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KENYA NATIONAL AUDIT OFFICE

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**REPORT**

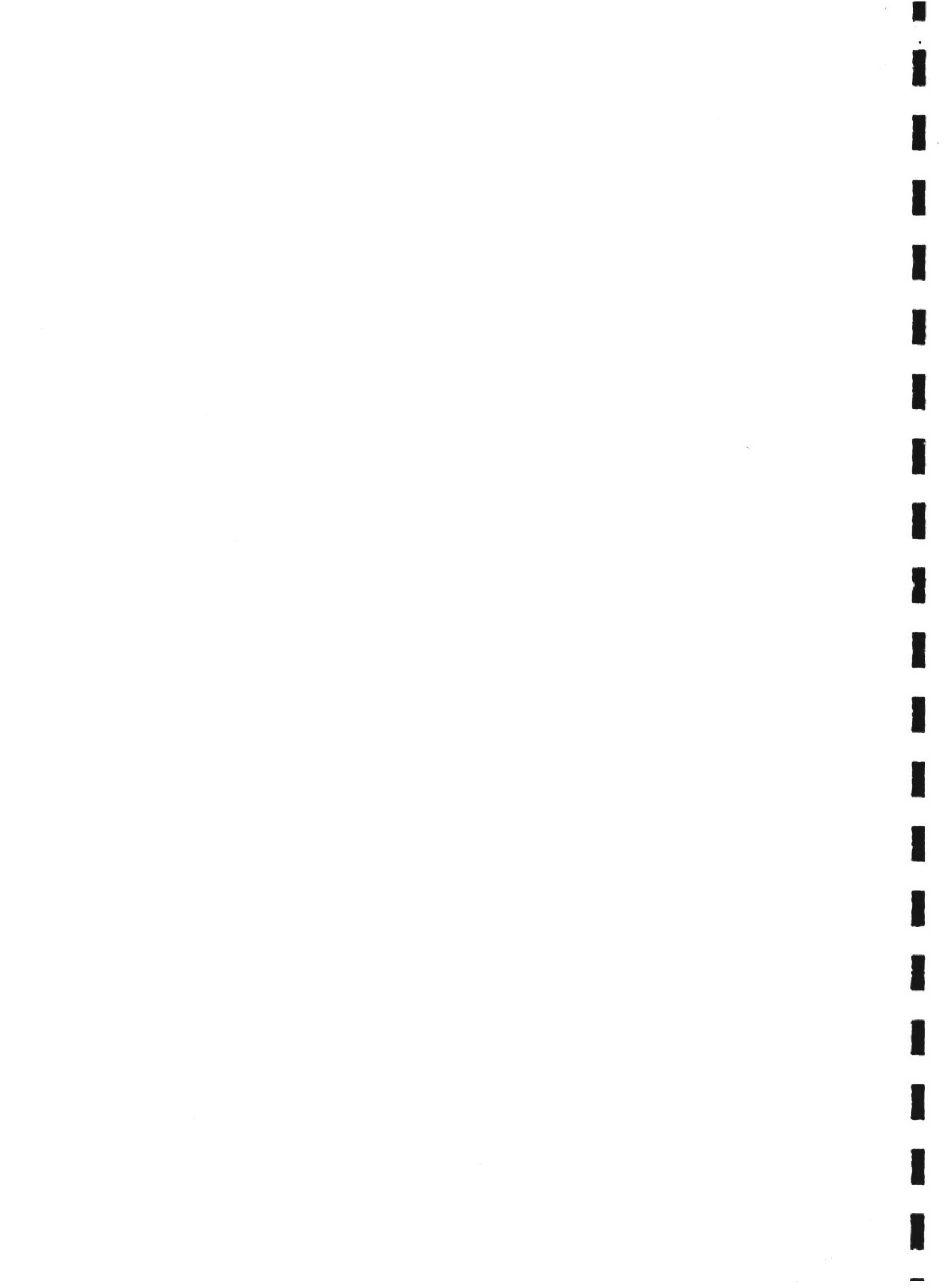
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF THE  
MINISTRY OF FOREIGN AFFAIRS AND  
INTERNATIONAL TRADE**

**FOR THE YEAR ENDED  
30 JUNE 2014**



MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014

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NATIONAL GOVERNMENT ENTITY  
MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014

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

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014

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**MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**I. GENERAL INFORMATION AND MANAGEMENT**

**(a) Background information**

The Ministry of Foreign Affairs and International Trade was formed on 2<sup>nd</sup> May, 2013 by merging the Ministry of Foreign Affairs and the Department of International Trade. At cabinet level, the Ministry of Foreign Affairs and International Trade is represented by the Cabinet Secretary for Ministry of Foreign Affairs and International Trade, who is responsible for the general policy and strategic direction of the Ministry of Foreign Affairs and International Trade.

**(b) Key Management**

The Ministry of Foreign Affairs and International Trade day-to-day management is under the following:

- Principal Secretary;
- Political and Diplomatic Secretary;
- Secretary Foreign Service Administration;
- Directors and;
- Head of Departments.

**(c) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June, 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Cabinet Secretary	Amb. Amina Mohamed, CBS,CAV
2.	Principal Secretary	Dr.(Eng) Karanja Kibicho
3.	Political & Diplomatic Secretary	Amb. Robert Ngesu
4.	Secretary, Foreign Service Administration	Amb. David Mutemi,MBS
5.	Chief of Protocol	Amb.S. K.Maina
6.	Director, Foreign Service Institute	Amb.Simon Nabukwesi
7.	Director, Africa & AU	Amb.Purity Muindi
8.	Director, Asia & Australia	Amb.John Lanyasanya
9.	Director, Europe & Commonwealth	Amb. Lazarus Amayo
10.	Director, Middle East	Amb. Ali Abbas
11.	Director, Multilateral Affairs	Amb.Andrew Kihurani
12.	Director, Americas	Amb.Nyambura Kamau
13.	Director, Economics & International Trade	Amb. Nelson Ndirangu
14.	Director, Office of the Great Lakes region	Amb. Ken Vitisia
15.	Director, East African	Mr. A.K.Chebukaka
16.	Director, Horn of Africa	Amb.Mohamed Guyo
17.	Ag. Director, Diaspora & Consular Affairs	Amb.Zakary Muburi
18.	Head, Legal Affairs & Host Country	Ms, Stella Orina
19.	Head, Finance	Ms.Alice.W.Gichu

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No.	Designation	Name
20.	Head, Assets Management	Dr. Margaret Gachuru
21.	Public Affairs & Communication	Mr. Edwin Limo
22.	Head, Central Planning & Project Monitoring	Mr. Joseph Masila
23.	Head, Human Resources Management	Mr. Lawrence Waweru
24.	Head, Accounts	Mrs. Edith Nkanata Kithinji
25.	Head, Supply Chain Management	Mr. Peter Mwangi
26.	Head, Information & Communications	Mr. Stephen N. Karanja
27.	Head, Welfare	Mrs Muthoni Mwithiga
28.	Head, Telephone Supervisor	Mr. Douglas Kiura

**(d) Fiduciary Oversight Arrangements**

The key fiduciary oversight arrangements at the Ministry of Foreign Affairs and International Trade cover the following:

- Defence and Foreign relations committee
- Audit and finance committee activities
- Parliamentary committee activities
- Development partner oversight activities
- Other oversight activities

**(e) Ministry of Foreign Affairs and International Trade Headquarters**

P.O. Box 30551  
Old Treasury Building  
Harambee Avenue  
Nairobi, KENYA

**(f) Ministry of Foreign Affairs and International Trade Contacts**

Telephone: +254 20 3318888  
E-mail: communication@mfa.go.ke  
Website: www.mfa.go.ke

**(g) Ministry of Foreign Affairs and International Trade Bankers**

Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya

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**(h) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084 GPO 00100  
Nairobi, Kenya

**(i) Principal Legal Adviser**

The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112 City Square 00200  
Nairobi, Kenya

**II. THE CABINET SECRETARY REPORT**

According to the Constitution of Kenya 2010, the Ministry of Foreign Affairs and International Trade is charged with the responsibility of managing foreign affairs, foreign policy and international trade. The foreign policy serves as a tool to pursue, promote, protect and project national interests and values. The underpinning principle of the policy is a strong advocacy for a rule-based international system, environmental sustainability, equitable development and a secure world. Further, Kenya diplomacy which has been strengthened following re-organisation of the government puts more emphasis on trade and economic diplomacy as opposed to purely political diplomacy. The Ministry's main focus is on international trade and tourism promotion; attraction of foreign direct investment; as well as deepening technological transfer, financial flows and official development assistance.

Currently Kenya has 52 embassies with some of them having multiple accreditations. The missions are spread throughout the world as follows: Africa (18), Europe (11), Middle East (9) Asia and Australasia (9) and Americas (5). The country hosts 73 resident and 11 non-resident embassies and the European Union Delegation. This is indeed a clear testimony of Kenya's strategic location and being economic powerhouse in the region and a diplomatic hub owing to presence of United Nation Environment Programme Office and the UN-Habitat in Nairobi. Pursuit of Kenya's national interests demands establishment of cooperative global framework as a critical component of its foreign policy. The concept of good neighbourliness is a central pillar in Kenya's foreign policy framework and is instrumental in Kenya's involvement in regional and continental initiatives, including capacity-building of pan-African institutions to promote peace, security, regional economic cooperation (RECs) frameworks and development.

Over the last one year, the Ministry of Foreign Affairs and International Trade has recorded the following key achievements:-

**MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE**  
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**1. Promotion of trade and investments**

In spearheading the country's economic diplomacy, the Ministry has organised Presidential/State Visits and high-level business forums/delegations in which crucial trade and investment agreements and MOUs have been signed. These visits include State/official visits to Japan, China, Sri-Lanka, Ethiopia, Nigeria, Turkey, Qatar, Kuwait, Angola, Ghana, South Africa, Uganda, Rwanda and Tanzania, among others.

**2. Deepening integration of the East African Community**

The Ministry of Foreign Affairs and International Trade recognizes that the full integration of the East Africa region will provide the people of East Africa with a huge market for trade and investments. This will help increase incomes and improve the livelihoods of East Africans. Over the last one year, the Ministry has continued to play a frontline role in the negotiation of protocols and agreements geared towards deepening the integration of the East African region.

Following these negotiations, a number of milestones have been realized over the last one year. These include;

- i) Work Permits: Rwanda and Kenya have eliminated work permits fees.
- ii) Passport: The East African Passport has been operationalized.
- i) Immigration Counters: Special immigration counters for East Africans at the various ports of entry have been established.
- ii) Use of National Identity Cards as Travel Documents: Citizens of Kenya, Uganda and Rwanda require only national IDs to travel within the three countries.
- iii) One Stop Border Posts: Construction of One Stop Border Posts (OSBP) to ease cross border trade is underway in Kenya, Tanzania and Uganda.
- iv) Single Customs Territory: The Single Customs Territory took effect on 1 January 2014 and operational requirements are to be finalized by June 2014. This will facilitate the free movement of goods as well as to reduce the cost of doing business in the region.
- v) Single Tourist Visa: The Single Tourist Visa was launched by the East Africa Heads of State of Kenya, Uganda and Rwanda in February, 2014. The Visa will allow tourists visiting the three countries to use a single visa. Tourists will now be required to pay \$100 for a 90-day multiple-entry visa that will allow them to enter all three countries, instead of paying \$150 to enter each country in turn.
- vi) East Africa Standard Gauge Railway: The East African Standard Gauge Railway was launched within the year. The \$ 13.8 billion Kenya vision 2030 flagship project links the port of Mombasa to the capital Nairobi and will eventually extend onwards to neighbouring Uganda, Rwanda and South Sudan. The railway line is expected to boost trade and economic integration in the East African Community particularly Kenya, as a regional economic powerhouse.
- vii) Defence, Peace and Security Pact: Kenya, Uganda and Tanzania signed a Mutual Defence, Peace and Security Pact to strengthen regional security and partnership in the fight against terrorism, cross border crime and other regional security threats. The Pact will also put in place mechanisms to safeguard regional infrastructure that the three countries plan to put in place.

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**3. Co-operation with African countries**

In the past year, the Ministry facilitated negotiations and signing of JCCs between Kenya and Uganda, Angola, Seychelles, Ghana and Nigeria. The Ministry also facilitated ratification of Special Status Agreement (SSA) between Kenya and Ethiopia.

The Ministry has successfully lobbied to have her nationals take up positions of influence within the AU institutions. Today, a Kenyan occupies the second highest position of Deputy Chairperson of the African Union Commission in Addis Ababa.

In addition, a Kenyan was recently appointed as Deputy Representative of the Chairperson of the AU Commission to the Africa-led International Support Mission in the Central African Republic (MISCA) in Bangui.

On the occasion of the 23<sup>rd</sup> Session of the Executive Council of the AU, Kenya signed the Host Agreement with the African Union Commission (AUC) to host one of the three campuses of the Pan African University at JKUAT. This has placed the country's education sector in a strategic position to benefit from an initiative aimed at improving the quality of science and technology education for increased productivity of African economies.

The 19<sup>th</sup> AU assembly of Heads of State and Government endorsed the establishment of the African Institute for Remittances (AIR). The establishment of the AIR is supported by the 'African Remittances Institute Project' implemented by the World Bank in cooperation with the European Commission (as the main contributor), the AfDB and the International Organization for Migration (IOM).

Kenya and Mauritius were the front-runners among states that had offered to host the African Institute of Remittances (AIR). After concerted lobbying by the Ministry during the 22nd Ordinary Session that was held in Addis Ababa in January 2014, Kenya won the bid to hosts the AIR and to operationalize it by April, 2014.

Some of the constraints experienced by the Ministry include high and escalating rent payments and this has necessitated the Ministry to adopt a policy of acquisition of government property abroad either through construction or purchase of buildings to house Chanceries and Official Residences. In 2013/2014, budgetary allocations to the Missions and subscriptions to international, regional organizations and the Commonwealth was 83% of the Ministry's allocation. Nevertheless, the Ministry's funding is still inadequate, procurement challenges and foreign exchange oscillations are encountered.

The ministry identified emerging issues and challenges that may inhibited the achievement of the set targets. These challenges included: cumbersome procurement process aggravated by differences in procurement procedures between Kenya and other countries, constraints in information sharing between headquarters and missions, foreign exchange fluctuations, assistance to Kenyans in distress abroad and human capacity constraints in missions. These challenges constrained the ministry in fully implementing its priority programmes.

Moving forward, some of the priorities envisaged in the second medium term include: training of staff in trade analysis and negotiation techniques, deepening economic and commercial diplomacy,

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regional integration, bilateral and multilateral partnerships to increase market share in traditional export destinations, penetration of new markets in emerging economies. Further during the second MTP 2013-2017 period the ministry will promote Nairobi as a diplomatic centre, international economic hub and venue for multi-lateral diplomacy. Kenya will also expand its diplomatic presence in African region and other new emerging economies. The Ministry will deepen Kenya's economic ties with her northern neighbours of South Sudan, Sudan, Ethiopia and Somalia to tap into the huge market and resources.

  
AMB. AMINA C. MOHAMED, CBS, CAV  
CABINET SECRETARY

**MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE**  
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**III. STATEMENT OF MANAGEMENT RESPONSIBILITIES**

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the Ministry of Foreign Affairs and International Trade is responsible for the preparation and presentation of the Ministry of Foreign Affairs and International Trade's financial statements, which give a true and fair view of the state of affairs of the Ministry of Foreign Affairs and International Trade for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Ministry of Foreign Affairs and International Trade; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Ministry of Foreign Affairs and International Trade; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the Ministry of Foreign Affairs and International Trade accepts responsibility for the Ministry of Foreign Affairs and International Trade's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the Ministry of Foreign Affairs and International Trade's financial statements give a true and fair view of the state of Ministry of Foreign Affairs and International Trade's transactions during the financial year ended June 30, 2014, and of the Ministry of Foreign Affairs and International Trade's financial position as at that date. The Accounting Officer charge of the Ministry of Foreign Affairs and International Trade further confirms the completeness of the accounting records maintained for the, Ministry of Foreign Affairs and International Trade which have been relied upon in the preparation of the Ministry of Foreign Affairs and International Trade's financial statements as well as the adequacy of the systems of internal financial control.

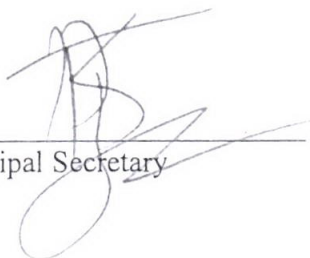
The Accounting Officer in charge of the Ministry of Foreign Affairs and International Trade confirms that the Ministry of Foreign Affairs and International Trade has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the Ministry of Foreign Affairs and International Trade's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the Ministry of Foreign Affairs and International Trade's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

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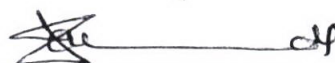
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Approval of the financial statements

The Ministry of Foreign Affairs and International Trade's financial statements were approved and signed by the Accounting Officer on 30<sup>TH</sup> SEPT 2014.



Principal Secretary



Principal Accounts Controller

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
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IV. AUDITOR-GENERAL REPORT

# REPUBLIC OF KENYA

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Fax: +254-20-311482  
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P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Ministry of Foreign Affairs and International Trade Vote 105 set out on pages 10 to 23, which comprise the statement of financial assets and liabilities as at 30 June 2014, statement of receipts and payments, a statement of cash flows and a summary statement of recurrent and development appropriation account for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of 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 7 of the Public Audit Act, 2003.

#### **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 9 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. 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 misstatements.

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 on material misstatements 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 financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of accounting estimates made, 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**

### **1. Unsupported Expenditure**

The domestic and foreign travel and subsistence expenditure of Kshs.91,959,000 and Kshs.1,836,444,000 in note 7 to the accounts includes unsupported expenditure of Kshs.23,787,037 comprising of Mission and Embassies as follows; Tokyo Kshs.7,398,375, New Delhi Kshs.4,731,715, Islamabad Kshs.1,285,813, Beijing Kshs.5,448,079, Windhoek Kshs.3,407,475 and Abuja Kshs.1,515,580 whose supporting imprest warrants and register were not availed for audit verification. Further, the domestic and foreign travel and subsistence expenditure of Kshs.23,787,037 was expensed contrary to regulations which require that officers going outside their duty station for official duty be issued with temporary imprest which they are required to account for upon return.

### **2. Unauthorized Expenditure**

**2.1** The expenditure on goods and services of Kshs.5,055,529,000 in the statement of receipts and payments includes payment for rentals of produced assets amounting to Kshs.1,935,302,000. Included in the rentals of produced assets was unauthorised rents and rates expenses of Kshs.180,735,105 comprising of Missions and Embassies as follows; Tokyo Kshs.24,668,135, Beijing Kshs.16,579,000, Islamabad Kshs.32,950,602, New Delhi Kshs.45,084,323, Abuja Kshs.36,320,955 and Washington Kshs.25,132,090. This is contrary to section F.5 of Foreign Service Regulation which require all leases exceeding three months to be authorized by the Principal Secretary. In addition, the inspection reports and certificates on the condition of the household items were not availed for audit verification.

**2.2** The statement of receipts and payments reflects unapproved reallocation of funds totalling to Kshs.5,110,465 to various expenditure accounts. The amount was charged to purchase of specialised plant, equipment and machinery instead of hospitality (Kshs.584,408) foreign travel (Kshs.1,492,725) and carrier services (Kshs.3,033,332). However, no parliamentary approval was availed to support the reallocation of expenditure in line with Section 10.19 (a) of the Government Financial Regulations and Procedures.

Consequently, the propriety of the expenditure of Kshs.185,845,570 for the year ended 30 June 2014 could not be confirmed.

### **3. Property, Plant and Equipment**

#### **3.1 Assets Register**

The assets register for thirteen (13) missions/embassies which includes Tokyo, Beijing, Islamabad, Abuja, London, Hague, Washington, New York, and Ottawa were not availed for audit verification. Consequently, the assets portfolio of the thirteen (13) missions/embassies as at 30 June 2014 could not be confirmed.

## **3.2 Capital Projects**

### **3.2.1 Purchase of Tokyo Embassy Chancery and Ambassador's Residence**

i) The Ministry purchased Tokyo Embassy Chancery and Ambassador's residence in 2009/2010 at the cost of Kshs.1,430,733,890 while the Commissioner of Lands valued the property at Kshs.1,245,231,000 leading to unexplained variance of Kshs.185,502,890. Further, the Embassy contracted an independent valuer who valued the property at Kshs.1,196,883,849 against the purchase price of Kshs.1,430,733,890 leading to unexplained variance of Kshs.233,850,041. In addition, out of the Kshs.1,430,733,890, the Embassy withdrew cash totalling Kshs.1,342,018,446 from the bank to pay for the property. However, the supporting payment voucher, cheque counter foils, electronic fund transfer details and bank statement of Kshs.1,430,733,890 paid for Chancery and Ambassador's residence were not availed for audit verification. No explanation has been provided for paying Kshs.1,342,018,446 in cash.

ii) On 13 February 2010 the Ambassador's newly acquired residence was completely burnt down. Both the Chancery and Ambassador's residence were not insured. No explanation was provided as to why the two buildings were not insured.

Consequently, the propriety of the expenditure of Kshs.1,430,733,890 incurred on the purchase of Chancery and Ambassador's residence in 2009/2010 could not be confirmed.

### **3.2.2 Renovation of Beijing Embassy Chancery Basement and Construction of Visa Office**

The Ministry renovated Beijing Embassy Chancery basement in 2010/2011 at a cost of Kshs.1,375,137 and also incurred Kshs.274,050 in the construction of the visa receiving and issuing office that never took place. Documents in support of these expenditures were never availed for audit review. In addition the embassy has no title deed for the Chancery and Ambassador's residence building. Consequently, the ownership of the building and the propriety of Kshs.1,649,187 incurred on Chancery basement renovation could not be confirmed.

### **3.2.3 Construction of Islamabad Mission Chancery, Ambassador's Residence and Auxiliary Works**

The Ministry commenced the construction of the Islamabad Mission Chancery, Ambassador's residence and auxiliary work at a cost of Kshs.446,570,100 in May 2008. The project was to be completed within eighteen months. To date, the project is still far from completion yet the mission had incurred a total expenditure of Kshs.559,695,378 including four variations of Kshs.113,125,278 (25%) on the project. The contractor has since abandoned the project.

### **3.2.4 Purchase of Condemned Residential Houses at Pretoria**

The Ministry purchased eight (8) residential houses in Pretoria. Out of the eight residential houses, two (2) houses were condemned immediately after they were purchased while the remaining six (6) houses are in deplorable conditions. Further, out of the eight (8) houses, seven (7) of the houses were purchased at a cost Kshs.95,000,000 while the value and the date of purchase of house no. 281 located at Waterloof/Crown Street was not availed. In addition, the Ministry has approved the demolition of the two condemned houses No.318 located at Waterkloof/Polaris street which was acquired at Kshs.3,960,000 and No.281 located at Waterkloof/Crown street. No explanation has been provided for purchasing condemned houses and then almost immediately approving their demolition.

#### **4.0 Irregular Procurement of Air Charter Transport Services**

The expenditure on goods and services of Kshs.5,055,529,000 in note seven (7) to the accounts includes expenses incurred in respect of foreign Air Charter Transport Service of Kshs.23,766,672. The service was single sourced contrary to the requirements of the Public Procurement and Disposal Act, 2005. Consequently, the propriety of the Air Charter Transport Services of Kshs.23,766,672 for the year ended 30 June 2014 could not be confirmed.

#### **5.0 Cash and Cash Equivalents**

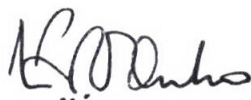
**5.1** The cash and cash equivalent balance of Kshs.844,839,000 as at 30 June 2014 excludes recurrent payment in the cashbook not in bank statement of Kshs.748,060,752 and receipts in bank statement not in cash book of Kshs.47,378,063. Further, the bank balance of Kshs.844,839,000 includes payments in bank statement not in cash book of Kshs.56,807,853 and receipts in cash book not in bank statement of Kshs.645,773,082. No explanation has been provided as to why these long outstanding items have not been cleared. In addition, the cash and cash equivalents balance of Kshs.844,839,000 includes cash in hand of Kshs.33,301,073 whose board of survey certificates were not availed for audit verification.

**5.2** The cash and cash equivalents balance of Kshs.844,839,000 excludes unauthorized bank overdraft of Kshs.17,184,649 comprising of Dar-es-salaam Kshs.280,866, Los Angeles Kshs.15,284,270 and Kuwait Kshs.1,619,513 contrary to Government Financial Regulations that prohibits any public bank account to be overdrawn. No explanation has been provided for breaching the regulations. Further, the cash and cash equivalents balance of Kshs.844,839,000 also excludes unsupported prior year adjustments of Kshs.60,044,000.

**5.3** The cash and cash equivalents balance of Kshs.844,839,000 includes long outstanding imprest balance of Kshs.23,923,000 as detailed in note thirteen (13) of the financial statements. No explanation has been provided for failing to recover this long outstanding imprest as required.

#### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Ministry as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.



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

**Nairobi**


**9 January 2015**

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
 REPORTS AND FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2014

V. STATEMENT OF RECEIPTS AND PAYMENTS

Receipts for operating income		2013 - 2014	2012 -2013
		Kshs '000'	Kshs '000'
Tax Receipts	2	53,376	27,430
Exchequer Releases	3	11,311,010	9,828,000
Proceeds from Sales of Assets	4	1,318	-
Appropriation in Aid	5	895,915	973,815
<b>Totals Receipts</b>		<b>12,261,619</b>	<b>10,829,245</b>
<b>Payments for operating expenses</b>			
Compensation of Employees	6	5,062,805	4,570,994
Use of goods and services	7	5,055,529	4,708,477
Other grants and transfers	8	1,455,576	969,726
Social Security Benefits	9	36,255	68,391
Acquisition of Assets	10	442,492	562,438
Finance Cost including Interest		252	-
<b>Totals Payments</b>		<b>12,052,907</b>	<b>10,880,025</b>
<b>SURPLUS/(DEFICIT)</b>		<b>208,712</b>	<b>(50,779)</b>

The Ministry of Foreign Affairs and International Trade financial statements were approved on 30<sup>th</sup> SEPT. 2014 and signed by:

  
 \_\_\_\_\_  
 Principal Secretary

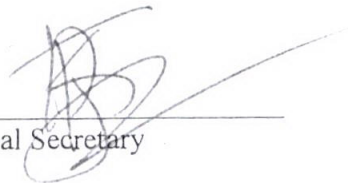
  
 \_\_\_\_\_  
 Principal Accounts Controller


MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
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VI. STATEMENT OF FINANCIAL ASSETS

	Note	2013-2014 Kshs '000'	2012-2013 Kshs '000'
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank and Cash Balances (Recurrent)	12	809,339	622,078
Bank and Cash Balances(Development)	12	11,577	10,785
Outstanding Imprests	13	23,923	63,308
<b>TOTAL FINANCIAL ASSETS</b>		<b>844,839</b>	<b>696,171</b>
<b>REPRESENTED BY</b>			
Fund balance b/fwd		696,171	715,278
Surplus/Deficit for the year		208,712	(50,779)
Prior year adjustments	16	(60,044)	31,672
<b>NET FINANCIAL POSITION</b>		<b>844,869</b>	<b>696,171</b>

The Ministry of Foreign Affairs and International Trade financial statements were approved on 30<sup>th</sup> SEPT 2014 and signed by:


  
 \_\_\_\_\_  
 Principal Secretary


  
 \_\_\_\_\_  
 Principal Accounts Controller

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
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VII. STATEMENT OF CASH FLOW	2013-2014	2012-2013
	Kshs '000'	Kshs '000'
<b>Receipts for operating income</b>		
Tax Receipts	2 53,376	27,430
Exchequer Releases	3 11,311,010	9,828,000
Proceeds from Sales of Assets	4 1,318	-
Appropriation in Aid	5 895,915	973,815
<b>Totals Receipts</b>	<b>12,261,619</b>	<b>10,829,245</b>
<b>Payments for operating expenses</b>		
Compensation of Employees	6 (5,062,805)	(4,570,994)
Use of goods and services	7 (5,055,529)	(4,708,477)
Other grants and transfers	8 (1,455,576)	(969,726)
Social Security Benefits	9 (36,255)	(68,391)
Acquisition of Assets	10 (442,492)	(562,438)
Finance Cost, including Interest	11 (252)	-
<b>Adjusted for:</b>		
Changes in receivable		-
Changes in payables		-
Adjustments during the year	16 (60,045)	31,672
<b>Net Cash flow from operating activities</b>	<b>148,668</b>	<b>209,272</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Assets		-
Acquisition of Assets		-
<b>Net cash flows from Investing Activities</b>		-
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>	<b>148,668</b>	<b>(19,107)</b>
<b>Cash and cash equivalent at BEGINNING of the year</b>	<b>696,171</b>	<b>715,278</b>
<b>Cash and cash equivalent at END of the year</b>	<b>844,839</b>	<b>696,171</b>

The Ministry of Foreign Affairs and International Trade financial statements were approved on 30<sup>th</sup> SEPT 2014 and signed by:

  
 Principal Secretary


  
 Principal Accounts Controller

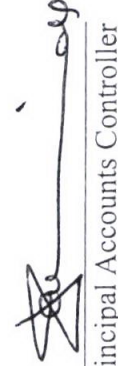
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VIII. SUMMARY STATEMENT OF RECURRENT AND DEVELOPMENT APPROPRIATION ACCOUNT

Receipt/Expense Item	Original Budget a Kshs '000'	Adjustments b Kshs '000'	Final Budget c=a+b Kshs '000'	Actual on Comparable Basis d Kshs '000'	Budget Utilisation Difference e=c-d Kshs '000'	% of Utilisation f=d/c %
<b>RECEIPTS</b>						
Exchequer Releases	8,930,455	2,607,400	11,514,855	11,311,010	-203,845	98%
Tax Receipts	21,020	2,050	23,070	53,376	30,306	231%
Proceeds from Sale of Assets	2,215	-	2,215	1,318	-897	60%
Other Receipts -AIA	979,156	89,747	1,068,903	895,915	-172,988	84%
	<b>9,909,846</b>	<b>2,699,197</b>	<b>12,609,043</b>	<b>12,261,619</b>	<b>-347,424</b>	<b>97%</b>
<b>PAYMENTS</b>						
Compensation of Employees	5,010,726	227,683	5,238,409	5,062,805	-175,606	97%
Use of goods and services	3,480,789	1,800,246	5,281,034	5,055,529	-225,505	96%
Other grants and transfers	1,019,386	522,972	1,542,358	1,455,576	-86,782	94%
Social Security Benefits	52,000	(14,940)	37,060	36,255	-805	98%
Acquisition of Assets	346,945	161,187	508,132	442,492	-65,640	87%
Finance Cost including Interest	-	2,049	2,049	252	-1,797	13%
	<b>9,909,846</b>	<b>2,699,197</b>	<b>12,609,043</b>	<b>12,052,907</b>	<b>-586,015</b>	<b>95%</b>

The Ministry of Foreign Affairs and International Trade financial statements were approved on 30<sup>TH</sup> SEPT 2014 and signed by:


  
Principal Secretary


  
Principal Accounts Controller

IX. SUMMARY STATEMENT OF RECURRENT APPROPRIATION ACCOUNT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>RECEIPTS</b>	<b>Ksh '000'</b>	<b>Ksh '000'</b>	<b>Ksh '000'</b>	<b>Ksh '000'</b>	<b>Ksh '000'</b>	
Exchequer	8,638,941	2,584,400	11,223,341	11,060,000	-163,341	99%
Tax Receipts	21,020	2,050	23,070	53,376	30,306	231%
Proceeds from Sale of Assets	2015	-	2,015	1,318	-897	60%
Rents	29,295	-	29,295	27,618	-1,677	
Sale of Motor vehicles, Plants & Eq.	783	-	783	-	-	-
Other Receipts - AIA	949,278	39,747	989,025	868,297	-122,988	88%
<b>TOTAL</b>	<b>9,641,332</b>	<b>2,626,197</b>	<b>12,267,529</b>	<b>12,010,609</b>	<b>-256,920</b>	<b>98%</b>
<b>PAYMENTS</b>						
Compensation of Employees	5,010,726	227,683	5,238,409	5,062,805	-175,604	97%
Use of goods and services	3,480,788	1,784,215	5,265,004	5,055,528	-209,476	96%
Other grants and transfers	1,019,386	522,972	1,542,358	1,455,576	-86,782	92%
Social Security Benefits	52,000	(14,940)	37,060	36,255	-805	98%
Acquisition of Assets	78,431	104,217	182,649	162,069	-20,580	93%
Finance Cost including Interest	-	2,049	2,049	252	-1797	12%
	<b>9,641,332</b>	<b>2,626,197</b>	<b>12,267,529</b>	<b>11,772,485</b>	<b>-495,044</b>	<b>95%</b>

The Ministry of Foreign Affairs and International Trade financial statements were approved on 30<sup>TH</sup> SEPT 2014 and signed by:

  
Principal Secretary

  
Principal Accounts Controller

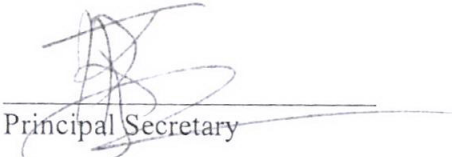
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X .SUMMARY STATEMENT OF DEVELOPMENT APPROPRIATION ACCOUNT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>RECEIPTS</b>	<b>Ksh '000'</b>	<b>Ksh'000'</b>	<b>Ksh'000'</b>	<b>Ksh '000'</b>	<b>Ksh '000'</b>	
Exchequer	268,514	23,000	291,514	251,010	-40,504	86%
Other Receipts - AIA	-	50,000	50,000	-	50,000	-100%
<b>TOTAL</b>	<b>-</b>	<b>73,000</b>	<b>341,514</b>	<b>251,010</b>	<b>-40,504</b>	<b>73%</b>
<b>PAYMENTS</b>						
Use of goods and services	-	16,031	16,031	4,210	-11,821	26%
Acquisition of Assets	268,514	56,969	325,483	280,424	- 45,059	86%
<b>TOTAL</b>	<b>268,514</b>	<b>73,000</b>	<b>341,514</b>	<b>284,634</b>	<b>56,881</b>	<b>83%</b>

- (a) Other receipts relates to claimed VAT refund from Windhoek (Namibia) Mission which is yet to be received.  
 (b) Unutilised budget on use of goods and services relates to World Bank funding for the Diaspora Project.

The Ministry of Foreign Affairs and International Trade financial statements were approved on 30<sup>TH</sup> SEPT. 2014 and signed by:

  
 Principal Secretary

  
 Principal Accounts Controller

## XI. NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

#### (a) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Ministry of Foreign Affairs and International Trade and all values are rounded to the nearest thousand (Kshs'000). The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid by the Ministry of Foreign Affairs and International Trade.

#### (b) Recognition of revenue and expenses

The Ministry of Foreign Affairs and International Trade recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the Ministry of Foreign Affairs and International Trade. In addition, the Ministry of Foreign Affairs and International Trade recognises all expenses when the event occurs and the related cash has actually been paid out by the Ministry of Foreign Affairs and International Trade.

#### (c) In-kind contributions

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

**MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
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**(d) Cash and cash equivalents**

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

**(e) Pending bills**

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

**(f) Budget**

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The Ministry of Foreign Affairs and International Trade's budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of the Ministry of Foreign Affairs and International Trade's actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

**(g) Comparative figures**

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

**(h) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

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2. TAX RECEIPTS

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Other receipts (taxes)	53,376	27,430
<b>Total</b>	<b>53,376</b>	<b>27,430</b>

Other taxes relates to value-added-tax to missions since missions are not subject to taxes on purchases.

3. EXCHQUER RELEASES

	2013 - 2014 Kshs	2012 - 2013 Kshs
Total Exchequer Releases for quarter 1	2,500,000	2,210,000
Total Exchequer Releases for quarter 2	2,090,000	2,498,000
Total Exchequer Releases for quarter 3	3,165,000	2,025,000
Total Exchequer Releases for quarter 4	3,556,000	3,095,000
<b>Total</b>	<b>11,311,010</b>	<b>9,828,000</b>

4. PROCEEDS FROM SALE OF ASSETS

	2013 - 2014 Kshs	2012 - 2013 Kshs
Receipts from the Sale of Inventories, Stocks and Commodities	1,318	-
<b>Total</b>	<b>1,318</b>	<b>-</b>

**MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE**  
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**5. OTHER RECEIPTS**

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Rent	27,618	43,834
Receipts from Administrative Fees and Charges	-	752
Receipts from Administrative Fees and Charges – Collected as AIA	868,297	929,230
<b>Total</b>	<b>895,915</b>	<b>973,815</b>

Rent relates to rent received by missions on the unutilised space that is rented to third parties.

**6. COMPENSATION OF EMPLOYEES**

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Basic salaries of permanent employees	538,181	486,752
Basic wages of temporary employees	1,220,011	1,171,883
Personal allowances paid as part of salary	2,908,284	2,554,859
Personal allowances paid as reimbursements	181,181	157,386
Compulsory national social security schemes	32,972	33,353
Compulsory national health insurance schemes	167,816	151,529
Social benefit schemes outside government	14,358	15,263
<b>Total</b>	<b>5,062,805</b>	<b>4,570,994</b>

**7. USE OF GOODS AND SERVICES**

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Utilities, supplies and services	236,537	197,406
Communication, supplies and services	158,315	192,469
Domestic travel and subsistence	91,959	155,830
Foreign travel and subsistence	1,836,444	1,345,055
Printing, advertising and information supplies & services	34,915	84,646
Rentals of produced assets	1,935,302	1,662,179
Training expenses	21,715	35,262
Hospitality supplies and services	236,915	236,814
Insurance costs	81,583	75,866
Specialized materials and services	39,366	31,174
Office and general supplies and services	53,570	70,659
Other operating expenses	164,336	398,055
Maintenance – vehicles and other transport equipment	48,188	52,273
Routine maintenance – other assets	60,694	91,528
Fuel oil and Lubricants	55,392	79,263
<b>Total</b>	<b>5,055,529</b>	<b>4,708,477</b>

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8. OTHER GRANTS AND OTHER PAYMENTS

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Scholarships and other educational benefits	489,677	473,937
Emergency relief and refugee assistance	26,517	-
Other current transfers, grants	22,000	-
Membership fees, dues and subscription to International Organisations	917,382	495,788
<b>Total</b>	<b>1,455,576</b>	<b>969,726</b>

9. SOCIAL SECURITY BENEFITS

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Government pension and retirement benefits	36,255	68,391
<b>Total</b>	<b>36,255</b>	<b>68,391</b>

10. ACQUISITION OF ASSETS

<u>Non Financial Assets</u>	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Construction of Buildings	26,799	74,965
Refurbishment of Buildings	254,777	297,779
Purchase of Vehicles and Other Transport Equipment	64,672	63,626
Overhaul of Vehicles and Other Transport Equipment	1,780	1,962
Purchase of Household Furniture and Institutional Equipment	65,950	55,161
Purchase of Office Furniture and General Equipment	15,672	48,642
Purchase of Specialized Plant, Equipment and Machinery(Recurrent)	7,016	8,995
Purchase of Specialized Plant, Equipment and Machinery(Development)	5,822	11,307
<b>Total</b>	<b>442,492</b>	<b>562,438</b>

11. FINANCE COSTS, INCLUDING LOAN INTEREST

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Exchange Rate Losses	252	-
<b>Total</b>	<b>252</b>	<b>-</b>

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE  
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**12. Bank Accounts**

Name of Bank, Account No. & currency	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Central Bank of Kenya and Banks in Abroad (Development)	11,575	10,785
Central Bank of Kenya and Banks in Abroad (Recurrent)	809,339	622,078
<b>Total</b>	<b><u>820,916</u></b>	<b><u>632,834</u></b>

**13. OUTSTANDING IMPRESTS**

Details of Officer or Institution	2013/2014 Kshs '000'	2012/2013 Kshs '000'
Headquarters Temporary Imprests	1,828	63,241
Standing Imprest	23	
Other Ministries	8202	65
Retired Officers	10,353	
Deceased	3,517	
<b>Total</b>	<b><u>23,923</u></b>	<b><u>63,306</u></b>

**14. RECEIVABLES**

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Salary Advances	(421)	1,089
Salary Clearance	-	1,463
<b>Total</b>	<b><u>(421)</u></b>	<b><u>2,552</u></b>

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15. OTHER IMPORTANT DISCLOSURES

a) PENDING ACCOUNTS PAYABLE.

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Ministry of Devolution and Planning	6,423	-
	6,423	-

b) OTHER PENDING PAYABLES

	Kshs '000'	Kshs '000'
Pending bills as 30 <sup>th</sup> June 2014	11,679	-
	11,679	-

16. PRIOR YEAR ADJUSTMENTS

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Imprests account	-	31,672
Bank Account	(60,404)	-
<b>Total</b>	<b>(60,404)</b>	<b>31,672</b>

17. VARIANCES

1. Tax receipt variance of 131% was attributed by VAT refunds for financial year 2012/2013 received in 2013/14.
2. Sales of Assets variance of 40% was attributed by anticipated sales which was not realised.
3. Appropriation In Aid variance of 16% was attributed by single visa entry policy to East Africa and travel advisory.
4. Acquisition of Assets variance of 13% was attributed by delay in procurement process.
5. Finance cost variance of 87% was attributed by less bank charges.

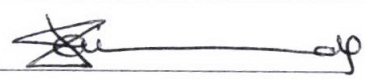
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18. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
218	Gross under-expenditure of Kshs. 653,714,940.10 on the Appropriation Account for R.104 largely attributable to sub-vote 040101,040104 and 040107	The under-expenditure was largely due to failure to recruit new staff and delay in promotions.	Edith Nkanata - Head of Accounting Unit	Not resolved	6 months
220	Discrepancies between Appropriation account and the Ledger Balances. Variance of Kshs. 490,000 not explained.	Reconciliations performed and the two set of accounts now balanced.	Edith Nkanata - Head of Accounting Unit	Resolved.	N/A
221	Lack of proper foot notes to explain variance in excess of Kshs. 1,000,000 on the Appropriation Account under London Embassy between approved estimates and actual expenditure.	This was attributable to an oversight. The Accounting Officer has now provided foot note for the item.	Edith Nkanata - Head of Accounting Unit	Resolved.	N/A
225	Omitted expenditure - review of Development Appropriation Account for the Building Capacity Project noted an unreconciled expenditure of Kshs. 4,521,596.50	The ministry has now provided an analysis of the reported variance. The amount spent from the recurrent vote has since been reimbursed by the project.	Edith Nkanata - Head of Accounting Unit	Resolved.	N/A

  
Principal Secretary

  
Principal Accounts Controller