred under construction of civil works. Out of the expenditure on construction of civil works an amount of Kshs.149,017,576 was paid directly by the Bank while the difference of Kshs.5,114,358 was paid by the project's management. However no documentary evidence was provided to support the Kshs.5,114,358 paid by the project's management.

(ii) Transfers to other Government Entities

The statement of receipts and payments reflects an expenditure of Kshs.9,403,640 under transfers to other Government entities which, according to note 8.10, represents transfers to County Governments and Kenya Agriculture and Livestock Research Organization (KALRO). However, no documentary evidence has been provided to confirm that the funds were indeed transferred to and received by those Institutions.

459. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects an amount of Kshs.46,229,746 under cash and cash equivalents which includes bank and cash in hand balances of Kshs.40,101,781 and Kshs.6,127,965 respectively. The bank balance of Kshs.40,101,781 includes, an amount of Kshs.996,452, held in Account number 0112006494301 at Co-operative Bank, that has not been supported with a bank reconciliation statement, bank statement, certificate of balance, cash book and board of survey report. The bank reconciliation statement for the CBK bank balance of Kshs.39,105,328.35 reflects receipts and payments in bank of Kshs.9,390,684 and Kshs.220,825.85 respectively that are not in cash book hence not incorporated in these financial statements. Further, the cash on hand balance of Kshs.6,127,965 comprising of balances held in various counties and agencies, was not supported with a cash book and board of survey report.

Consequently, the accuracy of the cash and cash equivalents' figure of Kshs.46,229,746 as disclosed in the statement of assets and liabilities could not be confirmed.

Basis for Qualified Opinion

460. Cash and Cash Equivalents

The statement of assets reflects a balance of Kshs.67,745,718, under cash and cash equivalents. This balance comprises recurrent bank account (Kshs.385,391), development bank account (Kshs.287,096), deposit bank account (Kshs.65,897,702) and cash (Kshs.1,175,528). The individual bank account balances agree with the cashbooks for the respective accounts and the Board of Survey report as at 30 June 2016. However, bank reconciliations as at 30 June 2016 reflect balances that differ from those reflected in the Board of Survey report and the respective cash books where the development and recurrent bank account cash book balances are indicated as Kshs.2,886,144,715 and Kshs.1,530,749,044, respectively. Further, bank reconciliation statements for the deposit account were not prepared and submitted for audit.

In the circumstance, the accuracy of the cash and cash equivalents balance of Kshs.67,745,718 reflected in the statement of financial position cannot be confirmed.

461. Outstanding Imprests

The statement of assets also reflects a balance of Kshs.18,444,160 under outstanding imprests. However, no explanation has been provided for failure to have the imprest accounted for or surrendered on or before 30 June 2016 as required by Regulations 91 to 96 of the Public Finance Management (National Government) Regulations, 2015 which prescribes how imprests should be managed.

462. Unsupported Balances

The statement of assets further reflects balances of Kshs.64,019,412, Kshs.506,979 and Kshs.65,897,702 under district suspense, advances and deposits and retentions, respectively. However, the balances have not been supported with schedules, analyses or any other documentary evidence. As a result, the validity and accuracy of the balances cannot be confirmed.

463. Land

As similarly reported in the previous years, the Government, through Gazette Notice No. 890 dated 5 March 1957, allocated 1,400 acres of land in Ngong, Kajiado County, to the Department of Veterinary Services for the construction of a veterinary training school, establishment of a veterinary farm, and installation of related facilities. However, information and documents available indicate that the land measures 1,500 acres. The Department has not provided explanation for the difference of 100 acres.

Further, information and records at the Ministry of Agriculture, Livestock and Fisheries and Ministry of Lands and Physical Planning indicate that some Government agencies and private organizations have irregularly taken possession of 509 acres of the land. The Department has to-date not obtained title of ownership of the land from the Ministry of Lands and Physical Planning. In the circumstances, the ownership and size of the land cannot be confirmed.

464. Pending Bills

As disclosed under Note 15.1 and annex 1 to the financial statements, the Department had pending bills totalling Kshs.111,444,776 as at 30 June 2016 which were carried forward to 2016/2017. Had the bills been settled and expenditure accounted for in 2015/2016, the statement of receipts and payments for the year ended 30 June 2016 would have reflected an increased deficit of Kshs.194,447,934 instead of the deficit of Kshs.80,003,158 recorded. Failure to settle bills in the year they occur distorts the accounts for the year and affects the budget for the subsequent year adversely.

465. Receipts

The total receipts' balance of Kshs.5,067,539,969 reflected in the statement of receipts and payments includes, as disclosed in Notes 2 and 3 to the financial statements, receipts totalling Kshs.23,291,082 and Kshs.187,606,317 relating to direct payment and foreign grant proceeds from bilateral donors and international organisations that have however, not been supported with any documentation. As a result, the accuracy of the receipts' balance of Kshs.5,067,539,969, being receipts for the year, cannot be ascertained.

466. Use of Goods and Services

The statement of receipts and payments reflects expenditure totalling Kshs.897,406,250 under use of goods and services which, as shown under Note 6, was incurred under various items of the component. However, several variances were noted between the balance of Kshs.897,406,250 reflected in the financial statements and the aggregate expenditure balance of Kshs.603,806,558 derived from tabulation of payment vouchers, the cashbook and supporting schedules for each item. No explanation or reconciliation has been provided for the variances totalling Kshs.293,599,692 between these records. As a result, the accuracy of the expenditure totalling Kshs.897,406,250 recorded under use of goods and services cannot be confirmed.

VETERINARY SERVICES DEVELOPMENT FUND

Basis for Qualified Opinion

467. Cash and Cash Equivalents

The statement of financial position reflects an amount of Kshs.45,093,798 under cash and cash equivalents as at 30 June 2016. A review of the cash book and bank

reconciliation statements revealed that an amount of Kshs.8,903,704 relates to unpresented cheques which includes six stale cheques amounting to Kshs.138,800 that had not been reversed in the cash book for unexplained reasons.

468. Employee Costs

The statement of financial performance reflects an amount of Kshs.16,949,382 under employees costs. The amount includes Kshs.15,133,424 relating to domestic and foreign travel, motor vehicle expenses, subsistence allowances and such related expenses which ought to have been classified under general expenses. In addition, the employees costs increased from Kshs.9,965,960 in 2014/2015 to Kshs.16,949,382 in 2015/2016, which is an increase of Kshs.6,983,422 or 70%. No explanation has been given for the huge increase.

469. General Expenses

The statement of financial performance reflects general expenses totalling Kshs.34,154,623. The amount as disclosed under Note (7) includes specialized materials expenditure of Kshs.21,860,224 compared to Kshs.8,710,009 in 2014/2015. No reason has been given for the significant increase in acquisition of specialized materials by Kshs.13,141,215 or 150% during the year under review.

470. Accuracy of the Financial Statements

(i) The statement of financial position reflects a comparative figure of Kshs.32,849,614 (year 2014/2015) for property, plant and equipment which, however, differs with the net book value of Kshs.39,827,703 reflected under Note 9 as at 30 June 2015.

(ii) Note 9 to the financial statements also reflects a comparative net book value for motor vehicles of Kshs.4,347,060 (year 2014/15) which also differs with the nil balance reflected in the audited financial statements for the year ended 30 June 2015.

(iii) Note 9 to the financial statements further reflects figures of Kshs.9,044,430, Kshs.520,216 and Kshs.414,525 relating to depreciation for the year 2015/2016 for special plant; computers and other accessories; and furniture and fittings instead of the computed figures of Kshs.4,162,914, Kshs.320,708 and Kshs.138,538 respectively.

No explanation or reconciliations have been provided for the above differences. Consequently, the accuracy of the property, plant and equipment balance of Kshs.28,761,768 cannot be ascertained.

DONOR FUNDED PROJECTS

MAINSTREAMING SUSTAINABLE LAND MANAGEMENT IN AGRO-PASTORAL SYSTEMS OF KENYA PROJECT - NUMBER 3245, GEF ID 3370

Basis for Adverse Opinion

471. Cash and Cash Equivalents

The statement of financial assets and liabilities as at 30 June 2016 reflects Kshs.17,679,477, as cash and bank balance which differs with the four cash book balances of Kshs.434,903 by Kshs.17,244,574. No reconciliation or explanation was provided for this variance.

In addition, the bank reconciliation statements reflect stale cheques in Narok and Kyuso amounting to Kshs.172,614 that had not been reversed in the year end. Further, there was no board of survey reports availed to support the cash and balances of Kshs.434,903. Under the circumstances, it was not possible to ascertain whether all bank transactions and bank balances during the year under audit were fairly stated.

STANDARDS AND MARKET ACCESS PROGRAMME: GRANT NUMBER 2012/023-566

Basis for Adverse Opinion

472. Accuracy of the Financial Statements

The statement of receipts and payments reflects an amount of Kshs.153,638,681 under proceeds from domestic and foreign grants, which differs with the proceeds of Kshs.139,017,103.00 from European Union disclosed under note 8.3 to the financial statements by an unexplained Kshs.14,621,578 difference.

473. Unsupported Balances- Purchase of Goods and Services

The statement of receipts and payments reflects an expenditure of Kshs.123,217,277 under purchase of goods and services which includes an amount of Kshs.81,575,059 on consultancy services paid directly by the financier that has not been supported with documentary evidence. Consequently, the propriety of the expenditure of Kshs.81,575,059 could not be ascertained.

474. Cash and Cash Equivalents

The statement of receipts and payments reflects an amount of Kshs.56,163,422 which agrees to the cash book balance. However, the project had opened with a balance of Kshs.14,621,587, which has not been included in these financial statements. Consequently, the cash and cash equivalents are misstated with an amount of Kshs.14,621,587.

REGIONAL PASTORAL LIVELIHOOD RESILIENCE PROJECT – CREDIT NUMBER KE53880

Basis for Qualified Opinion

475. Cash and Cash Equivalents

(i) The statement of financial assets and liabilities reflects a cash and cash equivalents' balance of Kshs.93,763,393, which includes an amount of Kshs.90,048,866 under CBK A/C 1000216395, Kshs.33,631 in I&M Bank A/C 0100771271211 and Kshs.3,680,895 in other various project accounts operated by the project in the Counties. The amounts of Kshs.33,631 and the Kshs.3,680,895 were not supported with Board of Survey certificates hence, unable to confirm their accuracy.

(ii) The CBK bank reconciliation statement reflects an amount of Kshs.4,532,574.05 as payment in bank statement not yet recorded in the cash book which are excluded in these financial statements. Also excluded are receipts totalling Kshs.765,882.40 in bank and not in cash book.

476. Imprests and Advances

The statement of financial assets and liabilities reflects an amount of Kshs.2,929,300 under imprests and advances, that has not been supported with documentary evidence and has not been surrendered.

477. Project Bank Account

The Project management has not opened a bank account for receiving Government of Kenya counterpart funds. As a result, payment vouchers for the project are submitted to the Ministry for processing and payment from the Ministry's account. This is contrary to the requirements of the Project Financial Management Manual, which requires that a local bank account be opened in the name of the Project and that the signatories to the account should be the Project Team Leader and/or Project financial accountant and Head of Accounting Unit at the Ministry.

STATE DEPARTMENT OF FISHERIES

FINANCIAL STATEMENTS FOR VOTE 1163

Unqualified Opinion

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

STATE DEPARTMENT OF FISHERIES- REVENUE STATEMENT HEAD 000000-156 FISHING RIGHTS

Basis for Disclaimer of Opinion

478. Unsupported Revenue

The statement of revenue and transfers for the State Department of Fisheries for the year ended 30 June 2016 reflects revenue totaling Kshs.319,598,779 received from fees and licenses levied on both local and foreign vessels that engaged in fishing within Kenya's territorial waters. However, no information or documentary evidence was availed to confirm the number of vessels, the rate of the fees and other levies on these vessels, or to support the revenue collected. Consequently, the completeness and validity of revenue figure of Kshs.319,598,779 could not be ascertained.

479. Unsupported Remittance

The revenue statement as disclosed under note 3 to the accounts reflects a balance brought forward figure of Kshs.4,473,244 that is reported to have been surrendered to the National Treasury together with collections for the year leaving a nil balance as at 30 June 2016. However, no documentary evidence has been provided to support the remittance of the Kshs.4,473,244 to the exchequer.

MINISTRY OF INDUSTRIALISATION AND ENTERPRISE DEVELOPMENT

FINANCIAL STATEMENTS FOR VOTE 1171

Basis for Qualified Opinion

480. Unexplained Transfers for Coffee Debt Waivers

The statement of receipts and payments for the year ended 30 June 2016 reflects a payment of Kshs.501,474,509 under the grants and other transfers which include Kshs.500 million to 27 Co-operative Societies being part clearance of debt under the coffee debt waivers programme. Although the validation exercise carried out in 2011 had identified 23 Societies as beneficiaries to the debt waivers, it was not clear why the Ministry excluded three (3) Saccos namely Meru Central Cooperative Union, Kagaari South Farmers Cooperative Society Ltd and Kisii Farmers Cooperative Union with validated debts totalling Kshs.97,245,910. However, it later emerged that the Ministry paid Kshs.78,444,149 to seven (7) other Saccos which had not been identified as deserving of debt waiver during the validation exercise.

No reasons were given for exclusion of the Co-operatives, the criteria used to select the Saccos to be paid and reasons for paying Saccos whose debts had not been validated or supported.

Further, included in the payments of other grants and transfers of Kshs.501,474,509 is an amount of Kshs.1,474,509 that has not been supported and whose propriety therefore, could not be confirmed.

In the circumstances, it has not been possible to ascertain whether funds were channeled to the intended beneficiaries and utilized for the intended purposes.

481. Outstanding Disbursement of Transfer to Other Government Units

The financial statements for the year ended 30 June 2016 reflects a balance of Kshs.6,054,325,173 as transfers to other government units. However, analysis of the financial statements of the respective agencies indicates that a sum of Kshs.166,515,098 included in the transfers balance though budgeted for was not disbursed to the five MDAs. A breakdown is shown below:-

Name of the Agency	Amounts (Kshs.)
Anti- Counterfeit Agency	19,750,000
Kenya Industrial Research Development Institute	16,278,165
Kenya Leather Development Council	88,000,000
Kenya Industrial Estate	25,000,000
Export Processing Zones Authority	17,486,933
Total	**166,515,098**

Some of the agencies are regulatory and have no other source of funding, and on failure by the Ministry to disburse the grants they registered operational losses for the year under review. However the Ministry has only recognized an amount of Kshs.49,246,284 as unremitted budgetary support at the close of the year resulting in a an unexplained difference of Kshs.116,268,814.

Failure to remit adequate budgetary support to agencies and in particular the regulatory ones adversely affects service delivery by such agencies.

482. Payment for Goods and Services Not Delivered

During the year under review, the Ministry procured and paid for several goods and services valued at Kshs.4,252,291 which were not delivered by the suppliers contrary to the Public Procurement and Assets Disposal Act, 2015.

Through the Ministry, the public may have lost Kshs.4,252,291 paid to suppliers who did not deliver the goods and services contrary to the Public Procurement and Assets Disposal Act, 2015 and Public Finance Management Act, 2012.

483. Inaccuracies in Pending Bills

Excluded from the balance of Kshs.549,541,065 as at 30 June 2016 is a debt of Kshs.29,147,652 to Messrs Iseme Kamau and Muema Advocates which has been outstanding since 2014/2015 and a further Kshs.48,611,450 owed by Kenya Industrial Training Institute to various creditors as at 30 June 2016.

Further, included in the pending bills balance of Kshs.549,541,065 is an amount of Kshs.4,078,733 being personal claims owed to Ministry's staff for undertaking ministerial activities, which however, have not been explained. In addition, an amount of Kshs.52,330,394 is indicated as owed to MDAs under the Ministry being outstanding grants which had not been remitted at the close of the year. Ideally, these grants lapse at the end and of each financial year and the rationale of their inclusion in the pending bills balance is not explained.

In absence of any reconciliation, it has not been possible to ascertain the accuracy and validity of pending bills balance of Kshs.549,541,065 outstanding as at 30 June 2016.

484. Non-Compliance with Public Finance Management Act, 2012 – Management Supervision and Liquidation Fund

Section 84 of the Public Finance Management Act, 2012 requires the Accounting Officer administering a national public fund to prepare and submit financial statements of the fund at the end of each fiscal period and submit these to the Auditor-General for audit. Further, Rule 18 and 49 of the Cooperatives Societies Rules, 2004 under Legal Notice No.123, established the Management and Supervision Fund and the Cooperative Liquidation Account respectively and entrusts the Commissioner for Cooperatives with

their management and administration. The Ministry has not prepared and submitted for audit, separate financial statements of the Management and Supervision Fund as well as the Liquidation Account for the three financial years ended 30 June 2013 to 30 June 2016 to enable the Auditor-General provide an opinion on the Fund's operations for the period and its financial position at the close of each financial year. In the circumstances, the Ministry has breached the law.

Other Matter

485. Budget Performance and Analysis

485.1 Unreconciled Summary Statements of Comparison between the Appropriation Accounts

Review of the summary statement of appropriation for the period ended 30 June 2016 revealed several instances where performance recorded in the respective appropriation accounts did not agree with the summary statements of appropriation account, and eventually, with the statement of receipts and payments. In addition, material deviations between the budget and actual performance have also not been explained.

In absence of reconciliation of these records, the accuracy of the respective balances could not be ascertained and the financial statements may not be fairly stated.

Overall budgetary absorption is 8%. This has been provided for the budget absorption anomalies which have a negative impact on service delivery and achievement of the Ministry's mandate.

486. Irregular Procurement Practices

(i) Procurement of Consultancy Services

As reported in the previous year, the Ministry had awarded consultancy services for provision of technical support to the Business Environment Delivery Unit to M/s Strathmore Business School at a cost of Kshs.5,940,000. The Ministry had invited bidders but only one application was received and considered responsive. The tender committee went ahead and awarded the tender to the only responsive bidder and in effect, used direct procurement method to procure the services. The invoice was issued before the LPO was raised. Further, whereas the contract agreement had indicated that the exercise was to be completed in three months, the service was delivered in less than a week and the consultant paid the contact sum of Kshs.5,940,000. No evidence was availed to explain why the consultant commenced work before the contract was awarded and signed or reasons for use of direct procurement method which in effect defeated fair competition and pricing of the tender award.

(ii) Ease of Doing Business Improvement Programme – Phase II

It was further noted that the same consultant, M/s Strathmore Business School, was awarded the contract for provision of consultancy services for Ease of Doing Business Improvement Programme – Phase II at a cost of Kshs.5,127,200. Similarly, the invoice from the consultant was raised before the two parties signed the contract. Whereas the contract had stated under the special conditions that the duration of the contract would be four (4) months from the date of the contract, the service was completed in less than three weeks casting doubt as to whether the contract was mooted earlier and the tender committee only used as a rubberstamp to ratify a consumated transaction. Further, it has not been possible to confirm whether the relevant stakeholders were consulted about the service as there is no record of their participation.

(iii) Irregular Consultancy Service Contract

As was reported in the previous year, the Ministry procured consultancy services from a consultancy firm Mckinsey & Company Inc Africa Proprietary Limited for support of delivery of Kenya's Industrial Program. The contract was signed between the two parties on 18 November 2014 at a contract sum of Kshs.348,000,000. Clause 2 of the contract agreement under subsection 2.1 and 2.2 had indicated that the contract was to come into effect on the date the contract was signed by both parties and that the consultant would begin carrying out the services upon signing of the contract or at such other date as may be specified in the service contract.

Review of the process had revealed that the consultant raised an invoice of Kshs.69,827,963 on 11 November 2014 for Milestone 1(inception) even before the contract was signed between the two parties.

Therefore the consultant may have started work before the contract was awarded and the signing of the contract merely ratified the said contract. This contravened the Public Procurement & Disposal Act, 2005.

Under the circumstances, the propriety of the expenditure of Kshs.69,827,963 incurred on the contract could not be confirmed.

487. Irregular Reallocation of Development Grants to Recurrent Expenditure

As had been reported in the previous year, the Ministry had sought and was given authority by the National Treasury to transfer an amount of Kshs.200million for the implementation of textile development through the Micro and Small Enterprise Authority (MSEA). Available records however revealed that the Ministry instead instructed MSEA to utilise Kshs.50 million to pay outstanding bills to various security firms which the Ministry had contracted to offer security services during and after the construction of the Constituency Industrial Development Centres (CIDCs) between 2012 and 2014. No evidence was availed to show whether approval of Treasury was sought and obtained to allow MSEA to divert Kshs.50 million meant for textile programme towards payment of security services. Utilization of the Funds resulted to diversion of development funds

to recurrent expenditure without Treasury approval and thus contravened the Public Financial Management Act, 2012.

488. Apparent Loss of Cash

As was reported during the previous year, the Ministry lost Kshs.6,403,200 reported to have been paid wrongly to a merchant M/s Aquachem Technologies Limited during the 2011/2012 financial year. Although, Kshs.3,500,000 of the payment has since been recovered, a balance of Kshs.2,903,200 is still outstanding over five (5) years since payment. The Ministry does not appear keen on the recovery of the balance and has not held any one culpable for occasioning the loss of the funds.

Consequently, recovery of the balance Kshs.2,903,200 is doubtful.

489. Loss of CIDC Equipment and Tools at KIRDI

As was reported during the previous audit report, the Ministry lost industrial equipment through theft and pilferage. Some of the equipment was found on sale in various markets. An audit inspection at the Ministry's stores revealed continuing pilferage of the equipment and tools leaving the store almost bare with less valuable items such as fire extinguishers, and machinery with major parts missing.

Whereas several items had been issued to some of the completed Constituency Industrial Development Centre (CIDCs), a comparison of the original stocktake with the situation at the time of audit revealed that equipment and tools of a value of over Kshs.60,000,000 may have been stolen. This is despite the fact that the store has always been under 24-hour surveillance and is located inside a fenced and guarded compound of the Institute and further, there are no signs that bulgarly had taken place. Although the Ministry has indicated that the matter is in Court, no meaningful efforts appear to have been taken by management to recover the stolen equipment or hold any one culpable for occasioning the losses.

Consequently, it has not been possible to confirm that the Ministry got value for money the procured tools.

490. Textile and Leather Working Machinery and Equipment

As previously reported, the Ministry procured textile and leather workshop machinery and equipment for Kenya Industrial Training Institute in Nakuru worth Kshs.214,899,000. Although the inspection and acceptance certificate confirmed the goods to be of the right quantity and specification, the Ministry had not availed the commissioning certificate to confirm that the machines and equipment were installed and put for use as planned.

Review of the position during the year under review indicated that the machinery and other equipment have since been installed but are yet to be commissioned for operations.

In the circumstance, it has not been possible to confirm that value-for-money was obtained on expenditure of Kshs.214,899,000 incurred by the Ministry on purchase of these industrial assets.

DONOR FUNDED PROJECTS

KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT LOAN CREDIT NO.5526-KE

Unqualified Opinion

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

Emphasis of Matter

491. Late Submission of the Project's Financial Statements

The Public Finance Management Act, 2012 Section 81 provide inter alia, that the Accounting Officer must prepare and submit to the Auditor-General all the financial statements for all activities carried out during any financial year three months after the closure of the financial year for audit purposes. In addition, Section 35 of Public Audit Act, 2015 provides that the Auditor-General shall conduct audit of the financial statements and give an assurance or otherwise on the propriety with which public funds have been utilized by the implementing Agencies/Ministries, in line with Schedule 2, Section II B(3) of the Financing Agreement between the Government of Kenya and the World Bank of 14 August 2014.

The above notwithstanding, the Ministry submitted the financial statements on 18 October 2016 and not 30 September 2016 as stipulated by the statutes. In the circumstances, the Ministry was in breach of the law and the agreement under which the funding was done. Late submission of the Project's financial statements and other financial statements does not only contravene the law and the financing agreement but also interferes with program for the completion of the audit by the statutory date of 31 December by the Auditor-General.

DEPARTMENT OF COMMERCE AND TOURISM

FINANCIAL STATEMENTS FOR VOTE 1181

Basis for Qualified Opinion

492. Cash and Cash Equivalents

The cash and cash equivalents' balance of Kshs.178,585,558 comprises of cash held at the Central Bank of Kenya under the recurrent, development and deposits accounts all amounting to Kshs.177,371,047 and cash in hand of Kshs.1,214,511. The reconciled closing balances as per the manual cashbook that was availed for audit review did not agree with the balances as at 30 June 2016 disclosed in the financial statements of Kshs.178,585,558.

Further, the statement of cash flows reflects an amount of Kshs.1,437,402 described as adjustments during the year but no explanation was availed on how this figure has been derived. Consequently, the propriety of the adjustment could not be ascertained.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.178,585,558 could not be ascertained.

493. Use of Goods and Services

Included in use of goods and services balance of Kshs.759,877,279 is a figure of Kshs.305,225,549 being other operating expenses which in turn includes Kshs.142,291,765 paid to Grayling Communications Limited for quarterly communication consultancy services which was not supported with reports indicating the deliverables and hence casting doubts as to whether value for money was obtained in this transaction.

Further, the Department made payments while procuring goods and services totaling Kshs.4,842,551 on various sub-items under uses of goods and services. Examination of payment vouchers indicated that no electronic tax register receipts were attached on payment documents in contravention of the Value Added Tax Act.

It has, therefore, not been possible to ascertain the propriety of the above expenditure amounting to Kshs.147,134,316 or whether public resources were utilized for the intended purposes.

494. Unpaid Rent to Tourism Finance Corporation

The Tourism Finance Corporation financial records indicate that the Department of Tourism owes the Corporation Kshs.14,988,786 as at 30 June 2016 in respect of lease rentals for Utalii House office space. Although the amount has since been cleared after the year end, it was noted that it had not been captured as a pending bill as at 30 June 2016. Further, a review of the utilization of the leased office space at Utalii House revealed that there were unused offices including the office of the former Minister of

Tourism yet Tourism Finance Corporation continues to charge rent charges for the space hence the amount spent for the unused space does not constitute proper charge to public funds.

495. Pending Bills

Note 13.1 and 13.2 to the financial statements indicates that bills totalling Kshs.249,671,744 were not settled during the year 2015/2016 but were instead carried forward to 2016/2017. Failure to pay bills in the respective year distorts the financial statements for the year and adversely affects provision for subsequent years. Had the bills been paid and the expenditure charged to the account for 2015/2016 the statement of receipts and payments for the year would have reflected an excess vote of Kshs.119,935,518 instead of the surplus of Kshs.129,736,226 now reflected.

Emphasis of Matter

496. Budget Performance and Analysis

During the year under review, the following expense items were noted to have been underspent and hence were not absorbed as planned;

Item	Budget Kshs	Actual Expense Kshs	Under-Expenditure Kshs	% Variance
Other operating expenses	709,269,067	305,225,549	404,043,518	57%
Office and general supplies and services	25,069,325	15,006,152	10,063,173	41%
Routine maintenance - other assets	135,710,612	41,564,729	94,145,883	70%
Printing, advertising, information supplies and services	8,052,944	5,189,106	2,863,838	35.6%
Training expenses	16,121,619	12,647,396	3,474,223	22%
Fuel, oil & lubricants	26,049,374	18,363,285	7,686,089	30%

Failure to fully utilize the budgeted provisions is likely to lead to negative impact on the service delivery and achievement of the overall objectives of the Department.

DEPARTMENT OF COMMERCE AND TOURISM – REVENUE

FINANCIAL STATEMENT

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this Department.

DEPARTMENT OF EAST AFRICAN AFFAIRS

FINANCIAL STATEMENTS FOR VOTE 1182

Basis for Qualified Opinion

497. Unsupported Development Expenditure

In the previous year, the Department recognized revenue of Kshs.54,790,890 from Trade Mark East Africa (TMEA) and expensed it off without adequate supporting documentation in contravention of Section 68 2(a) of the Public Finance Management Act, 2012. Similarly during the year under review, the Department further recognized revenue of Kshs.26,238,158 from the same institution and expensed the entire amount without accompanying supporting documentation.

The Department is therefore in breach of the Public Finance Management Act, 2012 and consequently, the propriety of expenditure totalling Kshs.26,238,158 expensed during the year under review could not be confirmed.

498. Arrears of Subscriptions to East African Community

Article 132(1) of the East African Community (EAC) Treaty-1999, stipulates that there shall be a budget for the organs and institutions of the Community, except the self-accounting institutions. Article 132 (4) provides that the budget of the Community shall be funded by equal contributions by the partner states and receipts from regional and international donations and any other sources as may be determined by the Council. However, documentation availed for audit revealed that the Country through the State Department of East African Affairs has not consistently paid its contributions resulting in arrears of Kshs.75,279,970 (USD.744,609) as at 30 June 2016.

Failure to honour contributions to the East African Community Treaty impacted negatively on the financial affairs of the East Africa Community and the integration agenda.

499. Pending Bills

During the year under review, the Department made payments of bills totalling Kshs.3,719,204 relating to 2014/2015 and prior years but which had not been disclosed as pending bills in the year or supported with verifiable documents contrary to Section 72 (1) of the Public Finance Management Act, 2012. Failure to pay bills in the year they relate to distorts the financial statements for the year and adversely affects provisions for the subsequent years they have to be charged.

Consequently, the authenticity and propriety of the payments could not be ascertained.

Other Matter

500. Fixed Assets Register and Summary

The management of the Department did not provide an assets register for audit verification contrary to the Public Finance Management Act, 2012. Further, contrary to International Public Sector Accounting Standards, the financial statements do not include a summary of fixed assets but instead show a comparative extract of the financial statements which, however, does not disclose the nature, value and status of the assets owned by the Department as at 30 June 2016.

In the circumstances, it has not been possible to verify and confirm the assets owned by the Department in the year under review.

MINISTRY OF MINING

FINANCIAL STATEMENTS FOR VOTE 1191

Basis for Qualified Opinion

501. Unsupported Donor Funded Expenditure

The statement of receipts and payments reflects proceeds from domestic and foreign grants amounting to Kshs.43,673,907, as disclosed under Note 3 to the financial statements. This amount is in respect of United Nations Development Programme (UNDP) funded project pass-through income, for expenditure incurred and settled directly by the donor on behalf of the Ministry. However, the expenditure was not supported by the requisite documents namely payment vouchers, expenditure returns as well as schedules with respective reporting currency conversion rates. In the absence of documentary evidence in support of the expenditure, it has not been possible to confirm the purpose and validity of the grants totaling Kshs.43,673,907.

502. Compensation of Employees

The statement of receipts and payments reflects payments amounting to Kshs.370,792,733 on account of compensation of employees, as disclosed under Note 5 to the financial statements. Included in this figure is Kshs.19,451,168 which is unsupported and not traceable to both the Integrated Payroll and Personnel Database (IPPD) and payment vouchers for temporary and casual employees. Under the circumstances, it has not been possible to confirm the propriety of employees costs of Kshs.19,451,168.

503. Completeness of Mining Revenue

The financial statements of the Ministry reflect other receipts amounting to Kshs.1,139,124,444 for the year ended 30 June 2016 as disclosed in Note 4 (2014/2015 Kshs.1,319,889,112) reflecting a 13.7% decline from the previous year. The following anomalies were noted over mining revenue collections:

503.1 Levy on Cement Minerals

Included in other receipts figure of Kshs.1,139,124,444 is Kshs.613,312,355 on account of cement levy. Records in support of the levy receipts indicate no evidence of the Ministry having verified the reported production by the various cement companies. Consequently, the Ministry relied solely on the self-declared production figures of the individual cement companies, to compute the cement levy.

Although, according to management, the Ministry has entered into a Memorandum of Understanding (MOU) with Kenya Revenue Authority (KRA) to collect the levy on its behalf, the memorandum is yet to be actualized. Under the circumstances, it has not been possible to confirm the accuracy and completeness of the reported cement levy of Kshs.613,312,355.

503.2 Magadi Soda Royalties

Included in the other receipts figure of Kshs.1,139,124,444 are royalty receipts from Magadi Soda products amounting to Kshs.86,764,751. Records in support of the royalty receipts indicate no evidence of the Ministry having verified the production quantities reported by the Company. Consequently, the Ministry relied solely on the Company self-declared production quantities to compute the royalties. Under the circumstance, it has not been possible to confirm the accuracy and completeness of the royalty receipts of Kshs.86,764,751.

503.3 Royalties from Base Titanium Limited

Included in other receipts figure of Kshs.1,139,124,444 are royalties from Base Titanium Limited amounting to Kshs.294,694,680 on account of titanium exports. Records in support of the royalty receipts indicate no evidence of the Ministry having verified the production quantities and prices reported by the Company. Consequently, the Ministry relied solely on the Company's self-declared production quantities and self-determined prices to compute the royalties. Under the circumstances, it has not been possible to confirm the accuracy and completeness of the royalty receipts of Kshs.294,694,680 for the year ended 30 June 2016.

504. Verification and Ownership of Motor Vehicles

Included in the non-current assets figure of Kshs.355,047,038 reflected in the summary of fixed assets register, under Annex 1 to the financial statements, is the historical cost of transport equipment of Kshs.5,245,495. Included in the transport equipment list is a motor vehicle, registration number GKB 433D, whose physical existence could not be verified as it was not in use at the Ministry. Also included are the values of one vehicle registration numbers GKB 743J and a drilling rig, whose ownership could not be confirmed for lack of log books. Consequently, it was not possible to confirm whether fixed assets balance of Kshs.355,047,038 is fairly stated.

505. Outstanding Temporary Imprests

The statement of assets as at 30 June 2016 reflects accounts receivables' balance of Kshs.8,255,258 which includes outstanding temporary imprests of Kshs.3,861,134 as disclosed in Note 12 to the financial statements. These imprests ought to have been surrendered or accounted for on or before 30 June 2016. Review of the position as at

31 March 2017 revealed that out of the figure of Kshs.3,861,134, imprests totalling Kshs.2,685,662 had been surrendered or accounted for, leaving a balance of Kshs.1,175,472 outstanding. Consequently, the propriety of imprests totalling Kshs.1,175,472 could not be confirmed.

506. Bank Reconciliation Statement for Development Cashbook

The statement of assets as at 30 June 2016 reflects cash and cash equivalents' balance of Kshs.24,629,617. However, review of the bank reconciliation statement for the development vote as at 30 June 2016 revealed that the following reconciling items had not been cleared from the bank reconciliation statement as at 31 December 2016:

Reconciling Item	Balance Outstanding as at 30/06/2016	Balance Outstanding as at 31/12/2016
	Kshs	Kshs
Payments in cashbook not in bank statement	85,052,731	5,970,438
Payments in bank statement not in cashbook	805,450	805,450
Receipts in cashbook not in bank statement	52,142,800	52,142,800

Consequently, the validity and accuracy of the cash and cash equivalents' balance of Kshs.24,629, could not be confirmed.

507. Unresolved Prior Year Audit Matters

Included in Part XIII under Note 15 to the financial statements is a progress report on follow-up of prior year audit recommendations. The report indicates that out of the nine (9) observations, only one had been resolved as at 30 June 2016. The unresolved audit matters are listed below:

a. Un-authorized Expenditure on Surplus Appropriation-in-Aid (A.I.A)

The statement of receipts and payment for the year ended 30 June 2015 reflected other receipts totaling Kshs.1,319,889,112. Included in these, under Note 3 to the financial statements are Appropriations-in-Aid (A.I.A) which reflected a balance of Kshs.34,916,416.45 against an approved budget of Kshs.14,000,000 resulting in an excess / surplus in A.I.A of Kshs.20,916,416.45 which procedurally, the Ministry should have surrendered to the exchequer account. However, the surplus A.I.A had been expended during the year ended 30 June 2015 and remained un-surrendered as at 30 June 2016.

b. Revenue

i. Royalties received from Carbacid Company Ltd – Carbon Dioxide

Other receipts balance of Kshs.1,319,889,112 included royalties of Kshs.1,008,093 received from Carbacid Company Limited on carbon dioxide. Clause 10 of the mining license requires the company to file progress reports and sales return which forms the basis for royalty payments. However, the company has to the date of this report not complied with the provision. In the circumstances, it has not been possible to confirm the accuracy and completeness of the royalties received from Carbacid Company Ltd.

ii. Royalties Received from Base Titanium Limited

Other receipts included royalties received from Base Titanium Limited amounting to Kshs.260,706,550 on account of titanium exports. These royalties were based on self-declared export quantities for which the Commissioner of Mines and Geology issued export permits. As pointed out in my report, there was no evidence of subsequent verification of the actual exports vis-à-vis declared quantities to validate their accuracy. Although, according to the Management, verification was done at the point of loading the ship in Mombasa, analysis of quarterly returns revealed discrepancies arising from price adjustments. Under the circumstances, it was not possible to confirm the validity and completeness of the royalties totaling Kshs.260,706,550 received for the year ended 30 June 2015.

c. Irregular Export Permits

Information available indicates that export permits with a value of US$ 18,619,645 (approximately Kshs.1.9 billion) were issued during the year by an unauthorized officer whose employment contract expired on 19 April 2014. This was contrary to the then Mining Act which stipulated that, export permits were to be signed off by the Commissioner of Mines or an authorized officer whose authority has been delegated in writing.

Consequently, the validity of revenue collections on the export permits issued by the unauthorized officer cannot be confirmed.

d. Pending Bills

As was disclosed under Annex 1 to the prior year's financial statements, the Ministry had pending bills totaling Kshs.9,060,804 as at 30 June 2015 relating to 2014/2015 financial year carried forward to 2015/2016 financial year. Therefore, the reported operating expenses were understated by same amount.

Other Matter

508. Budget Control and Performance

508.1 Budgetary Absorption

The summary statement of appropriation-recurrent and development combined for the year ended 30 June 2016 reflects total approved final budget of the Ministry of Mining of Kshs.1,351,131,429. Out of this amount, Kshs.737,070,000 (55%) and Kshs.614,061,429 (45%) were allocated to recurrent and development expenditure respectively, but only Kshs.1,017,042,051 (75%) was absorbed. As a result there was under absorption totalling Kshs.335,627,293 on four expenditure items as summarized below:

Expense Item	Approved Final Budget	Actual Expenditure	Over Absorption	Under Absorption	% of Utilization
	Kshs	Kshs	Kshs	Kshs	%
Compensation of Employees	369,254,818	370,792,733	1,537,915	-	100
Use of goods and services	370,149,619	267,844,084	-	102,305,535	72
Other grants and transfers	18,000,000	16,830,000	-	1,170,000	94
Social Security Benefits	15,623,286	6,528,196	-	9,095,090	42
Acquisition of Assets	578,103,706	355,047,038	-	223,056,668	61
Grand Totals	**1,351,131,429**	**1,017,042,051**	**1,537,915**	**335,627,293**	**75**

The under absorption of approved budget indicates that some activities and projects in the annual work-plan were not implemented by the Ministry which is likely to have negatively impacted on delivery of services to the public.

508.2 Development Budget

According to the summary statement of appropriation-development for the year ended 30 June 2016, the Ministry of Mining had a budgetary allocation of Kshs.614,061,430 for development projects but only expended Kshs.370,155,891 (60%), resulting in under-expenditure of Kshs.243,905,539 or 40% of budget. The under-expenditure was on the following items:

Expense Item	Approved Final Budget	Actual Expenditure	Budget Utilization Difference	% of Utilization
	Kshs	Kshs	Kshs	%
Use of goods and services	66,740,000	35,509,474	31,230,526	53
Acquisition of Assets	547,321,429	334,646,417	212,675,012	61
Totals	**614,061,429**	**370,155,891**	**243,905,538**	60

The under-expenditure of Kshs.243,905,538 implies that the Ministry of Mining did not implement or complete some of the planned projects and hence their intended objectives were not achieved in the year under review.

508.3 Recurrent Budget

Similarly, the summary statement of appropriation-recurrent for the year under review shows that the Ministry of Mining had a recurrent budget of Kshs.737,070,000, while the actual expenditure was Kshs.646,886,160 (88%), resulting in under expenditure of Kshs.90,183,840 or 12% of the budget. The under expenditure was on the following items:

Receipt/Expense Item	Final Budget (Kshs)	Actual Expenditure (Kshs)	Budget Utilization Difference (Kshs)	% of Utilization
Compensation of Employees	369,254,818	370,792,733	(1,537,915)	100
Use of goods and services	303,409,619	232,334,610	71,075,009	77
Other grants and transfers	18,000,000	16,830,000	1,170,000	94
Social Security Benefits	15,623,286	6,528,196	9,095,090	42
Acquisition of Assets	30,782,277	20,400,621	10,381,656	66
Totals	**737,070,000**	**646,886,160**	**90,183,840**	**88**

Under utilization of the budgeted expenditure results in non-provision of planned goods and services, which in turn affects service delivery to the public negatively.

509. Delays in Commissioning of Ministry Laboratory

As reported in my 2014/2015 report, the Ministry, during that financial year, completed the construction of its new laboratory complex at Industrial Area at a cost of Kshs.102,848,436. However, the laboratory is yet to be commissioned and thus remains idle. Site visit to the laboratory building in April 2017 revealed that the floor tiles on the 1st floor of the building were defective, having developed cracks and peeled off with

some electric light fittings hanging out loosely. This is indicative of poor workmanship or low quality of the materials used. The Ministry may have to incur repair costs in order to restore the laboratory before it is commissioned for use. Under the circumstances, it has not been possible to confirm whether the Ministry obtained value-for-money on the expenditure totaling Kshs.102,848,436 incurred in putting up the laboratory.

OFFICE OF ATTORNEY-GENERAL AND DEPARTMENT OF JUSTICE

FINANCIAL STATEMENTS FOR VOTE 1251

Basis for Adverse Opinion

510. Accuracy and Completeness of the Financial Statements

510.1 Fixed Assets Register

The assets register was not duly updated and did not include all the assets that belong to the Office. In addition, further examination of the register revealed that it had excluded motor vehicles. Further, assets belonging to the defunct Commission for the Implementation of the Constitution (CIC) were not included in the register even though all assets of the Commission were transferred to the Office of the Attorney- General and Department of Justice.

510.2. Suspense Account

The statement of assets as at 30 June 2016 reflects a balance of Kshs.82,485,174 under suspense account. However, the balance had not been analysed or explained in the notes to the financial statements.

510.3 Integrated Financial Management System Balances

The figures reported in the financial statements did not tally with identical account balances in the Integrated Financial Management and Information System records, (IFMIS) as follows:

Details	Amount as per the financial statements	Amount as per IFMIS reports	Unexplained Difference
	Kshs	Kshs	Kshs
Receipts	3,325,900,000	4,487,499,140	(161,599,140)
Payments	32,091,139,936	2,958,851,030	(250,288,906)
Financial Assets	278,240,359	3,205,306,895	(2,927,066,536)
Financial liabilities	159,465,686	2,284,813,073	(2,125,347,387

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

511. Cash-and-Cash Equivalents

The statement of financial position as at 30 June 2016 reflects cash-and-cash equivalents' balance of Kshs.188,433,566 for the Recurrent, Development and Deposits

accounts. However, bank reconciliation statements for the recurrent and development accounts were not made available for audit review.

Further, the deposit bank reconciliation statement as at 30 June 2016 reflects the following long outstanding balances:

i) Payments in the Cash Book not in the Bank Statement

Payments amounting to Kshs.43,503,613 had been recorded in the cash book but not reflected in the bank statements. Out of this balance, an amount of Kshs.3,398,126 relates to cheques which were already stale. The balances also include an amount of Kshs.26,890,000 referred to as 'revenue collected' and featured in the monthly bank reconciliation statements during the whole year under review while Kshs.3,564,790 relates to under-casts which have not been adjusted.

ii) Receipts in Bank Statement not in the Cash Book Amount

Receipts amounting to Kshs.202,064,314 reflected in the bank statements had not been recorded in the cash book. Out of this amount, Kshs.107,611,163 relates to receipts for the financial year 2013/14.

iii) Payments in the Bank Statement not Recorded in the Cash Book

The bank reconciliation statement reflects payments amounting to Kshs.71,655,277 that are in the bank statements but not recorded in the cash book. Out of this amount is an unexplained Treasury Exchequer Issue (error) amounting to Kshs.22,666,655 while an amount of Kshs.24,729,922 relates to payments made from 6 November 2013 to 14 October 2015 which have, not been recorded in the cash book.

iv) Receipts in the Cash Book not Recorded in the Bank Statement

The bank reconciliation statement also reflects receipt totalling Kshs.122,140,508 which had been recorded in the cash book but not reflected in the bank statements. The sum includes an un-explained balance of Kshs.199,456,334 referred to as "transfer of closing balance and Kshs.222,535 returned RTGS payment". The balance also includes revenue receipts amounting to Kshs.2,461,638 which in the current state would suggest that the receipts were not banked.

In view of the foregoing, the accuracy and completeness of the cash-and-cash equivalents' balance of Kshs.188,433,566 could not be confirmed.

512. Pending Bills

The analyses of pending bills provided in the financial statements reflect bills totalling Kshs.52,078,256 as at 30 June 2016. However, casting of the schedule yielded a balance of Kshs.57,552,774 resulting in an unexplained difference of Kshs.5,474,519. Further, supporting documents for the pending bills were not provided for audit review.

Consequently, the accuracy, validity and completeness of the pending bills' balance of Kshs.52,078,256 as at June 2016 could not be confirmed.

513. Excess Service Charge - Rentals of Produced Assets

During the year under review, the State Law Office incurred excess service-charge costs amounting to Kshs.3,883,645 out of which a part payment of Kshs.2,651,745 was made. The charge relates to the occupation of office space by the Department of Justice at Co-operative Bank House for the year ended 31 December 2015.

The basis of the payment is not clear, as explained below:

i) The payment was supported by audited service cost statements by KKCO East Africa whose certificates were not signed by the person responsible for the audit instead of a computation based on the relevant clauses of the lease agreement showing the specific service charge items payable and their contractual clauses.

ii) The excess service charge cost of Kshs.3,347,970 is derived from a shortfall of service charge income of Kshs.9,360,240 against a cost allocation of Kshs.2,708,210 to which is added Value-Added-Tax (VAT) amounting to Kshs.535,675 to arrive at the total cost of Kshs.3,883,645,000. The cost allocation of Kshs.12,708,210 is based on total expenditure of Kshs.69,975,149 pro-rated against the space occupied. The total expenditure includes costs such as management cost, (Kshs.4,016,043) cleaning and sanitation, (Kshs.5,737,347) general repairs and maintenance, (Kshs.4,721,884) and Insurance (Kshs.4,950,340) among other utilities. In the absence of a lease agreement, it is not possible to confirm whether the said costs are chargeable utilities. In addition, schedules supporting the service charge payments amounting to Kshs.9,360,240 made by the State Law Office were not availed for audit review.

iii) The excess service charge of Kshs.3,347,970 is a reimbursable shortfall based on VAT charged. The additional VAT charged amounting to Kshs.535,675 was therefore inappropriate.

In view of these anomalies, the excess charge of Kshs.3,883,645 and the actual payment of Kshs.2,651,745 could not be confirmed as proper charges to public funds.

514. Outstanding Imprest

Note 12 to the financial statements reflects an outstanding imprest of Kshs.6,662,912. However, management did not provide an aging analysis of the imprests. Further, an imprest of Kshs.243,612 issued on 16 June 2016 does not indicate the recipient/payee.

In the circumstances, the accuracy and recoverability of the outstanding imprests totalling Kshs.6,662,912 could not be confirmed.

515. Previous Years' Matters

As indicated in Note 27 to the financial statements in relation to progress on auditor recommendations, the management had not acted on two issues namely; accuracy and completeness of the financial statements and unsupported revenue expenditure highlighted in previous years' reports. These issues were still outstanding as at 30 June 2016.

Other Matter

516. Internal Control

The State Law Office and Department of Justice had not established an audit committee as required by the Public Finance Management Act, 2012. Further, there was no approved risk management policy. In addition, there were no disaster/business recovery plans in place, contrary to good practice for management of electronic data and other records.

As a result, the internal control system was weak and may not safeguard funds and other assets of the Office.

OFFICE OF THE ATTORNEY GENERAL AND DEPARTMENT OF JUSTICE

REVENUE STATEMENTS FOR VOTE 1251

Basis for Qualified Opinion

517. Unremitted Revenue

The Office of the Attorney General and Department of Justice has not been remitting revenue as analyzed below:

i) Huduma Centre

Postal Corporation of Kenya has been collecting revenue on behalf of the Company's Registry for name search and reservation, registration of business names, registration of companies and registration of welfare societies through a contract signed between the Corporation and Office of the Attorney General and Department of Justice (OAG & DoJ). A total of Kshs.204,882,390 had been collected by the Corporation during the year under review as reflected in the Posta Pay EFT system. Out of this amount, only Kshs.66,199,200 had been remitted to OAG & DoJ revenue account at the Central Bank as at 30 June 2016, leaving a balance of Kshs.138,683,190. This is contrary to the provisions of the contract agreement which required monies collected by the Corporation to be remitted to the revenue account on Mondays and Thursdays of every week. Further, the contract was not availed for audit review.

Under the circumstances, the validity of the transactions could not be ascertained.

ii) E-Citizen

An amount of Kshs.11,040,750 in respect of names' search and reservation, registration of companies and registration of business names, had been collected through the E-Citizen platform by 30 June 2016. However, there was no evidence that this amount has been remitted to the Treasury as required.

iii) Safaricom

Safaricom collects revenue in respect of names' search on behalf of OAG & DoJ. By 30 June 2016 an amount of Kshs.1,538,316 had been collected but the collection had not been remitted to the Treasury as required.

iv) Deposit Account

Public Trustee Fees amounting to Kshs.1,099,057 was transferred to the OAG & DoJ Deposit account No.1000182334.00 on 18 August 2015. However, there was no

evidence that the amount has been remitted to the revenue account at the Central Bank.

v) Conveyance/Chattels Fees

The revenue statement reflects conveyance / chattels fees amounting to Kshs.1,090,250. The Integrated Financial Management Information System trial balance did not however indicate any revenue under the item, therefore understating the revenue collected.

In the circumstances, revenue totaling Kshs.152,361,312 could not be confirmed as received by National Treasury, and no explanation for this anomaly has been provided by the management.

518. The revised revenue statements submitted for audit were not signed by the accounting officer as required by regulations. Further, the accounting officer failed to submit a management representation letter as required by auditing standards.

519. Prior Year Matters

The Office of the Attorney General and Department of Justice (OAG & DoJ) has not provided a comprehensive report on when and how the previous year's matters are to be addressed.

OFFICIAL RECEIVER

Basis for Adverse Opinion

520. Inaccuracies in the Financial Statements

The trial balance had the following anomalies:

a. A total of Kshs.28,283,703 being balance for various accounts had not been reflected in the Trial balance and no explanations were provided for the omission.

b. The following accounts included in the trial balance reflect both debit and credit balances:

Account	Debit Balance (Kshs)	Credit Balance (Kshs)	Net Balance (Kshs)
Companies Contingency Fund	23,068,079	10,000,000	13,068,079
Bankruptcy Contingency Fund	21,256,921	13,046,655	8,210,266
Ken Ren Chemicals & Fertilizer Ltd	82,497,285	39,000,000	43,497,285
Continental Credit Finance	10,795,591	13,000,000	-2,204,409
Rural Urban Credit Finance Ltd	783,832	3,000,000	-2,216,168

Capital Finance Co. Ltd	99,149	400,000	-300,851
Matatu Vehicle Owners Association	1,485,556	1,400,000	85,556
E.A. Bag & Cordage Ltd	1,218,699	1,100,000	118,699
Nyakio Investments Ltd	27,531,066	22,000,000	5,531,066
Companies Liquidation	38,355,247	7,000,000	31,355,247
Bankruptcy Estates	69,270,802	1,007,000	68,263,802
Companies Investment Income Fund	61,656	61,656	-
Bankruptcy Investment Income Fund	8,455	8,455	-
National Bank – FDRs Bankruptcy Estates Kisumu	5,579,789	4,448,482	1,131,307

Management has not provided any explanation for the anomalies.

c. The trial balances for three regions namely Nairobi, Mombasa and Kisumu did not balance, as summarized below:

Region	Debit (Kshs.)	Credit (Kshs.)	Difference (Kshs.)
Nairobi	429,445,419	429,395,266	60,153
Mombasa	2,650,000	2,708,905	-58,905
Kisumu	7,220,681	6,060,458	1,160,223
Total	**438,326,265**	**438,164,629**	**1,161,471**

d. Opening Balances

The following wrong opening balances were not explained.

	Item	Opening 2015/2016 Kshs	Closing 2014/2015 (Kshs)	Variance (Kshs)	Comments
1.	Other Revenues	29,832,130	29,171,829	660,301	Not explained
2.	Compensation of Employees	12,131,891	12,012,891	119,000	"
3.	Use of Goods and Services	16,476,761	16,300,001	176,760	"
4.	Other Expenses	132,212,286	132,206,786	5,500	"
5.	Balances b/forward	444,578,979	564,097,551	119,518,572	"
6.	Prior Year Adjustment	14,680,619	14,312,579	368,040	"

(e) Further, the financial statements did not include a statement of changes in equity as required under the International Public Sector Accounting Standards.

In the view of the foregoing, the accuracy and completeness of the financial statements for 2015/2016 cannot be confirmed.

521. Fixed Assets Register

The financial statements are prepared under the Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS). This method does not present assets and liabilities in the financial statements other than cash and cash equivalents. The Official Receiver however, handles all assets and liabilities of institutions and persons under liquidation or bankruptcy. Further, the assets register of fixed assets owned by the Official Receiver reflects a brought forward balance of Kshs.1,061,200 and new acquisitions during the year under review costing Kshs.136,430 which however had not been provided for audit review.

In the circumstance, it had not been possible to ascertain the presentation and disclosure of the fixed assets reflected in the financial statements as at 30 June 2016.

522. Payment for Unsubstantiated Legal Services

The Official Receiver paid legal fees totalling Kshs.5,800,000 as interim fees for representing the office in Civil Case No. 461 of 1015 Petition No.560/2015: In a memo dated 8 June 2016, the Deputy Chief State Counsel informed the Official Receiver that the claim against the Government was over 7 (seven) billion shillings and that the advocates had filed good defense and the matter was progressing well. However;

a) no explanation has been provided by the State Law Office on how the advocate was procured;

b) it is not explained how the fee note amounting to Kshs.5.8 million was arrived at;

c) the contract for the legal services was not made available for audit review;

d) no evidence has been presented to show that the Attorney General was consulted prior to appointment of the lawyer firm as required by regulations and,

e) the effect of the possible contingency loss had not been disclosed in the financial statements presented for audit.

In view of the foregoing, it has not been possible to confirm that the procurement of the legal services conformed to procurement regulations and the subsequent payment represented a proper charge on public funds.

523. Unsupported Cash Balances

The statement of financial position reflects bank balances of Kshs.277,456,206 which include balances amounting to Kshs.23,068,080 and Kshs.581,202 for Companies Contingent Fund and Kenya National Assurance Co. Limited respectively which however are not supported with bank reconciliation statements and bank confirmation certificates. Therefore, the accuracy and completeness of the balances could not be ascertained.

524. Unexplained Expenditure

The statement of receipts and payments reflects expenditure totaling Kshs.14,470,286 on use of goods and services which includes Kshs.5,800,000 received from other institutions under liquidation to pay for legal services incurred on Pioneer Building Society, (under liquidation) for services rendered on behalf of the Society. It is not clear how funds from one institution under liquidation could be used to settle bills for another institution under liquidation. Further, no explanation has been provided on how the funds would be recovered.

Consequently, the propriety of the expenditure and value-for-money on the expenditure totaling Kshs.5,800,000 cannot be ascertained.

Other matter

525. Internal Control Weakness

The internal control system of the Official Receiver had the following weakness:

a) No internal audit function for oversight of the operations of the Official Receiver.

b) No audit committee to oversee the audit function.

c) No risk management policy document.

d) No risk assessment carried out to identify and address key areas of concern and document specific controls in response to identified risks.

e) No operating manuals published to guide key processes and controls for receipts from debtors/customers, payments to creditors, personnel, expenditure, assets and liabilities and investments.

f) No Annual operational plan for the year.

g) Most operations systems were manual and susceptible to loss of data and information.

h) No approved Information Technology (IT) strategic plan and hence the office may not benefit from leveraging on IT.

i) No formal, documented and tested disaster recovery plan/emergency procedure in place and therefore in the event of an emergency, the personnel involved might not be aware of what is expected of them.

KENYA LAW REFORM COMMISSION

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this commission.

PUBLIC TRUSTEE

Basis for Qualified Opinion

526. Unsupported Investments

The statement of financial position reflects investments at a cost of Kshs.253,131,000 as at 30 June 2016 out of which investments of Kshs.61,736,814.25 were not supported with documentary evidence. Consequently, the accuracy and completeness of the investments balance of Kshs.253,131,000 could not be ascertained.

527. Cash and Cash Equivalents

The statement of financial position indicates a cash and cash equivalents' balance of Kshs.3,652,736,000 as at 30 June 2016. However, bank reconciliation statements reflect various cash transactions which had not been cleared.

No reasons have been provided for not clearing the long outstanding bank balances transactions.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,692,736,000 as at 30 June 2016 could not be confirmed.

JUDICIARY

FINANCIAL STATEMENTS FOR VOTE 1261

Basis for Qualified Opinion

528. Accuracy and Completeness of the Financial Statements

Examination of expenditure records showed that payments totalling Kshs.7,877,801 made to Jasrise Enterprises and Mima Books Limited on 30 September 2015 and 18 February 2016 were not recorded in the cash book. No explanation has been provided for the omission.

As a result, the accuracy and completeness of the financial statements for the year ended 30 June 2016 could not confirmed.

529. Cash and Cash Equivalents

The statement of assets reflects cash and cash equivalents' balance of Kshs.291,602,638. However, the following unsatisfactory matters were noted:

(a) Status of the unpresented cheques totalling Kshs.191,925,280 was not provided. Further, management did not explain why the cheques were not reversed in the cash book.

(b) Analyses of all payments in the bank not yet recorded in cash book totalling Kshs.70,816,142 were not provided for audit verification.

(c) Receipts in cash book not yet recorded in bank statement balance of Kshs.20,291,472 were not explained or supported.

(d) Receipts of Kshs.6,037,379 in bank statement not yet recorded in cash book were not explained.

In the circumstances, the cash and cash equivalents balance of Kshs.291,602,638 as at 30 June 2016 could not be confirmed.

530. Pending Bills

The pending bills balance as at 30 June 2016 was Kshs.202,938,501. However, the management has not explained why the pending bills were not paid although there was a cash balance of Kshs.291,602,638 as at 30 June 2016 that was carried forward to the 2016/17 financial year. Further, the pending bills were not supported with contracts, invoices, Local Purchase Orders (LPOs), Local Service Orders (LSOs), Delivery Notes and the Judicial Tender Committee Minutes that authorized the expenditures.

In the circumstance, pending bills balance of Kshs.202,938,501 is not justified.

531. Irregular and Unsupported Payments

A payment of Kshs.1,028,340 was made to IBIMA KENYA for the 4th annual regional conference on automation of ISO 9000 and Quality Management (QMS) standards held at the North Coast Beach Hotel, Mombasa for five (5) days from 27 May to 31 May 2014. It was observed that nine (9) participants attended the conference and were charged full-board rate of Kshs.98,500 per particular plus Value Added Tax (VAT). However, the contract signed with the hotel, and the attendance register that supported the transactions were not availed for audit verification. Further, the expenditure was incurred in the financial year 2013/2014 and it is not clear why it was not paid in the year it was incurred, or included in the pending bills balance. In addition, Authority to Incur Expenditure (AIEs) totalling Kshs.169,245,845 were expensed under the domestic and travel expenses account instead of actual expenditure and were thus reflected as actual expenditure for the item. Further, the A.I.Es were not availed for audit examination. In addition, examination of the various accounts revealed that payments totalling Kshs.552,347,213 were not supported with payment vouchers. As a result, the propriety of the expenses could not be confirmed.

In view of the foregoing, the propriety and value-for-money of the expenditure totalling Kshs.722,719,898 reflected in the financial statements could not be confirmed.

532. Unexplained Variations on Security Contracts

The Judiciary entered into a contract with Lavington Securities Limited for provision of security services for Judiciary premises in the year 2014/2015 at a total cost of Kshs.22, 291,500. However, the daily security checklists were not attached to the payment vouchers. In addition, the payment for June 2015 was made in September 2015, but it was not listed as a pending bill. In addition, authority to pay was not attached. Further, there were variations in the approved guards list and the list of those paid in some stations.

In the circumstances, the propriety and value for money for the expenditure of Kshs.22,291,500 incurred on hire of security services could not be confirmed.

533. Irregular Procurement of 30 Laptops and 40 Computers

Express Automation Limited was paid Kshs.13,486,274 vide voucher No.8054 dated 10 March 2016 for the supply and delivery of 30 laptops and 40 desktop computers vide Contract No.JUD/CON/105/A/2014-15. The goods were received on 9 September 2015 vide Counter receipt voucher No.6585279 while the purchase order No.3507 was raised six (6) months later on 29 February 2016. The payment was not listed as a pending bill at the end of the 2014/2015 financial year.

Consequently, the propriety of the expenditure of Kshs.13,486,274 incurred on purchase of the computers cannot be confirmed to have been a proper charge on public funds.

534. Social Security Benefits-Judicial Pension Scheme

During the year under review, the Judiciary made remittances totalling Kshs.122,000,000 to the Judicial Pension Scheme. In an internal memo Ref JBT/09/VOL.1 (21) dated 8 September 2009, the Registrar directed the Assistant Director Human Resource to set aside Kshs.122 million per annum for the next fifteen years to cater for the loss caused by the freezing of past service as advised by the Actuary. However, the actuarial report indicating how the amount was computed was not availed for audit review.

In the absence of the actuarial report, the propriety of the expense of Kshs.122 million incurred on remittances to the Judicial pension scheme during the year ended 30 June 2016 could not be confirmed.

535. Acquisition of Assets and Incomplete Construction Works

535.1 Refurbishment of Mombasa Court of Appeal Building

The Judiciary awarded contract No.Jud/021/2013-14 to Damtax Enterprises of Mombasa on 11 August 2014 for the refurbishment of the Mombasa Law Courts. On 29 August 2014, the contractor wrote to the Judiciary indicating that the contracted tender sum of Kshs.29,140,580 was erroneous and should have instead been Kshs.54,690,580 as tabulated in the Bills of Quantities. However, no explanation was provided on how the error occurred. Although the contract was signed on 11 August 2014, the project site was only handed over to the contractor on 27 November 2014, more than three (3) months later. No explanation has been provided for the delay.

Further on 15 May 2015, six (6) months after the contract commenced, the County Government of Mombasa, in a written submission, complained of poor performance by the contractor. Evidence gathered during the audit indicated that the works were of poor quality.

On 24 September 2015, Damtax Enterprises requested for extension of the completion date by three (3) months effective from 24 September 2015. However, at the time of the audit inspection in the month of November 2016, the contractor was still on site and the works were ongoing. The management has not explained the price variation of Kshs.25,550,000 and the inordinate delay in completion of the project. Further, due to the failure by the main contractor, it is doubtful whether two sub-contracts for electrical and renovation of toilets worth Kshs.10,260,953 and Kshs.2,525,002 respectively would be done.

Consequently, the propriety and value-for-money of the expenditure totalling Kshs.54,690,580 on refurbishment of Mombasa Court of Appeal building cannot be confirmed.

535.2 Narok Law Court

Loima Construction Limited was awarded a tender to construct Narok Law Courts vide tender No.D26 RV/NRK/610/JOB NO.817A at a cost of Kshs.24,984,453 dated on 1 August 2007, and the contract period was for 52 weeks. The contractor was paid the whole contract sum but abandoned the site without having completed the project. As a result, no value was realized on the expenditure of Kshs.24,984,453.

A new tender to complete the works was executed in the financial year 2014/2015 vide tender No.JUD/142/2014/2015 of 22 May 2015 and M/S Resjos Enterprises was awarded the contract at a cost of Kshs.65,194,539 on 22 September 2015.However, physical verification carried out on the site revealed that no works were going on inspite of the award to the new contractor. Further, bore-hole drilling sub contracted to INSTA Pumps Engineering Limited vide NO.JUD/143/2013/15 for Kshs.6,496,900 were yet to be completed by the time of the audit. The completion of the construction works has been delayed by eight (8) years. No plausible explanation has been provided for the delay.

In the circumstances, the propriety and value-for-money of the expenditure of Kshs.90,168,992 incurred on refurbishment of Narok Law Courts could not be confirmed.

535.3 Lodwar Law Courts Construction

The Judiciary entered into a contract with Land Mark Company for construction of the proposed High Court in Turkana County and Lodwar Law Courts, under contract No.Jud/40/2012/2013 at a cost of Kshs.814,986,141. The contract commencement date was 30 September 2013 and the expected completion date was 20 April 2015.

However, the contract stalled at 27.7% level of completion in the financial year 2013/2014 after completion certificates amounting to Kshs.124,462,230 were issued and paid. The Judiciary management has not provided documents showing how the contract was awarded, progress of work and measures taken against the contractor for failure to meet contractual obligations and mitigate against escalation of costs.

In the circumstance, value-for-money has not been achieved on the expenditure of Kshs.124,462,230 incurred on the project before it stalled and further, enhanced public services expected from completion of the courts are yet to be realized.

535.4 Embu Law Courts

The Judiciary contracted M/S Manyata Limited as the main contractor for the construction of a five-story building at a contract sum of Kshs.229, 325,146 through a contract agreement dated 4 December 2014.

Manyata Limited sub-contracted the services to M/S Jufex Auto Hardware Limited and M/S Muga Electrical Contractors Limited of Nairobi for supply, installation, testing and commissioning of plumbing, drainage, fire protection services, water reticulation services and electrical works vide contract agreements dated 28 May 2015 and 3 July 2015 respectively.

The Bills of Quantity (BQ) reflected Kshs.13,040,000 as provisional expenditures to be incurred by the contractor. Payments for the provisional expenditures were to be made upon receipt of expenditure returns filed by the contractor confirming adherence to the various requirements and transparency in handling payments on behalf of other project implementing officers or entities, and further, that stipulated requirements were implemented as stated in the BQ. However, audit review of the provisional expenditures revealed that out of the Kshs.13,404,000 provisional expenditure balance, payments totalling Kshs.9,980,000 had the following anomalies:

i. Although the provisional expenditure included a security provision of Kshs.480, 000 to enable the contractor maintain adequate security, the contractor had only two (2) guards, one at night and the other during the day. These did not seem adequate given the magnitude of work and materials on site. Further, the contractor did not provide provisional expenditure records on how the Kshs.480,000 provided for security in the BQ was spent.

ii. The BQs had a provision for training Ministry of Works technical staff involved in the implementing the project at a cost of Kshs.300,000. However, no documents were made available for audit review to confirm that officers from the Ministry were trained. Further, expenditure returns in respect of the Kshs.300,000 expenditure were not made available for audit verification.

iii. A sum of Kshs.250,000 was provided to pay the Clerk of Works as subsistence allowance. Although this was a conditional provision that had to be adhered to, the expenditure returns and supporting documents confirming adherence to the terms of the contract were not submitted for audit review.

iv. There was a provision of airtime and subsistence allowance for the project management team valued at Kshs.100,000. However, expenditure returns and the airtime distribution register were not filed or submitted for audit review.

v. Subsistence allowances for Ministry of Public Works staff were provided for at Kshs.700,000. However, the provision was not supported by payment schedules and acknowledgements or receipt of funds by all Ministry of Public Works staff involved in the project.

vi. Stationery provision of Kshs.400,000 was made for the Project Manager. However, no expenditure returns in respect of this expenditure has been made available for audit review.

vii. The contractor submitted a number of plants, tools and vehicles that were to be used in the project works and this informed the positive technical evaluation that ranked the contractor as the best evaluated bidder.However, vehicle log books, gate entry and exit registers to confirm that the said items were used at the project site were not submitted for audit review.

viii. Site weather-proof lock-up sheds were provided for in the BQs at a cost of Kshs.500,000. However, audit inspection did not establish the existence of sheds worth the amount provided. Further, no expenditure returns were filed to support the expenditure of Kshs.500,000 that may have been incurred on the sheds.

ix. The provision for sample costs was stated at Kshs.250,000. However no documentation or record of samples and costs thereof were made available to confirm that samples were submitted before approval was given by the project engineers.

x. Expenditures of Kshs.450,000 and Kshs.200,000 were budgeted for repair and maintenance of the roads and sanitation respectively. However, no expenditure returns were submitted for audit review.

xi. Physical verification conducted on the cell rooms revealed that two of them were not properly ventilated. This could lead to poor air circulation and pose health risks to inmates.

xii. Water and electricity was allocated Kshs.1,500,000. However, the contractor took over the site on 15 January 2015 but billing for water and electricity began in March and July 2015 respectively hence the Judiciary met the costs before the site take-over.

xiii. At the time of 2014/2015 audit, the contractor was using water and electricity paid for by the client, thereby occasioning double payment of the utilities.

xiv. Insurance was allocated Kshs.3,750,000. However, no insurance policy was submitted for proof of insurance cover and further, payments for insurance premiums were not submitted for audit review.

xv. Training levy was allocated Kshs.450,000. However, Legal Notice No. 237 of October 1971 requires payment of training levy at the rate of 0.25% of the contract sum which translates to Kshs.573,313 leading to an unexplained variance of Kshs.123,313.

xvi. The site agent was allocated Kshs.650,000 but no document was submitted for audit to confirm that the contractor hired the services of a site agent. Further,

expenditure returns in respect of payments to the agent were not availed for audit review.

xvii. Several amendments were carried out on architectural design and these included moving the entire 3rd floor to 4th floor, banking hall, the security office was changed to a waiting cell and the location of the reception changed. Even though the changes were discussed at site meetings and agreed upon, they were, however not ratified by the client and other authorities mandated to approve the structural amendments like the National Construction Authority or the County Construction Inspectorate Unit. Further, even the client did not receive official correspondence on the changes among other relevant construction supervisory and procurement authorities to enable them approve the proposed amendments.

In view of the foregoing, the accuracy and propriety of provisional expenditure of Kshs.9,980,000 incurred on construction of Embu Law Courts building as at 30 June 2016 cannot be confirmed.

535.5 Proposed Supply and Installation of 200 KVA Stand-By Generator

The contract for supply of a generator intended to power the lift and lighting for the proposed five storey Embu Law Courts building was awarded to M/S Masterpiece Electrical Limited at a contract sum Kshs.8,058,350 through a contract agreement dated 28 May 2015. Ameeting to inspect and accept the generator was held on 27 May 2015 and the Minutes signed by the Mechanical Engineer. Part Deliveries were made on various dates delivery No. 018 was dated 21 May 2015, delivery No. 019 was dated 26 May 2015 and the last delivery No. 020 was dated 13 January 2016 and the test report was dated 23 January 2015.

It was not clear how a test could be conducted on 23 January 2015 and deliveries done one year later on 13 January 2016.

Further, payment in respect of the generator was made without due regard to capacity to power the lifts. In the event of the generator's failure to power the lifts, then the client may lack adequate avenue for redress.

In the circumstance, it has not been possible to confirm the propriety and value-for-money in respect of the Kshs.8,058,350 expenditure incurred on purchase of the generator.

535.6 Proposed Installation of 2 Passenger Lifts- Embu Law Courts

The Embu High Court contracted the services of M/s Mits Electrical Company Limited to supply and install two (2) lifts at a contract sum of Kshs.13,500,000. The contract was signed on 7 September 2015. However, as at the conclusion of the audit on 4 August 2016, the lifts had not been delivered and no evidence was submitted to explain reasons for the eleven-month delay in supply of the lifts.

535.7 Title Deed for the High Court

The Embu High Court management did not avail for audit review the title deed or other ownership documents showing that the land on which the Embu High Court stands belongs to the Judiciary. Further, management did not provide the most recent update on the progress made, on acquisition of the title documents. As a result, ownership of the land on which the Embu High Court is being constructed could not be confirmed.

In the circumstance, the propriety of the expenditure of Kshs.320,153,007 due to be incurred on construction of the building could not be confirmed.

536. Runyenjes Law Courts

536.1 Travel Costs, Accommodation and Daily Subsistence Allowances

During the year under review, the Principal Magistrate, Runyenjes Law Courts spent a sum of Kshs.389,300 on travelling and accommodation allowances. However, no imprest register was maintained as required by the Public Finance Management Regulations and as a result, the propriety of the expenditure totalling Kshs.389,300 could not be confirmed.

536.2 Incomplete Asset Register and Lack of Title Deed

The Judiciary owns buildings and various parcels of land throughout the Country. In addition, the Judiciary owns various assets including vehicles, furniture, computers and other equipment. However, at the time of the audit, the Judiciary was updating its asset register and procuring titles for its parcels of land across the country.

In the absence of title deeds and a complete asset register, the security and ownership of the assets owned by the Judiciary cannot be confirmed.

537. Transfer to Semi-Autonomous Institutions

The financial statements reflected a balance of Kshs.659,122,431 as transfers to semi-autonomous institutions but which has neither been analyzed nor supported with relevant documents. Further, some of the recipient Ministries did not reflect the transfers in their financial statements. It was therefore not possible to confirm the accuracy, completeness and validity of the balance of Kshs.659,122,431 reportedly transferred to semi-autonomous institutions during the year under review.

REVENUE STATEMENT OF THE JUDICIARY

FINANCIAL STATEMENTS FOR VOTE 1261

Basis for Qualified Opinion

538. Financial Irregularities at Kericho Courts

Examination of financial records maintained at the Kericho Law Courts disclosed the following unsatisfactory matters in addition to the issues raised in the certificate issued on 18 April 2016 on the audit of 2014/2015.

538.1 Unaccounted for Court Deposits

Examination of the deposit ledger and other court records indicates that deposits and bonds paid to the court by convicts totaling Kshs.13,579,539 had not been refunded as at 30 June 2015. Further, an examination of bank statement for Deposit Account revealed a balance of Kshs.5,478,737 as at the same date. The resulting difference of Kshs.8,100,802 represents unaccounted for convicts' deposits and bonds.

538.2 Irregular Expenditure

The Chief Magistrate's office procured general office supplies worth Kshs.833,677 during the period under review. However, the following unsatisfactory matters were noted.

(i) There were no requisitions initiated by the user departments detailing the quality and quantity of the stationery required.

(ii) No approvals were made of the requisitions made for the stationery purchased.

(iii) No procurement plan was produced for audit.

(iv) The stores purchased were not entered in records contrary to Section 18.2 of the Government Financial Regulations and Procedures and it was therefore not possible to confirm receipt and subsequent usage.

In the circumstances, it was not possible to confirm the propriety of the expenditure of Kshs.833,677.

538.3 Bank Reconciliations

The Kericho Law Courts did not prepare bank reconciliation statements for the deposit and revenue cash books as at 30 June 2015 contrary to Section 5.9.2 of the Government Financial Regulations and Procedures.

Although it was indicated that monthly bank reconciliation statements had been prepared, none were provided for audit verification.

In view of the foregoing, the accuracy and completeness of the revenue collected, utilized or transferred could not be ascertained.

539. Fraud at Baricho Law Courts

An audit inspection done on Baricho Law Courts confirmed that the Judiciary had lost a total of Kshs.984,080 due to falsification of documents and fraud by the staff based in Baricho Law Courts and no recoveries had been made at the time of audit. Further, a review of the accountable documents maintained revealed that twelve (12) receipt books were missing at the District Treasury at Baricho. In addition, thirty (30) traffic case files were missing including the personal file of the accountant involved in the forgery.

Baricho Law Courts did not maintain a deposit cash book and further, no monthly reconciliation statements were prepared as required. There was no explanation provided as to why Judiciary did not adhere to Section 64 of the Public Finance Management Act, 2012 on revenue collection, management and accountability. It is also not clear why recoveries had not been done by the Judiciary contrary to Section D of Judiciary's Human Resource Policies and Procedures manual of September 2014.

In the circumstances, the Judiciary lost funds both through fraud and inertia.

540. Prior Year Matters

540.1 Discrepancies in Revenue Records

540.1.1 Naivasha Law Courts

Records maintained at the station reflected the amounts of surrender to the Headquarters for court fines and court fees as Kshs.100,923,964.00 and Kshs.11,612,408 respectively.

However, records maintained at the Headquarters had surrenders amounting to Kshs.110,192,341 and Kshs.10,583,445 for court fines and fees respectively. The resulting difference of Kshs.(9,268,377) for court fines and Kshs.1,028,963 for court fees between the two sets of records was not explained or reconciled.

In the circumstances, the accuracy and completeness of the revenue collected and surrendered from Naivasha Law Courts could not be confirmed.

540.1.2 Eldoret Law Courts-Fines and Fees

An audit inspection at Eldoret Law Courts indicated that fines collected in the financial year 2014/2015 totalled Kshs.51,984,727. However, the amount of fines surrendered at Headquarters totaled Kshs.38,070,330 resulting in an unexplained difference of Kshs.13,914,397.

Further, the revenue collection control sheet number 0192365 collected two different amounts of Kshs.522,360 and Kshs.1,537,475. In addition, the amount of fees collected could not be confirmed as revenue collection control sheets and surrenders were not made available for audit review.

Consequently, the amount of fines and fees collected and surrendered from Eldoret Law Courts could not be ascertained.

Other Matter

541. Weak Internal Control

It was observed that the Baricho Court station did not maintain a list of authorized staff to collect accountable documents including case files for the station, an indication that there is no segregation of duties.

542. Budget Analysis

Item	Estimates (Kshs)	Actual (Kshs)	Variance (Kshs)	%
Fees on use of Goods/Services	3,986,871,177	838,002,748	3,148,869,429	79%
Fines, Penalties and forfeitures	1,479,260,850	1,470,054,680	9,206,170	0.6%

It is not clear and Judiciary has not explained what caused the huge discrepancies in the fees on use of Goods/Services revenue collection figure of Kshs.3,148,868,429 as at 30 June 2016.

DONOR FUNDED PROJECTS

THE JUDICIAL PERFORMANCE IMPROVEMENT PROJECT

Basis for Qualified Opinion

543. Acquisition of Non-Financial Assets

543.1 Lack of Title Deeds and Valuation

Audit review of eight (8) construction projects at various stations valued at Kshs.1,021,423,949 financed by the Project revealed that the construction projects were being under-taken on parcels of land that have no title deeds. The Judiciary therefore did not have absolute ownership of the land on which the buildings were being constructed. As a result, the ownership and valuation status of these parcels of land could not be confirmed.

543.2 Incomplete Construction Works

543.2.1 Construction at Nyando and Muhoroni Law Courts

The Judiciary entered into a contract for the proposed rehabilitation works and ancillary services for Nyando and Muhoroni Law Courts. The contracts were competively offered to Phillmark Systems at a contract sum of Kshs.74,827,121 and Kshs.74,902,949 respectively. The contract commencement dates were 4 September 2017 for Nyando and 8 June 2016 for Muhoroni which was later revised to 2 January 2017 for Nyando and 8 October 2016 for Muhoroni. However, these two contracts were observed to be behind schedule by 30 weeks even after the extension of the contract period. Further, information gathered from correspondences dated 23 November 2016 by the contractor and addressed to the Chief Registrar of the Judiciary, indicated some kind of misunderstanding between the contractor and the consultant which if not addressed may lead to delays or stalling of the contracts.

As per the contractor, the valuation certificate No.5 dated 29 September 2016 for an amount of Kshs.5.2 million had not been released by the project architect as at the time of audit leading to delayed payments and delayed completion of works. Consequently, there was a risk of costs escalating or projects stalling if the matters are not addressed.

543.2.2 Nyamira Law Courts

The Judiciary entered into a contract for the proposed rehabilitation works for the existing court buildings and ancillary services at Nyamira Law Courts Station which was awarded to M/s J N Investments Limited at a contract sum of Kshs.118,305,748. The contract commencement date was agreed as 18 June 2015 with original completion date supposed to be 17 June 2016. However, the contract period was extended to 19 December 2016. The original contract duration was supposed to be 52 weeks (12months) which was extended by an additional 24 weeks. Minutes of a meeting held on 26 October 2016, reflect that the amount of work done was indicated as 65% complete. As at the time of audit inspection in November 2016, the construction was still ongoing. Although the works were noted to be satisfactory, there was no indication that the project's revised completion date of 19 December, 2016 will be met as the 35% may not be done in one month.

In the circumstances, the projects' objectives may not have been attained and value for money may not be realised due to the implementation delays.

544. Unsupported Expenditure

The Judiciary entered into a contract with Colour Print Limited for printing 103 000 copies of the Law Reports under Judicial Performance Improvement Projects (JPIP) vide Tender No.JPIP/NCB/02/2013-2014. The expected supplier was notified on 24 July, 2014 and contract signed on 21 August, 2014. The expected delivery period was 35 days after approval of the final proof/sample and the expenditure was provided for in 2013/2014 fiscal year. Delivery no. 83173 for 1684 copies was done on 21 August 2015 through invoice No.79330 dated 20 August 2015 with an amount of Kshs.2,780,288 that

was paid one year later. Even though the Judiciary availed documents on the intended parties for distribution of the printed reports, there was no evidence of the number of law reports received in the stores, distributed and received by the targeted groups. Further, no explanation was given for the delay in the delivery of these law reports.

545. Undelivered Computer Equipment

The Judiciary through the Judiciary Performance Improvement Project (JPIP) entered into contract No.ICB No. JPIP/02/2013-2014/2 with Computech Kenya Limited for the supply of computers and related accessories at a contract sum of USD 161,536.10.

A scrutiny of the payment voucher revealed that the Judiciary paid Kshs.13, 686,493 as per delivery notes no's 7122, 6821 and 6850 for supply of 92 Laptops i5, 4 laptops i5 and 50 laptops i7. At the time of the audit, 36 tablet computers whose cost was USD 11,677.68 had not been delivered.

In the circumstances, the propriety and value for money of the expenditure of USD.11,677.68 could not be ascertained.

546. Undelivered Motor Vehicles

As earlier reported in Paragraph 236 of the report of the Auditor-General, for the Financial Year 2014/2015, the project awarded a contract to CMC for supply of motor vehicles on 02 April 2014 at a cost of Kshs.14,600,000. The contract was awarded to Global Fleet Sales Company of Thailand. However, the delay in delivery occasioned ineligible penalties of Kshs.20,645,562. Eventually, the vehicles were delivered but the Ministry of Public Works gave their inspection report long after the vehicles were registered contrary to the practice where vehicles are inspected before registration.

In addition, an Initial Memo dated 6 June 2016 indicated that the vehicles were meant to be distributed to Moyale, Maralal, Wajir and Mandera. However S13 forms were not made available for audit review to ascertain that the vehicles were delivered to the expected destinations.

In the circumstances, the Judiciary has not realised value for money from the ineligible expenses of Kshs.20,645,562 and the cost of the undistributed vehicles of Kshs.14,600,000.

Other Matter

547. Underutilization of Budget Allocations

The statement of comparative budget and actual amounts reflects a final budget of Kshs.2,259,103,000.00 and actual on comparable basis of Kshs.1,010,717,110 leading to an under-utilization by Kshs.1,248,385,890 or 55% of the total budget. It is therefore not clear whether the project will achieve its intended objective.

ETHICS AND ANTI-CORRUPTION COMMISSION

FINANCIAL STATEMENTS FOR VOTE 1271

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this commission.

NATIONAL INTELLIGENCE SERVICE

FINANCIAL STATEMENTS FOR VOTE 1281

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of the National Intelligence Service.

INTELLIGENCE SERVICE DEVELOPMENT FUND

FINANCIAL STATEMENTS FOR VOTE 1281

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

DIRECTORATE OF PUBLIC PROSECUTIONS

FINANCIAL STATEMENTS FOR VOTE 1291

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of the Directorate of Public Prosecutions.

COMMISSION FOR THE IMPLEMENTATION OF THE CONSTITUTION

FINANCIAL STATEMENTS FOR VOTE 1301

Basis for Adverse Opinion

548. Presentation of Financial Statements

(i) Chairman's Statement

Review of the financial statements for the Commission for the Implementation of the Constitution (CIC) revealed that the Chairman's statement was missing from the financial statements contrary to the financial reporting template prescribed by the Public Sector Accounting Standards Board.

(ii) Contingent Liabilities

The financial statements do not disclose the potential contingent liability of Kshs.1,216,058 that could arise from the cases filed against the Commission.

In view of the foregoing, the financial statements for the period ended 26 February 2016 do not comply with International Public Sector Accounting Standards (IPSAS).

549. Unapproved Over Expenditure

The summary statements of the appropriation account for the period under review indicate that the approved budget for the Commission was Kshs.312,040,000 while the actual expenditure was Kshs.314,978,622 leading to an unapproved over-expenditure of Kshs.2,938,622.

Consequently, the Commission did not operate within its approved budget estimates.

550. Irregular Repair of Motor Vehicle

The Commission's vehicle VW Passat GK A 129Y was involved in an accident along Waiyaki way on 10 August 2012, and after the incident, the vehicle was towed to the police station by Intermotors Enterprises. The police carried out investigations and the driver was charged with careless driving offence and convicted by the Court. It was noted that after Intermotors towed the car they repaired it without authority at a cost of Kshs.178,292.00 paid vide PV No. 1270 dated 29 December 2015.

In addition, the following anomalies were noted:

i. There were no quotations raised and hence it was not possible to confirm that the Commission received value-for-money on the repairs.

ii. The Local Service Order (LSO) No. 1044616 was issued on 11 May 2015 despite the invoice having been received two years earlier on 24 July 2013.

iii. There was no evidence of inspection done to confirm that the repairs were carried out.

As a result, the propriety of the expenditure totaling Kshs.178,292 could not be confirmed.

551. Outstanding Imprests

Outstanding imprest as at 31 December 2015 totalled Kshs.10,468,016 out of which Kshs.9,872,048 were under investigation by the police. Further, seven officers left the Commission without surrendering imprest totaling Kshs.525,168 at the close of the mandated period. Apparently, the Commission did not recover the imprests from the officers before they left employment, contrary to the Public Finance (National Government) Regulations, 2015.

552. Uncleared Pending Bills

Pending bills reported in the winding up committee report totaled Kshs.4,816,734.40 while the financial statements reflect a balance of Kshs.3,505,451 thus resulting in an unexplained variance of Kshs.1,311,284. Further, it is not clear why the bills were not paid yet the Commission had sufficient funds to pay the balance.

In the circumstance, the accuracy and propriety of the pending bills' balance of Kshs.3,505,451 could not be ascertained.

553. Unaccounted for Assets

The Commission procured assets costing Kshs.1,332,481 towards the closure of the financial year. These included mobile phones, iPads and laptops. The items were categorized as office furniture and general equipment in the financial statements but the Commission did not provide explanations as to why they were procured a few days to the closure of the year. In addition, payment vouchers for the purchases were not made available for audit review.

Consequently, the location, safety, custody and valuation of the unaccounted for assets could not be confirmed.

554. Un-disclosed Information in Winding Up Report

The Commissions winding up report revealed the following:

a) The cash balance reported as banked by the Commission was Kshs.1,003,225 while the financial statements reflect a balance of Kshs.4,140,717. Further, Page 22 of the report indicates the amounts in various bank accounts operated by the

Commission and handed over to the committee as totaling Kshs.3,443,282. No reconciliation has been provided for the three differing balances.

b) There is no evidence that the Commission's assets were received and taken on charge by the State Law Office and Department of Justice as expected. The assets were instead taken over by the Inter-Governmental Relations Technical Committee (IGRTC) without a formal transfer from the Office of the Attorney-General and Department of Justice. The disorderly transfer exposed the assets to risk of loss.

555. Unresolved Previous Year Issues (2014/2015)

a) Unauthorized Excess Vote

The Commission's statement of receipts and payments for the year ended 30 June 2015 reflects expenditure totalling Kshs.349,780,096 compared to an approved budget of Kshs.306,000,000. No evidence was availed to support the approval of the over-expenditure by National Assembly.

As a result, the Commission had incurred an unauthorized Excess Vote of Kshs.43,780,096.00.

b) Cash and Cash Equivalents

Examination of the bank statements and bank reconciliation statements revealed unexplained and unresolved long outstanding items as follows:

	Item	Central Bank of Kenya (Kshs)	KCB A/C (Kshs)
1.	Payments in cashbook not in bank	11,192,330	3,464,548
2.	Payments in Bank not in cashbook	4,609,233	2,423,137
3.	Receipts in cashbook not in bank	10,001,113	2,903,479

Consequently, the accuracy and validity of cash and cash equivalents' balance of Kshs.6,806,944, could not be confirmed.

c) Outstanding Imprests and Advances

The statement of assets reflects an outstanding imprest balance of Kshs.32,941,671 as at 30 June 2014. However, the Commissions imprest records reflected a balance of Kshs.11,235,309 as at 20 January 2015 which some remained outstanding beyond the due dates.

No reason has been provided for the failure by the Commission to have the imprests recovered from the salaries of the imprest holders. Considering that the Commission's term ended by 31 December 2016, recovery of these imprests appears doubtful.

d) Fraudulent Procurement of Goods and Services

The statement of receipts and payments as at 30 June 2014 reflects expenditure totaling Kshs.232,015,419 under use of goods and services which includes a figure of Kshs.44,170,578 in respect of printing, advertising and information supplies and services. During the previous year (2014/2015), the Commission paid Kshs.9,200,000 to a supplier vide payment voucher No.1104 dated 22 April 2014 (Kshs.6,000,000) and payment voucher No.1288 (Kshs.3,200,000) for purported newspaper supplements, video, photography and media mobilization. The payments were made despite the following irregularities:

i. The Local Service Order (L.S.O.) No.088968 that was used to pay the sum of Kshs.6,000,000 did not belong to the Commission.

ii. There was no evidence of the method of procurement followed by the Commission or that of the tender committee in sanctioning the procurement process.

iii. Payment voucher No.1288 and supporting documentation used to pay the sum of Kshs.3,200,000 were not presented for audit review as the voucher was reported to be missing.

The Commission had however, indicated that the matter was reported to the Police Criminal Investigations Department (CID) (OB/43/12/2014) for further investigation and recovery of the monies. However, the total sum of Kshs.9,200,000 had not been recovered as at 30 June 2016.

REGISTRAR OF POLITICAL PARTIES

FINANCIAL STATEMENTS FOR VOTE 1311

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of the Registrar of Political Parties.

POLITICAL PARTIES FUND

FINANCIAL STATEMENTS FOR VOTE 1311

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

WITNESS PROTECTION AGENCY

FINANCIAL STATEMENTS FOR VOTE 1321

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of the Witness Protection Agency.

KENYA NATIONAL COMMISSION ON HUMAN RIGHTS

FINANCIAL STATEMENTS FOR VOTE 2011

Basis for Qualified Opinion

556. Unsupported Cash-In-Transit

As disclosed in note 22A to the financial statements, the bank balances of Kshs.63,735,113 reflected in the statement of assets as at 30 June 2016 are net of cash in transit amounting to Kshs.3,715,167. However, no sufficient documentary evidence has been provided in support of the amount. As a result, the completeness and accuracy of the bank balances of Kshs.63,735,113 could not be ascertained.

NATIONAL LAND COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2012

Basis for Qualified Opinion

557. Payments on Behalf of Other Government Entities

Note 7 to the financial statements reflects payments on behalf of other Government entities totalling Kshs.2,868,539,469. The amount includes Kshs.2,079,764,003 being compensation payments whose details of acreage and plot numbers have not been availed for audit verification. In addition, the Commission has not availed for audit verification valuation reports for compensation paid out during the financial year. In the circumstance, it has not been possible to confirm the accuracy and validity of the payments made by the Commission on behalf of other Government entities amounting to Kshs.2,868,539,469 included in the statement of receipts and payments.

INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2031

Basis for Qualified Opinion

558. Biometric Voter Registration (BVR) System Vendor Support and Maintenance Services

The statement of financial performance as disclosed in Note 9 to the financial statements reflects Kshs.245,145,000 against other operating expenses which includes a figure of Kshs.152,623,000 described as contracted technical services of which Kshs.141,282,554 includes payments in relation to biometric system vendor support and maintenance services. However, the following anomalies were noted: -

558.1 Award of Contract

Examination of Tender No. IEBC/02/2014-2015 together with Minute Number 43/2013-2014 of the tender committee meeting held on 11 June, 2014 reveals that the Commission approved the direct procurement of BVR system vendor support and maintenance services. A negotiation team was appointed on 9 October 2014 and reviewed on 11 November 2014 when the membership changed. The Committee which was mandated to negotiate terms of reference engaged the vendor and recommended award of the contract at Euro 1,399,000 (equivalent to Kshs.157,224,237).

558.2 Cancellation and Re-award of Contract

Tender Committee minutes for a meeting held on 7 October 2015 indicate that the recommended award contract was cancelled due to lack of funds and also due to the fact that the Commission wanted to revise the scope of service. The same tender was re-introduced before Tender Committee on 8 October 2015 under a separate tender number. The Tender Committee approved direct procurement for BVR vendor support and maintenance services through Min No. 06/9/2015 – 2016 of a meeting held on 13 October, 2015. Another Tender Processing Committee appointed in November, 2015 recommended on 7 December, 2015 that the tender be awarded to the same company at Euro 4,569,260 (equivalent to Kshs.513,508,493) spread over a period of five years.

558.3 Vendor Support

Information and records availed indicate that the rates submitted by the Vendor in separate contracts varied as follows: -

(i) In the 2012 Contract, the Vendor Support amount was Euro 254,004 per annum.

(ii) In the cancelled tender of 2013, the Vendor amount was Euro 316,000 per annum.

(iii) Finally the contract for the Vendor support was awarded at Euro 746,049 per annum.

Although the Commission has explained that vendor support is important in realizing the benefits of the huge investment in the BVR system, the basis upon which these rates were determined has not been explained.

In view of the matters disclosed above, it is evident that the contract contents were altered contrary to the requirements of Article 227 (1) of the Constitution of Kenya on fairness, equity, transparency, competitiveness and cost effectiveness. Consequently, it is not possible to confirm the adequacy of the procurement procedures and controls in relation to this tender award.

559. Legal Fees

559.1 Irregular Payment of Legal Dues, Arbitration & Compensation

The Commission as at 30 June 2013 had outstanding pending bills relating to legal fees totaling Kshs.1,054,889,115 summarized as follows: -

Description	Amount (Kshs.)
Legal Fees- Presidential Petition	568,612,359
Legal Fees- Other Petitions	486,276,756
Total	**1,054,889,115**

However, a sample test of sixty eight (68) advocates that the Commission instructed to represent them reveals that they have been paid Kshs.2,145,632,115 as part of the pending bills since 30 June 2013. The procurement and payments of these private legal services were without the prior approval or concurrence of the Attorney General contrary to Section 17 of the Office of the Attorney Act No.9 of 2012 and Article 156 of the Constitution. The Commission has not provided documentary evidence of cases represented and payments thereof to justify and support payments in excess of recorded pending bills.

In addition, the audit has established that letters of instructions were signed and owned by the Director of Legal Services and not on behalf of the Commission contrary to Section 8.16.4 on External Communication as specified in the Commission's Human Resources and Administration Policies and Procedures Manual, revised in June 2014.

559.2 Use of Law Firms that were not Prequalified

The Commission paid Kshs.17,756,345 to five (5) law firms that were not prequalified and were single sourced contrary to Sections 78 to 85 (1)(b) of the Public Procurement and Disposal Act, 2005.

559.3 Representation Without Valid Contracts

Although the Commission explains that there were cases of misfiling of documents, documentary evidence availed indicates that 30 law firms were paid Kshs.328,314,977 during the year under review with no lawful contracts as required by Section 68 (2) (d) of Public Finance Management Act, 2012.

In this regard therefore, it is not possible to confirm validity of Kshs.328,314,977 paid to these law firms. In addition, the procurement of these services was not fair, equitable, transparent, competitive and cost effective as required under Article 227(1) of the Constitution of Kenya.

560. Nugatory Payment

As reported in the previous year, the Commission paid Kshs.220,400,000 for supply of 290 printers instead of 337 contracted. Information availed in the year under review indicates that due to the delay in payment, the supplier sued the Commission and an interest of Kshs.54,223,524 was awarded for payment by the Commission. The Commission, therefore, incurred wasteful expenditure.

561. Late Delivery of Election Materials

The statement of financial performance reflects expenditure of Kshs.1,005,365,000 in relation to general expenses of which an amount of Kshs.36,058,000 relates to specialized materials and supplies. Included in the expenditure for specialized materials are goods valued at Kshs.26,696,007 purchased for use in mass voter registration exercise and by-elections in Nyangores and Masongaleni County Assemblies, Kericho Senatorial and Malindi Constituency. However, these goods were delivered when the by-elections had been undertaken. It was noted that records on stores cards were falsified to purport that these goods were received before the by-elections and used for the intended purpose. Consequently, the propriety of the Kshs.26,696,007 expenditure could not be confirmed.

562. Procurement of Air Tickets

The Commission procured air tickets for foreign travel totaling Kshs.9,247,782 through direct procurement contrary to Section 74 (3) of the Public Procurement and Disposal Act, 2005. In addition, two (2) firms which were not prequalified to supply air tickets, were paid Kshs.5,108,402.

563. Fixed Assets Register

As reported in the prior year's audit report, the fixed assets register has not been updated to capture 68 Olympia generators and 1,329 solar panels which are lying idle in various regional offices of the Commission. In consequence, it is not possible to confirm that the carrying values of property, plant and equipment as stated in the financial statements reflect the fair values as at 30 June 2016.

564. Prior Year Audit Issues

The following issues were raised in the previous year and have not been satisfactorily addressed in the year under review:

564.1 Contract for Supply, Delivery, Installation, Configuration, Training, Testing and Commissioning of Electronic Voter Identification Devices (EVIDS)

The specifications relating to supply, delivery, installation, training, testing and commissioning of 30,000 EVIDs at a total cost of USD 16,651,139 were irregularly changed resulting in change of prices and value of goods and services. Consequently, value for money was not obtained and the equipment was not effectively used during the elections. The matter is in court.

564.2 Procurement of Additional 4,600 Electronic Voter Identification Devices (EVIDs)

Unsatisfactory matters were disclosed relating to irregular procurement of additional 4,000 EVIDS out of which 4,600 EVIDS were purportedly delivered.

564.3 Irregular Payment for Transportation of Election Materials

A company was irregularly paid Kshs.50,487,440 for transportation of election materials. However, the company had not been contracted and was registered later after the general elections and the award of contract.

In addition, the total number of vehicles purported to have been contracted were less than what was actually paid for.

Further, vehicles purportedly used in specific regions were found to have been engaged in other regions on the same day resulting to excess payment of Kshs.42,679,460.

564.4 Examination of Two (2) Payment Vouchers Totaling Kshs.79,106,538

The Commission irregularly made excess payment to a company for transportation of election materials totaling Kshs.46,496,478. The Commission also failed to provide procurement documents relating to the contract as required under Section 37 (a) (ii) of the then Public Audit Act, 2003.

564.5 Examination of Payment Vouchers Nos. 396 and 386 Totalling Kshs.92,342,000

The Commission irregularly procured election materials worth Kshs.92,342,000 using quotations contrary to Section 26 (3) (b) of the Public Procurement and Disposal Act, 2005.

564.6 Transfers to Burundi

The Commission irregularly transferred 150 EVIDS to Burundi contrary to Section 26 of Independent Electoral and Boundaries Commission Act, 2011.

564.7 Transfers to Ministry of Devolution

Unsatisfactory matters were disclosed relating to transfer of 200 Biometric Voter Registers (BVR) to the Ministry of Devolution contrary to Section 72 (3) of the Public Finance Management Act, 2012.

564.8 Loss of Forty Eight (48) Bio- Metric Voter Register (BVR) at Emgwen Constituency, Nandi County

48 BVRs were stolen from Kapsabet Warehouse, North Rift Region on 23 August 2014. This puts into doubt the security of data in terms of backup and unauthorized access.

PARLIAMENTARY SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2041

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this commission.

Other Matter

565. Stalled Refurbishment and Partitioning of Offices at Harambee Co-operative Plaza

The Commission awarded contract No.D29/NB/1101 Job No.9878A for refurbishment and partitioning of offices at Harambee Co-operative Plaza on 16 May 2013 to a local firm at a tender sum of Kshs.420,000,000. Examination of available records revealed that the contractor had been paid Ksh.163,715,475 or 39% of the contract price as at 31 March, 2016. However, the works, which were due for completion on 27 January 2014, were not completed as expected and have since stalled. No plausible explanation has been provided for the failure to complete the project on time. Further, the Commission has not made any pronouncement on resumption of construction work.

566. Interest on Delayed Payments

The commission on 5 September 2012 awarded a local company contract WP No.D29 NB/NBI/1101 Job No.7577E to renovate the senate chamber and parliamentary offices at a tender sum of Kshs.2,209,173,479. Further, the Commission, contracted an international company to construct a multi-storey office block under contract WP No.D29 NB 901 Job No.7753C at a tender sum of Kshs.5,893,649,850 on 23 September 2013.

The expenditure records show that during the year under review, the Commission paid the local and international companies Kshs.34,371,525 and Kshs.27,880,235, respectively being interest claims for delayed payment of works certificates/invoices.

Had the contractor bills been settled on time, the total expenditure of Kshs.62,251,760 incurred on interest on delayed payments could have been avoided.

PARLIAMENTARY CAR LOAN SCHEME FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

PARLIAMENTARY MORTGAGE LOAN SCHEME FUND

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this fund.

NATIONAL ASSEMBLY

FINANCIAL STATEMENTS FOR VOTE 2042

Basis for Qualified Opinion

567. Mileage Allowance

The statement of receipts and payments for the year ended 30, June 2016 reflects an expenditure of Kshs.4,874,074,954 on use of goods and services. Included in this figure is an amount of Kshs.620,132,643 relating to mileage allowance.

However, examination of records revealed that some members of parliament were paid mileage allowance in 2014/2015 and 2015/2016 financial years of Kshs.298,811,898 and Kshs.270,551,496, respectively totalling Kshs.569,363,394 without clear guidelines. According to the explanation provided by the Accounting Officer on the matter, the Parliamentary Service Commission had resolved at its 227th meeting held on 6 April, 2016 to continue engaging with the Salaries and Remuneration Commission to clarify that the mileage allowance is payable to members who travel beyond seven hundred and fifty kilometres per month.

568. Outstanding Imprests

The statement of assets and liabilities as at 30 June 2016 reflects outstanding imprests totalling Kshs.49,402,796 which ought to have been surrendered or accounted for on or before 30 June 2016. No satisfactory explanation has been provided for failure to surrender or account for the imprests.

569. Accounts Payables

As disclosed under Notes 13A and 13B to the financial statements, the National Assembly had pending bills totalling Kshs.197,814,570 as at 30 June 2016. Had the bills been paid and related expenditure charged to the accounts for 2015/2016 financial year, the statement of receipts and payments for the year then ended would have reflected a reduced surplus of Kshs.9,274,271 instead of Kshs.188,540,299 now shown.

JUDICIAL SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2051

Basis for Qualified Opinion

570. Unsupported Board Expenditure

During the year under review, the Commission held a total of 61 board meetings. However, only 31 meetings were supported by minutes. In absence of proper supporting documents of attendance registers and board meeting minutes, the total expenditure of Kshs.49,000,000 paid for board meetings could not be ascertained.

Consequently, the propriety of the expenditure of Kshs.49,000,000 could not be confirmed.

Other Matter

571. Under- Expenditure

The statement of Appropriation Account Recurrent for the year 2015/2016 reflects a final budget of Kshs.473,200,002 and actual on comparison basis of Kshs.394,411,753 resulting in an under expenditure of Kshs.78,788,249 or 17% of the total budget. No explanation has been provided for the low absorption of the budgeted funds which casts doubt as to whether the Commission achieved its intended purposes during the year.

572. Unexplained Expenditure Increases

During the year under review, the Commission incurred, under the use of goods and services the following expenditure items which had huge unexplained increases;

Item	2014/2015 (Kshs)	2015/2016 (Kshs)	Un explained Increase (Kshs.)	%
Foreign travel and subsistence	34,424,667	56,183,257	21,758,590	63%
Printing, Advertising and Information supplies and services	4,270,659	16,635,302	12,364,643	290%
Training Expenses	81,690,620	136,494,108	54,803,480	67%
Other Operating expenses	7,439,500	32,100,485	24,660,985	332%
Total	**127,825,476**	**241,413,152**	**113,587,706**	

The management of the Board did not provide sufficient explanations to justify the huge increases of the expenditures.

In the circumstance, the propriety and probity of the expenditure of Kshs.241,413,152 could not be confirmed.

COMMISSION ON REVENUE ALLOCATION

FINANCIAL STATEMENTS FOR VOTE 2061

Basis for Qualified Opinion

573. Unreconciled Balances

Various account balances reflected in the financial statements differ with the Integrated Financial Management Information System (IFMIS) trial balance figures as at 30 June 2016 as summarized below:

Account Details	Financial Statements Balance (Kshs)	IFMIS Trial Balance (Kshs)	Difference (Kshs)
Total Expenses	325,071,845	301,066,165	24,005,680
Total Assets	188,459,241	12,933,238	175,526,003
Total Liabilities	6,302,041	7,321,441	(1,019,400)

No reconciliation has been provided for the differences.

SALARIES AND REMUNERATION COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2081

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this commission.

Other Matter

574. Accounting Systems

The Commission uses two accounting systems to maintain books of account, Quick Books Accounting software and Integrated Financial Management System-IFMIS. These two systems are not integrated and as a result transactions are not captured in both systems concurrently. Whereas Quick Books Accounting system uses accrual method of accounting, IFMIS is cash based. The Commission's financial statements for the year ended 30 June 2016 have been prepared on accrual basis based On Quick Books Accounting System. Audit review revealed that the financial statements reflect balances which differ from IFMIS trial balance figures as analyzed below.

Account Details	Financial Statements Balance (Kshs)	IFMIS Trial Balance (Kshs)	Difference (Kshs)
Total Revenue	970,113,156	970,041,900	71,256
Total Expenses	773,909,242	839,419,102	65,509,860
Total Assets	382,316,502	1,704,081,671	(1,321,765,169)
Total Liabilities	11,083,244	19,934,400	(8,851,156)

The resulting differences are as a result of varying treatment of transactions in the two accounting systems which however have not been reconciled.

PUBLIC SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2071

Unqualified Opinion

There were no material issues noted during the audit of the financial statements of this commission.

Basis for Qualified Opinion

575. Stores and Cash losses

Note 8 to the financial statements reflects accounts receivables - outstanding imprest and clearance accounts figure of Kshs.369,119,570 as at 30 June 2015. The figure of Kshs.369,119,570 included unrecoverable losses of stores and cash losses amounting to Kshs.10,487,516 and Kshs.2,928,398 respectively, which as previously reported occurred between the years 1988 and 2000. The matter was investigated and the Director of Public Prosecutions directed the suspect to be charged with the offence of stealing by person employed in the Public Service contrary to Section 280 of the penal code. A review of the mater during the year under review indicated that the suspect was charged in a Court of Law, and the case was pending as at the date of this report.

In addition, included in the balance of Kshs.369,119,570 was a long outstanding Pay As You Earn (PAYE) amount of Kshs.128,392,939 which was paid to Kenya Revenue Authority (KRA) on account of former teachers who deserted their jobs and their salaries were returned to the Commission. A review of the matter during the time of audit indicate that KRA carried out an audit on the PAYE amount and as a result adjusted the figure downwards to Kshs.46,060,915 as at 30 June 2016. The net Pay As You Earn (PAYE) amount of Kshs.46,060,915 had not been recovered as at the date of this report.

In the circumstances, it has not been possible to confirm the recoverability of the accounts receivables – outstanding imprest and clearance accounts figure of Kshs.369,119,570 for the year ended 30 June 2016.

576. Property, Plant and Equipment Schedule

As reported in the previous years, the property, plant and equipment schedule balance of Kshs.3,309,632,540 under Annexure XIX as at 1 July 2015 included Kshs.226,194 being the residual value of two (2) motor vehicles procured between 1996 and 2004 for a total cost of Kshs.3,564,814. Although the two motor vehicles were still in good working condition as at the date of this report, their reported residual value of Kshs.226,194 appeared way below their market value.

In the circumstances, it has not been possible to confirm that the property, plant schedule balance of Kshs.3,309,632,540 as at 30 June 2015 is fairly stated.

577. Mortgages and Loans

As disclosed in note 9 to the financial statements, the accounts payable balance of Kshs.9,374,038,821 as at 30 June 2016, includes other liabilities figure of

Kshs.9,005,115,701 which also includes mortgages and bank loans figure of Kshs.2,123,293,265 whose supporting analysis was not availed for audit verification.

In the circumstances, it has not been possible to confirm the accuracy and validity of the accounts payable balance of Kshs.9,374,038,821.

NATIONAL POLICE SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2101

Basis for Qualified Opinion

578. Procurement of Group Medical Cover and Group Life/Accident Cover

During the year, the Commission procured group medical cover and group life/accident cover from an insurance company at a cost of Kshs.26,432,077 and Kshs.1,341,336 respectively using restricted tendering method contrary to Section 102 (1) of the Public Procurement and Asset Disposal, 2015

It was noted that major insurance companies were eliminated on the basis of not having attached the basic documents like certificate of registration with Insurance Regulatory Authority which is an indication that the tender did not fully disclose the documents required contrary to Section 70 (3) of the Public Procurement and Asset Disposal Act, 2015. Information available indicates that an Insurance Brokerage firm passed the preliminary evaluation despite the fact that it was acting on behalf of an Insurance firm which was eliminated by the Commission in the preliminary evaluation. In a Tender Committee meeting held on 23 March, 2016 the Commission extended the contract for group life / personal accident cover at a cost of Kshs.1,341,336 on 9 April 2015. No justification has been provided for the extension.

579. Compensation of Employees

The statement of receipts and payments reflects an amount of Kshs.193,873,166 under compensation of employees, which includes payments to temporary employees of Kshs.61,333,208 as disclosed under Note 4. Available information and documentation indicate that a total of Kshs.32,353,200 was paid as wages for temporary employees hence leaving Kshs.28,980,008 as unsupported expenditure.

Further, audit of personal files, human resource minutes and payment vouchers indicate that out of the sixty (60) contracted employees, thirty nine (39) of them have served the Commission for a period of more than 12 months contrary to Section E.20 (1) of the Code of Regulations, 2006. No explanation has been provided regarding the anomaly. In addition, the employees on contract were paid for thirty one (31) working days including Saturdays and Sundays contrary to employment letters that states that the amount payable will be on daily basis. Further, the recruitment process was not clear since there were no advertisements placed.

Consequently, the accuracy of compensation of employees expenditure of Kshs.193,873,166.00 could not be confirmed.

580. Pending Bills

As a 30 June 2016, the Commission had a total of Kshs.7,733,192 pending bills that ought to have been settled as at the year end. No justification has been provided for failure to settle the pending bills.

581. Hospitality, Supplies and Services

Reflected under receipts and payments expenditure of Kshs.249,836,976 on account of goods and services and as reflected in Note 5 to the financial statements is an amount of Kshs.36,121,418 in respect of hospitality, supplies and services. This figure differs with the trial balance expenditure figure of Kshs.37,459,646 by an unreconciled difference of Kshs.1,338,228.

582. Unsupported/Disputed Payment of Rent and Parking Fees

As previously reported, the unsatisfactory matters relating to failure by the Commission to sign a lease agreement with the Landlord has not been resolved in the year under review.

CONTROLLER OF BUDGET

FINANCIAL STATEMENTS FOR VOTE 2121

Unqualified Opinion

There were no material issued noted during the audit of the financial statements of the Controller of Budget.

COMMISSION ON ADMINISTRATIVE JUSTICE

FINANCIAL STATEMENTS FOR VOTE 2131

Basis for Qualified Opinion

583. Pending Bills

As disclosed under note 12 to the financial statements, the Commission had pending bills totalling Kshs.7,126,021 as at 30 June 2016. Had the bills been paid in 2015/2016 financial year, the statement of receipts and payments for the year then ended would have reflected a reduced surplus of Kshs.20,111,488 instead of Kshs.27,237,509 now shown.

NATIONAL GENDER AND EQUALITY COMMISSION

FINANCIAL STATEMENTS FOR VOTE 2141

Basis for Qualified Opinion

584. Irregular Lease Payments

The expenditure balance of Kshs.137,153,717 on use of goods and services reflected in the financial statements for the year ended 30 June 2016 includes amounts totalling Kshs.476,921, which were irregularly paid to a firm for lease of offices by the Commission at Nakuru/Municipality Block 9/121. The amounts comprise a double payment of Kshs.374,723 and an overpayment of Kshs.102,198 to the firm. As a result, the propriety of the expenditure totalling Kshs.476,921 incurred on use of goods and services cannot be confirmed.

INDEPENDENT POLICING OVERSIGHT AUTHORITY

FINANCIAL STATEMENTS FOR VOTE 2151

Basis for Qualified Opinion

585. Confidential Expenditure

Included in the statement of receipts and payments expenditure of Kshs.129,471,546 on use of goods and Services for the year ended 30 June 2016 is an amount Kshs.87,098 relating to confidential expenditure.

The Authority has not provided justification to support the confidential expenditure in accordance with provisions of Regulation 101(6) of the Public Finance Management Regulations, 2015. In addition, the Authority has not explained existing control measures that is in place to mitigate against risks of mismanaging confidential expenditure.

EXCEPTIONS

1. The audit reports of the 47 County Governments are not included in this report as they are reported on separately.

2. The report excludes the report on the financial statements of the Auditor-General which are audited and reported separately by an independent auditor as per Article 226(4) of the Constitution of Kenya.

CONCLUSION

Compliance with the Constitutional Mandate

My Office has in compliance with the Provisions of Article 229(6) which required that I confirm whether or not public money has been applied lawfully and in an effective way done the following:

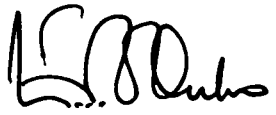
a) Embedded compliance audits in its audit methodology and compliance with laws and regulations have been reported in this report.

b) Carried out value for money audits with some of the reports already tabled in parliament.

However, the Office is still seeking additional finances to increase the scope of continuous audits to ensure full compliance with the requirements of Article 229(6).

Appreciation

I wish to sincerely thank the entire staff of the Office of the Auditor-General for the great effort and hard work they have put in during the year.



FCPA Edward R. O. Ouko, CBS
Auditor-General

Nairobi

15 January 2018

Audit Opinions on the Financial Statements

1. Unqualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2016 which are listed in Appendix A in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

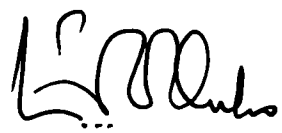
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements listed in Appendix A, present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2016, and of its operations for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS)-Cash Basis and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



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

Nairobi

15 January 2018

2. Qualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2016 which are listed in Appendix B in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

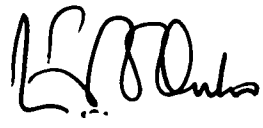
I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Details of the basis for qualified opinion regarding the Financial Statements listed in Appendix B are given in the accompanying detailed report. This includes various unexplained discrepancies and omission of expenditure from the financial statements.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements listed in Appendix B, present fairly in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2016, and of its operations for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS) -Cash Basis and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



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

Nairobi

15 January 2018

3. Adverse Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2016 which are listed in Appendix B in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

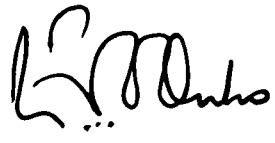
I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

Details of the Basis for Adverse Opinion regarding the Financial Statements listed in Appendix C are as per accompanying detailed audit report. This includes various material misstatements, unexplained discrepancies and omission of expenditure from the financial statements.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements listed in Appendix C, do not present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2016 and of its operations for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS)-Cash Basis and do not comply with the Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



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

Nairobi

15 January 2018

4. Disclaimer Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2016 which are listed below in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

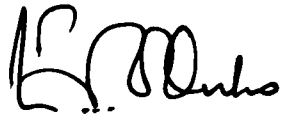
Because of the matters described in the detailed Report of the financial statements contained in Appendix D, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Details of the Basis for Disclaimer of Opinion regarding the Financial Statements listed in Appendix D are as per the accompanying detailed audit Report. This includes various unexplained discrepancies, omission of expenditure from the Accounts, lack of documentation to support some of the figures shown in the financial statements listed in Appendix D and failure by the Accounting Officers to provide information and explanation considered necessary for the purpose of the audit.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements contained in Appendix D.



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

Nairobi

15 January 2018

APPENDIX A

The following is a list of financial statements for which I expressed an unqualified opinion as I was provided with sufficient and accurate information and explanations:

1. Asiatic Widows and Orphans Fund
2. Civil Servants Housing Scheme Fund
3. Contingencies Fund
4. Controller of Budget
5. Department of Commerce and Tourism- Revenue Statement
6. Development Revenue
7. Directorate of Public Prosecutions
8. Equalization Fund
9. Ethics and Anti-Corruption Commission
10. Government Press Fund
11. Intelligence Service Development Fund
12. Kenya Energy Environment & Social Responsibility Programme Fund
13. Kenya Law Reform Commission
14. Kenya Slum Upgrading, low Cost Housing and Infrastructure Trust Fund
15. Mechanical and Transport Fund
16. Ministry of Information, Communication and Technology- Statement of Revenue
17. National Cohesion and Integration Commission
18. National Exchequer Account
19. National Intelligence Service
20. Parliamentary Car Loan Scheme Fund
21. Parliamentary Mortgage Loan Scheme Fund
22. Parliamentary Service Commission
23. Petroleum Development Levy Fund
24. Political Parties Fund
25. Public Service Commission
26. Registrar of Political Parties
27. Salaries and Remuneration Commission
28. State Department for Coordination-Revenue statement
29. State Department of Fisheries
30. Witness Protection Agency

Ministries/ Departments/ Agencies/Commissions

APPENDIX B

The following is a list of financial statements for which I expressed qualified opinion. I was provided with sufficient and appropriate information and explanations and out of the audit I raised issues which were material but not fundamental:

1. Asian Officers Family Pensions Fund
2. Commission on Revenue Allocation
3. Department of Commerce and Tourism
4. Department of East African Affairs
5. Department of Environment and Natural Resources
6. Department of Water and Irrigation
7. European Widows and Orphans Pensions Scheme Fund
8. Independent Electoral and Boundaries Commission
9. Independent Policing Oversight Authority
10. Judicial Service Commission
11. Judiciary
12. Judiciary- Revenue Financial Statement
13. Kenya Citizens and Foreign Nationals Management Service
14. Kenya National Commission on Human Rights
15. Ministry of Defence
16. Ministry of East African Community, Labour and Social Protection -State Department For Labour and Social Protection
17. State Department of Education
18. State Department of Science and Technology
19. Ministry of Energy and Petroleum
20. Ministry of Foreign Affairs and International Trade
21. Ministry of Health
22. Ministry of Industrialization and Enterprise Development
23. Ministry of Information, Communication and Technology
24. Ministry of Lands, Housing &Urban Development
25. Ministry of Mining

26. Ministry of Sports, Culture and the Arts
27. Ministry of Transport and Infrastructure-State Department of Transport
28. National Assembly
29. National Gender and Equality Commission
30. National Humanitarian Fund
31. National Land Commission
32. National Police Service Commission
33. Office of the Attorney General and Department of Justice- Revenue Financial Statement
34. Pensions and Gratuities
35. Petroleum Training Fund
36. Prison Farms Revolving Fund
37. Provident Fund
38. Public Trustee
39. Railway Development Levy Fund
40. Recurrent Revenue
41. State Department for Interior
42. State Department of Livestock
43. State Department of Agriculture
44. Statement of outstanding Loans
45. Teachers Service Commission
46. The Commission on Administrative Justice
47. The National Treasury
48. The Presidency/State House
49. Treasury Main Clearance Fund
50. Veterinary Services Development Fund
51. Women Enterprise Fund

APPENDIX C

The following is a list of financial statements for which I expressed an adverse opinion due to material misstatements:

1. CFS - Salaries, Allowances, Miscellaneous Services
2. CFS-Public Debt
3. Commission for the Implementation of the Constitution
4. Government of Kenya Share Subscription and Capital Contribution to International Organizations – Vote R-053
5. Ministry of Transport and Infrastructure-State Department of Infrastructure
6. Office of the Attorney General and Department of Justice
7. Office of the Attorney General and Department of Justice - Official Receiver
8. Pension Department- Statement of Revenue
9. Petroleum Development Levy Fund
10. Railway Development Levy Fund
11. State Department for Interior - Statement of Revenue
12. Statement of Outstanding Obligations guaranteed by GOK
13. Strategic Grain Reserve Trust Fund

APPENDIX D

The following is a list of financial statements for which I was unable to express an opinion due to lack of sufficient and accurate information and explanations.

1. Agricultural Information Resource Centre Revolving Fund
2. Agricultural Settlement Fund Trustees
3. Government Clearing Agency Fund
4. Kenya Local Loans Support Fund
5. State Department for Devolution
6. State Department for Planning
7. Ministry of Lands, Housing &Urban Development-Revenue Statement
8. National Youth Service -Mechanical and Transport Fund
9. Prisons Industries Fund
10. Rural Enterprise Fund
11. State Department for Coordination of National Government
12. State Department of Fisheries -Revenue Statement Head 000000-156 Fishing Rights
13. State Officers & Public Officers Motor Car Loan Scheme Fund
14. State Officers House Mortgage Scheme Fund
15. Stores and Service Fund



Republic of Kenya

National Treasury

Statements of Receipts into and Issues from the National Exchequer Account

For the Financial Year ended 30th June 2016

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1. Overview of National Exchequer operations

1.1 Background

Article 206 of the Constitution of Kenya provides for the establishment of a Consolidated Fund into which shall be paid all money raised or received by or on behalf of the National Government. As outlined under Section 17 of the Public Finance Management (PFM) Act, 2012 the National Treasury is responsible for administration of the Consolidated Fund. The Consolidated Fund is maintained in the National Exchequer Account at the Central Bank of Kenya.

1.2 Receipts into the National Exchequer

Government revenue is received through appointed Receivers of Revenue by the Cabinet Secretary to the National Treasury pursuant to Article 209 (1), (2) and (4) of the Constitution. Receivers of Revenue are responsible for receiving, remitting to the Exchequer, and accounting for the National government revenue pursuant to section 82 of the PFM Act, 2012. During the FY 2015/2016, there were a total of 11 Receivers of revenue.

Section 78 of the PFM Act, 2012 has mandated the Kenya Revenue Authority (KRA), as the collector of National Government revenue. Revenue collected by KRA is received by the Principal Secretary, National Treasury who is the designated Receiver.

1.3 Issue from the National Exchequer

An appropriation Act and County Allocation Revenue Act (CARA) is required to authorize the withdrawal of funds from the Consolidated Fund. The National Treasury is required to seek Controller of Budget's approval before withdrawing funds from the National Exchequer Account to the respective National and County Government entities bank accounts.

Entities that receive funds from the Exchequer Account include National Government Ministries, Departments, and Agencies (MDAs) in accordance with the Appropriation Act and County Governments in accordance with the County Allocation Revenue Act. These entities are responsible for administration of their respective approved budgets.

1.4 Financial reporting requirements

Pursuant to Section 80(2) (a) of the PFM Act, 2012 the National Treasury is responsible for accounting for the all monies paid into and out of the Exchequer Account. Section 81 (1) of the PFM Act, 2012 further requires the Accounting Officer for a National Government entity to prepare and submit the financial statements to the Auditor-General and a copy of the statement to the Controller of Budget, the National Treasury and the Commission on Revenue Allocation.

This statement therefore covers the operations of the National Exchequer Account for the financial year ended 30th June 2016.

1.5 Commentary on the Statement of Receipts into and Issues from the National Exchequer Account

The total receipts into the National Exchequer amounted to KShs 1.85 trillion against a budget of Kshs 1.86 trillion. The actual revenue collected compares well with the budget as it represents 96.3% of the budget. The budgets and actuals exclude revenue in form of Appropriations in Aid (AIA), which is received and spent directly by the respective entities.

The bulk of the revenue is collected by the Kenya Revenue Authority (KRA), being the principal tax revenue collection agent for the Government.

The funds received through the Exchequer were disbursed to the National Government voted Ministries, Departments and Agencies and County Governments. In total, Kshs 1.79 trillion was appropriated during finanical year 2015/2016 compared to Kshs 1.59 trillion appropriated in the previous year.

2. Statement of Responsibilities

As the Accounting Officer, the Principal Secretary to the National Treasury is responsible for the preparation and fair presentation of the Statement of Receipts into and Issues from the National Exchequer Account in accordance with Public Financial Management Act, 2012.

The Principal Secretary to the National Treasury accepts responsibility for the Statement of Receipts into and Issues from the Exchequer Account, which has been prepared using the cash basis as prescribed by the Public Sector Accounting Standards Board (PSASB). The statement has been extracted from the accounting records maintained by National Treasury, and the information provided is accurate and complete in all material respects.

The Accounting Officer to the National Treasury confirms the completeness of the accounting records maintained for the Statement of Receipts into and Issues from the Exchequer Account, which have been relied upon in the preparation of the Financial Statements as set out on page 5 to 16 for the period ended 30th June 2016.

Signature: _____

Name: **Dr. Kamau Thugge, CBS**
Principal Secretary, The National Treasury

Date: 23/02/2017

3. Statements of Receipts and transfers for the year end 30th June 2016

	Notes	Period ended 30th June 2016 Kshs	Period ended 30th June 2015 Kshs
Opening balance		**203,491,418.97**	**162,086,138.90**
Receipts			
Tax income	5.2	1,109,082,233,904.89	1,001,245,431,205.77
Non tax income	5.2	46,101,203,494.20	40,804,376,558.25
Grants	5.3	14,682,936,998.75	10,473,510,502.50
Proceeds from domestic borrowing	5.4	506,244,742,689.95	292,680,000,000.00
Proceeds from external borrowing	5.5	177,235,155,513.55	249,233,782,495.55
Total Receipts		**1,853,549,764,020.31**	**1,594,437,100,762.07**
Transfers from the Exchequer			
National Government Recurrent	Annex 2.1	720,283,801,226.60	640,352,208,883.00
National Government Development	Annex 2.2	333,170,357,469.90	270,240,838,230.00
Consolidated Fund Services	Annex 2.3	476,248,207,207.00	454,466,411,172.00
Total National Government		**1,529,702,365,903.50**	**1,365,059,458,285.00**
County Governments	Annex 2.4	264,038,639,996.00	229,336,237,197.00
Total transfers	5.6	**1,793,741,005,899.50**	**1,594,395,695,482.00**
Excess of receipts over transfers during the year		**59,808,758,120.81**	**203,491,418.97**
Closing cash book balance	5.7	**59,808,758,120.81**	**203,491,418.97**

The notes on pages 7 to 16 form an integral part of these financial statements. This statement has been approved by the following:

Signature: _____

Dr. Kamau Thugge, CBS
Principal Secretary,
The National Treasury

Signature: _____

Bernard Ndungu, MBS
Director General Accounting Services & Quality Assurance
The National Treasury

4. Summary of budget vs actual for the period ended 30th June 2016

The following statement summarizes the outturn against budget. Further details are provided under Annex 2 to this report:

	Original Estimates Kshs	Revised Estimates Kshs	Total Actual FY 2015/16 Kshs	% Realized FY 2015/16
Revenue Collections:				
Ordinary Revenue	1,215,294,941,956.00	1,141,863,174,093.00	1,109,082,233,904.89	97.1%
Net Domestic Borrowing	397,402,669,429.93	427,660,451,703.00	506,244,742,689.95	118.4%
Commercial Financing	71,800,000,000.00	154,332,000,000.00	134,932,200,687.50	87.4%
External Loans & Grants	69,109,522,760.00	94,122,471,282.00	56,985,891,824.80	60.1%
Rights Issue CBK	4,998,000,000.00	-	-	-
Export Credit	11,500,000,000.00	-	-	-
Others	41,752,234,436.00	45,083,175,734.00	46,101,203,494.20	103.3%
Total Exchequer Receipts	**1,811,857,368,581.93**	**1,863,061,272,812.00**	**1,853,346,272,601.34**	**99.5%**
Exchequer Transfers:				
National Government Recurrent	717,019,195,805.00	734,505,634,340.00	720,283,801,226.60	98.1%
National Government Development	389,080,903,609.00	369,659,551,524.00	333,170,357,469.90	90.1%
County Governments	264,219,690,000.00	264,219,690,000.00	264,038,639,996.00	99.9%
Consolidated Fund Services	441,537,579,167.93	494,676,396,948.00	476,248,207,207.00	96.3%
Total Exchequer Transfers	**1,811,857,368,581.93**	**1,863,061,272,812.00**	**1,793,741,005,899.50**	**96.3%**

The notes on pages 7 to 16 form an integral part of these financial statements. This statement has been approved by the following:

Signature: _____

Dr. Kamau Thugge, CBS
Principal Secretary,
The National Treasury

Signature: _____

Bernard Ndungu, MBS
Director General Accounting Services & Quality Assurance
The National Treasury

5. Significant Accounting Policies

5.1 Accounting policies

a) Basis of preparation

The Statement of Receipts into and Issues from the National Exchequer Account has been prepared in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) as prescribed by the Public Sector Accounting Standard Board (PSASB) in Kenya.

b) Reporting entity

This report relates to financial operations of the National Exchequer Account maintained at CBK. The reporting entity is the National Treasury.

c) Revenues

Revenues include receipts collected by the Receivers of Revenue and other miscellaneous receipts which are deposited in the Consolidated Fund pursuant to Article 206 of the Constitution of Kenya, which provides that all revenue collected by the National Government shall be deposited in the Consolidated Fund held at the National Exchequer Account maintained at the Central Bank of Kenya.

The receipts collected include tax collections by Kenya Revenue Authority (KRA), loans and grants from development partners, proceeds from domestic loans, and other miscellaneous deposits in the National Exchequer bank account.

d) Grants and loans from Development Partners

Grants and loans received from development partners are recognized as receipts when the funds are received in the National Exchequer Account.

e) Exchequer Transfers

Exchequer Transfers relate to appropriations to votes based on exchequer requests made by the respective votes subject to budget provisions. The exchequer requests are received by National Treasury, which rationalizes the requests based on available balance, consolidates the requests and forwards them to Controller of Budget (CoB) for approval. Once the approval of CoB is obtained, the funds are released to either the Recurrent, Consolidated Fund Services or Development accounts of National Government entities or the County Revenue Fund accounts of the Counties. These accounts are maintained at CBK.

The appropriations from the National Treasury are regarded as transfers rather than expenditures. At consolidation level, these transfers are netted off against the corresponding transfers reported as received by the respective votes and County Governments.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances, un-surrendered imprests and short term deposits in money market instruments.

g) Presentation Currency

The financial statements are reported in Kenya Shillings, being the currency of legal tender in Kenya.

5.2 Tax Income and Non Tax Income receipts

The following is an analysis by revenue type of the receipts collected in the National Exchequer Account:

Code	Description of receiver	30-June-16 Kshs	30-June-15 Kshs
	Tax Income		
1110000	Taxes on Income, Profits and Capital Gains	564,563,468,536.03	511,405,623,499.57
1130000	Taxes on Property	-	13,241,979,167.10
1140000	Taxes on Goods and Services	519,336,821,738.36	449,604,648,567.80
1150000	Taxes in International Trade and Transactions	25,181,943,630.50	26,993,179,971.30
	Total Tax Income	**1,109,082,233,904.89**	**1,001,245,431,205.77**
	Non Tax Income		
1160000	Other Revenue	42,873,176,006.85	37,154,624,799.05
1430000	Fines, Penalties and Forfeitures	2,278,336,399.60	2,490,948,629.20
1450000	Other receipts Not Classified Elsewhere	949,691,087.75	1,158,803,130.00
	Total Non-Tax Income	**46,101,203,494.20**	**40,804,376,558.25**

5.3 Grants received through National Exchequer Account

The budget support received from development partners is channelled through the National Exchequer Account and is summarized below:

Description	30 June 2016 Kshs	30 June 2015 Kshs
Grants from Foreign Governments	9,926,286,132.95	6,630,707,034.55
Grants from International Organizations	4,756,650,865.80	3,842,803,467.95
Grand total	**14,682,936,998.75**	**10,473,510,502.50**

5.4 Proceeds from domestic borrowings

The proceeds from sale of Treasury Bills and Treasury Bonds during the year were as summarised below:

Description	30 June 2016 Kshs	30 June 2015 Kshs
Treasury Bonds	281,411,581,648.95	255,680,000,000.00
Treasury Bills (net)	224,833,161,041.00	37,000,000,000.00
Net proceeds	**506,244,742,689.95**	**292,680,000,000.00**

5.5 Proceeds from external borrowings

The following loans amount was received through the National Exchequer Account as summarised below:

Description	30 June 2016 Kshs	30 June 2015 Kshs
Borrowings from foreign governments	33,728,855,127.50	30,310,028,918.55
Commercial Financing	134,932,200,816.70	215,469,626,035.75
Borrowings from international organizations	8,574,099,698.55	3,454,127,541.25
Total	**177,235,155,513.55**	**249,233,782,495.55**

5.6 Exchequer transfers to voted entities

The summary details of exchequer transfers per institution are shown below:

Description	30 June 2016 Kshs	30 June 2015 Kshs
National Government Recurrent	720,283,801,226.60	640,352,208,883.00
National Government Development	333,170,357,469.90	270,240,838,230.00
National Government CFS	476,248,207,207.00	454,466,411,172.00
County Governments	264,038,639,996.00	229,336,237,197.00
Net Exchequer transfers	**1,793,741,005,899.50**	**1,594,395,695,482.00**

See Annex 2 for a detailed analysis of the above exchequer transfers by MDA and County Government.

5.7 Closing Balances

The closing balance relates to the Exchequer cash book balance as at 30th June 2016.

Description	As at 30 June 2016 Kshs	As at 30 June 2015 Kshs
Exchequer cashbook balance	59,808,758,120.81	203,491,418.97
Grand total	**59,808,758,120.81**	**203,491,418.97**

Annex 2: Detailed statement of Exchequer

2.1 National Government Recurrent Budget FY 2015/2016

Vote	Vote Name	Original Estimates Recurrent	Revised Estimates Recurrent	Actual Transfer Recurrent 30 June 2016	% Realized 2015/16
		Kshs	Kshs	Kshs	
1011	The Presidency	5,941,525,810.00	7,846,370,049.00	7,749,100,000.00	98.8%
1021	State Department for Interior	87,662,133,802.00	93,853,058,857.00	92,848,600,000.00	98.9%
1022	State Department for Coordination of National Government	16,967,134,466.00	17,583,464,206.00	17,583,389,116.60	100.0%
1031	State Department for Planning	19,600,767,000.00	19,250,593,736.00	18,152,300,000.00	94.3%
1032	State Department for Devolution	2,298,785,390.00	2,769,492,301.00	2,648,300,000.00	95.6%
1041	Ministry of Defence	92,329,042,100.00	92,270,215,450.00	92,181,700,000.00	99.9%
1051	Ministry of Foreign Affairs	12,067,065,466.00	14,423,795,003.00	14,075,000,000.00	97.6%
1061	State Department for Education	56,923,926,360.00	56,612,804,875.00	56,127,980,000.00	99.1%
1062	State Department for Science & Technology	42,669,829,183.00	43,694,441,557.00	42,898,900,000.00	98.2%
1071	The National Treasury	43,216,461,912.00	40,667,213,863.00	38,942,735,000.00	95.8%
1081	Ministry of Health	24,541,636,512.00	25,216,635,750.00	25,147,800,000.00	99.7%
1091	State Department of Infrastructure	1,738,426,310.00	1,582,638,570.00	1,358,220,000.00	85.8%
1092	State Department of Transport	1,421,462,190.00	1,406,140,590.00	1,388,780,000.00	98.8%
1101	State Department for Environment & Natural Resources	6,565,747,374.00	6,225,943,027.00	6,223,000,000.00	100.0%
1102	State Department for Water & Regional Authorities	2,122,203,542.00	2,067,727,033.00	2,053,100,000.00	99.3%
1111	Ministry of Lands Housing and Urban Development	3,926,131,392.00	3,767,431,392.00	3,765,000,000.00	99.9%
1121	Ministry of Information, communication and Technology	2,949,532,300.00	2,819,400,303.00	2,661,100,000.00	94.4%
1131	Ministry of Sports Culture and Arts	2,936,339,278.00	4,438,454,107.00	4,384,800,000.00	98.8%
1141	Ministry of labour , Social Security and services	9,158,881,990.00	9,018,432,345.00	8,624,440,000.00	95.6%
1151	Ministry of Energy and Petroleum	1,793,068,130.00	1,834,126,466.00	1,834,000,000.00	100.0%
1161	State Department for Agriculture	7,885,636,906.00	6,266,008,403.00	6,089,500,000.00	97.2%
1162	State Department for Livestock	1,923,855,128.00	2,040,655,128.00	1,997,600,000.00	97.9%
1163	State Department for Fisheries	1,368,536,694.00	1,330,837,823.00	1,330,700,000.00	100.0%
1171	Ministry of Industrialization and Enterprise Development	2,544,513,330.00	2,946,549,455.00	2,933,250,000.00	99.5%
1181	State Department for Commerce & Tourism	2,838,537,766.00	2,736,292,411.00	2,655,000,000.00	97.0%
1182	State Department for East African Affairs	1,664,097,404.00	1,619,799,592.00	1,614,400,000.00	99.7%
1191	Ministry of Mining	714,072,090.00	723,070,000.00	628,600,000.00	86.9%

The National Treasury
Statement of Receipts into and Issues from the National Exchequer Account
For the Financial Year ended 30th June 2016

Vote	Vote Name	Original Estimates Recurrent	Revised Estimates Recurrent	Actual Transfer Recurrent 30 June 2016	% Realized 2015/16
		Kshs	Kshs	Kshs	
1251	Office of The Attorney General and Department of Justice	3,711,026,884.00	3,461,165,714.00	3,223,300,000.00	93.1%
1261	The Judiciary	12,623,930,000.00	11,684,030,000.00	10,996,630,000.00	94.1%
1271	Ethics & Anti-Corruption Commission	2,311,920,000.00	2,957,220,000.00	2,561,800,000.00	86.6%
1281	National Intelligence Service	20,142,000,000.00	21,492,000,000.00	21,484,100,000.00	100.0%
1291	Directorate of Public Prosecution	1,964,004,002.00	2,384,404,002.00	1,991,600,000.00	83.5%
1301	Commission For The Implementation of the constitution	312,040,000.00	312,040,000.00	312,000,000.00	100.0%
1311	Registrar of Political Parties	505,781,810.00	533,482,521.00	519,300,000.00	97.3%
1321	Witness Protection Agency	364,705,000.00	369,705,000.00	369,700,000.00	100.0%
2011	Kenya national Human Rights & Equality Comm.	459,100,000.00	459,100,000.00	441,700,000.00	96.2%
2021	National Land Commission	1,101,365,410.00	1,240,125,410.00	1,182,100,000.00	95.3%
2031	Independent Electoral & Boundaries Comm.	4,187,919,790.00	4,878,706,360.00	4,289,200,000.00	87.9%
2041	Parliamentary Service Commission	8,900,416,731.00	9,328,416,731.00	9,098,000,000.00	97.5%
2042	National Assembly	15,156,583,269.00	15,460,583,269.00	12,876,900,000.00	83.3%
2051	Judicial Service Commission	473,200,002.00	473,200,002.00	405,000,000.00	85.6%
2061	The commission on Revenue Allocation	344,342,400.00	324,537,110.00	324,537,110.00	100.0%
2071	Public Service Commission	1,118,400,000.00	1,080,888,443.00	1,075,800,000.00	99.5%
2081	Salaries & Remuneration Commission	722,732,086.00	970,213,417.00	970,000,000.00	100.0%
2091	Teachers Service Commission	180,991,612,264.00	186,298,500,000.00	184,675,540,000.00	99.1%
2101	National Police Service Commission	437,500,000.00	475,548,410.00	459,500,000.00	96.6%
2111	Auditor General	3,626,090,000.00	3,594,625,225.00	3,519,900,000.00	97.9%
2121	Controller Of Budget	580,830,272.00	529,094,176.00	496,000,000.00	93.7%
2131	The commission on Administrative Justice	480,710,920.00	480,710,920.00	443,900,000.00	92.3%
2141	National Gender & Equality Commission	314,151,440.00	309,851,440.00	309,000,000.00	99.7%
2151	Independent Police Oversight Authority	419,483,700.00	395,893,898.00	361,000,000.00	91.2%
	Sub-total National Government Recurrent	**717,019,195,805.00**	**734,505,634,340.00**	**720,283,801,226.60**	**98.1%**

2.2 National Government Development Budget

Vote	Vote Name	Original Estimates Development	Revised Estimates Development	Actual Development Transfers 30 June 2016	Realize 2015/
		Kshs	Kshs	Kshs	
1011	The Presidency	1,846,129,798.00	1,040,129,798.00	542,800,000.00	52.2
1021	State Department for Interior	14,200,122,356.00	15,396,122,356.00	14,377,000,000.00	93.4
1022	State Department for Coordination of National Government	1,011,000,000.00	611,000,000.00	607,310,883.40	99.4
1031	State Department for Planning	60,218,095,064.00	52,565,085,436.00	51,763,861,565.00	98.5
1032	State Department for Devolution	5,322,417,760.00	5,629,067,259.00	4,763,131,312.00	84.6
1041	Ministry of Defence	-	22,949,620.00	-	0.0
1051	Ministry of Foreign Affairs	1,349,150,000.00	1,151,150,000.00	1,036,200,000.00	90.0
1061	State Department for Education	21,356,204,460.00	7,351,206,957.00	4,003,157,910.00	54.5
1062	State Department for Science & Technology	11,086,318,227.00	8,908,559,192.00	8,118,200,000.00	91.1
1071	The National Treasury	33,568,291,200.00	45,836,475,797.00	43,453,428,915.00	94.8
1081	Ministry of Health	19,648,428,814.00	21,525,516,777.00	17,019,501,618.40	79.1
1091	State Department of Infrastructure	62,266,034,686.00	57,814,629,334.00	55,200,139,357.00	95.5
1092	State Department of Transport	5,337,970,456.00	6,854,774,456.00	6,284,999,523.00	91.7
1101	State Department for Environment & Natural Resources	5,191,308,490.00	4,691,919,691.00	3,311,430,770.00	70.6
1102	State Department for Water & Regional Authorities	18,858,613,500.00	16,768,810,858.00	14,554,335,406.00	86.8
1111	Ministry of Lands Housing and Urban Development	23,608,119,030.00	22,170,049,190.00	18,946,309,870.00	85.5
1121	Ministry of Information, communication and Technology	5,143,097,566.00	11,594,097,566.00	11,548,716,426.00	99.6
1131	Ministry of Sports Culture and Arts	3,550,400,000.00	2,169,500,000.00	2,166,400,000.00	99.9
1141	Ministry of labour , Social Security and Services	15,578,313,290.00	15,276,313,290.00	11,152,027,940.00	73.0
1151	Ministry of Energy and Petroleum	28,970,161,900.00	35,604,570,454.00	33,318,766,855.10	93.6
1161	State Department for Agriculture	20,412,053,968.00	15,004,559,671.00	13,278,796,491.00	88.5
1162	State Department for Livestock	3,801,694,598.00	3,242,266,598.00	2,849,073,423.00	87.9
1163	State Department for Fisheries	2,139,232,762.00	2,332,625,853.00	1,808,199,900.00	77.5
1171	Ministry of Industrialization and Enterprise Development	5,938,862,658.00	5,128,862,658.00	4,808,109,940.00	93.7
1181	State Department for Commerce & Tourism	7,789,898,400.00	4,380,898,400.00	3,860,900,000.00	88.1
1182	State Department of East African Affairs	50,000,000.00	-	-	0.0
1191	Ministry of Mining	1,474,000,000.00	568,000,000.00	324,000,000.00	57.0
1251	Office of The Attorney General and Department of Justice	241,000,000.00	144,000,000.00	102,600,000.00	71.3
1261	The Judiciary	4,063,770,000.00	3,114,978,000.00	1,778,699,365.00	57.1

Vote	Vote Name	Original Estimates Development	Revised Estimates Development	Actual Development Transfers 30 June 2016	Realize 2015/
		Kshs	Kshs	Kshs	
1271	Ethics & Anti-Corruption Commission	300,000,000.00	-	-	0.0
1291	Directorate of Public Prosecution	254,000,000.00	73,000,000.00	22,160,000.00	30.4
2021	National Land Commission	439,200,000.00	289,200,000.00	288,500,000.00	99.8
2031	Independent Electoral & Boundaries Comm.	98,000,000.00	27,000,000.00	26,500,000.00	98.1
2041	Parliamentary Service Commission	3,200,000,000.00	2,100,000,000.00	1,698,100,000.00	80.9
2071	Public Service Commission	166,831,450.00	51,831,450.00	49,000,000.00	94.5
2091	Teachers Service Commission	200,000,000.00	67,000,000.00	-	0.0
2111	Auditor General	402,183,176.00	135,183,176.00	108,000,000.00	79.9
2141	National Gender & Equality Commission	-	18,217,687.00	-	0.0
	Sub-total National Government Development	**389,080,903,609.00**	**369,659,351,524.00**	**333,170,357,469.90**	**90.1**

2.3 National Government Consolidated Fund Services Budget

Vote	Vote Name	Original Estimates	Revised Estimates	Total Actual Transfers 30/06/2016	% Realized F 2015/16
		Kshs	Kshs	Kshs	
R50	Public Debt	437,459,368,571.00	437,459,368,571.00	421,849,938,287.00	96.4
R51	Pension &Gratuities	51,691,127,200.00	51,691,127,200.00	50,860,000,000.00	98.4
R52	Salaries , Allowances and Miscellaneous Services	5,523,657,719.00	5,523,657,719.00	3,536,425,460.00	64.0
R53	Subscription to international organ.	2,243,458.00	2,243,458.00	1,843,460.00	82.2
	Total CFS	**494,676,396,948.00**	**494,676,396,948.00**	**476,248,207,207.00**	**96.3**

2.4 Transfers to County Governments

Vote	County Governments	Original Estimates	Revised Estimates	Total Actual Transfers 30/06/2016	% Realized FY 2015/16
		Kshs	Kshs	Kshs	
4460	Baringo County	4,466,546,026.00	4,466,546,026.00	4,453,561,026.00	99.7%
4760	Bomet County	4,721,843,298.00	4,721,843,298.00	4,724,513,298.00	100.1%
4910	Bungoma County	7,123,863,962.00	7,123,863,962.00	7,116,488,962.00	99.9%
4960	Busia County	6,019,850,944.00	6,019,850,944.00	6,019,850,944.00	100.0%
4360	Elgeyo/Marakwet County	3,291,240,729.00	3,291,240,729.00	3,291,240,729.00	100.0%
3660	Embu County	4,044,572,697.00	4,044,572,697.00	4,037,697,697.00	99.8%
3310	Garissa County	6,149,677,408.00	6,149,677,408.00	6,140,707,408.00	99.9%
5110	Homa Bay County	5,659,730,034.00	5,659,730,034.00	5,659,730,034.00	100.0%
3510	Isiolo County	3,064,535,534.00	3,064,535,534.00	3,064,535,534.00	100.0%
4660	Kajiado County	4,430,515,800.00	4,430,515,800.00	4,430,515,800.00	100.0%
4810	Kakamega County	9,274,632,376.00	9,274,632,376.00	9,262,882,376.00	99.9%
4710	Kericho County	4,527,664,038.00	4,527,664,038.00	4,524,994,038.00	99.9%
4060	Kiambu County	7,812,785,789.00	7,812,785,789.00	7,812,785,789.00	100.0%
3110	Kilifi County	7,456,746,645.00	7,456,746,645.00	7,456,746,645.00	100.0%
3960	Kirinyanga County	3,550,987,626.00	3,550,987,626.00	3,550,987,626.00	100.0%
5210	Kisii County	7,455,194,085.00	7,455,194,085.00	7,455,194,085.00	100.0%
5060	Kisumu County	6,036,462,140.00	6,036,462,140.00	6,036,462,140.00	100.0%
3710	Kitui County	7,304,263,063.00	7,304,263,063.00	7,304,263,063.00	100.0%
3060	Kwale County	5,139,317,562.00	5,139,317,562.00	5,139,317,562.00	100.0%
4510	Laikipia County	3,461,078,893.00	3,461,078,893.00	3,461,078,893.00	100.0%
3210	Lamu County	2,059,523,746.00	2,059,523,746.00	2,059,523,746.00	100.0%
3760	Machakos County	7,099,679,753.00	7,099,679,753.00	7,072,979,753.00	99.6%
3810	Makueni County	5,993,801,381.00	5,993,801,381.00	5,981,736,381.00	99.8%
3410	Mandera County	8,970,323,809.00	8,970,323,809.00	8,970,323,809.00	100.0%
3460	Marsabit County	5,204,811,933.00	5,204,811,933.00	5,197,136,933.00	99.9%
3560	Meru County	6,758,511,070.00	6,758,511,070.00	6,737,921,070.00	99.7%
5160	Migori County	5,857,292,127.00	5,857,292,127.00	5,847,072,127.00	99.8%
3010	Mombasa County	5,607,104,835.00	5,607,104,835.00	5,600,804,835.00	99.9%
4010	Muranga County	5,380,807,309.00	5,380,807,309.00	5,380,807,309.00	100.0%
5310	Nairobi County	13,024,408,958.00	13,024,408,958.00	12,996,608,958.00	99.8%
4560	Nakuru County	8,518,784,086.00	8,518,784,086.00	8,518,784,086.00	100.0%
4410	Nandi County	4,773,415,868.00	4,773,415,868.00	4,773,415,868.00	100.0%
4610	Narok County	5,305,791,138.00	5,305,791,138.00	5,305,791,138.00	100.0%
5260	Nyamira County	4,178,458,019.00	4,178,458,019.00	4,178,458,019.00	100.0%
3860	Nyandarua County	4,325,930,831.00	4,325,930,831.00	4,325,930,831.00	100.0%
3910	Nyeri County	4,840,770,218.00	4,840,770,218.00	4,840,770,218.00	100.0%
4210	Samburu County	3,563,271,938.00	3,563,271,938.00	3,563,271,938.00	100.0%
5010	Siaya County	5,022,828,722.00	5,022,828,722.00	5,022,828,722.00	100.0%
3260	Taita County	3,324,378,191.00	3,324,378,191.00	3,324,378,191.00	100.0%
3160	Tana River County	3,993,859,971.00	3,993,859,971.00	3,993,859,971.00	100.0%
3610	Tharaka Nithi County	3,149,896,667.00	3,149,896,667.00	3,149,896,667.00	100.0%

The National Treasury
Statement of Receipts into and Issues from the National Exchequer Account
For the Financial Year ended 30th June 2016

Vote	County Governments	Original Estimates	Revised Estimates	Total Actual Transfers 30/06/2016	% Realized FY 2015/16
		Kshs	Kshs	Kshs	
4260	Tranzoia County	5,110,942,701.00	5,110,942,701.00	5,105,277,701.00	99.9%
4110	Turkana County	10,491,103,426.00	10,491,103,426.00	10,485,068,426.00	99.9%
4310	Uasin Gishu County	5,208,199,968.00	5,208,199,968.00	5,208,199,968.00	100.0%
4860	Vihiga County	3,885,581,960.00	3,885,581,960.00	3,885,581,960.00	100.0%
3360	Wajir County	7,252,830,318.00	7,252,830,318.00	7,242,785,318.00	99.9%
4160	West Pokot County	4,325,872,404.00	4,325,872,404.00	4,325,872,404.00	100.0%
	Total County Governments	**264,219,689,996.00**	**264,219,689,996.00**	**264,038,639,996.00**	**99.9%**

PARLIAMENT OF KENYA LIBRARY

OFFICE OF THE AUDITOR-GENERAL

Vision

Effective accountability in the management of public resources and service delivery

Mission

Audit and report to stakeholders on the fairness, effectiveness and lawfulness in the management of public resources for the benefit of Kenyan people

Core Values

Independence | Integrity | Professionalism | Innovation | Team Spirit

Motto

Enhancing Accountability

Website: www.oagkenya.go.ke

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SUMMARY OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS FOR MINISTRIES, DEPARTMENTS, COMMISSIONS, FUNDS AND OTHER ACCOUNTS OF THE NATIONAL GOVERNMENT FOR THE YEAR 2015/2016

1 General

1.1 Legal Mandate of the Office of the Auditor-General

- Office of the Auditor- General is established as an Independent Office under Article 248(3) of the Constitution of the Republic of Kenya.
- The Auditor-General is appointed in accordance with Article 229 of the Constitution.
- The statutory duties and responsibilities of the Auditor-General are given in Article 229(4) (5) (6) and (7) of the Constitution and Public Audit Act, 2015.

I have already issued my audit reports to the respective accounting officers for the financial statements for 2015/2016 of their respective Ministries, Agencies, Departments and Funds.

This report provides a Summary of my audit findings of the financial statements of the National Government of the Republic of Kenya for the financial year ended 30 June 2016.

The scope of the audit in National Government includes Ministries, Government Departments, Agencies, Funds and Development Partners' funded Projects.

1.2 Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor – General in accordance with the provisions of Section 47 of the Public Audit, 2015.

1.3 Auditor-General's Responsibility

I carried out my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting policies used and significant estimates made by Management, as well as evaluating the overall presentation of the financial statements. Further, it includes procedures to determine whether public money has been applied lawfully and in an effective way.

I considered the public entities' internal control systems in order to determine my auditing procedures for the purpose of expressing an opinion on their financial statements. To ensure that the execution of the National Budget was in conformity with the provisions of existing laws, regulations and prescribed procedures, the audit essentially covered authorization and approval of expenditure, budget procedures, management of bank accounts and a review of the internal control systems set up by the audited public entities.

The sections below highlight key findings noted during the audit of the financial statements for the year ended 30 June 2016.

2 National Government Budgetary and Expenditure Review

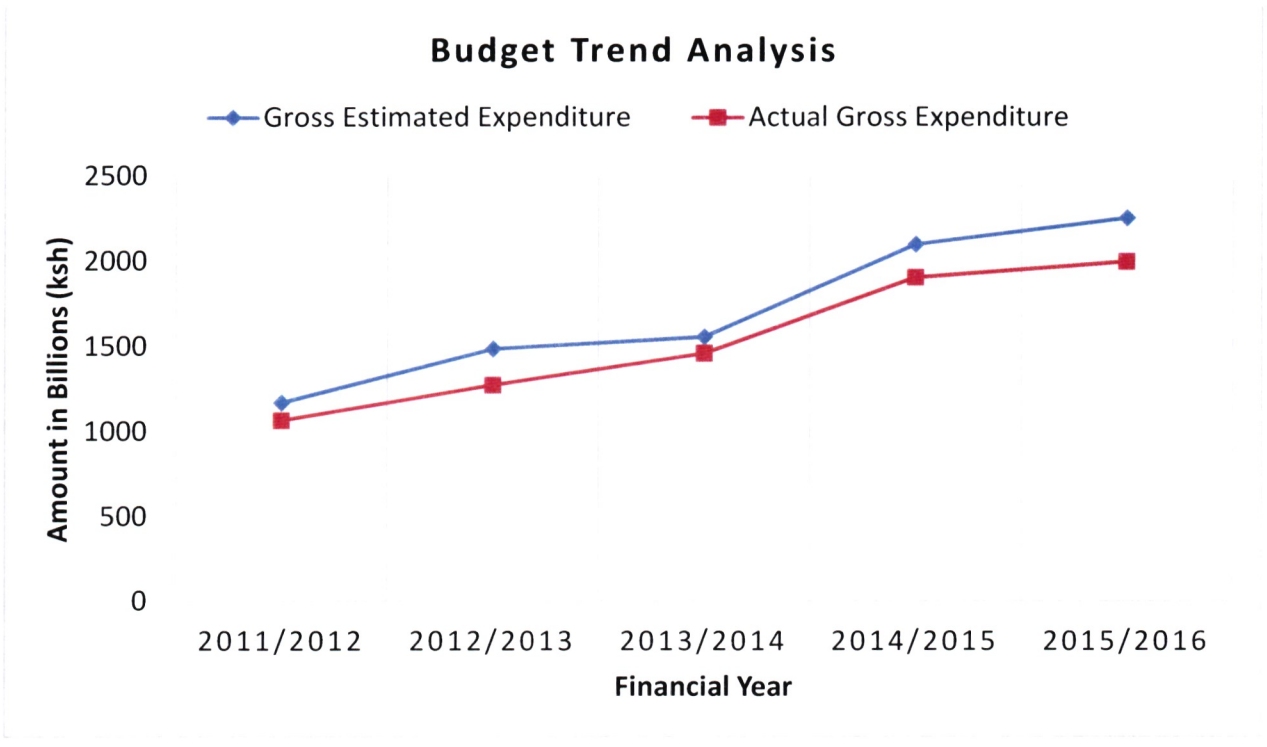
2.1 Budget Review

2.1.1 Budget Trend Analysis

The gross estimated Government expenditure has increased over the last five years from Kshs.1,170,478,418,074 in the year 2011/2012 to Kshs.2,253,494,806,467 in the year 2015/2016 representing an increase of Kshs.1,083,016,388,393 or approximately 93% over the five year period. Similarly the actual gross expenditure has increased over the years from Kshs.1,066,835,338,744 in

the year 2011/2012 to Kshs.1,999,174,760,912 in the year 2015/2016 representing an increase of Kshs.932,339,422,168 or approximately 87% over the period. This implies that the scope of my audit has also more than doubled over the last five years. The tabulation below depicts this trend:

	2011/2012 Kshs.	**2012/2013 Kshs.**	**2013/2014 Kshs.**	**2014/2015 Kshs.**	**2015/2016 Kshs.**
Gross Estimated Expenditure	1,170,478,418,074	1,485,438,350,899	1,557,192,721,388	2,099,370,186,391	2,253,494,806,467
Actual Gross Expenditure	1,066,835,338,744	1,275,862,845,060	1,461,965,849,061	1,906,841,500,924	1,999,174,760,912



2.1.2 2015/2016 Budget

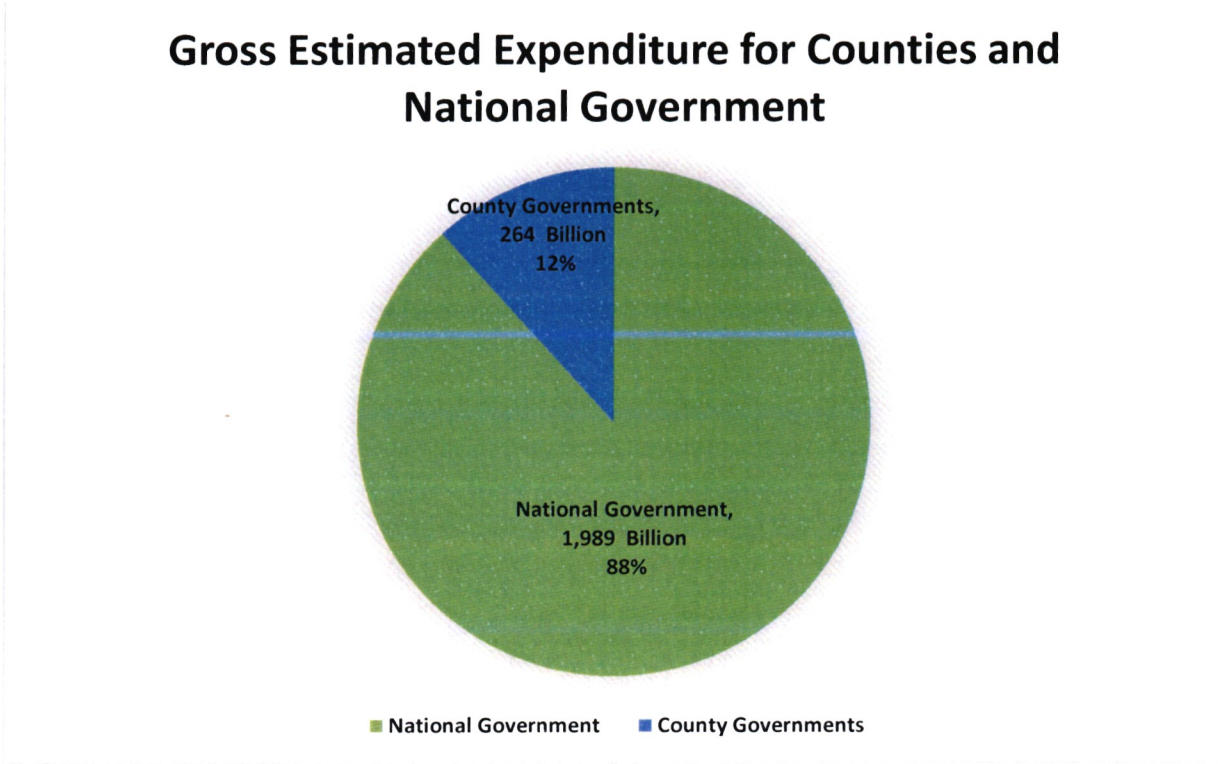
In 2015/2016 the Approved Estimated Gross Expenditure was Kshs.2,253,494,806,467 while approved Appropriations-In-Aid (AIA) were Kshs.390,433,533,659 resulting in Net Approved Expenditure of Kshs.1,863,061,272,808 as follows:-

National Government	**Gross Estimated Expenditure** Kshs.	**AIA** Kshs.	**Approved Net Expenditure** Kshs.	**Net Expenditure as a % of Approved total Net Expenditure**
Recurrent Votes	813,670,459,650	79,164,825,310	734,505,634,340	39%
Development Votes	680,928,259,873	311,268,708,349	369,659,551,524	20%
Consolidated Fund Services	494,676,396,948	0	494,676,396,948	27%
Sub-total for National Government	**1,989,275,116,471**	**390,433,533,659**	**1,598,841,582,812**	**86%**
County Governments	264,219,689,996	0	264,219,689,996	14%
Grand Total	**2,253,494,806,467**	**390,433,533,659**	**1,863,061,272,808**	**100%**

As shown above, 39% of the approved net expenditure was budgeted for meeting the National Government recurrent expenditures and 20% for development expenditures. Consolidated Fund Services including repayments of Public Debt accounted for another 27%, while County Governments accounted for 14% of the total budgeted net expenditure.

The 2015/2016 gross budget of Kshs.2,253,494,806,467 was shared between the National Government and the County Governments at the ratio of 88% and 12% respectively as follows:-

	Gross Estimated Expenditure Kshs	As a %age of Gross Estimated Expenditure
National Government	1,989,275,116,471	88%
County Governments	264,219,689,996	12%
Grand Total	**2,253,494,806,467**	**100%**



The County Governments allocation of Kshs. 264,219,689,996 for the year 2015/2016 was however based on the audited revenue for the year 2012/2013, since the audited financial statements for 2013/2014 and 2014/2015 had not been tabled in the National Assembly by Public Accounts Committee. The County Governments expenditure has been accounted for and reported individually

by each of the forty-seven (47) County Governments and the respective audit reports issued for County Governments and County Assemblies.

2.2 2015/2016 Actual Expenditure for the National Government

2.2.1 The financial statements for the year 2015/2016 for the National Government show total Actual Expenditure of Kshs. 1,734,955,070,916 representing 87% of the gross estimated expenditure of Kshs.1,989,275,116,471. In addition, the actual expenditure of Kshs.1,734,955,070,916 represents an increase of Kshs. 57,449,807,189 or 3% when compared with actual expenditure of Kshs.1,677,505,263,727 in 2014/2015 Financial Year, as shown below:

Votes	Gross Estimated Expenditure 2015/2016 Kshs	Actual Expenditure 2015/2016 Kshs	Absorption as a %age of Estimated Expenditure	Proportion as a % of total actual 2015/2016	Actual Expenditure 2014/2015 Kshs	% Increase / (Decrease) From 2014/2015
Recurrent and Development Votes combined	1,494,598,719,523	1,258,452,454,478	84%	73%	1,220,644,732,649	3%
Consolidated Fund Services	494,676,396,948	476,502,616,438	96%	27%	456,860,531,078	4%
Totals	**1,989,275,116,471**	**1,734,955,070,916**	87%	100%	**1,677,505,263,727**	3%

2.2.2 The Actual Expenditure of Kshs. 1,734,955,070,916 comprised expenditure amounting to Kshs. 1,258,452,454,478 or 73% and Kshs. 476,502,616,438 or 27% of the total actual expenditure under combined Recurrent and Development Votes and Consolidated Fund Services respectively.

2.2.3 The actual expenditure of Kshs.1,734,955,070,916 represents an increase of 3% when compared to the actual expenditure of Kshs.1,677,505,263,727 incurred in 2014/2015. This increase is occasioned by a combination of an increase of Kshs. 37,807,721,829 or 3% of the combined Recurrent and Development Votes and an increase of Kshs. 19,642,085,360or 4% in Consolidated Fund Services.

2.2.4 There was a gross under-expenditure of Kshs.254,320,045,555 made up of under-expenditure of Kshs. 236,146,265,045 for combined Recurrent and Development Votes and under-expenditure of Kshs. 18,173,780,510 for Consolidated Fund Services as follows:-

	Gross Estimated Expenditure 2015/2016 Kshs	Actual Expenditure 2015/2016 Kshs	Under/(Over) Expenditure Kshs	% Under/(Over) expenditure
Recurrent and Development	1,494,598,719,523	1,258,452,454,478	236,146,265,045	16%
Consolidated	494,676,396,948	476,502,616,438	18,173,780,510	4%
Total	**1,989,275,116,471**	**1,734,955,070,916**	**254,320,045,555**	**13%**

2.2.5 The under-expenditure of Kshs. 236,146,265,045 under combined Recurrent and Development Votes was mainly attributed to inadequate exchequer issues and delayed disbursement of donor funds. Detailed reasons for the under-expenditures are provided in the respective financial statements for 2015/2016.

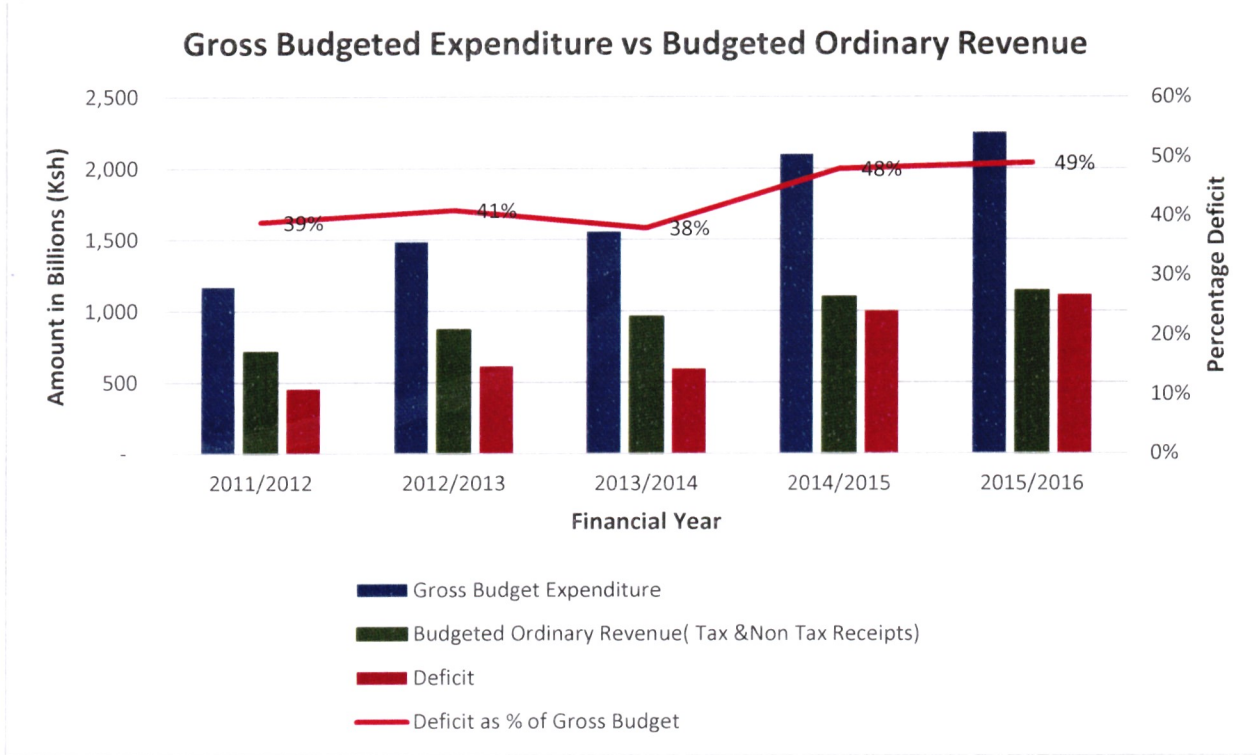
2.3 Revenue Analysis

2.3.1 Ordinary Revenue Budget Trend Analysis

The budgeted revenue from tax and non-tax receipts (ordinary revenue) increased over the last five years from Kshs.713,615,239,430 in the year 2011/2012 to Kshs.1,141,863,174,093 in the year 2015/2016. This is an increase of approximately 60% over the five year period. However, when compared to the gross estimated expenditure, the overall deficit has increased over the years from Kshs.456,863,178,644 in the year 2011/2012 to Kshs.1,111,631,632,374 in the year 2015/2016 representing an increase of approximately 143% over the period as follows:-

Gross Budgeted Expenditure Vs Budgeted Ordinary Revenue

Year	Gross Budget Expenditure Kshs.	Budgeted Ordinary Revenue(Tax &Non Tax Receipts) Kshs.	Deficit Kshs.	Deficit as % of Gross Budget
2011/2012	1,170,478,418,074	713,615,239,430	456,863,178,644	39%
2012/2013	1,485,438,350,899	870,518,584,891	614,919,766,008	41%
2013/2014	1,557,192,721,388	959,854,104,424	597,338,616,964	38%
2014/2015	2,099,370,186,391	1,098,167,501,267	1,001,202,685,124	48%
2015/2016	2,253,494,806,467	1,141,863,174,093	1,111,631,632,374	49%

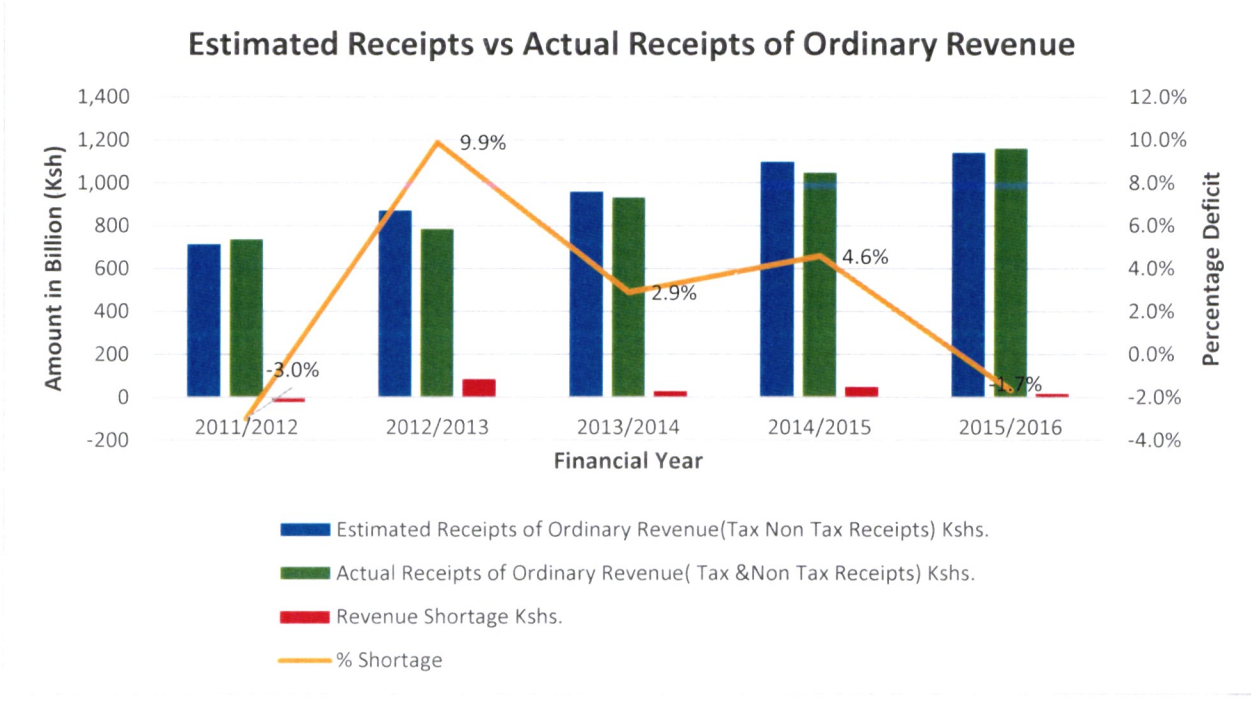


The deficit between the gross budgeted expenditure and the budgeted ordinary revenue is funded through borrowings either from domestic markets (Treasury Bills and Treasury Bonds) or borrowings from external development partners.

2.3.2 Estimated Receipts versus Actual Receipts of Ordinary Revenue

The estimated receipts from tax and non-tax receipts (ordinary revenue) increased over the last five years from Kshs.713,615,239,430 in the year 2011/2012 to Kshs.1,141,863,174,093 in the year 2015/2016. This is an increase of approximately 60% over the five year period. Similarly, the actual receipts from tax and non-tax receipts has increased over the years from Kshs.735,052,725,367 in the year 2011/2012 to Kshs.1,160,726,658,504 in the year 2015/2016 representing an increase of approximately 58% over the five year period as follows:-

Year	Budgeted Ordinary Revenue(Tax Non Tax Receipts) Kshs.	Actual Ordinary Revenue(Tax &Non Tax Receipts) Kshs.	Revenue Shortage Kshs.	% Shortage
2011/2012	713,615,239,430	735,052,725,367	-21,437,485,937	-3.0%
2012/2013	870,518,584,891	784,497,879,683	86,020,705,208	9.9%
2013/2014	959,854,104,424	932,034,925,773	27,819,178,651	2.9%
2014/2015	1,098,167,501,267	1,047,908,306,414	50,259,194,853	4.6%
2015/2016	1,141,863,174,093	1,160,726,658,504	18,863,484,411	-1.65%



2.4 Actual Revenue

2.4.1 During 2015/2016 financial year total revenue recorded under various revenue statements as received by the National Government amounted to Kshs.1,193,619,138,664 representing an increase of Kshs.108,770,096,297 or about 10% when compared to actual collections of Kshs. 1,084,849,042,367 realized in 2014/2015.

2.4.2. Total revenue of Kshs. 1,193,619,138,664 when compared to total budgeted receipts of Kshs.1,199,736,843,062 resulted in an under-collection of revenue of Kshs.6,117,704,398 or 0.51%. The total revenue of Kshs. 1,193,619,138,664 comprised of Kshs. 1,160,726,658,504 and Kshs. 32,892,480,160 relating to Recurrent and Development revenues respectively. However, actual Recurrent Revenue collected during the year reflected an excess of Kshs. 18,863,484,411 or 1.65% while there was a shortfall of Development Revenue collected of Kshs. 24,981,188,809 or 43% as follows:-

Details	Estimated Receipts Kshs	Actual Receipts Kshs	Excess/ (Shortfall) Kshs	Shortfall Percentage %	Actual Receipts 2014/2015 Kshs
Recurrent Revenue	1,141,863,174,093	1,160,726,658,504	18,863,484,411	-1.65%	1,047,908,306,414
Development Revenue	57,873,668,969	32,892,480,160	(24,981,188,809)	43%	36,940,735,953
Total	**1,199,736,843,062**	**1,193,619,138,664**	**(6,117,704,398)**	**0.51%**	**1,084,849,042,367**

2.4.3. The reasons provided for the 43% under-collection of Development Revenue include non-release of funds by development partners and low absorption of funds by projects and programmes.

2.5 The Exchequer Account as at 30 June 2016

2.5.1 The Statement of Receipts into and Issues from the National Exchequer Account for 2015/2016 reflects an overall net surplus of Kshs.59,808,758,120.81 as at 30 June 2016 compared to a net surplus of Kshs.203,491,419.97 as at 30 June 2015. The total issues from the Consolidated Fund for both Recurrent and Development Services during the year 2015/2016 amounted to Kshs.1,793,741,005,899.50 against total receipts of Kshs.

1,853,346,272,601.34 resulting in a surplus of Kshs. 59,605,266,701.84 as at 30 June 2016. However, when added to the Exchequer balance of Kshs. 203,491,419.97 brought forward from 2014/2015, the result is an overall net surplus of Kshs. 59,808,758,120.81 as at 30 June 2016 as follows:

	2015/2016 Kshs.	2014/2015 Kshs.
Total Receipts	1,853,346,272,601.34	1,594,437,100,762.07
Total Issues	1,793,741,005,899.50	1,594,395,695,482.00
Surplus/Deficit for the year	59,605,266,701.84	41,405,280.07
Exchequer balance brought Forward	203,491,418.97	162,086,138.90
Exchequer balance as at 30 June 2016	**59,808,758,120.81**	**203,491,418.97**

2.5.2 Receipts into the Exchequer Account during the year of Kshs.1,853,346,272,601.34 comprised of Ordinary Revenue and Other receipts in form of Treasury Bills and Bonds and Commercial Loan(Euro Bond) as follows:-

Sources of Revenue

(a) Ordinary Revenue

	Amount in Kshs.	Total in Kshs.
• Tax Receipts	1,109,082,233,904.89	
• Non-Tax Receipts (Profits and Dividends, Immigration Visas, Fines, Penalties & Forfeitures, Miscellaneous Revenue, etc.)	46,101,203,494.20	1,155,183,437,399.09
Total Ordinary Revenue		**1,155,183,437,399.09**

(b)	**(i) Loans and Grants**		
	• External Grants	14,682,936,998.75	
	• External Loans	42,302,954,826.05	56,985,891,824.80

(ii) Commercial Loan		134,932,200,687.50
(iii) Domestic Borrowings		
• Treasury Bills	224,833,161,041.00	
• Treasury Bonds	281,411,581,648.95	506,244,742,689.95
Total Receipts		**1,853,346,272,601.34**

2.5.3 Issues from the National Exchequer Account during the year of Kshs.1,793,741,005,899.50 comprised of Recurrent, Development, Consolidated Fund Services and County Governments issues as follows:-

	Approved Net Expenditure Kshs	**Actual Issues Kshs**	**Under/(Over) Expenditure Kshs**	**% Variance**
Recurrent Votes	734,505,634,340	720,283,801,226.60	14,221,833,113.40	2%
Development Votes	369,659,551,524	333,170,357,469.90	36,489,194,054.10	10%
Consolidated Fund Services	494,676,396,948	476,248,207,207.00	18,428,189,741.00	4%
Sub-total for National Government	**1,598,841,582,812**	**1,529,702,365,903.50**	**69,139,216,908.50**	**4%**
County Governments	264,219,689,996	264,038,639,996.00	181,050,000.00	0%
Grand Total	**1,863,061,272,808**	**1,793,741,005,899.50**	**69,320,266,908.50**	**4%**

The underfunding of development budget by 10% was attributed to constraints in revenue collection and delayed disbursement of donor funds.

Proceeds from the Sovereign Bond

The statement of receipts into and issues from the National Exchequer Account for the year ended 30 June 2016 reflects an Exchequer balance of Kshs.203,491,418.97 brought forward from 2014/2015 financial year. However, and as indicated in the Auditor's Report for 2014/2015, the receipt of net proceeds from commercial financing (Sovereign/Euro Bond) of Kshs.215,469,626,035.75 accounted for in 2014/2015 financial year could not be ascertained as investigation into the receipts, issues, accounting and utilization of the funds related to the Sovereign/Euro Bond was still on-going as at 30 June 2016. Under the circumstances, the accuracy of the Exchequer balance of Kshs.203,491,418.97 brought forward from 2014/2015 may be affected by the outcome of the on-going special audit on Euro Bond.

2.5.4. Revenue not remitted to the Exchequer

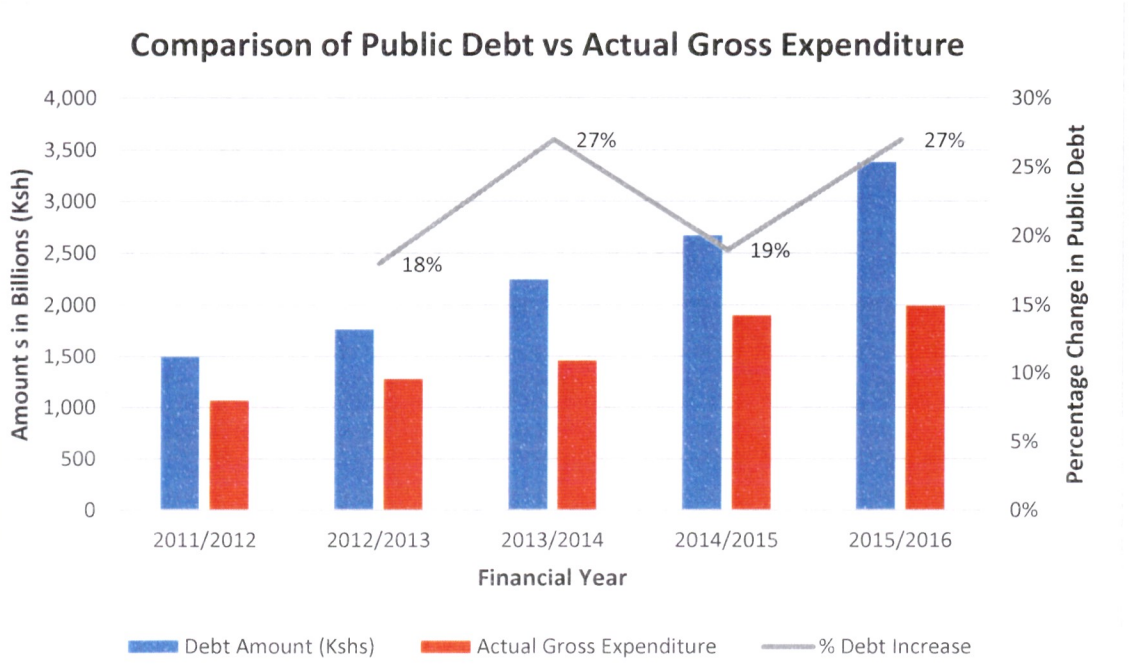
The Revenue Statements reflects an amount of Kshs.1,193,619,138,664 as having been collected during the financial year 2015/2016. The brought forward balance from 2014/2015 amounted to Kshs.3,146,772,291 bringing the total revenue available in 2015/2016 to Kshs.1,196,765,910,955. The Revenue statements, however, reflects an amount of Kshs.1,193,025,312,048 as having been paid to the Exchequer (inclusive of Kshs.1,394,700.000 transferred to Petroleum Development Levy Fund) during the year leaving a substantial balance of Kshs.3,740,598,907 not remitted to the Exchequer as at 30 June 2016 as follows:-

Vote	Revenue Balance B/fwd	Revenue Collection 2015/2016	Total Revenue Available	Amount Paid to PDLF/ Exchequer	Balance C/fwd
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Recurrent	3,146,678,187	1,160,726,658,504	1,163,873,336,691	1,160,132,831,888	3,740,504,803
Development	94,104	32,892,480,160	32,892,574,264	32,892,480,160	94,104
Total	**3,146,772,291**	**1,193,619,138,664**	**1,196,765,910,955**	**1,193,025,312,048**	**3,740,598,907**

2.6. Growth in Public Debt

2.6.1 The outstanding amount of public debt has increased over the years from Kshs.1,495,956,531,695 reported in the year 2011/2012 to Kshs.3,385,910,449,825 in the year 2015/2016 representing an increase of Kshs.1,889,953,918,130 or approximately 126% over the five year period as follows:-

Financial Year	Debt Amount (Kshs)	% Debt Increase	Actual Gross Expenditure (Kshs)	Debt as a % of Total Budget
2011/2012	1,495,956,531,695		1,066,835,338,744	
2012/2013	1,767,017,069,021	18%	1,275,862,845,060	20%
2013/2014	2,250,845,910,286	27%	1,461,965,849,061	15%
2014/2015	2,674,806,364,195	19%	1,906,841,500,924	30%
2015/2016	3,385,910,449,825	27%	1,999,174,760,912	5%



The growth in public debt is attributed to disbursements of new loans to the Government by various development partners and additional borrowings from the domestic market through Treasury Bonds and Treasury Bills.

3. Summary of the Audit Results

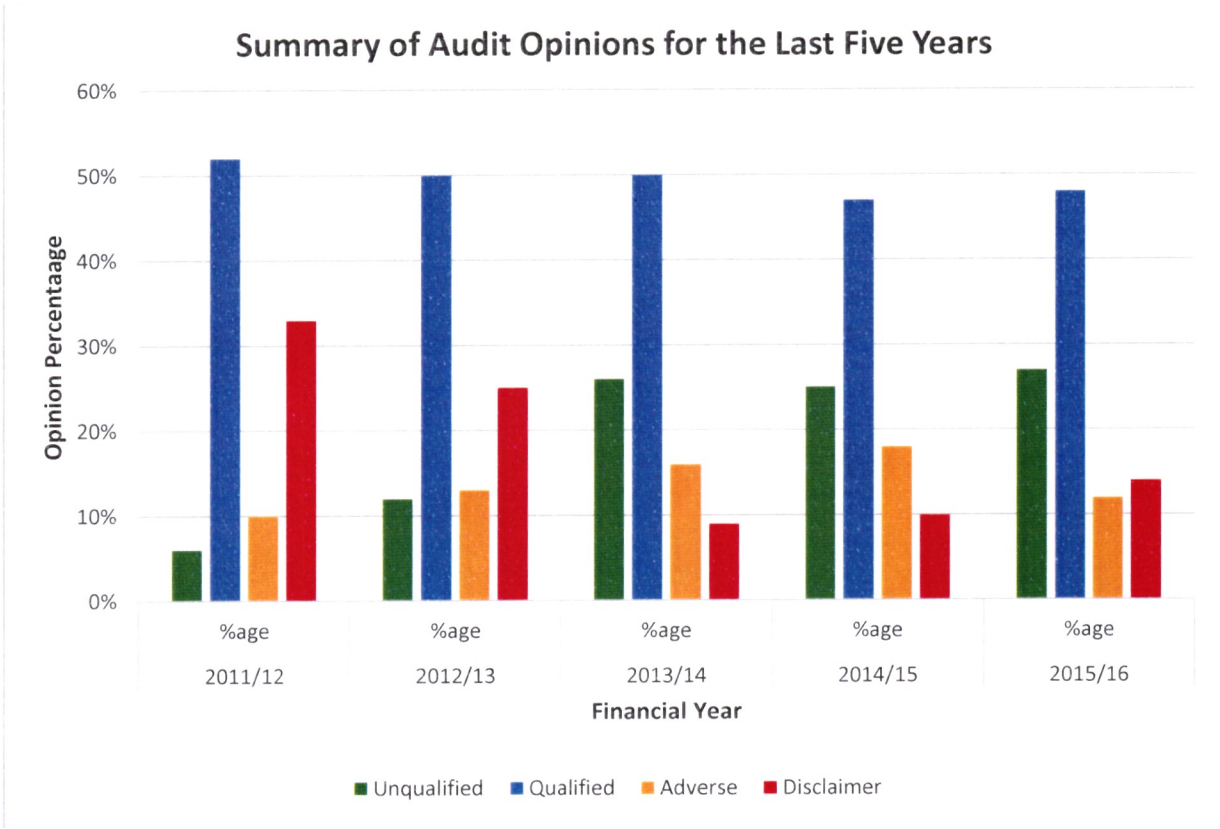
3.1 Accounting Framework

The financial statements for National Government were prepared using the International Public Sector Accounting Standards (IPSAS) framework as prescribed by the Public Sector Accounting Standards Board of Kenya in compliance with Section 194 of the Public Finance Management Act 2012.

3.2 Overall Audit Results

3.2.1 The audit of the financial statements (FS) for the year ended 30 June 2016, indicates that out of the audited one hundred and nine (109) financial statements, thirty (30) financial statements or 27% had a clean (unqualified) audit opinion, fifty one (51) or 47% had qualified audit opinion, thirteen (13) financial statements or 12% had an adverse opinion while fifteen (15) or 14% had a disclaimer of opinion as detailed below:

Audit Opinions	**Financial Year**									
	2011/12		**2012/13**		**2013/14**		**2014/15**		**2015/16**	
	FS	**%**	**FS**	**%**	**FS**	**%**	**FS**	**%age**	**FS**	**%age**
Unqualified	15	6%	41	12%	26	26%	27	25%	30	27%
Qualified	130	52%	172	50%	50	50%	51	47%	51	47%
Adverse	24	10%	45	13%	16	16%	19	18%	13	12%
Disclaimer	83	33%	85	25%	9	9%	11	10%	15	14%
Total	**252**	**100%**	**343**	**100%**	**101**	**100%**	**108**	**100%**	**109**	**100%**



3.2.2 Assessing trend on accountability of National Government Expenditure based on the type of audit opinion expressed on the Financial Statement it can be concluded that there has been improvement as follows:

In the Financial Year 2011/2012 only 6% of then Government Ministries and department's financial statements had a clean opinion. This has improved over the years to stand at 27% in the Financial year 2015/16. Similarly the Financial Statement on which a qualified Audit opinion was expressed has reduced from 52% in 2011/2012 Financial Year to 47% in the year under review.

I have expressed the above types of audit opinions based on the following circumstances: -

a) Unqualified Opinion

An unqualified opinion is expressed when I have concluded that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with Public Finance

Management Act, 2012 and public funds have been applied lawfully and in an effective manner. The financial statements with unqualified opinion are listed in Appendix A.

b) Qualified Opinion

I have given qualified opinion when the misstatement or limitation on my audit is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. I have thus expressed an 'except for' opinion based on the effects of the matter(s) to which the qualification relates. The financial statements with qualified opinion are listed in Appendix B.

c) Adverse Opinion

I have expressed adverse opinion when audit matters on the financial statements are so material and pervasive that I have concluded the financial statements are misleading or incomplete. The financial statements with adverse opinion are listed in Appendix C.

d) Disclaimer of Opinion

I was not able to express an opinion where the possible effects of limitations on my audit were so material and pervasive that I was unable to obtain sufficient appropriate audit evidence and accordingly unable to express any meaningful audit opinion on the financial statements. I was not able to establish whether expenditure reflected in the fifteen (15) financial statements with disclaimer of opinions were incurred lawfully and in an effective way as required by Article 229(6) of the Constitution as detailed in Appendix D.

3.3 Audit of Revenue Statements

3.3.1 The revenue statements for 2015/2016 indicate total revenue collection of Kshs.1,193,619,138,664 against estimated total receipts of Kshs.1,199,736,843,062 resulting in an under-collection of revenue of Kshs. 6,117,704,398 or 0.51%. I have expressed qualified opinions on some three (3) revenue statements, adverse opinion on two (2) revenue statements and a disclaimer of opinion on two (2) revenue statement as follows:-

Audit Opinions on Revenue Statements			
Audit Opinion	**No of Revenue Statements**	**Amount Kshs.**	**Percentage**
Unqualified	4	33,083,104,149	2.77%
Qualified	3	1,148,799,559,445	96.25%
Adverse	2	10,637,404,380	0.89%
Disclaimer	2	1,099,070,690	0.09%
Total	**11**	**1,193,619,138,664**	**100%**

3.3.2 The above statistics show that out of total revenue recorded during the 2015/2016 financial year of Kshs.1,193,619,138,664, only revenue amounting to Kshs.33,083,104,149 or 2.77% was collected and fairly recorded and therefore had an unqualified opinion. Revenue amounting to Kshs. 1,148,799,559,445 or 96.25% though also fairly recorded had issues resulting to a qualified opinion while revenue amounting to Kshs.11,736,475,070 or 0.98% had no proper records and could not therefore be confirmed as accurately reported.

3.3.3 Summary of Audit Opinions on Revenue Statements

(i) Unqualified opinion

Collecting Ministry	Amount (Kshs)
National Treasury –Development Revenue	32,892,480,160
State Department for Coordination of National Government	154,591,272
Information, Communication & Technology	0
EAC, Commerce and Tourism	36,032,717
Total	**33,083,104,149**

(ii) Qualified Opinion

National Treasury – Recurrent Revenue	1,146,021,687,332
State Law Office (Solicitor General)	469,814,685
Registrar of High Court (Judiciary)	2,308,057,428
Total	**1,148,799,559,445**

(iii) Adverse Opinion

National Treasury – Pensions Department	459,421,435
State Department for Interior	10,177,982,945
Total	**10,637,404,380**

(iv) Disclaimer of Opinion

Lands, Housing & Urban Development	779,471,911
State Department for Fisheries	319,598,779
Total	**1,099,070,690**

Main Reason for Qualification on Revenue Statements

Collecting Ministry	Opinion	Reasons for Qualification
1. National Treasury – Recurrent Revenue	Qualified	✓ Failure to remit to the exchequer account a balance of Kshs.3,570,991,332 ✓ Failure to collect arrears of revenue of Kshs.380,600,178,374 as at 30-06-2016
2. State Law Office (Solicitor General)	Qualified	✓ Failure to remit Kshs.152,361,312 to the exchequer ✓ The revenue statements were not signed by the Accounting Officer as required by Financial Regulations
3. Registrar of High Court (Judiciary)	Qualified	✓ Failure to account for Kshs.8,100,802 convicts deposits and bonds collected at Kericho Law Courts ✓ Loss of Kshs.984,080 through falsification of documents at Baricho Law Courts
4. National Treasury – Pensions Department	Adverse	✓ Failure to provide analysis for revenue collection of Kshs.459,421,435 ✓ Failure to provide documentary evidence supporting transfer of the above amount to the exchequer
5. State Department for Interior	Adverse	✓ The revenue statement presented for audit was not prepared as prescribed by the Public Sector Accountants Board ✓ Unexplained difference of Kshs.360,905,511 between revenue statement and the trial balance. ✓ A loss of Kshs.193,029,466 collected at DCI ✓ Inability to confirm accuracy of receipts of Kshs.2,632,208,599 due to poor record keeping
6. Lands, Housing & Urban Development	Disclaimer	✓ Inability to confirm accuracy and validity of property income collected by KRA amounting to Kshs.1,181,008,564 ✓ Inability to confirm accuracy and validity of amount transferred to the exchequer account of Kshs.779,471,911
7. State Department for Fisheries	Disclaimer	✓ Failure to avail documentary evidence to support revenue collection of Kshs.319,598,779 ✓ Failure to support remittance of Kshs.4,473,244 to the exchequer

3.3.4 The main reasons for qualified and adverse opinions on the revenue statements include the following: -

- Balances reflected as remitted to the Exchequer in the revenue statements are not properly supported.
- Failure to collect arrears of revenue due and uncollected as at 30 June 2016.
- Differences between revenue statement amounts and records reported at the collection points.
- Failure to surrender revenue balances as at 30 June 2016 to the Exchequer.

3.4 Audit of Expenditure Statements

3.4.1 The Actual Expenditure for the financial statements for the National Government voted provisions (excluding the Consolidated Fund Services) for the year 2015/2016 was Kshs. 1,258,452,454,478 compared to Kshs. 1,220,644,732,649 reported in 2014/2015. The expenditure of Kshs. 1,258,452,454,478 was recorded in the combined Recurrent and Development Financial Statements which I expressed unqualified, qualified, adverse and disclaimer of opinions as follows: -

Summary of Audit Opinions on Combined Recurrent and Development Expenditure

Opinion	No. of Financial Statements	Combined Recurrent and Development Expenditure 2015/2016 (Kshs.)	Percentage
Unqualified	10	43,452,202,377	3.45%
Qualified	34	1,004,467,317,870	79.82%
Adverse	3	112,354,357,766	8.93%
Disclaimer	3	94,421,805,173	7.50%
Other	1	3,756,771,292	0.30%
Total	**51**	**1,258,452,454,478**	100.00%

3.4.2 The table show that out of the total expenditure of Kshs. 1,258,452,454,478, expenditure totalling only Kshs. 43,452,202,377 or 3.45% was incurred lawfully and in an effective way. Expenditures amounting to Kshs. 1,004,467,317,870 or 79.82% had issues hence qualified opinion. Financial statements for expenditures amounting to Kshs. 112,354,357,766 or 8.93% were misleading or incomplete hence an adverse opinion. I was unable to confirm whether expenditure totalling Kshs. 94,421,805,173 was incurred effectively and lawfully as required by Article 229(6) of the Constitution of Kenya. The other one statement with expenditure of Kshs. 3,756,771,292 related to expenditures incurred by my office; Office of the Auditor-General which is audited separately and reported to Parliament by an Independent Auditor.

4.0 Summary of Material Observations

4.1 Maintenance of Accounting Records and Presentation of Financial Statements

During the year under review, there was general improvement in the maintenance of accounting records compared to previous years. The improvement is attributed to adoption of the International Public Sector Accounting Standards (IPSAS) accounting framework by National Government entities when accounting for public funds. This is in addition to other interventions by National Treasury aimed at improving accountability in the public sector.

However, accounting for public funds is still wanting. This is evident from the basis for qualifications in the accompanying detailed report. A number of entities did not adhere to the IPSAS reporting framework leading to qualification of the financial statements. Further, a number of Financial Statements presented for audit had material misstatements. Only 30 out of 109 or 27 % of the audited Financial Statements had immaterial misstatements and an unqualified audit opinion was expressed. The remaining 82 or 73 % of the financial statements had material misstatements leading to qualification of the Accounts.

4.2 Inadequacies in accounting for Cash and Cash Equivalents

Audit of Cash and Cash Equivalents component of the financial Statements presented for audit reviewed a number of anomalies such as persistent weakness in maintenance of Cashbooks. A number of Government entities continued to reflect material receipts and payments in the Cashbooks not reflected in the Bank Statements and also receipts and payments in the Bank Statements not reflected in the Cashbooks. Several entries in the Bank Statements were not analyzed while others have been outstanding for a long period of time.

Other anomalies included:

(i) Un-Reconciled Balances Between Manual and IFMS Cash Books;
(ii) Un-surrendered Old Deposits;
(iii) Unsupported Cash and Cash Equivalents' Balances;
(iv) Variation between the statement of assets' balance and the source documents' balance.

4.3 Pending Bills

During the year ended 30 June 2016, a number of National Government entities did not settle bills amounting to Kshs. 20,472,313,203 which was a decrease of 53 % from the previous year's figure of Kshs. 43,212,107,778. The figure of Kshs.20,472,313,203 comprises of Kshs. 18,061,544,836 and Kshs. 918,762,563 under Recurrent and Development Votes respectively and a further Kshs. 1,492,005,804 not classified. The bills were instead carried forward to 2016/2017 financial year. Failure to settle bills during the year they are incurred is likely to adversely affect the next year's budgeted programmes. The Government entities with unpaid bills as at 30 June 2016 are listed in the table below: -

Vote	MDA	Recurrent	Development	Others	Total per MDA
1011	The Presidency/State House	270,980,438	-	-	270,980,438
1021	State Department for Interior	1,800,614,863	-	-	1,800,614,863
1022	State Department for Coordination of National Government	4,523,107,327	-	-	4,523,107,327
1031	Ministry of Devolution & Planning - State Department for Planning	2,505,894,057	-	-	2,505,894,057
1032	Ministry of Devolution & Planning - State Department for Devolution	2,834,375,585	105,000,000	-	2,939,375,585
1061	State Department of Education	31,589,959	410,500	-	32,000,459
1062	State Department of Science and Technology	65,989,715	14,751,969	-	80,741,684
1071	The National Treasury	1,420,834,713	-	-	1,420,834,713
1081	Ministry of Health	995,493,287	-	1,482,945,000	2,478,438,287

1091	State Department of Infrastructure	63,146,962	59,349,266	-	122,496,228
1092	State Department of Transport	66,010,456	-	-	66,010,456
1101	Department of Environment and Natural Resources	26,584,988	160,011,614	-	186,596,602
1102	Department of Water and Irrigation	119,538,431	-	-	119,538,431
1111	Ministry of Lands, Housing &Urban Development	1,693,351,703	-	-	1,693,351,703
1131	Ministry of Sports, Culture and the Arts	259,876,116	-	-	259,876,116
1141	Ministry of Labour, Social Security and Services	90,993,075	-	-	90,993,075
1161	State Department of Agriculture	21,443,078	467,794,438	-	489,237,516
1162	State Department of Livestock	-	111,444,776	-	111,444,776
1171	Ministry of Industrialization and Enterprise Development	549,541,065	-	-	549,541,065
1181	Department of Commerce and Tourism	249,671,744	-	-	249,671,744
1191	Ministry of Mining	-	-	9,060,804	9,060,804
1251	Office of the Attorney General and Department of Justice	52,078,256	-	-	52,078,256
1261	Judiciary	202,938,501	-	-	202,938,501
1301	Commission for the Implementation of the Constitution	4,816,734	-	-	4,816,734
2042	National Assembly	197,814,570	-	-	197,814,570
2101	National Police Service Commission	7,733,192	-	-	7,733,192
2131	The Commission on Administrative Justice	7,126,021	-	-	7,126,021
	Total	**18,061,544,836**	**918,762,563**	**1,492,005,804**	**20,472,313,203**

4.4 Unsupported amounts

The audit for 2015/2016, revealed that a number of National Government entities failed to avail

supporting documents for amounts totalling Kshs.40,286,583,945 or where the supporting documents were availed they were found to be inadequate. Lack of supporting documents and adequate explanation limits the auditor's ability to ascertain accuracy and validity of the affected amounts.

The entities tabulated below failed to support/adequately support the amounts shown:

Vote	Ministry/Department/Agency	Amount Kshs.
1031	Ministry of Devolution & Planning - State Department for Planning	10,466,409,144
1032	Ministry of Devolution & Planning - State Department for Devolution	3,597,228,777
1032	National Youth Service -Mechanical and Transport Fund	266,676,794
1061	Ministry of Education, Science and Technology-Department of Education	31,376,800
1062	Ministry of Education, Science and Technology-Department of Science and Technology	43,840,320
1071	National Exchequer Account	1,987,599,186
1071	Consolidated Fund Services-Pensions and Gratuities: Vote R-051	205,931,936
1081	Ministry of Health	929,209,621
1091	Ministry of Transport and Infrastructure-State Department of Infrastructure	1,104,260,165
1101	Department of Environment and Natural Resources	58,931,458
1102	Department of Water and Irrigation	1,277,123,636
1111	Agricultural Settlement Fund Trustees	3,645,113,755
1141	Ministry of Labour, Social Security and Services	15,914,940
1161	State Department of Agriculture	8,969,893,861
1161	Strategic Grain Reserve Trust Fund	4,125,135,490
1161	Agricultural Information Resource Centre Revolving Fund	29,887,362
1162	State Department of Livestock	341,321,492
1163	State Department of Fisheries -Revenue Statement Head 000000-156 Fishing Rights	324,072,023
1171	Ministry of Industrialization and Enterprise Development	1,474,509

1191	Ministry of Mining	676,437,430
1251	Public Trustee	61,736,814
2011	Kenya National Commission on Human Rights	3,715,167
2091	Teachers Service Commission	2,123,293,265
Total		**40,286,583,945**

4.5 Management of Imprests

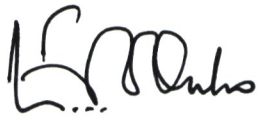
Review of management of imprests indicate that imprests continue to remain unaccounted for at the end of the Financial Year. During the year under review un-surrendered/unaccounted for imprests amounted to Kshs. 350,983,457. Failure to account for imprests on due date is in contravention of Government Regulations.

Detailed observations on the specific statements are covered under the respective Ministries/Departments/Agencies' reports.

5 Conclusion

Detailed report for the National Government Accounts for the year ended 30 June 2016 is contained in the combined report. Specific reports together with my opinions for each financial statement are contained in each respective entity's audited financial statement for the year ended 30 June 2016 already issued to each Accounting Officer. I appeal to each Accounting Officer to address all the issues pertaining to their respective ministry/department as detailed in my combined report for 2015/2016.

My report is also accessible from the Office of the Auditor General's Website: www.oagkenya.go.ke



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

Nairobi

15 January 2018

6.0 Audit Opinions on the Financial Statements

6.1 Unqualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2016 which are listed in Appendix A in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

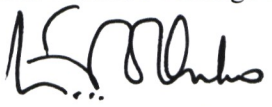
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including

the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements listed in Appendix A, present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2016, and of its operations for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS)-Cash Basis and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



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

Nairobi

15 January 2018

6.2 Qualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2016 which are listed in Appendix B in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

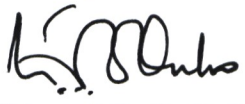
I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Details of the basis for qualified opinion are given in the accompanying detailed reports listed in Appendix B. This includes various unexplained discrepancies and omission of expenditure from the financial statements.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements listed in Appendix B, present fairly in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2016, and of its operations for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS) -Cash Basis and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



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

Nairobi

15 January 2018

6.3 Adverse Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2016 which are listed in Appendix B in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

Details of the Basis for Adverse Opinion are as per accompanying detailed audit reports listed in Appendix C. This includes various material misstatements, unexplained discrepancies and omission of expenditure from the financial statements.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements listed in Appendix C, do not present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2016 and of its operations for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS)-Cash Basis and do not comply with the Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



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

Nairobi

15 January 2018

6.4 Disclaimer Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2016 which are listed below in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud

or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

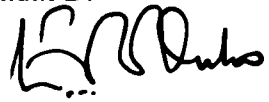
Because of the matters described in the detailed Report of the financial statements contained in Appendix D, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Details of the Basis for Disclaimer of Opinion are as per the accompanying detailed audit Report listed in appendix D. This includes various unexplained discrepancies, omission of expenditure from the Accounts, lack of documentation to support some of the figures shown in the financial statements listed in Appendix D and failure by the Accounting Officers to provide information and explanation considered necessary for the purpose of the audit.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements contained in Appendix D.



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

Nairobi

15 January 2018

Appendices

APPENDIX A

The following is a list of financial statements for which I expressed an unqualified opinion as I was provided with sufficient and accurate information and explanations:

1. Asiatic Widows and Orphans Fund
2. Civil Servants Housing Scheme Fund
3. Contingencies Fund
4. Controller of Budget
5. Department of Commerce and Tourism- Revenue Statement
6. Development Revenue
7. Directorate of Public Prosecutions
8. Equalization Fund
9. Ethics and Anti-Corruption Commission
10. Government Press Fund
11. Intelligence Service Development Fund
12. Kenya Energy Environment & Social Responsibility Programme Fund
13. Kenya Law Reform Commission
14. Kenya Slum Upgrading, low Cost Housing and Infrastructure Trust Fund
15. Mechanical and Transport Fund
16. Ministry of Information, Communication and Technology- Statement of Revenue
17. National Cohesion and Integration Commission
18. National Exchequer Account
19. National Intelligence Service
20. Parliamentary Car Loan Scheme Fund
21. Parliamentary Mortgage Loan Scheme Fund
22. Parliamentary Service Commission
23. Petroleum Development Levy Fund

24. Political Parties Fund
25. Public Service Commission
26. Registrar of Political Parties
27. Salaries and Remuneration Commission
28. State Department for Coordination-Revenue statement
29. State Department of Fisheries
30. Witness Protection Agency

Ministries/ Departments/ Agencies/Commissions

APPENDIX B

The following is a list of financial statements for which I expressed qualified opinion. I was provided with sufficient and appropriate information and explanations and out of the audit I raised issues which were material but not fundamental:

1. Asian Officers Family Pensions Fund
2. Commission on Revenue Allocation
3. Department of Commerce and Tourism
4. Department of East African Affairs
5. Department of Environment and Natural Resources
6. Department of Water and Irrigation
7. European Widows and Orphans Pensions Scheme Fund
8. Independent Electoral and Boundaries Commission
9. Independent Policing Oversight Authority
10. Judicial Service Commission
11. Judiciary
12. Judiciary- Revenue Financial Statement
13. Kenya Citizens and Foreign Nationals Management Service
14. Kenya National Commission on Human Rights
15. Ministry of Defence
16. State Department For Labour and Social Protection
17. State Department of Education
18. State Department of Science and Technology
19. Ministry of Energy and Petroleum
20. Ministry of Foreign Affairs and International Trade
21. Ministry of Health
22. Ministry of Industrialization and Enterprise Development
23. Ministry of Information, Communication and Technology
24. Ministry of Lands, Housing &Urban Development

25. Ministry of Mining
26. Ministry of Sports, Culture and the Arts
27. Ministry of Transport and Infrastructure-State Department of Transport
28. National Assembly
29. National Gender and Equality Commission
30. National Humanitarian Fund
31. National Land Commission
32. National Police Service Commission
33. Office of the Attorney General and Department of Justice- Revenue Financial Statement
34. Pensions and Gratuities
35. Petroleum Training Fund
36. Prison Farms Revolving Fund
37. Provident Fund
38. Public Trustee
39. Railway Development Levy Fund
40. Recurrent Revenue
41. State Department for Interior
42. State Department of Livestock
43. State Department of Agriculture
44. Statement of outstanding Loans
45. Teachers Service Commission
46. The Commission on Administrative Justice
47. The National Treasury
48. The Presidency/State House
49. Treasury Main Clearance Fund
50. Veterinary Services Development Fund
51. Women Enterprise Fund

APPENDIX C

The following is a list of financial statements for which I expressed an adverse opinion due to material misstatements:

1. CFS - Salaries, Allowances, Miscellaneous Services
2. CFS-Public Debt
3. Commission for the Implementation of the Constitution
4. Government of Kenya Share Subscription and Capital Contribution to International Organizations – Vote R-053
5. Ministry of Transport and Infrastructure-State Department of Infrastructure
6. Office of the Attorney General and Department of Justice
7. Office of the Attorney General and Department of Justice - Official Receiver
8. Pension Department- Statement of Revenue
9. Petroleum Development Levy Fund
10. Railway Development Levy Fund
11. State Department for Interior - Statement of Revenue
12. Statement of Outstanding Obligations guaranteed by GOK
13. Strategic Grain Reserve Trust Fund

APPENDIX D

The following is a list of financial statements for which I was unable to express an opinion due to lack of sufficient and accurate information and explanations.

1. Agricultural Information Resource Centre Revolving Fund
2. Agricultural Settlement Fund Trustees
3. Government Clearing Agency Fund
4. Kenya Local Loans Support Fund
5. Ministry of Devolution & Planning - State Department for Devolution
6. Ministry of Devolution & Planning - State Department for Planning
7. Ministry of Lands, Housing &Urban Development-Revenue Statement
8. National Youth Service -Mechanical and Transport Fund
9. Prisons Industries Fund
10. Rural Enterprise Fund
11. State Department for Coordination of National Government
12. State Department of Fisheries -Revenue Statement Head 000000-156 Fishing Rights
13. State Officers & Public Officers Motor Car Loan Scheme Fund
14. State Officers House Mortgage Scheme Fund
15. Stores and Service Fund

Analysis of Unsupported Amounts			
Vote	**Ministry/Department/Agency**	**Amount**	**Description**
1031	Ministry of Devolution & Planning - State Department for Planning	10,466,409,144	Amount Consists of Kshs. 6,084,045,536 Unsupported expenditure- acquisition of assets, Kshs. 2,151,010,210 Unsupported expenditure- transfer to other government entities, Kshs. 657,784,722 Unsupported expenditure-use of goods and services, Kshs.238,008,938 Unreconciled/Unsupported balances - Deposit Account, Kshs. 290,646,960 Unsupported Deposits and retentions balance, Kshs.831,968,731 Unsupported expenditure-documents seized by investigating agencies, Kshs. 124,480,440 and Kshs.69,711,658 Unsupported suspense account balance and Kshs. 18,751,949 Unsupported expenditure - transfers to National Youth Service (NYS).
1032	Ministry of Devolution & Planning - State Department for Devolution	3,597,228,777	Amount includes Kshs.1,794,578,543 Unsupported expenditure - other capital grants and transfers, Kshs. 1,167,128,248 Unsupported exchequer provisioning balance, Kshs. 405,521,986 Unsupported balances and Kshs.230,000,000 Unsupported expenditure - street facilities.
1032	National Youth Service - Mechanical and Transport Fund	266,676,794	Amount consists of Kshs. 27,040,289 Unsupported comparative balance in statement of cash flow, 3,662,814 Unsupported adjustments on accumulated depreciation on plant and heavy machinery brought forward, Kshs.7,041,798.95 Unsupported adjustments on accumulated depreciation on commercial trucks, Kshs.18,380,963.34 Unsupported debt relating to Director-General, National Youth Service, Kshs.918,241 Unanalyzed and unsupported creditors balance and Kshs.209,632,687.89 Unsupported adjustments

1061	Ministry of Education, Science and Technology- State Department of Education	31,376,800	Unsupported expenditure relating to salaries for mobile school teachers and purchase of instructional materials for 117 mobile school in Arid and semi-arid areas
1062	Ministry of Education, Science and Technology-Dept of Science and Technology	43,840,320	Amount includes unsupported expenditure in respect of provision of clearance and inland logistics services for Government of Kenya on China Project equipment totalling Kshs.38,597,824 and Kshs.5242496 in respect to Unsupported school fees expenditure paid to principal secretary Ministry of Foreign Affairs for maintenance of two students studying in Australia
1071	National Exchequer Account	1,987,599,186	Amount includes unsupported Bank Balance amounting to Kshs. 1,985,000,000 and Unsupported Dividend income from KPLC amounting to Kshs. 2,599,186
1071	Consolidated Fund Services-Pensions and Gratuities Vote R-051	205,931,936	Transfer to Public Trustee -Kshs. 202,531,106 in relation to death gratuities files not availed for audit and Kshs. 3,400,830 disbursements made without letters to show the beneficiaries.
1081	Ministry of Health	929,209,621	Unsupported expenditure on compensation to employees made of Kshs.679,237,106 unsupported expenditure and a further Kshs. 249,972,515 unsupported Ministry's contribution to insurance scheme.
1091	Ministry of Transport and Infrastructure-State Department of Infrastructure	1,104,260,165	Unsupported accounts receivables - Clearance account - Included in accounts receivables balance of Kshs.1,180,648,413 is an amount of Kshs.1,104,260,165 described as clearance accounts which the management did not provide supporting documents.
1101	Department of Environment and Natural Resources	58,931,458	Unsupported suspense account balance

1102	Department of Water and Irrigation	1,277,123,636	Amount includes Accounts Receivables: Unsupported suspense and clearance account - no schedules totalling Kshs.1,204,385,626 and Unsupported accounts payables totalling Kshs.72,738,010 - no schedules
1111	Agricultural Settlement Fund Trustees	3,645,113,755	Current assets - unsupported Debit Balances: supporting schedules
1141	Ministry of Labour, Social Security and Services	15,914,940	Unsupported cleaning services and bursary payments for Kshs.6,307,680 and 9,007,260 respectively.
1161	State Department of Agriculture	8,969,893,861	Amount includes unsupported Accounts Payables totalling Kshs. 450,644,248 and unsupported balance under summary statement of provisioning amounting to Kshs.8,519,249,613.
1161.1	Strategic Grain Reserve Trust Fund	4,125,135,490	Amount includes unsupported payments of Kshs 6,000,000 and Kshs 1,330,352,499. Another amount of Unsupported cash and cash equivalents balance totalling Kshs. 2,588,782,991 with Board of survey Report and unsupported stock of powdered milk amounting to Kshs. 200,000,000
1161	Agricultural Information Resource Centre Revolving Fund	29,887,362	Amount consists of Kshs. 10,334,856 Unsupported Inventories balance, Kshs.10,094,144 Unsupported reserves balance, Kshs. 6,404,457 and Kshs. 3,053,905 Unsupported balances under statement of changes in net assets
1162	State Department of Livestock	341,321,492	Amount includes Receipts totalling Kshs.23,291,082 and Kshs.187,606,317 relating to direct payment and foreign grant proceeds from bilateral donors and international organizations not supported and several unsupported Balances amounting to Kshs.130,424,093
1163	State Department of Fisheries -Revenue Statement Head 000000-156 Fishing Rights	324,072,023	Being Kshs. 319,598,779 Unsupported revenue and Kshs. 4,473,244 Unsupported remittance to National Treasury
1171	Ministry of Industrialization and Enterprise Development	1,474,509	Unsupported coffee debt waives

1191	Ministry of Mining	676,437,430	Amount includes unsupported expenditure of Kshs. 43,673,907 and Ksh.19,451,168. Also included is an amount of Kshs. 613,312,355 being unsupported levy on Cement Mineral
1251	Public Trustee	61,736,814	Unsupported investments: The statement of financial position reflects investments at a cost of Kshs.253,131,000 as at 30 June 2016 out of which investment of Kshs.61,736,814.25 were not supported with documentary evidence. Consequently, the accuracy and completeness of the investments balance of Kshs.253,131,100 could not be ascertained.
2011	Kenya National Commission on Human Rights	3,715,167	Unsupported cash in transit
2091	Teachers Service Commission	2,123,293,265	Unsupported mortgage and loan detailed analysis
Total		**40,286,583,945**	



Republic of Kenya

National Treasury

Statements of Receipts into and Issues from the National Exchequer Account

For the Financial Year ended 30th June 2016

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1. Overview of National Exchequer operations

1.1 Background

Article 206 of the Constitution of Kenya provides for the establishment of a Consolidated Fund into which shall be paid all money raised or received by or on behalf of the National Government. As outlined under Section 17 of the Public Finance Management (PFM) Act, 2012 the National Treasury is responsible for administration of the Consolidated Fund. The Consolidated Fund is maintained in the National Exchequer Account at the Central Bank of Kenya.

1.2 Receipts into the National Exchequer

Government revenue is received through appointed Receivers of Revenue by the Cabinet Secretary to the National Treasury pursuant to Article 209 (1), (2) and (4) of the Constitution. Receivers of Revenue are responsible for receiving, remitting to the Exchequer, and accounting for the National government revenue pursuant to section 82 of the PFM Act, 2012. During the FY 2015/2016, there were a total of 11 Receivers of revenue.

Section 78 of the PFM Act, 2012 has mandated the Kenya Revenue Authority (KRA), as the collector of National Government revenue. Revenue collected by KRA is received by the Principal Secretary, National Treasury who is the designated Receiver.

1.3 Issue from the National Exchequer

An appropriation Act and County Allocation Revenue Act (CARA) is required to authorize the withdrawal of funds from the Consolidated Fund. The National Treasury is required to seek Controller of Budget's approval before withdrawing funds from the National Exchequer Account to the respective National and County Government entities bank accounts.

Entities that receive funds from the Exchequer Account include National Government Ministries, Departments, and Agencies (MDAs) in accordance with the Appropriation Act and County Governments in accordance with the County Allocation Revenue Act. These entities are responsible for administration of their respective approved budgets.

1.4 Financial reporting requirements

Pursuant to Section 80(2) (a) of the PFM Act, 2012 the National Treasury is responsible for accounting for the all monies paid into and out of the Exchequer Account. Section 81 (1) of the PFM Act, 2012 further requires the Accounting Officer for a National Government entity to prepare and submit the financial statements to the Auditor-General and a copy of the statement to the Controller of Budget, the National Treasury and the Commission on Revenue Allocation.

This statement therefore covers the operations of the National Exchequer Account for the financial year ended 30th June 2016.

1.5 Commentary on the Statement of Receipts into and Issues from the National Exchequer Account

The total receipts into the National Exchequer amounted to KShs 1.85 trillion against a budget of Kshs 1.86 trillion. The actual revenue collected compares well with the budget as it represents 96.3% of the budget. The budgets and actuals exclude revenue in form of Appropriations in Aid (AIA), which is received and spent directly by the respective entities.

The bulk of the revenue is collected by the Kenya Revenue Authority (KRA), being the principal tax revenue collection agent for the Government.

The funds received through the Exchequer were disbursed to the National Government voted Ministries, Departments and Agencies and County Governments. In total, Kshs 1.79 trillion was appropriated during finanical year 2015/2016 compared to Kshs 1.59 trillion appropriated in the previous year.

2. Statement of Responsibilities

As the Accounting Officer, the Principal Secretary to the National Treasury is responsible for the preparation and fair presentation of the Statement of Receipts into and Issues from the National Exchequer Account in accordance with Public Financial Management Act, 2012.

The Principal Secretary to the National Treasury accepts responsibility for the Statement of Receipts into and Issues from the Exchequer Account, which has been prepared using the cash basis as prescribed by the Public Sector Accounting Standards Board (PSASB). The statement has been extracted from the accounting records maintained by National Treasury, and the information provided is accurate and complete in all material respects.

The Accounting Officer to the National Treasury confirms the completeness of the accounting records maintained for the Statement of Receipts into and Issues from the Exchequer Account, which have been relied upon in the preparation of the Financial Statements as set out on page 5 to 16 for the period ended 30th June 2016.

Signature: _____

Name: **Dr. Kamau Thugge, CBS**
Principal Secretary, The National Treasury

Date: 23/02/2017

3. Statements of Receipts and transfers for the year end 30th June 2016

	Notes	Period ended 30th June 2016 Kshs	Period ended 30th June 2015 Kshs
Opening balance		**203,491,418.97**	**162,086,138.90**
Receipts			
Tax income	5.2	1,109,082,233,904.89	1,001,245,431,205.77
Non tax income	5.2	46,101,203,494.20	40,804,376,558.25
Grants	5.3	14,682,936,998.75	10,473,510,502.50
Proceeds from domestic borrowing	5.4	506,244,742,689.95	292,680,000,000.00
Proceeds from external borrowing	5.5	177,235,155,513.55	249,233,782,495.55
Total Receipts		**1,853,549,764,020.31**	**1,594,437,100,762.07**
Transfers from the Exchequer			
National Government Recurrent	Annex 2.1	720,283,801,226.60	640,352,208,883.00
National Government Development	Annex 2.2	333,170,357,469.90	270,240,838,230.00
Consolidated Fund Services	Annex 2.3	476,248,207,207.00	454,466,411,172.00
Total National Government		**1,529,702,365,903.50**	**1,365,059,458,285.00**
County Governments	Annex 2.4	264,038,639,996.00	229,336,237,197.00
Total transfers	5.6	**1,793,741,005,899.50**	**1,594,395,695,482.00**
Excess of receipts over transfers during the year		**59,808,758,120.81**	**203,491,418.97**
Closing cash book balance	5.7	**59,808,758,120.81**	**203,491,418.97**

The notes on pages 7 to 16 form an integral part of these financial statements. This statement has been approved by the following:

Signature: _____

Dr. Kamau Thugge, CBS
Principal Secretary,
The National Treasury

Signature: _____

Bernard Ndungu, MBS
Director General Accounting Services & Quality Assurance
The National Treasury

4. Summary of budget vs actual for the period ended 30th June 2016

The following statement summarizes the outturn against budget. Further details are provided under Annex 2 to this report:

	Original Estimates	Revised Estimates	Total Actual FY 2015/16	% Realized FY 2015/16
	Kshs	Kshs	Kshs	
Revenue Collections:				
Ordinary Revenue	1,215,294,941,956.00	1,141,863,174,093.00	1,109,082,233,904.89	97.1%
Net Domestic Borrowing	397,402,669,429.93	427,660,451,703.00	506,244,742,689.95	118.4%
Commercial Financing	71,800,000,000.00	154,332,000,000.00	134,932,200,687.50	87.4%
External Loans & Grants	69,109,522,760.00	94,122,471,282.00	56,985,891,824.80	60.1%
Rights Issue CBK	4,998,000,000.00	-	-	-
Export Credit	11,500,000,000.00	-	-	-
Others	41,752,234,436.00	45,083,175,734.00	46,101,203,494.20	103.3%
Total Exchequer Receipts	**1,811,857,368,581.93**	**1,863,061,272,812.00**	**1,853,346,272,601.34**	**99.5%**
Exchequer Transfers:				
National Government Recurrent	717,019,195,805.00	734,505,634,340.00	720,283,801,226.60	98.1%
National Government Development	389,080,903,609.00	369,659,551,524.00	333,170,357,469.90	90.1%
County Governments	264,219,690,000.00	264,219,690,000.00	264,038,639,996.00	99.9%
Consolidated Fund Services	441,537,579,167.93	494,676,396,948.00	476,248,207,207.00	96.3%
Total Exchequer Transfers	**1,811,857,368,581.93**	**1,863,061,272,812.00**	**1,793,741,005,899.50**	**96.3%**

The notes on pages 7 to 16 form an integral part of these financial statements. This statement has been approved by the following:

Signature: _____

Dr. Kamau Thugge, CBS
Principal Secretary,
The National Treasury

Signature: _____

Bernard Ndungu, MBS
Director General Accounting Services & Quality Assurance
The National Treasury

5. Significant Accounting Policies

5.1 Accounting policies

a) Basis of preparation

The Statement of Receipts into and Issues from the National Exchequer Account has been prepared in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) as prescribed by the Public Sector Accounting Standard Board (PSASB) in Kenya.

b) Reporting entity

This report relates to financial operations of the National Exchequer Account maintained at CBK. The reporting entity is the National Treasury.

c) Revenues

Revenues include receipts collected by the Receivers of Revenue and other miscellaneous receipts which are deposited in the Consolidated Fund pursuant to Article 206 of the Constitution of Kenya, which provides that all revenue collected by the National Government shall be deposited in the Consolidated Fund held at the National Exchequer Account maintained at the Central Bank of Kenya.

The receipts collected include tax collections by Kenya Revenue Authority (KRA), loans and grants from development partners, proceeds from domestic loans, and other miscellaneous deposits in the National Exchequer bank account.

d) Grants and loans from Development Partners

Grants and loans received from development partners are recognized as receipts when the funds are received in the National Exchequer Account.

e) Exchequer Transfers

Exchequer Transfers relate to appropriations to votes based on exchequer requests made by the respective votes subject to budget provisions. The exchequer requests are received by National Treasury, which rationalizes the requests based on available balance, consolidates the requests and forwards them to Controller of Budget (CoB) for approval. Once the approval of CoB is obtained, the funds are released to either the Recurrent, Consolidated Fund Services or Development accounts of National Government entities or the County Revenue Fund accounts of the Counties. These accounts are maintained at CBK.

The appropriations from the National Treasury are regarded as transfers rather than expenditures. At consolidation level, these transfers are netted off against the corresponding transfers reported as received by the respective votes and County Governments.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances, un-surrendered imprests and short term deposits in money market instruments.

g) Presentation Currency

The financial statements are reported in Kenya Shillings, being the currency of legal tender in Kenya.

5.2 Tax Income and Non Tax Income receipts

The following is an analysis by revenue type of the receipts collected in the National Exchequer Account:

Code	Description of receiver	30-June-16 Kshs	30-June-15 Kshs
	Tax Income		
1110000	Taxes on Income, Profits and Capital Gains	564,563,468,536.03	511,405,623,499.57
1130000	Taxes on Property	-	13,241,979,167.10
1140000	Taxes on Goods and Services	519,336,821,738.36	449,604,648,567.80
1150000	Taxes in International Trade and Transactions	25,181,943,630.50	26,993,179,971.30
	Total Tax Income	**1,109,082,233,904.89**	**1,001,245,431,205.77**
	Non Tax Income		
1160000	Other Revenue	42,873,176,006.85	37,154,624,799.05
1430000	Fines, Penalties and Forfeitures	2,278,336,399.60	2,490,948,629.20
1450000	Other receipts Not Classified Elsewhere	949,691,087.75	1,158,803,130.00
	Total Non-Tax Income	**46,101,203,494.20**	**40,804,376,558.25**

5.3 Grants received through National Exchequer Account

The budget support received from development partners is channelled through the National Exchequer Account and is summarized below:

Description	30 June 2016 Kshs	30 June 2015 Kshs
Grants from Foreign Governments	9,926,286,132.95	6,630,707,034.55
Grants from International Organizations	4,756,650,865.80	3,842,803,467.95
Grand total	**14,682,936,998.75**	**10,473,510,502.50**

5.4 Proceeds from domestic borrowings

The proceeds from sale of Treasury Bills and Treasury Bonds during the year were as summarised below:

Description	30 June 2016 Kshs	30 June 2015 Kshs
Treasury Bonds	281,411,581,648.95	255,680,000,000.00
Treasury Bills (net)	224,833,161,041.00	37,000,000,000.00
Net proceeds	**506,244,742,689.95**	**292,680,000,000.00**

5.5 Proceeds from external borrowings

The following loans amount was received through the National Exchequer Account as summarised below:

Description	30 June 2016 Kshs	30 June 2015 Kshs
Borrowings from foreign governments	33,728,855,127.50	30,310,028,918.55
Commercial Financing	134,932,200,816.70	215,469,626,035.75
Borrowings from international organizations	8,574,099,698.55	3,454,127,541.25
Total	**177,235,155,513.55**	**249,233,782,495.55**

5.6 Exchequer transfers to voted entities

The summary details of exchequer transfers per institution are shown below:

Description	30 June 2016 Kshs	30 June 2015 Kshs
National Government Recurrent	720,283,801,226.60	640,352,208,883.00
National Government Development	333,170,357,469.90	270,240,838,230.00
National Government CFS	476,248,207,207.00	454,466,411,172.00
County Governments	264,038,639,996.00	229,336,237,197.00
Net Exchequer transfers	**1,793,741,005,899.50**	**1,594,395,695,482.00**

See Annex 2 for a detailed analysis of the above exchequer transfers by MDA and County Government.

5.7 Closing Balances

The closing balance relates to the Exchequer cash book balance as at 30th June 2016.

Description	As at 30 June 2016 Kshs	As at 30 June 2015 Kshs
Exchequer cashbook balance	59,808,758,120.81	203,491,418.97
Grand total	**59,808,758,120.81**	**203,491,418.97**

Annex 2: Detailed statement of Exchequer

2.1 National Government Recurrent Budget FY 2015/2016

Vote	Vote Name	Original Estimates Recurrent	Revised Estimates Recurrent	Actual Transfer Recurrent 30 June 2016	% Realized 2015/16
		Kshs	Kshs	Kshs	
1011	The Presidency	5,941,525,810.00	7,846,370,049.00	7,749,100,000.00	98.8%
1021	State Department for Interior	87,662,133,802.00	93,853,058,857.00	92,848,600,000.00	98.9%
1022	State Department for Coordination of National Government	16,967,134,466.00	17,583,464,206.00	17,583,389,116.60	100.0%
1031	State Department for Planning	19,600,767,000.00	19,250,593,736.00	18,152,300,000.00	94.3%
1032	State Department for Devolution	2,298,785,390.00	2,769,492,301.00	2,648,300,000.00	95.6%
1041	Ministry of Defence	92,329,042,100.00	92,270,215,450.00	92,181,700,000.00	99.9%
1051	Ministry of Foreign Affairs	12,067,065,466.00	14,423,795,003.00	14,075,000,000.00	97.6%
1061	State Department for Education	56,923,926,360.00	56,612,804,875.00	56,127,980,000.00	99.1%
1062	State Department for Science & Technology	42,669,829,183.00	43,694,441,557.00	42,898,900,000.00	98.2%
1071	The National Treasury	43,216,461,912.00	40,667,213,863.00	38,942,735,000.00	95.8%
1081	Ministry of Health	24,541,636,512.00	25,216,635,750.00	25,147,800,000.00	99.7%
1091	State Department of Infrastructure	1,738,426,310.00	1,582,638,570.00	1,358,220,000.00	85.8%
1092	State Department of Transport	1,421,462,190.00	1,406,140,590.00	1,388,780,000.00	98.8%
1101	State Department for Environment & Natural Resources	6,565,747,374.00	6,225,943,027.00	6,223,000,000.00	100.0%
1102	State Department for Water & Regional Authorities	2,122,203,542.00	2,067,727,033.00	2,053,100,000.00	99.3%
1111	Ministry of Lands Housing and Urban Development	3,926,131,392.00	3,767,431,392.00	3,765,000,000.00	99.9%
1121	Ministry of Information, communication and Technology	2,949,532,300.00	2,819,400,303.00	2,661,100,000.00	94.4%
1131	Ministry of Sports Culture and Arts	2,936,339,278.00	4,438,454,107.00	4,384,800,000.00	98.8%
1141	Ministry of labour , Social Security and services	9,158,881,990.00	9,018,432,345.00	8,624,440,000.00	95.6%
1151	Ministry of Energy and Petroleum	1,793,068,130.00	1,834,126,466.00	1,834,000,000.00	100.0%
1161	State Department for Agriculture	7,885,636,906.00	6,266,008,403.00	6,089,500,000.00	97.2%
1162	State Department for Livestock	1,923,855,128.00	2,040,655,128.00	1,997,600,000.00	97.9%
1163	State Department for Fisheries	1,368,536,694.00	1,330,837,823.00	1,330,700,000.00	100.0%
1171	Ministry of Industrialization and Enterprise Development	2,544,513,330.00	2,946,549,455.00	2,933,250,000.00	99.5%
1181	State Department for Commerce & Tourism	2,838,537,766.00	2,736,292,411.00	2,655,000,000.00	97.0%
1182	State Department for East African Affairs	1,664,097,404.00	1,619,799,592.00	1,614,400,000.00	99.7%
1191	Ministry of Mining	714,072,090.00	723,070,000.00	628,600,000.00	86.9%

The National Treasury
Statement of Receipts into and Issues from the National Exchequer Account
For the Financial Year ended 30th June 2016

Vote	Vote Name	Original Estimates Recurrent	Revised Estimates Recurrent	Actual Transfer Recurrent 30 June 2016	% Realized 2015/16
		Kshs	Kshs	Kshs	
1251	Office of The Attorney General and Department of Justice	3,711,026,884.00	3,461,165,714.00	3,223,300,000.00	93.1%
1261	The Judiciary	12,623,930,000.00	11,684,030,000.00	10,996,630,000.00	94.1%
1271	Ethics & Anti-Corruption Commission	2,311,920,000.00	2,957,220,000.00	2,561,800,000.00	86.6%
1281	National Intelligence Service	20,142,000,000.00	21,492,000,000.00	21,484,100,000.00	100.0%
1291	Directorate of Public Prosecution	1,964,004,002.00	2,384,404,002.00	1,991,600,000.00	83.5%
1301	Commission For The Implementation of the constitution	312,040,000.00	312,040,000.00	312,000,000.00	100.0%
1311	Registrar of Political Parties	505,781,810.00	533,482,521.00	519,300,000.00	97.3%
1321	Witness Protection Agency	364,705,000.00	369,705,000.00	369,700,000.00	100.0%
2011	Kenya national Human Rights & Equality Comm.	459,100,000.00	459,100,000.00	441,700,000.00	96.2%
2021	National Land Commission	1,101,365,410.00	1,240,125,410.00	1,182,100,000.00	95.3%
2031	Independent Electoral & Boundaries Comm.	4,187,919,790.00	4,878,706,360.00	4,289,200,000.00	87.9%
2041	Parliamentary Service Commission	8,900,416,731.00	9,328,416,731.00	9,098,000,000.00	97.5%
2042	National Assembly	15,156,583,269.00	15,460,583,269.00	12,876,900,000.00	83.3%
2051	Judicial Service Commission	473,200,002.00	473,200,002.00	405,000,000.00	85.6%
2061	The commission on Revenue Allocation	344,342,400.00	324,537,110.00	324,537,110.00	100.0%
2071	Public Service Commission	1,118,400,000.00	1,080,888,443.00	1,075,800,000.00	99.5%
2081	Salaries & Remuneration Commission	722,732,086.00	970,213,417.00	970,000,000.00	100.0%
2091	Teachers Service Commission	180,991,612,264.00	186,298,500,000.00	184,675,540,000.00	99.1%
2101	National Police Service Commission	437,500,000.00	475,548,410.00	459,500,000.00	96.6%
2111	Auditor General	3,626,090,000.00	3,594,625,225.00	3,519,900,000.00	97.9%
2121	Controller Of Budget	580,830,272.00	529,094,176.00	496,000,000.00	93.7%
2131	The commission on Administrative Justice	480,710,920.00	480,710,920.00	443,900,000.00	92.3%
2141	National Gender & Equality Commission	314,151,440.00	309,851,440.00	309,000,000.00	99.7%
2151	Independent Police Oversight Authority	419,483,700.00	395,893,898.00	361,000,000.00	91.2%
	Sub-total National Government Recurrent	**717,019,195,805.00**	**734,505,634,340.00**	**720,283,801,226.60**	**98.1%**

2.2 National Government Development Budget

Vote	Vote Name	Original Estimates Development	Revised Estimates Development	Actual Development Transfers 30 June 2016	Realize 2015/
		Kshs	Kshs	Kshs	
1011	The Presidency	1,846,129,798.00	1,040,129,798.00	542,800,000.00	52.2
1021	State Department for Interior	14,200,122,356.00	15,396,122,356.00	14,377,000,000.00	93.4
1022	State Department for Coordination of National Government	1,011,000,000.00	611,000,000.00	607,310,883.40	99.4
1031	State Department for Planning	60,218,095,064.00	52,565,085,436.00	51,763,861,565.00	98.5
1032	State Department for Devolution	5,322,417,760.00	5,629,067,259.00	4,763,131,312.00	84.6
1041	Ministry of Defence	-	22,949,620.00	-	0.0
1051	Ministry of Foreign Affairs	1,349,150,000.00	1,151,150,000.00	1,036,200,000.00	90.0
1061	State Department for Education	21,356,204,460.00	7,351,206,957.00	4,003,157,910.00	54.5
1062	State Department for Science & Technology	11,086,318,227.00	8,908,559,192.00	8,118,200,000.00	91.1
1071	The National Treasury	33,568,291,200.00	45,836,475,797.00	43,453,428,915.00	94.8
1081	Ministry of Health	19,648,428,814.00	21,525,516,777.00	17,019,501,618.40	79.1
1091	State Department of Infrastructure	62,266,034,686.00	57,814,629,334.00	55,200,139,357.00	95.5
1092	State Department of Transport	5,337,970,456.00	6,854,774,456.00	6,284,999,523.00	91.7
1101	State Department for Environment & Natural Resources	5,191,308,490.00	4,691,919,691.00	3,311,430,770.00	70.6
1102	State Department for Water & Regional Authorities	18,858,613,500.00	16,768,810,858.00	14,554,335,406.00	86.8
1111	Ministry of Lands Housing and Urban Development	23,608,119,030.00	22,170,049,190.00	18,946,309,870.00	85.5
1121	Ministry of Information, communication and Technology	5,143,097,566.00	11,594,097,566.00	11,548,716,426.00	99.6
1131	Ministry of Sports Culture and Arts	3,550,400,000.00	2,169,500,000.00	2,166,400,000.00	99.9
1141	Ministry of labour , Social Security and Services	15,578,313,290.00	15,276,313,290.00	11,152,027,940.00	73.0
1151	Ministry of Energy and Petroleum	28,970,161,900.00	35,604,570,454.00	33,318,766,855.10	93.6
1161	State Department for Agriculture	20,412,053,968.00	15,004,559,671.00	13,278,796,491.00	88.5
1162	State Department for Livestock	3,801,694,598.00	3,242,266,598.00	2,849,073,423.00	87.9
1163	State Department for Fisheries	2,139,232,762.00	2,332,625,853.00	1,808,199,900.00	77.5
1171	Ministry of Industrialization and Enterprise Development	5,938,862,658.00	5,128,862,658.00	4,808,109,940.00	93.7
1181	State Department for Commerce & Tourism	7,789,898,400.00	4,380,898,400.00	3,860,900,000.00	88.1
1182	State Department of East African Affairs	50,000,000.00	-	-	0.0
1191	Ministry of Mining	1,474,000,000.00	568,000,000.00	324,000,000.00	57.0
1251	Office of The Attorney General and Department of Justice	241,000,000.00	144,000,000.00	102,600,000.00	71.3
1261	The Judiciary	4,063,770,000.00	3,114,978,000.00	1,778,699,365.00	57.1

Vote	Vote Name	Original Estimates Development	Revised Estimates Development	Actual Development Transfers 30 June 2016	Realize 2015/
		Kshs	Kshs	Kshs	
1271	Ethics & Anti-Corruption Commission	300,000,000.00	-	-	0.0
1291	Directorate of Public Prosecution	254,000,000.00	73,000,000.00	22,160,000.00	30.4
2021	National Land Commission	439,200,000.00	289,200,000.00	288,500,000.00	99.8
2031	Independent Electoral & Boundaries Comm.	98,000,000.00	27,000,000.00	26,500,000.00	98.1
2041	Parliamentary Service Commission	3,200,000,000.00	2,100,000,000.00	1,698,100,000.00	80.9
2071	Public Service Commission	166,831,450.00	51,831,450.00	49,000,000.00	94.5
2091	Teachers Service Commission	200,000,000.00	67,000,000.00	-	0.0
2111	Auditor General	402,183,176.00	135,183,176.00	108,000,000.00	79.9
2141	National Gender & Equality Commission	-	18,217,687.00	-	0.0
	Sub-total National Government Development	**389,080,903,609.00**	**369,659,551,524.00**	**333,170,357,469.90**	90.1

2.3 National Government Consolidated Fund Services Budget

Vote	Vote Name	Original Estimates	Revised Estimates	Total Actual Transfers 30/06/2016	% Realized F 2015/16
		Kshs	Kshs	Kshs	
R50	Public Debt	437,459,368,571.00	437,459,368,571.00	421,849,938,287.00	96.4
R51	Pension &Gratuities	51,691,127,200.00	51,691,127,200.00	50,860,000,000.00	98.4
R52	Salaries , Allowances and Miscellaneous Services	5,523,657,719.00	5,523,657,719.00	3,536,425,460.00	64.0
R53	Subscription to international organ.	2,243,458.00	2,243,458.00	1,843,460.00	82.2
	Total CFS	**494,676,396,948.00**	**494,676,396,948.00**	**476,248,207,207.00**	96.3

2.4 Transfers to County Governments

Vote	County Governments	Original Estimates	Revised Estimates	Total Actual Transfers 30/06/2016	% Realized FY 2015/16
		Kshs	Kshs	Kshs	
4460	Baringo County	4,466,546,026.00	4,466,546,026.00	4,453,561,026.00	99.7%
4760	Bomet County	4,721,843,298.00	4,721,843,298.00	4,724,513,298.00	100.1%
4910	Bungoma County	7,123,863,962.00	7,123,863,962.00	7,116,488,962.00	99.9%
4960	Busia County	6,019,850,944.00	6,019,850,944.00	6,019,850,944.00	100.0%
4360	Elgeyo/Marakwet County	3,291,240,729.00	3,291,240,729.00	3,291,240,729.00	100.0%
3660	Embu County	4,044,572,697.00	4,044,572,697.00	4,037,697,697.00	99.8%
3310	Garissa County	6,149,677,408.00	6,149,677,408.00	6,140,707,408.00	99.9%
5110	Homa Bay County	5,659,730,034.00	5,659,730,034.00	5,659,730,034.00	100.0%
3510	Isiolo County	3,064,535,534.00	3,064,535,534.00	3,064,535,534.00	100.0%
4660	Kajiado County	4,430,515,800.00	4,430,515,800.00	4,430,515,800.00	100.0%
4810	Kakamega County	9,274,632,376.00	9,274,632,376.00	9,262,882,376.00	99.9%
4710	Kericho County	4,527,664,038.00	4,527,664,038.00	4,524,994,038.00	99.9%
4060	Kiambu County	7,812,785,789.00	7,812,785,789.00	7,812,785,789.00	100.0%
3110	Kilifi County	7,456,746,645.00	7,456,746,645.00	7,456,746,645.00	100.0%
3960	Kirinyanga County	3,550,987,626.00	3,550,987,626.00	3,550,987,626.00	100.0%
5210	Kisii County	7,455,194,085.00	7,455,194,085.00	7,455,194,085.00	100.0%
5060	Kisumu County	6,036,462,140.00	6,036,462,140.00	6,036,462,140.00	100.0%
3710	Kitui County	7,304,263,063.00	7,304,263,063.00	7,304,263,063.00	100.0%
3060	Kwale County	5,139,317,562.00	5,139,317,562.00	5,139,317,562.00	100.0%
4510	Laikipia County	3,461,078,893.00	3,461,078,893.00	3,461,078,893.00	100.0%
3210	Lamu County	2,059,523,746.00	2,059,523,746.00	2,059,523,746.00	100.0%
3760	Machakos County	7,099,679,753.00	7,099,679,753.00	7,072,979,753.00	99.6%
3810	Makueni County	5,993,801,381.00	5,993,801,381.00	5,981,736,381.00	99.8%
3410	Mandera County	8,970,323,809.00	8,970,323,809.00	8,970,323,809.00	100.0%
3460	Marsabit County	5,204,811,933.00	5,204,811,933.00	5,197,136,933.00	99.9%
3560	Meru County	6,758,511,070.00	6,758,511,070.00	6,737,921,070.00	99.7%
5160	Migori County	5,857,292,127.00	5,857,292,127.00	5,847,072,127.00	99.8%
3010	Mombasa County	5,607,104,835.00	5,607,104,835.00	5,600,804,835.00	99.9%
4010	Muranga County	5,380,807,309.00	5,380,807,309.00	5,380,807,309.00	100.0%
5310	Nairobi County	13,024,408,958.00	13,024,408,958.00	12,996,608,958.00	99.8%
4560	Nakuru County	8,518,784,086.00	8,518,784,086.00	8,518,784,086.00	100.0%
4410	Nandi County	4,773,415,868.00	4,773,415,868.00	4,773,415,868.00	100.0%
4610	Narok County	5,305,791,138.00	5,305,791,138.00	5,305,791,138.00	100.0%
5260	Nyamira County	4,178,458,019.00	4,178,458,019.00	4,178,458,019.00	100.0%
3860	Nyandarua County	4,325,930,831.00	4,325,930,831.00	4,325,930,831.00	100.0%
3910	Nyeri County	4,840,770,218.00	4,840,770,218.00	4,840,770,218.00	100.0%
4210	Samburu County	3,563,271,938.00	3,563,271,938.00	3,563,271,938.00	100.0%
5010	Siaya County	5,022,828,722.00	5,022,828,722.00	5,022,828,722.00	100.0%
3260	Taita County	3,324,378,191.00	3,324,378,191.00	3,324,378,191.00	100.0%
3160	Tana River County	3,993,859,971.00	3,993,859,971.00	3,993,859,971.00	100.0%
3610	Tharaka Nithi County	3,149,896,667.00	3,149,896,667.00	3,149,896,667.00	100.0%